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CDM Executive Board

Our / Your Reference	Contact	Direct Dial	Date
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Request for Review
"Yunnan Yingjiang County Binglang River Mangkang Hydropower Station" (1997)

Dear Sir/Madam,

Please find below the response of the TÜV NORD JI/CDM Certification Program to the request for review for the above mentioned project no. 1997.

If you have any questions do not hesitate to contact us.

Yours sincerely,

TÜV NORD JI/CDM Certification Program

Rainer Winter

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Request for Review (1-1)	
Issue raised by EB Members / DNA	*The DOE is requested to justify the suitability of the 10% benchmark, in particular, the appropriateness of a benchmark of year 1995 when assessing the additionality with investment decision made in 2005.*
Response of PP	The project compares the IRR against the 10% benchmark (post-tax project IRR) as per the "Economic Evaluation Code for Small Hydropower Project (SL16-95) (hereinafter refers "the document (SL16-95)", which is listed in the Professional Standards of People's Republic of China. The document (SL16-95) was approved and promulgated by the Ministry of Water Resources of the People's Republic of China on June 2, 1995 and began to take effect on July 1, 1995[1]. This document is applicable to hydropower stations with the installed capacity of no more than 50MW. Since 1995, no new official documents prescribing benchmarks for hydropower stations with an installed capacity no more than 50MW have been promulgated by the Government of China, nor has the validity of this benchmark been repudiated in any way. In 2002, the Ministry of Water Resources of the People's Republic of China issued the "Bulletin of Valid Hydropower Technical Standard". According to the requirements in hydropower document No [2002]07, the "Economic Evaluation Code for Small Hydropower Project (SL16-95)" is still in validity and enforceable[2], and this benchmark is still in effect in 2008[3]. In addition, since 1995, the design institutes in hydropower industry in China generally apply the document (SL16-95) to compile the Feasibility Study Reports (FSRs), Preliminary Design Reports (PDRs) and other relevant reports. The installed capacity of the project is 10.5MW which is lower than 50MW, therefore, the benchmark of 10% in the document (SL16-95) as mentioned above is applicable to the project. In addition, in FSR[4], the benchmark of 10% is used based on the document (SL16-95) and therefore the document (SL16-95) is still valid and appropriate on the date of investment decision. Therefore, the project is also appropriate to employ the benchmark of 10% listed in document (SL16-95) in the PDD requested for registration.

[1] http://www.cws.net.cn/guifan/bz/SL16-95/

[2] http://www.ches.com.cn/jishubiaozhun/001.htm

[3] http://www.giwp.org.cn/index.do?act=mess&modu=160&mess=361

[4] 4The FSR was completed by the Institute which is a certified and independent designed institute approved by the Construction Bureau of Yunnan Province, and the FSR has been approved by Dehong Dai-Jingpo Autonomous Prefecture DRC.

Response of DOE	***Choice of the benchmark:*** The proposed CDM project is a grid-connected SSC hydropower project (10.5MW), the Investment barrier analysis (Option III: benchmark FIRR 10% (without tax)) was chosen to demonstrate the project additionnality according to "*the simplified modalities and procedures for small-scale CDM project activities in connection with attachment A to appendix B*" and *national economic evaluation standard (SL16-95)* which is applicable and valid for the hydropower plants with the capacity below 25MW. ***Appropriateness of the benchmark when assessing the additionality with investment decision made in 2005:*** 1) The benchmark is derived from the "*Economic Evaluation Code for Small Hydropower Project" (SL16-95)* (hereafter referred to as "**SL16-95**") which is published by national authority (Ministry of Water Resources of the People's Republic of China) on 02nd June 1995 and takes effect since 01st July 1995. And the appropriateness and effectiveness of the "**SL16-95**" during the project investment decision made and validation can be proven by the documents of "*Bulletin of Valid Hydropower Technical Standard"* which was issued by Ministry of Water Resources of the People's Republic of China in 2002 (http://www.ches.com.cn/jishubiaozhun/001.htm) and "*Updated Valid Technical Standards List for Hydropower*" which is announced and public available on the website of National Planning and Design Institute of Water Conservancy and Hydropower by Ministry of Water Resources of the People's Republic of China in 2008. (http://www.giwp.org.cn/upload/file/2008/20080718095435046554.xls) 2) Since the **"SL16-95"**, which the benchmark of FIRR 10% is derived from is still valid and wildly adopted currently in China, the validation team comes to the conclusion that the 10% benchmark is appropriate during the time of investment decision made in 2005. If this information is not sufficient to close the request for review, we appoint Mr. Li Yong Jun as our contact person: Mr. Li Yong Jun CDM project manager China Room 11C, East Ocean Centre II, No. 618 Yan An Rd. (E), Huangpu District, Shanghai China 200001 Tel: +86 (0)21 53855353-259 Fax: +86 (0)21 53855369

Request for Review (1-2)	
Issue raised by EB Members / DNA	*The DOE is requested to clarify how they have validated the start date of the project activity is in line with "Glossary of CDM Terms" and with paragraph 67, EB41 report, considering that the purchase order for turbines and generator was signed much earlier (on 1 October 2005).*
Response from PP	*Background:* *EB 41,paragraphy 67* *The "Glossary of CDM terms" defines the start date of a CDM project activity as: "the earliest date at which either the implementation or construction or real action of a project activity begins". To facilitate the clear definition of this term the Board further clarified that: "In light of the above definition, the start date shall be considered to be the date on which the project participant has committed to expenditures related to the implementation or related to the construction of the project activity. This, for example,*

	can be the date on which contracts have been signed for equipment or construction/operation services required for the project activity. Minor pre-project expenses, e.g. the contracting of services /payment of fees for feasibility studies or preliminary surveys, should not be considered in the determination of the start date as they do not necessarily indicate the commencement of implementation of the project. For those project activities which do not require construction or significant pre-project implementation (e.g. light bulb replacement) the start date is to be considered the date when real action occurs. In the context of the above definition, pre-project planning is not considered "real action". The Board further noted that there may be circumstances in which an investment decision is taken and the project activity implementation is subsequently ceased. If such project activities are restarted due to consideration of the benefits of the CDM the cessation of project implementation must be demonstrated by means of credible evidence such as cancellation of contracts or revocation of government permits. Any investment analysis used to demonstrate additionality shall comply with the requirements of paragraph 7 of the "Guidance on the assessment of investment analysis (version 02)." Response from the Project Participant: As the Table-the timeline of project implementation (see response to issue 3) below, it shows that the signature date of Purchasing Contract of turbines and generators is October 1st, 2005, and the project started to construction in April 10th, 2006. From the dates above, it can be concluded that the earliest starting date of the proposed project activity is the signature date of purchasing contract of turbines and generators on October 1st, 2005, which is appropriate to the requirements of 'Glossary of CDM Terms' and EB41 guidance, paragraph 67. Therefore, the signature date of purchasing contract of turbines and generators is the earliest starting date of the project. In the PDD requested for registration, the starting date of the project was defined as the starting construction date of the project (i.e. April 10th, 2006).
Response of DOE	**Correction of Starting date of project activity as per *"Glossary of CDM Terms" ver.04.*** Since the final project validation report was finalized in July 2008 and the project starting date was assessed according the "Glossary of CDM Terms" ver.03 (EB 36 in Nov. 2007), the starting date of project construction (01/04/2006) was chosen. However, as per the definition and further clarification of the "Glossary of CDM Terms" ver.04 (EB 41), *"the start date shall be considered to be the date on which the project participant has committed to expenditures related to the implementation or related to the construction of the project activity. This, for example, can be the date on which contracts have been signed for equipment or construction/operation services required for the project activity"*, the date of equipment purchasing contract singed (01/10/2005) should be defined as the project stating date. **Re-assessment *of CDM prior consideration*** As per PDD and validation report, the CDM decision was made by PP during the project design period in July 2005 on the directorate meeting (dated September 15th, 2005)/MD-1/ due to the unattractive project IRR (6.44%) which was calculated out in the preliminary financial report/PFR/ by local authorized institute (Yunnan Lingyu Water Conservancy Hydroelectric Reconnaissance Design Co., Ltd.), and in consultation with the local government and CDM expert, the CDM development contract was signed on 28th September/MD-2/ with the PDD consultant, considering the revenue of the CERs, the purchasing contract of the turbines and generators was signed on 1st Oct. 2005/EPC/ and the project feasibility study was started sequentially and finalized in Nov. 2005/FSR/ . it can be justified that CDM was seriously considered before starting of project activity (01/10/2005).

	If this information is not sufficient to close the request for review, we appoint Mr. Li Yong Jun as our contact person: Mr. Li Yong Jun CDM project manager China Room 11C, East Ocean Centre II, No. 618 Yan An Rd. (E), Huangpu District, Shanghai China 200001 Tel: +86 (0)21 53855353-259 Fax: +86 (0)21 53855369

Request for Review (1-3)	
Issue raised by EB Members / DNA	*The DOE is requested to provide reliable evidence that continuing and real actions were taken to secure the CDM status for the project activity in parallel with its implementation following the guideline from paragraph 5b Annex 46, EB 41.*
Response from PP	*Background:* *EB 41, Annex 46, Paragraph 5b* *(b) The project participant must indicate, by means of reliable evidence, that continuing and real actions were taken to secure CDM status for the project in parallel with its implementation. Evidence to support this should include, inter alia, contracts with consultants for CDM/PDD/methodology services, Emission Reduction Purchase Agreements or other documentation related to the sale of the potential CERs (including correspondence with multilateral financial institutions or carbon funds), evidence of agreements or negotiations with a DOE for validation services, submission of a new methodology to the CDM Executive Board, publication in newspaper, interviews with DNA, earlier correspondence on the project with the DNA or the UNFCCC secretariat;* <u>Response from the Project Participant:</u> The Preliminary Financial Report (PFR) was completed by Yunnan Lingyu Water Conservancy Hydroelectric Reconnaissance Design Co., Ltd. in July 2005, and the result indicated that the project was not attractive due to low IRR which is lower than the benchmark. The project faces high investment risk, which causes the project owner to invest on the project hesitantly. Fortunately, the <Clean Development Mechanism Management Regulation> has been already promulgated formally the National Development and Reform Commission since June 30th, 2004. The project owner learned CDM from website (http://cdm.ccchina.gov.cn/web/index.asp) and known the CDM revenues can improve the IRR of the project, and then the directorate decided to apply for CDM project on September 15th, 2005[5]. Then on September 22nd, 2005[6], the project owner submitted an application to local government to asking for support on CDM application. At the same time, the project owner started to contact with CDM advisors (Beijing Tianqing Power International CDM Consulting Co., Ltd., hereafter referred to as "TQ Power") on CDM application and then signed Commission Agreement on September 28th, 2005[7]. All dates above are earlier than the earliest starting date of the project, i.e. October 1st, 2005[8], the signature date of purchasing contract of turbines and generators. It can be concluded that: the project owner was in an early stage aware about the potential of CDM to support its activities. CDM has played a decisive role in the successful implementation of the project. The final Feasibility Study Report (FSR) of the project was completed in November

2005{same as footnote 4} by the Yunnan Lingyu Water Conservancy Hydroelectric Reconnaissance Design Co., Ltd. (the same institute with the PFR), and approved by Dehong Dai-Jingpo Autonomous Prefecture DRC on January 26th, 2006[9]. After the approval of FSR was obtained, the project owner signed PDD Development Contract with TQ Power on February 26th, 2006[10]. Considering the important role of CDM revenues on the implementation of the project, the project owner required the TQ Power to submit the PIN and draft PDD to guarantee the registration in time. Based on the requirement of the project owner, TQ power started to write PIN and PDD and then submitted the PIN and draft PDD to the project owner several months later. Considering the efficiency and quality of the PIN and draft PDD, the project owner decided to continue the cooperation with TQ Power, after the discussion and negotiation, the Cooperation Agreement was signed on August 26th, 2006[11]. Then TQ power recommended the project to Encore Carbon (consultant for RWE Power AG in China) in January 2007[12] to look for the potential CER buyers. Several-months later, Encore Carbon found the CER buyer-RWE Power AG, and sent the draft PDD to RWE Power AG. Immediately later, the project owner signed the Letter of Intent[13] (LoI) with RWE Power AG on June 20th, 2007. At the same time, TQ Power completed and submitted the PDD to China DNA, and received the approval from the China DNA on China DNA website in July 2007 (see the website: http://cdm.ccchina.gov.cn/WebSite/CDM/UpFile/File1407.pdf), and then the paper-pattern LOA issued by China DNA was obtained in October 2007. Since the approval from the China DNA was obtained, RWE Power AG started to look for DOE for the project validation, after serious investigation, the DOE was been consigned. And the PDD was published in website of UNFCCC for global stakeholder consultation (CDM PDD for GSP) since October 9th, 2007; later the on-site validation was carried out on October 21st, 2007. From then on, the process of CDM application was implemented smoothly. From the events above, it can be concluded that the project owner has endeavored continuing and real actions on CDM application in parallel with the implementation of the project.

Therefore it is clear that continuing and real actions has been taken to guarantee the CDM status for the project activity in parallel with its implementation. The main events related are illustrated in the table below. The respective documentation has been provided to the DOE during the validation process.
An overview of the timeline of project implementation is given in Table below:

Date	Event
July 2005	Preliminary Financial Report made by Yunnan Lingyu Water
September 15th , 2005	Directorate decided to apply for CDM project
September 22nd , 2005	Asking for Support on applying the project as CDM Project
September 28th , 2005	Project owner signed Commission Agreement with CDM
October 1st , 2005	Signed Purchasing Contract of turbines and generators
October 22nd , 2005	Received a CDM application support letter from Local
November 2005	Feasibility Study Report(final version) has been finished
January 26th, 2006	Approval of FSR by Dehong Dai-Jingpo Autonomous

		Prefecture DRC has been received
	February 26th, 2006	Signed PDD Development Contract with TQ Power
	April 10th, 2006	Start of construction activities
	August 26th, 2006	Signed Cooperation Agreement with TQ Power
	January 2007	TQ Power recommended the project to Encore Carbon to look for the potential CER buyers, and Encore Carbon signed Letter of Interest on January 22nd, 2007
	June 20th, 2007	The project owner signed LoI with RWE Power AG
	June 2007	Stakeholder nmeeting was held
	July 31st, 2007	Received approval from the China DNA on China DNA Website
	October 2007	Paper-pattern LOA issued by China DNA was ontained
	October 9th, 2007	Starting date of GSP PDD
	October 21st, 2007	On-site validation
	March, 2008	The project started operation

Response of DOE	The submitted evidences were checked and verified by the validation team and assessed to be reliable. In conclusion, it is the opinion of validation team, that the continuing and real actions were taken to secure the CDM status for the project activity in parallel with its implementation following the guideline from paragraph 5b Annex 46, EB 41. If this information is not sufficient to close the request for review, we appoint Mr. Li Yong Jun as our contact person: Mr. Li Yong Jun CDM project manager China Room 11C, East Ocean Centre II, No. 618 Yan An Rd. (E), Huangpu District, Shanghai China 200001 Tel: +86 (0)21 53855353-259 Fax: +86 (0)21 53855369