



Mr. Hans Jürgen Stehr
Chair, CDM Executive Board
UNFCCC Secretariat
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Re Request for review of the request for registration for the CDM project activity "Jiaozishan Landfill Gas Recovery and Utilisation Project" (Ref. no. 1120).

Dear Mr. Stehr,

SGS has been informed that the request for registration for the CDM project activity "Jiaozishan Landfill Gas Recovery and Utilisation Project" (Ref. no. 1120) is under consideration for review because three requests for review have been received from members of the Board.

The requests for review are based on the reasons as outlined below. Through this letter we would like to comment on the reasons for review and provide additional information.

The first concern in the request states:

Request 1: It should be clearly stated how it has been validated that the rate of 12.5% is considered to be an appropriate benchmark.

According to the additionality tool: The benchmark is to represent standard returns in the market, considering the specific risk of the project type, but not linked to the subjective profitability expectation or risk profile of a particular project developer. For example, benchmarks for IRR, NPV, etc. can be derived from:

- Government bond rates, increased by a suitable risk premium to reflect private investment and/or the project type, as substantiated by an independent (financial) expert;
- Estimates of the cost of financing and required return on capital (e.g. commercial lending rates and guarantees required for the country and the type of project activity concerned), based on bankers views and private equity investors/funds' required return on comparable projects;

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The benchmark was assessed as below.

1. The PDD indicated (page 12, under Benchmark Choose): "On (in) May, 2005, the interest rate of 5 years depositions in local business banks of China was 3.60 % and the lending rate was 5.85%. The upper limit line of public bidding invitation of national debt was 4.50%. The internal rates of return of the Chinese stock market and innate funds were 11% and 13% respectively." Here, the government bound rate was referred to as "national debt" in China. It was confirmed through official website of MoF of China (http://www.mof.gov.cn/news/20050314_1720_5992.htm) that in 2005 when the proposed project was at planning stage, the interest rate of 10-year national debt was 4.44%. According to the historical record of Chinese central bank The People's Bank of China, the 5 years lending rate in 2004 was 6.12% (<http://www.pbc.gov.cn/detail.asp?col=462&ID=1580>), so the benchmark was not supposed to be lower than 6.12%.

2. For this specific project, the PDD indicated that “A benchmark determined by the MOA in China for biogas technologies has been set at an IRR of 12.5%”, it was sourced from a book “Biogas Energy Conversion Technologies in China: Development and Assessment” which was written and edited by expert team between Ministry of Agriculture of China and Department of Energy of US (Extraction is attached to this letter), in this book, the standard IRR for biogas project which is designed to generate biogas to replace LPG for energy consumption is set as 13%, and standard IRR for a LFG project which is designed to generate electricity is 12.5%. The proposed project is to collect LFG and utilize it to generate thermal energy, so 12.5% can be considered.
3. The project is facing extra risks compared with other LFG projects, for example, the boilers using LFG need to be sourced from overseas to meet the safety requirement, the sale of hot water truck by truck from the landfill site to downtown area is not as secure as the sale of electricity from landfill to the grid.

Considering above points, 12.5% was accepted by SGS assessor as an appropriate benchmark to this project.

The second concern in the request states:

Request 2: Evidence should be provided to support the suitability of the assumed sale price of hot water.

The validation report indicated that the sales contract of hot water was obtained and the price was verified during validation, it was also listed in Document Reference in Section 7 of validation report as confidential document, herewith, copy of this contract and the English translation is attached, project participant agrees to make it publicly available for the sake of this request for review. In the contract, the agreed price of hot water is 34 Yuan per ton, the same price was used in the PDD for IRR calculation.

We hope that this information addresses the concerns of the Board. If you require further information, Elton Chen Wu (+86 13801995031) will be the contact person for the review process and is available to address questions from the Board during the consideration of the review in case the Executive Board wishes.

Yours sincerely,

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Encl.:

1. Benchmark reference: Biomass energy conversion technologies in China Development and Assessment
2. Hot Water Supply and Sale agreement