



Mr. Rajesh Kumar Sethi
Chair, CDM Executive Board
UNFCCC Secretariat
CDMinfo@unfccc.int

8th November 2008

Dear Mr. Sethi,

Re: Request for review of the request for registration for the CDM project activity 'China Fujian Putian LNG Generation Project, CNOOC Fujian Gas Power Co., Ltd' (Ref. No. 1859)

SGS has been informed that the request for registration for the proposed CDM project activity 'China Fujian Putian LNG Generation Project, CNOOC Fujian Gas Power Co., Ltd' (Ref. No. 1859) 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 provide responses to the issues raised in the requests for review and provide additional information.

Requests for Review 1-3, Issue 1:

Further clarification is required on how the DOE has validated the suitability of the input values to the investment analysis as per the guidance of EB 38 paragraph 54(c).

SGS' Response to Issue 1:

As reported in the validation report revision 0 and the response from the PP, input values for all the parameters except for income tax rate used in the PDD are from the Feasibility Study Report completed in November, 2004 for the project which was approved by the NDRC on 20/12/2005.

The income tax rate used in the FSR is 33% while it is 25% in the PDD. At the time of the FSR, the old income tax law was applicable, which set the tax rate of 33%. However, at the time of Validation, a new Enterprise Income Tax Law had been issued, which lowered the income tax rate to 25% effective January 1, 2008. SGS considers that applying the lower tax rate according to the new law is appropriate as it reflects the real situation faced by the project activity. At the same time, it is more conservative to apply the lower tax rate, since it results in a higher IRR value. Therefore, SGS concludes that applying the income tax rate of 25% in the PDD is both appropriate and conservative.

In China, FSRs are prepared by accredited third parties. Assumptions and data sources for the economic evaluation of a project in the approved FSR are required to be based on relevant national standards and criteria. The FSR for the proposed CDM project was prepared by Electric Power Survey & Design Institute of Fujian Province, which is an independent third party entity accredited by the relevant national authority to carry out feasibility studies for new projects. Qualification certificates for Electric Power Survey & Design Institute of Fujian Province is attached. **(Annex 1a)**

In accordance with the guidance of EB38 paragraph 54(c), the following was done to confirm that the input values from the FSR are valid and applicable at the time of the investment decision:

- 1) The fixed asset investment unit cost of the proposed CDM project activity is RMB 3,287.64/KW (fixed asset investment of 5,023.51Million RMB on page 16 of the PDD version 04/installed capacity of 1,528MW on page 19 of the PDD version 04), comparable with the reference fixed asset investment unit

cost for installing 2 new 300MW-grade imported Gas-Steam Combined Cycle Units (Grade 9F, one to one), which is RMB 3,289.00/KW with 4.5% for Domestic Reserve Rate on page 122 of the Reference Index of the Limit Design Cost for Thermal Power Generation, Transmission and Transformation Projects authorized by the Electric Power Planning and Design General Institute (**Annex 1b**) and RMB 3,345/KW with 8% for Domestic Reserve Rate. Therefore, DOE judged that the fixed asset investment unit cost was appropriately estimated and was conservative.

- 2) The estimated price of natural gas including VAT is 1.411RMB/m³ on page 20 of the PDD. From the document of Price Bureau of Fujian Province dated 04/09/2008, the approved natural gas price for natural gas power plants is 1.661RMB/ m³ (**Annex 1c**). The price of natural gas used in the IRR calculation in the PDD is more conservative.
- 3) According to the Power Purchase Agreement signed between the project owner and the grid company, the bus-bar tariff will be determined by the local pricing bureau. Considering the FSR has been approved by the NDRC, the bus-bar tariff used in the PDD (FSR) has been accepted by the NDRC and the bus-bar tariff is valid and applicable at the time of the investment decision.
- 4) According to the information by the Bureau of Labour and Social Security of Fujian Province, the actual average enterprise wage was increased by 6~9% in 2004 and in 2006. Therefore, the O&M cost used in the FSR was conservative and applicable as mentioned in the project participant's response.

The FSR for a project is an official document prepared by an independent third party. FSR will be checked by the relevant authorities before it is approved. The NDRC of China approved the FSR for the project on 20/12/2005 and the project started construction on 15/03/2006. It has been validated that the period of time between the finalization of the FSR and the investment decision is sufficiently short for us to confirm that it is unlikely in the context of the underlying project activity that the input values would have materially changed and the input values are valid and applicable at the time of the investment decision.

Request for Review 1-3, Issue 2:

Further clarification is required on how the DOE has validated the common practice analysis.

SGS' Response to Issue 2:

As discussed in the PDD, there are nine projects in the ECPG, including:

- Yuyao Electricity Generation Project using Natural Gas;
- Zhejiang Provincial Energy Group Zhenhai Natural Gas Power Generation Co Ltd's NG Power Generation Project,
- Xiaoshan Power Plant's NG Power Generation Project of Zhejiang Southeast Electric Power Co., Ltd.,
- Hangzhou Hadian Banshan Power Generation Co., Ltd's Nature Gas Power Generation Project,
- Nanjing Grid Connected Natural Gas Combined Cycle Power Plant,
- Shanghai Baoshan Grid Connected Natural Gas Combined Cycle Power Plant Project,
- Fujian Jinjiang LNG Power Plant,
- Fujian Xiamen Eastern LNG Power Plant and
- the proposed project activity.

Out of the other eight projects, four (Yuyao Electricity Generation Project using Natural Gas (Ref 1227), Zhejiang Provincial Energy Group Zhenhai Natural Gas Power Generation Co., Ltd's NG Power Generation Project (Ref 1344), Xiaoshan Power Plant's NG Power Generation Project of Zhejiang Southeast Electric Power Co., Ltd. (Ref 1343) and Shanghai Baoshan Grid Connected Natural Gas Combined Cycle Power Plant Project (Ref 1381)) have been registered as CDM project activities and three (Hangzhou Hadian Banshan Power Generation Co., Ltd's Nature Gas Power Generation Project, Nanjing Grid Connected Natural Gas Combined Cycle Power Plant and Fujian Jinjiang LNG Power Plant) are applying to be registered as CDM project activities. As per relevant rules from EB, they are not included in the common practice analysis.

Fujian Xiamen Eastern LNG Power Plant is wholly owned by RGM International. From the website of Xiamen Municipal Office State Administration of Taxation and website of Xiamen Municipal Government of China, it is confirmed that as a foreign-invested project, the Xiamen Eastern LNG Power Plant enjoyed favourable investment conditions than the proposed CDM project activity. It is common practice in China that foreign companies can enjoy better and favourable investment conditions as stipulated by Chinese government to attract more investment. Therefore, Fujian Xiamen Eastern LNG Power Plant is not similar to the proposed CDM project activity. Hence, SGS can confirm, after validating the information, that the proposed project activity is not common practice.

Request for Review 1-3, Issue 3:

The DOE is requested to provide reliable evidence that CDM was considered prior to the project start date and that continuing and real actions were taken to secure CDM status for the project activity in parallel with its implementation, following the guidelines from paragraph 5, EB 41, Annex 46. The response should provide a detailed timeline of project implementation.

SGS' Response to Issue 3:

The timeline of the proposed project activity has been provided in the response made by the PP and the revised PDD. **(Annex 1)**

The order to commence the project was issued on 14/03/2006 and the project started construction on 15/03/2006. Following the clarification made at the EB41 meeting about the start date of a CDM project activity, which is the earliest date at which either the implementation or construction or real action of a project activity begins, the day on which the project started construction is regarded as the start date of the project activity.

Before the project started construction, the construction office made a decision to carry out CDM study research on 25/06/2004, the relevant evidence for which has been uploaded to UNFCCC website for the project when requesting registration.

On 16/05/2005, the project owner commissioned Fujian Electric Power Survey & Design Institute to do the CDM consultation. **(Annex 3a)**

The Special Report on the Economic Appraisal of Introducing the CDM to LNG Power Plant(report no.: 35-F086K2-E02) was issued by Fujian Electric Power Survey & Design Institute in October, 2005. **(Annex 3b)**

On 24/01/2006, Board of Directors decided to start the CDM project and designated the person and apartment in charge. **(Annex 3c)**

The project owner signed the CDM consulting service contract with CRIH on 20/02/2006(Contract no.: ZHMQD/CON/SER-018). **(Annex 3d)**

The PP has demonstrated that CDM was seriously considered in the decision to implement the project activity by providing evidences mentioned above.

After the project started construction, Major Equipment Purchase Contract(Contract No.: 06HT10500000216) was signed between Dongfang Electric Corporation and the project owner on 31/08/2006. **(Annex 3e)**

The ERPA was signed between the project owner and the carbon credit buyer on 10/01/2007. **(Annex 3f)**

The validation service contract was signed with SGS on 28/04/2007.

The project participants have demonstrated that continuing and real actions were taken to secure CDM status for the project in parallel with its implementation by providing reliable evidences mentioned above.

The above mentioned information has been added in the revised validation report. **(Annex 2)**



We apologize if the initial validation report was unclear and hope that this letter and the attached documents address the concerns of the Board. If further information is required, Joe Sun (<mailto:Joe.Sun@sgs.com> +86 13817041095) 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,

Elton Chen Wu
Lead Assessor
Elton.Chen@sgs.com
T: +86 21 61152263

Aurea Nardelli
Technical Reviewer
aur@sgssc.general.com.br
T: +55 31 3261 2674

Encl:

Annex 1: Revised PDD

Annex 1a: Qualification certificates for Electric Power Survey & Design Institute of Fujian Province

Annex 1b: Reference Index of the Limit Design Cost for Thermal Power Generation, Transmission and Transformation Projects authorized by the Electric Power Planning and Design General Institute

Annex 1c: Document from Price Bureau of Fujian Province indicating approved price of NG for the project

Annex 2: Revised Validation Report

Annex 3a: Letter of authorization issued by the pp to Fujian Electric Power Survey & Design Institute to do the CDM consultation

Annex 3b: The Special Report on the Economic Appraisal of Introducing the CDM to LNG Power Plant

Annex 3c: Board of Directors meeting minutes decision to start the CDM project and designate the person and apartment in charge

Annex 3d: CDM consulting service contract signed between the pp and CRIH dated 20/02/2006

Annex 3e: Major Equipment Purchase Contract (Contract No.: 06HT1050000216) signed between Dongfang Electric Corporation and the project owner dated 31/08/2006

Annex 3f: ERPA signed between the project owner and the carbon credit buyer dated 10/01/2007