

Request for review issue: The DOE is requested to further demonstrate that continuing and real actions were taken to secure the CDM status for the project activity, in line with the requirements of EB 41, Annex 46, paragraph 5(b) guidance.

PP's initial comments:

The timeline of the project is as follow:

Time(D/M/Y)	Progress of project	Relevant document
04/2004	Preliminary Design Report (PDR) completed	Loudi Hydropower Design and Investigation Institute, PDR
04/05/2004	Director Board (DB) meeting – Introduction of CDM implementation concept	Shaoyang Triumph Billion Yuzitang Power station Development Ltd., Co. (STBY), DB meeting minutes
12/06/2004	DB meeting – Decided to apply for CDM project registration	STBY, DB meeting minutes
08/07/2004	Reached CDM development agreement with the local consultant (namely Hunan Science & Technology Information Research Institute (HNSTI))	STBY & HNSTI, Letter of Intent (LoI) on CDM project development
15/07/2004	Obtained approval of PDR from Hunan Provincial Water Resources Bureau (WRB)	Hunan Provincial WRB, Approval of PDR (Xiangshuinongdian [2004]No.20)
19/07/2004	With consideration of CDM income to the project, the bank (Industrial & Commercial Bank of China (ICBC) – Shaoyang Branch) expressed the preliminary loan approval and further submission to Provincial Branch for endorsement	ICBC (Shaoyang Branch), LoI for loan approval
16/08/2004	Obtained project construction approval (Project starting date)	Shaoyang Municipal WRB, Approval of construction commencement
02/09/2004	DB meeting – Decided on establishment of CDM working group & CDM implementation	STBY, DB meeting minutes
05/11/2004	Obtained bank loan approval from ICBC (Dongkou Branch)	ICBC (Dongkou Branch) approval (Gongyinxiangdaishen [2004] No.131)

05/07/2005	HNSTI submitted the application to establish a CDM center	HNSTI, Application letter for establishment of Hunan Province CDM Service Center (HNCDM) (Xianigkexin [2005] No.15)
20/07/2005	Obtained approval from the Head of Hunan Provincial Science & Technology Bureau on establishment of HNCDM	Hunan Provincial Science & Technology Bureau, Hand – written approval for establishment of HNCDM
09/11/2005	Establishment of HNCDM.	Ministry of Science and Technology of P. R. China (MOST), online announcement on establishment of HNCDM http://www.most.gov.cn/dfkjgznew/200512/t20051208_26678.htm
18/08/2006	Signed CDM consultant service contract with HNCDM	STBY & HNCDM, CDM service contract
29/09/2006	Sign the LoI with carbon buyer (i.e. Carbon Asset Management Sweden nAB (CAM))	STBY & CAM, LoI on CER purchase
15/03/2007	Internal discussion within CAM on Emission Reductions Purchase Agreement (ERPA) negotiation	Internal email communication of CAM
21/07/2007	DB meeting – Decided to change the company name & capital structure so as to become a Chinese-owned company with 53.9% share of domestic capital (fulfilling requirements of Chinese DNA to issue host country approval)	STBY, DB meeting minutes
15/10/2007	Confirmation with Tuv Rheinland (TUVR) on DOE validation service	Email communication between CAM & TUVR
21/10/2007-19/11/2007	The proposed project starts to be globally published in TUVR's & UNFCCC's websites	UNFCCC's CDM website: http://cdm.unfccc.int/Projects/Validation/DB/ACXPC3NVIAHGMQJ2X63UYRX9VZFTL2/view.html TÜVR's website: http://www.tuvdotcom.com/pi/web/Tuvdotc

		omIdSearchResults.xml?TUVdotCOMID=9105043936&LanguageSelected=en-us&strUserId=&strUrlId=3&strLevel=-1
14/12/2007	Draft validation report issued by TUVR	Draft validation report
29/01/2008	Swedish Letter of Approval (LoA) received	Swedish Energy Agency
March 2008	Chinese LoA received	NDRC
12/08/2008	Final validation report issued by TUVR	Final validation report

Due to the weak financial indicator in Preliminary Design Report (PDR), the project owner decided to apply for CDM in shareholders' meeting on 4 May 2004.

On 8 July 2004, the project owner signed the LoI of CDM Project Development for CDM development and application with Hunan Science & Technology Information Research Institute (HNSTI), which is a public service unit belonged to Science & Technology Bureau of Hunan Province. Science & Technology Bureau is one of two CDM administration authority in China, another authority is Development & Reform Commission.

On 19 July 2004, the Industrial & Commercial Bank of China (ICBC) Shaoyang Branch agreed to submit the bank loan application from project owner to ICBC Hunan Provincial Branch for approval since CDM can improve the financial indicators for the project.

On 16 August 2004, Shaoyang Bureau of Water Resources issued the construction permission for the project. Thus the data is defined as the starting date of the project. However, the bank loan was only approved on 5 November 2004 and under the condition that CDM money was sought).

From the milestones and key events above, it can be concluded that CDM incentives were essential for project owner to go ahead with the implementation of the project activity.

In the following section, we'll explain why the CDM development is delayed for such a long time. The CDM development was entrusted to HNSTI, including PDD development, buyer search and so on. The responsible department for CDM in HNSTI was Science Policy & Strategy Research Department. However, the focus of job duty of Science Policy & Strategy Research Department is on soft science research and CDM research rather than CDM development. The Science Policy & Strategy Research Department lacked of English professionals and PDD writers. The job responsibility regarding CDM for Science Policy & Strategy Research Department was to visit the project sites and identify projects. Due to the huge pressure from project owners and urgent demand of special CDM development team, the HNSTI submitted the "Application Regarding Organizing Hunan Province CDM Project Service Center (HNCMD)" to Science & Technology Bureau of Hunan Province on 5 July

2005 and the application was approved by the Head officer of Science & Technology Bureau of Hunan Province on 20 July 2005. The HNCMD was officially established on 9 November 2005.

The HNCMD were mainly depended on professors from universities to develop PDD at early stage due to it took a little long time to recruit capable people for PDD development. The HNCMD sent first batch of PINs to Ministry of Science & Technology and Tsinghua University for buyer seeking at the end of 2005 and then sent first 4 PDDs to them for assessing. During 2005 and first half year of 2006, the staffs from HNSTI and HNCMD attended many CDM Training Courses held in China. One of the training programs is the “Sino-Canada CDM cooperation program”, which started from October 2005 and concluded in April 2006, the capacity building program systematically trained the invited developers of HNCMD to own the capacity of developing CDM projects¹.

Finally, the project owner of Yuzitang small hydropower project signed the Letter of Intent (LoI) of Emission Reductions Purchase with Carbon Asset Management Sweden AB on 29th September 2006. The project is a small scale hydropower plant, it took long time for negotiation with buyer. We present email regarding CERs price negotiation in March 2007 to prove it.

After signing of LoI of Emission Reduction Purchase with foreign buyer, the project still can not be developed immediately since the project is invested by Hong Kong based company, by when there is no clear CDM application policy for Hongkong based company according to Chinese Regulation on CDM². Due to the key importance of getting CDM support to refine the investment nature of the Project, the project owner finally decided to change the company’s equity structure to comply with the Chinese regulation on CDM. On 21st July 2007, the project owner held a board meeting and modified the Article of Association, it determines that the Hong Kong shareholders sold shares to domestic persons, which made the equity of company is controlled by domestic capital, and turn the company property to be eligible in applying CDM in China.

From above analysis, it is obvious that the delay of the CDM development was due to PDD development and because there was no clear CDM application policy for Hongkong based company. The financing of the project was achieved due to the CDM. The given explanation on delay of PDD development is suitable and not unusual for the host country environment. It can be found from UNFCCC validation webpage, there are totally only around 170 projects submitted for validation and 125 projects approved by NDRC³ until end of September 2006, by when the project signed LoI of Emission Reductions Purchase with Carbon Asset Management Sweden AB. The figure shows the PDD development is a bottleneck at that

¹ http://www.most.gov.cn/dfkjgznew/200604/t20060410_30365.htm

² <http://cdm.ccchina.gov.cn/web/NewsInfo.asp?NewsId=458>

³ <http://cdm.ccchina.gov.cn/english/NewsInfo.asp?NewsId=1206>

time.

We hope above clarifications are sufficient.