

UNFCCC Secretariat
Attn. CDM Executive Board
Martin-Luther-King-Strasse 8
D – 53153 Bonn
Germany

**Response to the request for review for the CDM project activity
"China Hunan Yuzitang Small Hydropower Project" (Ref. no.: 2121)**

2008-12-19

Dear Mr. Sethi,

The DOE TÜV Rheinland Japan Ltd. was informed on 8th December 2008 that the CDM project "China Hunan Yuzitang Small Hydropower Project" (Ref. no. 2121), is under request for review because three requests for review have been received from members of the board.

All of these requests for review contain the same one issue. We would like to provide our response to that issue raised on the following pages.

In summary, we understand the issue raised in the "Request for Review" and regret if the previous Validation Report did not reflect and describe the validation results in sufficient detail. However, we hope that the input by the project participants and this explanation will find acceptance among the members of the Executive Board.

Yours sincerely



Dr. Manfred Brinkmann
CDM Program Manager
TÜV Rheinland Japan Ltd.

Issue 1 raised:

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.

TUV's response:

This same issue has been discussed during the on-site visit and subsequent communications with the project participants. The validation team had indeed entered the reviewed evidence documents (as submitted with the request for registration) into the reference list (Section 3.1) of the submitted Final Validation Report (Ver. 04, 2008-08-12) and verified them again in order to meet the relevant requirements in EB41 on demonstration of the taken continuing and real actions for securing the project CDM status. Regretfully, the validation report addressed mainly the CDM consideration prior to the starting date, but did not further discuss the project participants' continued efforts to develop the CDM project as such after starting date. With this document and the revised validation report, we would like to consolidate all project milestones and thus present a clear demonstration of the project history and the validation thereof.

The CDM-related activities and project key implementation dates are consolidated in the "Project History" as attached to this document (page 6ff.). For abbreviations used, please see page 9.

Considering the project milestones, it can be observed that the CDM has been seriously considered by the Director Board (DB) of the project owner (Shaoyang Triumph Billion Yuzitang Power station Development Ltd, Co. (STBY)) since 4th May 2004, which is earlier than the project starting date on 16th August 2004. In the several consecutive DB meetings, the Financial Director of STBY (Mr. Chen Haidong) suggested to develop the proposed project as CDM project activity, and the DB decided to proceed with the CDM development. The main discussion therein (recorded in DB meeting minutes, Ref no. /22/ to /23/), includes following statements:-

- 1) "...CDM is a new international mechanism, particularly stimulating renewable energy projects (incl. hydropower projects) development."
- 2) "...The national CDM administrative regulation is under preparation, which shall encourage investors to invest in future renewable energy industry."
- 3) "...It is suggested to further strengthen the study works on CDM matters, and kick-off to work on the application process in appropriate time. Meanwhile, it is also essential to assess the cost and return of applying CDM project."
- 4) "...CDM is a new and professional concept, it is currently unclear where the risk is. Considering the lack of experience and shortage of appropriate CDM specialists in our company, it is suggested to invite relevant external experts to handle the development of CDM project, and appoint Mr. Chen Haidong as responsible person internally."
- 5) "...It is the DB's preliminary conclusion that the Yuzitang project meets the CDM application criteria. In viewing also the progress of "trial-run" CDM programme initiated by the HNSTI, we expect the CDM development could bring us annual income of approx. 1.5 million RMB."
- 6) "...The CDM development cost is not considered a huge investment, we should engage the best local CDM experts in assisting the application works. We could also provide the bank the information about our CDM development, which shall greatly enhance their impression to our financial performance, so as to facilitate the loan approval."
- 7) Discussed the measures to consolidate the CDM development works:-
 - i) Sign CDM development contract with provincial design institute or sci. & tech. institute ASAP;
 - ii) Engage CDM expert from the province to prepare the CDM application materials. At the same time, go communicate with other CDM hydropower projects for experience sharing;
 - iii) Under guidance of CDM expert, prepare materials for submission to bank to introduce the intended CDM development and the possible income, as well as the benefit brought to the economy, society & environment...

The validation team thus confirms that the PP is able to indicate its awareness of the CDM prior to the project activity starting date, and that the benefits of the CDM were a decisive factor in the decision to proceed with the project.

On the other hand, according to the requirement stipulated in EB41 Annex 46 paragraph 5(b), the project participants must also indicate that continuing and real actions were taken to secure CDM status for the project in parallel with its implementation. In the following the validation of relevant milestones is presented.

After several rounds of internal discussions in the DB meetings, STBY made the decision to proceed with the CDM development. Later, a CDM development agreement has been reached with the local consultant (namely Hunan Sci. & Tech. Information Research Institute, HNSTI) and a Letter of Intent /30/ on CDM project development was then co-signed on 8th July 2004. HNSTI was engaged to be responsible for provision of CDM consultancy service, CDM feasibility study, buyer sourcing, etc. An excerpt of the 'scope of work' is listed below for reference:-

- 1) *Shaoyang Triumph Billion Yuzitang Power station Development Ltd, Co. (STBY, as the project owner), entrusts Hunan Sci. & Tech. Information Research Institute (HNSTI) to start studying the CDM development of the China Hunan Yuzitang Small Hydropower Project;*
- 2) *HNSTI shall be responsible in policy consultation & development during early study stage, and conduct analysis & advisory during CDM project development stage;*
- 3) *Any benefit / liability linked with the project development shall be subject to the final contract co-signed by STBY & HNST*

Before the project construction being approved to be commenced, the proposed project obtained a Letter of Intent /28/ from Industrial and Commercial Bank of China (ICBC) (Shaoyang Branch) on 19th July 2004 claiming that after considering the possible CDM income to improve the financial performance of the proposed project, ICBC expressed their preliminary loan approval and further submission to the Provincial Branch for loan approval endorsement. Subsequent official bank loan approval /29/ by ICBC (Dongkou Branch, i.e. the loan releasing branch at local level) was obtained on 5th November 2004.

On 16th August 2004, the project construction commencement is approved by the Shaoyang Municipal WRB /16/, which is being marked as the project starting date. The validation team confirms that this is the earliest date at which either the implementation or construction or real action of a project activity begins. Following the project commencement, the DB of STBY hence decided on 2nd September 2004 for establishment of CDM work group for the practical move in CDM implementation /24/.

Since the establishment of CDM work group by STBY in September 2004, a noticeable time lag is noted before entering into the CDM consultant service contract with HNCMD in August 2006. The project participants provided an explanation (before release of the validation report) that this time lag was due to the limited capacity of the entrusted CDM service provider (HNSTI) at that time. In order to confirm that explanation independently, the validation team has reviewed supplementary information regarding the development history of HNSTI on its CDM-related business, and understood that the "Science Policy & Strategy Research Department" was the unit responsible for the CDM-related business within HNSTI as early as in April 2004. At that early time, the Science Policy & Strategy Research Department focused rather on soft CDM research, than physical CDM development. On top, owing to the limited proficiency in English language and hence PDD writers, HNSTI decided on 5th July 2005 to apply internally to establish a CDM service center /N1/, i.e. HNCMD. Approval from the Head of Hunan Provincial Science & Technology Bureau on the proposed service center establishment was obtained on 20th July 2005 /N1/. Thereafter, HNCMD was officially established on 9th November 2005 to commence the actual work on the CDM projects. This date has been validated by means of an official public announcement by the Ministry

Of Science and Technology of P.R. China)
(http://www.most.gov.cn/dfkjgznew/200512/t20051208_26678.htm, /N2/).

At the early stage of HNCMD's establishment, while the recruitment of PDD writers had just begun, the processing of those committed projects was supported by engaging experts from MOST and professors from Tsinghua University, including works e.g. buyer sourcing, etc. During 2005 & 2006, staff of HNSTI & HNCMD attended various capacity building trainings (Refer to /N2/). Upon being well trained and equipped, HNCMD signed the CDM consultant service contract on the proposed project with the PP /31/ on 18th August 2006.

For a parallel comparison, the validation team has also studied on the CDM development history in China (<http://cdm.ccchina.gov.cn/english/NewsInfo.asp?NewsId=1206>, /N4/), and observed that there were only 125 projects in total being approved by the DNA of China as of October 2006. Among them, there was still approx. 30% not yet being registered at UNFCCC at that time being. It can be hence explained that it's the whole national-scale CDM development moving slowly at that period of time, which is generally imputed to the shortage in CDM professionals.

This development is also reflected in the limited number of projects hosted in China and published for Global Stakeholder comments:

until Dec. 2004: 2
until Dec. 2005: 37 (total)
until Aug. 2006: 150 (total)

The validation team thus considers the time lag between September 2004 to August 2006 on the CDM status development of the proposed project being plausible.

HNCMD then started to identify an Annex-I project participant for the proposed project and finally, on 29th September 2006, the PP signed a Letter of Intent on CER purchase with Carbon Asset Management (CAM); this letter was submitted with the request for registration (document "CDM consideration documents", p.11-12). Following that, internal discussion on ERPA negotiation has been continually carried on within CAM. Internal email communication within CAM staff on the CER price has been submitted and checked by the validation team to be valid /N3/.

On 21st July 2007, the DB of STBY 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) /25/. (Note: The proposed project was originally being invested by Hong Kong-based investors. The same has been discussed and validated by the validation team, referable to Section 4.1 & CL01 of the submitted Final Validation Report (Ver04).). This action is also considered to be taken by the project owner in order to promote and secure their CDM development status.

After re-confirming the company property to be eligible in applying CDM in China, the PP, CDM consultant & carbon buyer then moved to source the DOE validation service. Subsequently, TÜV Rheinland Japan was commissioned as the DOE on 15th October 2007 (refer to "CDM consideration documents" p.37-38), and the PDD of the proposed project has been published for global stakeholder consultation from 21st October 2007 to 19th November 2007:

<http://cdm.unfccc.int/Projects/Validation/DB/ACXPC3NVIAHGMQJ2X63UYRX9VZFTL2/view.html>

To summarize the on-site validation findings, TÜVR has issued a Draft Validation Report (Report no.: 01 997 9105043936 (Ver00)) on 14th December 2007 requesting for clarification of unclear subjects. Meanwhile, LoAs from Sweden & China DNAs were received respectively on 29th January 2008 and March 2008 /8 & 7/. After resolving all open questions raised in the Draft Validation Report and passing internal technical review, the Final Validation Report (Report no.: 01 997 9105043936 (Ver04)) was issued by TÜVR on 12th August 2008 for official submission to UNFCCC CDM EB for requesting registration as CDM project.

Summary:

The validation team has reviewed the submitted evidence documents and confirms these to be authentic and conclusive. The project participants have demonstrated their CDM considerations prior to the project starting date, and that such consideration played a decisive role in the financing of the project. Whereas there is a period between starting date and the establishment of the CDM consultant's operative unit marked by little tangible progress, this should be seen in context of the overall development of the CDM in China during that period. The lack of qualified resources and experience resulted in few projects maturing during that period. The time to develop the CDM project activity as such is therefore deemed plausible.

Considering the entire project implementation history, the validation team concludes that the proposed project has sufficiently demonstrated its continuing and real actions taken to secure the project CDM status in parallel with its implementation. Compliance to EB41 Annex 46 – Guidance on the demonstration and assessment of prior consideration of the CDM, paragraph 5(b) is therefore confirmed.

Project History:

Date (dd/mm/yy)	Project milestone	Evidence document (Ref no. in reference list of submitted FVR)
04/2004	Preparation of Preliminary Design Report (PDR) completed	Loudi Hydropower Design and Investigation Institute, PDR (Ref no. /10/)
04/05/2004	Director Board (DB) meeting – Introduction of CDM implementation concept	STBY, DB meeting minutes (Ref no. /22/)
12/06/2004	DB meeting – Decided to apply for CDM project registration	STBY, DB meeting minutes (Ref no. /23/)
08/07/2004	Reached CDM development agreement with local consultant (namely Hunan Sci. & Tech. Information Research Institute (HNSTI))	STBY & HNSTI, Letter of Intent on CDM project development (Ref no. /30/)
15/07/2004	Obtained PDR approval from Hunan Provincial Water Resource Bureau (WRB)	Hunan Provincial WRB, Approval of PDR (Ref.: XiangShuiNongDian [2004](20)) (Ref no. /12/)
19/07/2004	With consideration of CDM income to the proposed project, the Bank (ICBC – Shaoyang Branch) expressed the preliminary loan approval and further submission to Provincial Branch for endorsement	ICBC (Shaoyang Branch), Letter of Intent for loan approval (Ref no. /28/)
16/08/2004	Obtained project construction approval (Project starting date)	Shaoyang Municipal WRB, Approval of construction commencement (Ref.: ShaoShuiDianKaiShen [2004] (05)) (Ref no. /16/)
02/09/2004	DB meeting – Decided on establishment of CDM working group & CDM implementation	STBY, DB meeting minutes (Ref no. /24/)
05/11/2004	Obtained bank loan approval from ICBC (Dongkou Branch)	ICBC (Dongkou Branch), Letter of loan

Date (dd/mm/yy)	Project milestone	Evidence document (Ref no. in reference list of submitted FVR)
		approval (Ref.: GongYinXiangDaiShen [2004](131)) (Ref no. /29/)
05/07/2005	HNSTI submitted the application to establish a CDM center	HNSTI, Application letter for establishment of Hunan Province CDM Project Service Center (HNCDM) (Ref.: XiangKeXin [2005](15)) <i>(new supplementary document, /N1/)</i>
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 <i>(new supplementary document, /N1/)</i>
09/11/2005	Establishment of Hunan Province CDM Project Service Center (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 <i>(new supplementary document, /N2/)</i>
18/08/2006	Signed CDM consultant service contract with HNCDM	STBY & HNCDM, CDM service contract (Ref no. /31/)
29/09/2006	Signed Letter of Intent with carbon buyer (i.e. Carbon Asset Management Sweden AB (CAM))	STBY & CAM, Letter of Intent on CER purchase (Referable to the submitted registration document, namely "CDM consideration documents", p.11-12)
15/03/2007	Internal discussion within carbon buyer (CAM) on ERPA negotiation	Internal email communication of CAM <i>(new supplementary document, /N3/)</i>
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 (Ref no. /25/)
15/10/2007	Confirmation with TÜV Rheinland (TÜVR) on DOE validation service	Email communication between CAM & TÜVR (Referable to the submitted

Date (dd/mm/yy)	Project milestone	Evidence document (Ref no. in reference list of submitted FVR)
		registration document, namely “ <i>CDM consideration documents</i> ”, p.13-14)
21/10/2007 to 19/11/2007	The proposed project starts to be globally published in TÜVR's & UNFCCC's websites	UNFCCC's CDM website: http://cdm.unfccc.int/Projects/Validation/D/ACXPC3NVIAHGMQJ2X63UYRX9VZFTL2/view.html TÜVR's website: http://www.tuvdotcom.com/pi/web/TuvdotcomIdSearchResults.xml?TUVdotCOMID=9105043936&LanguageSelected=en-us&strUserId=&strUrId=3&strLevel=-1
14/12/2007	Draft Validation Report issued by TÜVR	Draft Validation Report (Report no.: 01 997 9105043936 (Ver00))
29/01/2008	Swedish Letter of Approval (LoA) received	Swedish Energy Agency (i.e. Sweden DNA), LoA (Ref no. /8/)
03/2008	China LoA received	NDRC (i.e. China DNA), LoA (Ref. no. /7/)
12/08/2008	Final Validation Report issued by TÜVR	Final Validation Report (Report no.: 01 997 9105043936 (Ver04))

Abbreviations:

CAM	Carbon Asset Management Sweden AB
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
DB	Director Board
DNA	Designated National Authority
DOE	Designated Operational Entity
EB	Executive Board
ERPA	Emission Reduction Purchase Agreement
HNCMD	Hunan CDM Project Service Center
HNSTI	Hunan Sci. & Tech. Information Research Institute
ICBC	Industrial and Commercial Bank of China
LoA	Letter of Approval
LoI	Letter of Intent
MOST	Ministry Of Science and Technology of P.R. China
PDR	Preliminary Design Report
PP	Project participant
STBY	Shaoyang Triumph Billion Yuzitang Power station Development Ltd, Co.
TÜVR	TÜV Rheinland
UNFCCC	United Nations Framework Convention on Climate Change
VR	Validation Report
WRB	Water Resource Bureau