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	IS-USC-MUC/Ca Javier Castro	+49 89 5791-2686 Javier.castro@tuev-sued.de	+49 89 5791-2756	2008-05-21	1 of 4

Request for review

Dear Sirs,

Please find below the response to the request for review formulated for the CDM project with the registration number 1517. In case you have any further inquiries please let us know as we kindly assist you.

Yours sincerely,

Javier Castro
Carbon Management Service

Headquarters: Munich
Trade Register: Munich HRB 96 869

Supervisory Board:
Dr.-Ing. Axel Stepken (Chairman)
Managing Director:
Dr.-Ing. Manfred Bayerlein

Telefon: +49 89 5791-2246
Telefax: +49 89 5791-2756
www.tuev-sued.de

TÜV®

TÜV SÜD Industrie Service GmbH
Niederlassung München
Carbon Management Service
Westendstrasse 199
80686 Munich
Germany

Response to the CDM Executive Board

Issue 1: “The DOE should provide a clear validation opinion that the input values used in the investment analysis are appropriate in the context of the project activity according to the guidance from EB 38, paragraph 54”.

Response from the project participant

For the calculation of the IRR of the proposed CDM project activity, the parameters listed in the Feasibility Study Report (FSR) have been used as input values applied in the investment analysis, complemented with the power price mentioned in a notice by the Provincial Price Bureau.

The FSR was completed in October 2003 by the “Guiyang Hydro-electric Investigation and Design Research Institute”, which is a subsidiary of the State Power Corporation of China. This institute is an independent organization which is qualified to compile design reports for hydro-power projects (it has obtained a “grade A” in water conservancy industry, electricity industry, construction industry and a “grade A” in engineering investigation industry (engineering survey), all issued by the Construction Bureau of Peoples’ Republic of China). Additionally, the FSR has been approved in December 2003 by the local government (i.e. the “Liupanshui City Water Resource Bureau”). As the FSR has been completed by an independent and certified institute and approved by the local government, we consider the FSR an independent and realistic assessment of the proposed project activity, including the parameters listed therein which are used as input values in the investment analysis.

The FSR was completed in October 2003 at a time before CDM was considered. Additionally, the real power price the project would receive was known at the time of making the decision to apply for CDM project status (notice from the Guizhou Province Price Bureau for the proposed project activity, September 2004, confirmed later by the Power Purchase Agreement and actual Sales Invoices). As is clear from the timeline (See table B.5. in the PDD) both the FSR and the Power Price Notice were known well before making the actual decision to apply for CDM project status and it is therefore reasonable that these data are used as input values in the economic analysis.

Finally, when comparing our input data to the FSR, we noticed a slight difference in Operation and Maintenance Cost. We have corrected this in our calculation sheet and the result is a slight increase in the IRR. This has been corrected in the PDD.

Response by TÜV SÜD

As described above, the parameters applied in the IRR calculation were taken from the FSR as checked during the project validation assessment, referred to in Annex 2 of the validation report (IRL) No. 14 and 15.

The reports were completed in November 2003, and are thus considered to be the applicable source on which the decision to implement the project was based upon. As described by the project participant the FSR has been accepted as source for the investment analysis taking in account that it has been completed by an independent and certified institute and approved by the local government. This analysis had been made before the EB 38.

Further on we have cross checked on basis of local and sectoral expertise the key values as following. This is based on our own extensive database in which we analyzed about 230 hydro power CDM projects in China.

Specific fixed investment costs of about 7 million RMB per MW are slightly above the average rate for CDM projects in China (about 6.7 million RMB per MW). The expected annual operational time of the turbines of about 3 825 hours represents a realistic average value (average is 3850 hours per year). The annual operating costs of 1,47 Mio. RMB/MW are below the average value of 1.93 Mio. RMB/MW. The tariff assumed to be 0.205 RMB/kWh (excluding 6% VAT) what is lower than the average of 0,242 RMB/kWh but quite near to the median of 0,215 RMB/kWh. As additional evidence for the grid tariff a notice from the Guizhou Province Pricing Bureau dated on 9/2004 has been shown mentioning a price of 0,2184 RMB/kWh including VAT (same as in the FSR).

Issue 2 “The DOE should provide a clear validation opinion of how it has determined that the CDM was seriously considered, and required by the project participant in the decision to proceed with this project activity”.

Response by PP

From table B.5 it is clear that at the time of signing the main equipment purchase contract (October 2005) and the start of construction activities (June 2005), the two events that can be considered the irreversible decision to implement the proposed CDM project activity, the project entity was well aware of the prospects of CDM and had amongst others decided CER revenues were crucial for the implementation of the project (board decision March 2005), asked the local government to support its CDM application (April 2005), and signed a development contract with CDM advisors (May 2005). The decision that CER revenues were required to implement the project was taken on the basis of data in the FSR and a notice on the power price the project would received, both known long before any of the above mentioned dates.

Response by TÜV SÜD

We can confirm the project participants response based on the following documents that are available and referenced in annex 2 of the validation report (Ref. xx):

Board meeting	28/3/2005	Ref. 18
Local government support requirement	2/4/2005	Ref. 10
Acceptance from support	28/6/2005	Ref. 11
CDM consultancy contract	6/5/2005	Ref. 12
Main equipment purchase (transformer)	22/11/2005	Ref. 22
Chinese DNA published procedures for CDM	11/2005	(NDRC webpage)

Based on this information it can be confirmed that the timeline of the decision making is consistent and plausible. There is no doubt that before the irreversible action (investment) has been taken the project developers made sure that the revenues from CDM are possible to be obtained.

Based on the answers above we hope the open issues can be closed and the EB can follow our explanation. Of course we will revise our report accordingly for this project and for future projects to make the time line more clear and transparent to the reader.