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## Request for Review

Dear Sirs,

Please find below the response to the review formulated for the CDM project with the title "Langxiang 30MW Hydro Power Project in Guizhou Province China" with the registration number 1941. In case you have any further inquiries please let us know as we kindly assist you.

Yours sincerely,

Cuiyun Zhang  
Carbon Management Service

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## **Response to the CDM Executive Board**

### **Issue 1:**

*If the start date of the project activity is to be considered as mentioned in the PDD i.e. 01 March 2004- the start of the initial construction, then the DOE should clarify how the prior consideration of the CDM (before March 2004) has been validated.*

### **Issue 2:**

*The PP/DOE are requested to submit a revised investment analysis with a clear explanation of the input values and how these values have been validated. The DOE should further clarify if the investments made prior to the consideration of the CDM and restart of the construction have been included in the investment analysis and if yes, justify the reasons for the same.*

### **Issue 3:**

*Further clarification is required on why the common practice analysis has been limited to projects: a) in the capacity range of 15-50 MW, and b) in operation.*

## Referring to Issue 1

### Response by TÜV SÜD

Since the projects submission in beginning of July 2008, the EB has clarified as below.

Guidance on project start date (EB41 §67)

*"... the start date shall be considered to be the date on which the project participant has committed to expenditures related to the implementation or related to the construction of the project activity. This, for example, can be the date on which contracts have been signed for equipment or construction/operation services required for the project activity.  
.."*

In light of the new guidance, it is concluded that project starting shall be the date of signing the purchase agreement for the generator unit of Langxiang hydro power project, dated on Feb. 6, 2004 (Information reference list – Annex2 to the validation report (IRL) No. 13).

Therefore it could be assumed to revise the starting date to the above earlier date.

However, during validation it was noted that the actual costs of the project increased significantly before end of 2005, as could be evidenced (IRL26, please also refer to the response to issue 2). In this context it is worth referring to further new guidance on the projects starting date (EB41 §67):

*"The Board further noted that there may be circumstances in which an investment decision is taken and the project activity implementation is subsequently ceased. If such project activities are restarted due to consideration of the benefits of the CDM the cessation of project implementation must be demonstrated by means of credible evidence such as cancellation of contracts or revocation of government permits. .. "*

At validation it was assured that Langxiang hydro power project seriously considered the CDM end of 2005 and beginning of 2006, as could be evidenced by:

- Report on the Excess over Budget Estimate for Construction of Langxiang Hydropower Station, Changjiang water power committee supervising central Langxiang hydropower station engineering construction supervising station, dated on Dec. 30, 2005 (as submitted with request for registration)
- Application letter for CDM of Langxiang hydro power to Guizhou province DRC, dated on Jan. 10 2006, the directorate of consideration CDM, dated on Jan, 6 2006 (as submitted with request for registration)

It was further assumed that the project activity ceased at the end of 2005, and construction could only be re-commenced while seriously considering the CDM. However, the PPs did not provide any further evidence to proof this fact (such as cancellation of contracts or revocation of government permits).

Supposing that the PPs can deliver supporting evidence to strengthen a starting date matching the above serious CDM consideration, the financial analysis should be re-assessed, bearing in mind above EB guidance. In particular paragraph 7 of the "Guidance on the assessment of investment analysis" shall be considered.



There has been further guidance published on how to demonstrate and validate the prior consideration of the CDM (refer to EB41, Annex46, §5):

*“Proposed project activities with a start date before 2 August 2008, for which the start date is prior to the date of publication of the PDD for global stakeholder consultation, are required to demonstrate that the CDM was seriously considered in the decision to implement the project activity. Such demonstration requires the following elements to be satisfied:*

- (a) The project participant must indicate awareness of the CDM prior to the project activity start date, and that the benefits of the CDM were a decisive factor in the decision to proceed with the project. Evidence to support this would include, inter alia, minutes and/or notes related to the consideration of the decision by the Board of Directors, or equivalent, of the project participant, to undertake the project as a CDM project activity.*

*....”*

In view of the new guidance, it is concluded that a starting date in February 2004 does not comply with above criteria for the following reasons:

- 1) A directorate decision submitted by the project participants to substantiate the CDM consideration does not sufficiently prove the serious CDM consideration at the time before the project start. The meeting minutes, dated 26<sup>th</sup> January 2004 (which is before the projects earliest start date on February 6<sup>th</sup> 2004), present the following:

*“At present, there is a better financial indicators in the feasibility study Report of Langxiang hydro power station....”*

And later in that same document:

*“... The project will start to construct, we should predominate the schedule and the status of the investment during the construction period. Moreover, we must analyze the financial index dynamically an calculate the IRR in good season if the investment addition. If the IRR lower the benchmark, we could apply for carry out the CDM to local government.”*

Judging from the above it shall be concluded that the benefits of the CDM were known to the PPs but were NOT a decisive factor in the decision to proceed with the project in beginning of 2004.

However, as described above, it was shown that CDM played an important role in the projects implementation. From the beginning, before the first real action took place, the PPs were aware of the CDM, as could be demonstrated by the board meeting minutes of January 2004.

Later on, end of 2005, beginning of 2006, the CDM played an important role in tackling the financial difficulties of the project. To finally conclude on this point however, further explanation and evidence from PP will be required.

## **Referring to issue 2**

### **Response by TÜV SÜD**

As pointed out above, it could not be clarified which date – if not the starting date of the project in February 2004 – could be assumed as the project starting date in the CDM context.

In our previous assessment we had accepted two sources for the financial analysis:

- Feasibility Design Report (IRL6), dated April 2003
- Report on the Excess over Budget Estimate for Construction of Langxiang Hydropower Station, Changjiang water power committee supervising central Langxiang hydropower station engineering construction supervising station, dated on Dec. 30, 2005 (as submitted with request for registration)

All parameters in the financial analysis, but the total static investment, were taken from the Feasibility Design Report. The total static investment of 172.72 million RMB is composed of the original 127.71 million RMB as per the Feasibility Design report, plus 45.01 million RMB of increased investment, as per the “Report on the Excess over Budget Estimate”.

In light of the most recent guidance of the board, as pointed out in our response to issue 1, TÜV SÜD is convinced that:

- The actual and real costs of the project, as known at 30<sup>th</sup> December 2005, are reflected in the financial analysis presented by the PPs with request for registration.
- The total static investment known at the time of the indicated starting date of the project, in beginning of 2004, should be the figure as displayed in Feasibility Design Report dated April 2003.

Given that the PP could not submit sufficient evidence to finally conclude on the project starting date, TÜV SÜD would like to point out the following options:

- 1) To consistently apply the values used in the FSR to obtain a clear picture of the financial situation of the project at the time of the project start if the PPs fail to substantiate a starting date of the project end of 2005/beginning of 2006. It is expected that such economic evaluation would reveal the projects financial viability at that time of the project start.
- 2) To re-calculate the financial indicator, bearing in mind paragraph 7 of the “Guidance on the assessment of investment analysis” if PPs can further substantiate a starting date of the project end of 2005/beginning of 2006.



### **Referring to Issue 3**

#### **Response by TÜV SÜD**

- a) the capacity range shall be extended to 0-50MW, according to Chinese hydropower standards (reference: The Standard for Classification and Flood Control of Water Resources and Hydroelectric Project, SL252-2000). As it could be proven that information on hydropower plants ranging below 15MW is very difficult to obtain, as not listed in the official statistics, it is deemed appropriate to limit the assessment to 15-50MW capacity. This is in line with the recent additionality tools requirements.
- b) As per the latest EB guidance (e.g. Additionality tool version 5) only projects that are in operation shall be considered in the common practice analysis.