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Response to Request for Review

Dear Sirs,

Please find below the response to the request for review formulated for the CDM project with the registration number 1955. In case you have any further inquiries please let us know as we kindly assist you.

Yours sincerely,

Javier Castro
Carbon Management Service

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Response to the CDM Executive Board

Issue 1:

The PP/DOE should provide reliable evidence that continuing and real actions were taken to secure CDM status for the project in parallel with its implementation (EB 41, Annex 46, paragraph 5.b).

Background:

EB 41, Annex 46, Paragraph 5.b

(b) The project participant must indicate, by means of reliable evidence, that continuing and real actions were taken to secure CDM status for the project in parallel with its implementation. Evidence to support this should include, inter alia, contracts with consultants for CDM/PDD/methodology services, Emission Reduction Purchase Agreements or other documentation related to the sale of the potential CERs (including correspondence with multilateral financial institutions or carbon funds), evidence of agreements or negotiations with a DOE for validation services, submission of a new methodology to the CDM Executive Board, publication in newspaper, interviews with DNA, earlier correspondence on the project with the DNA or the UNFCCC secretariat;

Response by TÜV SÜD:

According to this further assessment, the following events have been evidenced to prove that continuing and real actions were taken to secure CDM status according to the above mentioned requirements:

Table 1: Key events in the context of the CDM application process

Date	Key event	Evidence	Comment and relevance in the CDM context
June 18th, 2002	Received the letter about preparation work for the project applying World Bank Carbon Funds from the World Bank Department of Hubei Province Finance Commission	Letter about Preparation Work for Najitan Hydropower Station applying for World Bank Carbon Funds, issued by The World Bank Department of Hubei Province Finance Commission	The World Bank suggested the project owner to apply to the Original Carbon Fund in order to increase the low financial feasibility. From there on, the project owner started the path to the CDM application.
January 2 nd , 2003	The project owner received through the Water Resources Sector of Hubei Province, the Handby document of Hydropower[2003]5 from the Water Re-	The Water Resources Ministry of People's Republic of China: Handby document of hydropower [2003]5	The document proves that at the time the local government was starting to promote the CDM and to prepare itself to receive the applications for the mechanism.

	source Ministry of People's Republic of China		
February 3 rd , 2003	General Manager Meeting Decision to apply for CDM project	The Summary of General Manager Meeting of Laifeng Najitan Hydropower Development Co., Ltd.	The decision to apply for CDM was formalized and the internal roles and responsibilities defined.
June 8 th , 2003	Directorate Decision to support and hasten applying work	The Summary of the Directorate meeting of Laifeng Najitan Hydropower Development Co., Ltd.	The main reason for this meeting was to summarize the progresses done and to define the next steps to hasten the CDM application.
During the next 12 months the project was subjected to a reconsideration of the installed capacity; the studies carried out by the project owner, allowed to decide for a capacity adjustment up to 51MW. With the purpose to further analyze this choice the Institute of Hubei Water Conservancy and Hydroelectric Reconnaissance was consigned to prepare an Installed Capacity Adjustment Report on April 2004.			
June 2004	Issuance of the Installed Capacity Adjustment Design Report (51MW)	Installed Capacity Adjustment Design Report (51MW), Institute of Hubei Water Conservancy and Hydroelectric Reconnaissance	As explained the delays in the project implementation and (consequently) in the CDM application procedure, were caused by a change in the project specifications in terms of installed capacity. Consequently, the issuance of this report should be seen as a new starting point for the (revised) project.
August 18 th , 2004	Directorate Decision to speed up in applying for CDM project	The Directorate Meeting Summary of Laifeng Najitan Hydropower Development Co., Ltd.	The CDM application was reaffirmed with this meeting, after the capacity adjustment for the project.
September 15 th , 2004	Cooperation intent letter for the CDM application was signed between the project owner and the Enshi Tujia-Miao Autonomous Prefecture Electricity Enterprises Association (EEA)	The Clean Development Mechanism Capital Application Cooperation Intent Letter	The intent agreement prepared an external association (EEA) to assist the project owner with the further applications procedures for the CDM.
December 20 th , 2004	The commission letter for the CDM application was signed between the project owner and the EEA	The Clean Development Mechanism Capital Application Cooperation Agreement	The agreement was finalized and the application work for the CDM was confirmed to be assigned to EEA.

During the next 11 months the CDM application work by EEA did not reach good results due to many reasons which have been explained by the PPs. This have caused a further delay in the whole process and the PPs had to contract a second CDM consultant in order to proceed with the application.			
November 18 th , 2005	The contract between Beijing Tianqing Power International CDM Consulting Co., Ltd. (TQ Power) and the project owner was signed	Najitan hydropower PorjectCDM Development Contract	With this document TQ Power took the CDM application under its responsibility and care.
April 16 th , 2006	Project owner signed Letter of Intent (LoI) with ENEL Trade SpA	Letter of Intent between ENEL Trade SpA and the PPs	With this LoI ENEL Trade SpA established the pre-conditions for the finalization of an Emission Reduction Purchase Agreement under the proposed project activity. Among the conditions it is mentioned that a due diligence on he project would have been performed and completed by ENEL Trade SpA before finalizing a further agreement on ERs purchase.
August 15 th , 2006	The Emission Reductions Purchase Agreement (ERPA) was signed by the parties	ERPA between the project owner and ENEL Trade SpA	The ERPA allowed the project owner to rely on the CERs revenue for the project under the CDM.
Within the next months the PDD for host country approval was prepared and issued on December 2006; the project also received the approval from the Chinese DNA on December 2006. LoA was received on March 2007 The GSP started on April 21st 2007 and the on-site audit by TÜV SÜD took place on May 13th, 2007.			

The timeline of the events as evidenced during the on-site assessment and as confirmed with this further assessment allow the DOE to be confident that the information given is correct and in compliance with the actual situation and project history. All the above mentioned events have been substantiated by verifiable documents and evidences.

In particular has been evidenced how the main delays in the CDM application progress have been caused by an initial waste of time due to the adjustment of the installed capacity and the consequent need for a revised feasibility report (Installed Capacity Adjustment Report dated April 2004) and, in second instance, by the lack of experience of the first contracting consultancy company which led to lose one more year to both the project implementation and the parallel CDM application.

Hence, according to the above, it's confirmed that continuous and real actions were taken by the PPs to secure the CDM status for the proposed project activity and that the evidenced delays encountered by the project, inevitably involved a delay in the CDM application process.

Response by the Project Participants:

The Feasibility Study Report (installed capacity of 36MW) was completed by the Institute of Hubei Water Conservancy and Hydroelectric Reconnaissance in April 2002. Based on the data in FSR and the actual grid price in Grid Connection Agreement (GCA) which was signed with Grid Company on May 2002, the Project IRR is 6.44% which is far lower than benchmark. Fortunately, on June 18, 2002, the project owner was suggested to apply CDM by the World Bank Department of Hubei Province Finance Commission, and also received handby document of Hydropower[2003]5 from the Water Resource Ministry of People's Republic of China about applying CDM on January 23, 2003. Therefore, the project owner made General Manager Meeting Decision to apply for CDM project on February 3, 2003, and Directorate Decision to support and hasten applying work was made on June 8, 2003. The project owner started to look for the CDM advisors since the Directorate Decision was made, but no CDM advisor was available at that time. So they couldn't start construction due to the low Project IRR, high risk in investment and no available CDM advisor to assist applying for CDM.

In April 2004¹, after the investigation and analysis on the present exploitation and development situation of Youshui River Basin which the project is located, and demand and supply situation in electricity market, the project owner realized that the installed capacity of the project has the possibility for expansion. Then for utilizing water resources sufficiently and mitigating the power supply pressure in local, the project owner consigned the Institute of Hubei Water Conservancy and Hydroelectric Reconnaissance (writer of FSR) to investigate and study the feasibility of the capacity adjustment of the project in the same month, the results indicated that there is necessity and feasibility of the capacity adjustment, and the Installed Capacity Adjustment Design Report (installed capacity of 51MW) was completed in June 2004. However the Project IRR², which was calculated based on the data of Installed Capacity Adjustment Design Report and the actual grid price in GCA, was still lower than the benchmark of 8%³. Then the project owner made Directorate Decision to speed up in applying for CDM project in August 2004⁴. At the same time, the Interim Measures for the Management and Operation of CDM Projects in China was issued, stipulating the application procedure and permission requirements. Therefore, the project owner found a CDM advisor-Enshi Tujia-Miao Autonomous Prefecture Electricity Enterprises Association (hereafter referred to as "EEA"), then started to communicate with EEA and sign cooperation intent letter on September 15 2004 which is earlier than the earliest starting date of the project (i.e. the signature date of main equipment purchasing contract 30/09/2004, and subsequently construction activities started in November 2004). After several-month communication and negotiation, the project owner consigned EEA to assist applying CDM and signed commission letter in December 20, 2004 finally. However, EEA wasn't competent and didn't make any progress before August 31, 2005⁵ due to lack of CDM application experience and poor English, the project owner had to find another CDM advisor and consigned Beijing Tianqing Power International CDM Consulting Co., Ltd. (hereafter referred to as "Tianqing") to assist applying CDM. After negotiation, the project owner signed CDM development contract with Tianqing on November 18, 2005 finally. The project was recommended to ENEL Trade SpA who was very interested in the project, and after simple due diligence, Enel Trade SpA signed Letter of Intent (LOI) on April 7, 2006 (the project owner sign the LOI on April 16, 2006), then after deep investigation and due diligence, the project participants signed ERPA in August 15, 2006. At the same time, Tianqing started preparing the PDD which was submitted to China

¹ Page 2 of Installed Capacity Adjustment Design Report

² IRR Calculation Sheet using data in Installed Capacity Adjustment Design Report and actual grid price in Grid Connection Agreement

³ The *Economical Assessment Temporary Regulation on Electrical Technology Improvement Project*, the post tax Project IRR of an electric power project should not be lower than the threshold of 8%

⁴ Appendix 2 of PDD requesting for registration

⁵ In the commission letter, the expiration date is August 31 2005

DNA apply for LOA in Oct. 2006, and received approval of China DNA on China DNA Website in Dec. 2006 and received LOA from China DNA (paper pattern) on March 2007. Then ENEL Trade SpA started to look for DOE for the project's validation, after serious investigation, the DOE has been consigned. The PDD of the project was published in website of UNFCCC for global stakeholder consultation (CDM PDD for GSP) from April 21, 2007. Soon the DOE held an on-site validation on May 2007. Therefore, the project owner kept continuing and real actions on CDM application in parallel with the implementation of the project. From then on, the process of CDM application was going on smoothly.

Therefore it is clear that the project owner has fully considered the revenues from CDM when making the decision to proceed with the project activity. The main events related to the consideration of CDM in the decision to proceed with the project activity are illustrated in the table below. The respective documentation has been provided to the DOE during the validation process as evidence of CDM consideration.

Table 2: Overview of key events in the development of the project

Date	Key Events
April 2002	Feasibility Study Report (36MW)
May 2002	Grid Connection Agreement was signed
June 18, 2002	Received the letter about preparation work for the project applying World Bank Carbon Funds from the World Bank Department of Hubei Province Finance Commission
September 6, 2002	Approval of Feasibility Study Report(36MW)
January 2, 2003	Received Handby document of Hydropower[2003]5 from the Water Resource Ministry of People's Republic of China
February 3, 2003	General Manager Meeting Decision to apply for CDM project
June 8, 2003	Directorate Decision to support and hasten applying work
June 2004	Installed Capacity Adjustment Design Report(51MW)
August 18, 2004	Directorate Decision to speed up in applying for CDM project
September 15, 2004	Signature date of cooperation intent letter
September 30, 2004	Signed main equipment purchasing contract (the earliest starting date of the project activity)
November 16, 2004	Approval of Installed Capacity Adjustment Design Report(51MW)
November 25, 2004	Got start construction commission
December 20, 2004	Signature date of commission letter with EEA
November 18, 2005	However the EEA can not fulfill their responsibility due to lack of CDM application experience and poor English. Due to the importance role of the CDM on the project, the project owner have to sign CDM development contract with the second CDM advisor (Tianqing) and started preparation of CDM application
April 16, 2006	Project owner signed Letter of Intention(LOI) with ENEL Trade SpA
August 15, 2006	Project owner signed ERPA with ENEL Trade SpA
December 2006	Received approval of China DNA on China DNA Website
January 2007	The project started operation
March 2007	Received LOA(paper pattern) from China DNA
April 21 2007	Starting date of GSP PDD
May 2007	On-site validation
March 2008	Received LOA from The Netherlands

Issue 2:

Further clarification is required on how the DOE has validated the common practice analysis, in particular, (a) the range of capacity chosen for selecting similar projects; and (b) the exclusion of similar projects under construction.

Response by TÜV SÜD:

The exclusion of hydropower plants consisting of installed capacities below 50 MW (a) relies on the definition of “similar scale” plants; according to this has been evidenced by PPs and confirmed by the DOE that the most reliable Chinese standards and regulations define the 50 MW capacity as a cutting border between what should be considered as small (below 50 MW) and what should be classified as middle (or large).

The documents considered as reference have been the “Almanac of China’s Water Power (2005)” and the “Economic evaluation code for small hydropower projects (SL16-95)” which both have been widely used as authoritative sources also in the CDM context.

The range chosen (50 MW to 300 MW) for the common practice analysis it’s therefore confirmed to be appropriate and supported by reasonable argumentations and verifiable documents.

According to the latest EB guidance available at the time of the submission for registration (the “*Tool for the demonstration and assessment of the additionality*” version 05.2), which at Sub-step 4a (1) mentions “*Provide an analysis of any other activities that are operational...*” the DOE has validated the common practice analysis considering that projects under construction should not be mentioned as relevant in the context of the analysis. The DOE confirms that a similar approach is in compliance with the additionality tool and that it doesn’t mine the reliability of the common practice as applied by the project participants.

Response by the Project Participants:

(a) the range of capacity chosen for selecting similar projects

According to the latest version (Version 05.2) of “*Tool for the Demonstration and Assessment of Additionality*”, projects are considered “similar” in case they, amongst others, are of “similar scale”. We have excluded projects with an installed capacity below 50MW as the scale of these projects differs significantly from the scale of the proposed project activity (i.e. 51MW). The significant difference in scale which influences the technical and design specifications, the chosen range can be substantiated by means of official national policy documents:

- 1) The “*Almanac of China’s Water Power* (2005, page 141)” provide the formal definition of hydropower station projects in China, which is the official classification of the Chinese government:
 - ✧ Large scale hydropower stations include hydropower stations with installed capacity more than 300MW (including 300MW);
 - ✧ Middle scale hydropower stations include hydropower stations with installed capacity between 50MW and 300MW (including 50MW and excluding 300MW);
 - ✧ Small scale hydropower stations include hydropower stations with installed capacity between 0.5MW and 50MW (including 0.5MW and excluding 50MW).



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2) The small scale hydropower industry benchmark “*Economic evaluation code for small hydropower projects (SL16-95)*”⁶ provide a special 10% project IRR industry benchmark for small scale hydropower stations:

- ✧ This industry benchmark is significantly higher than the benchmark for normal hydropower stations, and is only applicable to hydropower stations below 50MW according to the SL16-95 regulation.

These Chinese policies and regulations (different standards/benchmarks) influence the feasibility of hydropower stations below and above 50MW in a different manner, besides the difference in scale and size, which naturally exists. All Chinese policies and regulations (different standards/benchmarks) are applicable to total installed capacities of hydropower stations (individual unit capacity of turbine or generator is not considered). The total installed capacity of the project activity is 51MW and we conclude that it is reasonable to exclude hydropower stations below 50MW as they are not similar in scale in China.

(b) the exclusion of similar projects under construction

According to the latest version of “*Tool for the demonstration and assessment of additionality*” (Version 05.2), for common practice, the PDD should “*Provide an analysis of any other activities that are operational and that are similar to the proposed project activity*”. Therefore, the PDD only included similar operational projects and exclude projects under construction.

⁶ In 2002, the Ministry of Water Resources of the People’s Republic of China issued the “Bulletin of Valid Hydropower Technical Standard” currently. According to this hydropower document No [2002]07 the “Revision of Economic Evaluation Code for Small Hydropower Project (SL16-95)”, is still effective and enforceable, reference website: <http://www.cnhydro.com/techstandard/09.htm>