

	<b>CDM: FORM FOR SUBMISSION OF A “LETTER TO THE BOARD” (Version 01.2)</b>
	This form should be used only by project participants and other stakeholders for submitting a “Letter to the Board” in accordance with the latest version of the <i>Modalities and procedures for direct communication with stakeholders</i>
<i>Name of the stakeholder<sup>1</sup> submitting this form (individual/organization):</i>	Anja Kollmuss CDM Watch
<i>Address and contact details of the individual submitting this form:</i>	Address: 117 Rue D’Albanie, Brussels Telephone number: +0041 77 485 3667 E-mail address: <a href="mailto:anja.kollmuss@cdm-watch.org">anja.kollmuss@cdm-watch.org</a>
<i>Title/Subject (give a short title or specify the subject of your submission)</i>	<b>CDM Ref. 4555 – Shaanxi Wenjing Hydropower Project - Additionality Issues</b>
<i>Please mention whether the submitter of the form is:</i>	<input type="checkbox"/> Project participant <input checked="" type="checkbox"/> Other stakeholder, please specify <b>NGO</b>
<i>Specify whether you want the letter to be treated as confidential<sup>2</sup>:</i>	<input type="checkbox"/> To be treated as confidential <input checked="" type="checkbox"/> To be publicly available (UNFCCC CDM web site)
<i>Please choose any of the type(s) below<sup>3</sup> to describe the purpose of this submission.</i>	
<p><input checked="" type="checkbox"/> <b>Type I:</b></p> <p style="margin-left: 40px;"> <input type="checkbox"/> <b>Request for clarification</b>                      <input type="checkbox"/> <b>Revision of existing rules</b> </p> <p style="margin-left: 80px;"> <input type="checkbox"/> Standards. Please specify reference  <input type="checkbox"/> Procedures. Please specify reference  <input type="checkbox"/> Guidance. Please specify reference  <input type="checkbox"/> Forms. Please specify reference  <input checked="" type="checkbox"/> Others. Please specify reference: Concerns about implementation of CDM Rules         </p> <p><input type="checkbox"/> <b>Type II: Request for Introduction of new rules</b></p> <p><input type="checkbox"/> <b>Type III: Provision of information and suggestions on policy issues</b></p>	
<i>Please describe in detail the issue on which you request a response from the Board, including the exact reference source and version (if applicable).</i>	

<sup>1</sup> DNAs and DOEs shall use the respective DNA/DOE forms for communication with the Board.

<sup>2</sup> As per the applicable modalities and procedures, the Board may make its response publicly available.

<sup>3</sup> Latest CDM regulatory documents and information are available at: <http://cdm.unfccc.int/Reference/index.html> .

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**CDM Ref. 4555 – Shaanxi Wenjing Hydropower Project - Additionality Issues**

CDM Watch is writing to express our serious concerns about the additionality claims of [4555: Shaanxi Wenjing 48MW Hydropower Project](#). The project is requesting the issuance of 197,531 tCO<sub>2</sub>e for the period from 18 April 2011 to 19 April 2012 of the registered CDM project activity.

**We are urging the CDM Executive Board to request a review. The period to request a review is set to end on 1 November 2012.**

According to the registered PDD (p. 12), the additionality of the project is based on the project not being financially viable without CDM revenues, since the project IRR (6.23%) is lower than the benchmark (8%). The additionality of the project in the PDD is mainly built on the assumption that an irrigation dam of 228 meters height (Dongzhuan reservoir) will be completed by 2015, reducing the available water flow to the project and hence the electricity production after 2015.

Two recent observations put into question the additionality of this project:

- A) **Over-performance of the project:** the excess power production observed in the first monitoring period of 29% above the level forecasted in the registered PDD, and
- B) **Late completion of the Dongzhuan reservoir:** official published information shows that the reservoir completion seems now scheduled for 2019, four years later than argued in the PDD.

Specifically, this raises the question whether the project has undergone a post-registration change for which approval should have been sought from the EB prior to requesting CER issuance.

*Please provide any specific suggestions or further information which would address the issue raised in the previous section, including the exact reference source and version (if applicable).*

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**A) Over-performance of the project**

In the registered PDD, the project IRR is calculated based on an annual average electricity generation of 183,660 MWh (up to 31.5.2015, i.e. before the completion of Dongzhuan Reservoir) and 83,420 MWh (after the completion of Dongzhuan Reservoir). According to the 1<sup>st</sup> monitoring report, for the period 18 April 2011 – 19 April 2012, net electricity production was **236,864 MWh, i.e. 29% higher than expected**. This is explained with unusually high rain fall in the catchment area.

The sensitivity analysis in PDD mentions in this possibility (page 14) “When feed-in electricity increases above 13.4%, the IRR exceeds the benchmark IRR”. This was deemed in the PDD to be unlikely, but significant overproduction has nevertheless occurred over the past 12 months. According to the verification report (p.11), the DOE has verified that the water flow was indeed higher than the design value used in the FSR, and that the rainfall observed in September – December 2011 was higher than in previous years. Nevertheless, **the excess power generation observed in the first monitoring period puts into question the additionality of the project**. Specifically, questions are

- (i) whether the assumptions on water flow used in the registered PDD were appropriate, and
- (ii) whether the DOE has adequately verified that the level of rainfall observed in the catchment area was indeed highly exceptional throughout the 12-month monitoring period.

**B) Late completion of the Dongzhuan reservoir**

Current publicly available information indicates that completion of the Dongzhuan Reservoir by 2015 as assumed in the registered PDD is highly unlikely. Rather, according to a website of the City of Xianyang, the scheduled completion year is 2019. Relevant weblink (Chinese language, last updated 27 July 2011): [http://www.xianyang.gov.cn/channel\\_1/2011/0727/article\\_100459.html](http://www.xianyang.gov.cn/channel_1/2011/0727/article_100459.html)

This is consistent with information provided on the webpage of the Shaanxi Water Conservancy Construction Administration, which states that the construction has not yet started, and that the feasibility study has not yet been approved. Relevant weblink (Chinese language, last updated 12 September 2012): <http://www.sxsljgj.gov.cn/news/796.htm>

The registered PDD does not analyze the sensitivity of the project IRR to changes in the time when the dam is registered. However, given the project’s high sensitivity to changes in the annual power generation, it seems very likely that a delay of the reservoir by four years would lift the profitability well above the financial benchmark of 8% and, therefore, render the project non-additional.

The verification report states that the Dongzhuan reservoir is “still under construction” (p.13) and “will be completed in 2015” (p.37). This is in direct contradiction with the information provided at the above web links. This raises the question if the DOE has adequately checked the progress in the construction of the Dongzhuan reservoir and the impact of delays on the additionality of the project.

**Conclusion**

Both issues (over-performance and delay in reservoir construction) seriously put into question the additionality of the project. Both issues combined indicate that the project, in the absence of carbon revenues, is far more profitable than assumed in the registered PDD.

**The provided evidence casts a serious doubt on whether the project continues to comply with all relevant CDM criteria. Specifically, a key question is whether the project has indeed been implemented in accordance with the registered PDD, or rather has undergone a permanent post-registration change for which approval should have been sought prior to requesting issuance. We therefore ask the Board to look into these matters and request a review of the project.**

Link to [registered PDD](#)

Link to [verification report](#)

<i>If necessary, list attached files containing relevant information (if any)</i>	<ul style="list-style-type: none"> <li>[replace this bracket with text, the field will expand automatically with size of text]</li> </ul>
<b>Section below to be filled in by UNFCCC secretariat</b>	
Date when the form was received at UNFCCC secretariat	23 October 2012
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**History of document**

Version	Date	Nature of revision
01.2	08 February 2012	Editorial revision.
01.1	09 August 2011	Editorial revision.
01	04 August 2011	Initial publication date.
<b>Decision Class:</b> Regulatory <b>Document Type:</b> Form <b>Business Function:</b> Governance		