

**Response to the request for review on the CDM project activity of
“Huadian Beijing Natural Gas based Power Generation Project”
with the registration number of 2930**

Attention:

CDM Executive Board to Kyoto Protocol

April 18, 2010

Dear Sir or Madam,

We were informed that our project “Huadian Beijing Natural Gas based Power Generation Project (Ref. no. 2930)” was requested for review by CDM Executive Board on April 13, 2010. As required by the Board, we would like to provide additional information as follows.

Issue 1. The DOE shall further substantiate the project start date in line with the “Glossary of CDM terms”, in particular it should confirm if other contracts such as the fuel supply contract were not signed earlier.

Response:

As per the “Glossary of CDM terms” (version 05),

- (1) *“Starting date of a CDM project activity is the earliest date at which either the implementation or construction or real action of a project activity begins.”... “In light of the above definition, 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.”*
- (2) *“Minor pre-project expenses, e.g. the contracting of services/payment of fees for feasibility studies or preliminary surveys, should not be considered in the determination of the start date as they do not necessarily indicate the commencement of implementation of the project.”*

Key time points of Huadian Beijing Natural Gas based Power Generation Project (Ref. no. 2930) (hereinafter referred to as the Project) are summarized as follows:

Date (DD/MM/YYYY)	Activity	Supporting documents
28/02/2006	Equipment	<i>Equipment Procurement Contract of Turbines and Generators</i>

03/04/2006	Equipment	<i>Equipment Procurement Contract of Boilers</i>
25/04/2006	Engineering	<i>Civil Engineering Contract</i>
08/06/2006	Engineering	<i>Permission of Construction Start</i>
13/03/2007	Loan	<i>Loan Agreement</i>
11/07/2007	Fuel	<i>Guarantee Letter on Natural Gas Supply Issued by Beijing Gas Group Co., Ltd.</i>
06/03/2008	Fuel	<i>Natural Gas Purchase Agreement</i>

Few contracts/agreements signed by the Project Owner before 28/02/2006 and all of them belong to “minor pre-project expenses” thus have not been considered in the determination of the starting date as per the “Glossary of CDM terms” (version 05) (paragraph (2) above).

According to the definition of the “starting date of a CDM project activity” provided paragraph (1) above, the starting date of the Project is determined as 28/02/2006.

Issue 2. The DOE shall further explain how it has validated the financial calculations in line with the VVM (v1), para. 111, in particular, (a) the reason for updating the FSR with the FSR Supplementary and suitability of the input values taken from this document, including the annual heat generation, and (b) whether the interest rate was considered in the calculation of income tax.

Response:

We would like to provide our response to this issue in two parts: the first part focuses on “how it has validated the financial calculations in line with the VVM (v1), para. 111” and the second part on “whether the interest rate was considered in the calculation of income tax”.

Part I:

As per the VVM (v1), para. 111,

“DOEs are required to ensure that:

(a) The FSR has been the basis of the decision to proceed with the investment in the project, i.e. that the period of time between the finalization of the FSR and the investment decision is sufficiently short for the DOE to confirm that it is unlikely in the context of the underlying project activity that the input values would have materially changed;

(b) The values used in the PDD and associated annexes are fully consistent with the FSR, and where inconsistencies occur the DOE should validate the appropriateness of the values;

(c) On the basis of its specific local and sectoral expertise, confirmation is provided, by cross-checking or other appropriate manner, that the input values from the FSR are valid and applicable at the time of the investment decision.”

As summarized in the timeline listed in Section B.5 of the PDD, the Feasibility Study Report of the Project (hereinafter referred to as the FSR) was finalized in September 2005 and the investment decision of the Project was made in December 2005. The period of time between the finalization of the FSR and the investment decision is just three months, which is sufficiently short to demonstrate that it is unlikely in the context of the underlying project activity that the input values would have materially changed. So, the requirement of VVM 111(a) is satisfied.

The FSR of the Project comprises two parts as: the main body and the FSR Supplementary. The FSR Supplementary is just another part of the FSR enclosed to provide some supplemental or annexed information to the main body and it does never update any data or information in the main body. The data used in the investment analysis of the PDD are obtained from these two parts of the FSR. So, the requirement of VVM 111(b) is satisfied.

Regarding the fulfillment of the requirement of VVM 111(c), DNV would be invited to provide their response.

Part II:

We would like to revise the IRR calculation spreadsheet to include loan interest this time.

Both of the exclusion of loan interest for the income tax calculation in the previous IRR calculation spreadsheet and the inclusion of loan interest in the IRR calculation spreadsheet submitted along with this response are consistent with the guidelines issued by CDM EB.

For the previous IRR calculation, the reason of the exclusion of loan interest for the income tax calculation in the project IRR is consistent with *Guideline on the Assessment of Investment Analysis* (Para. 9, Version 2) which states that “the cost of financing expenditures (i.e. loan repayments and interest) should not be included in the calculation of project IRR”. *Guideline on the Assessment of Investment Analysis* (Version 2) was issued in August 2009 and was effective when the registration application of the Project was formally submitted to CDM EB (September 2009).

In December 2009, *Guideline on the Assessment of Investment Analysis* was updated to Version 3 at the EB51 meeting. As per this new version of *Guideline on the Assessment of Investment Analysis* (Para. 11, newly added, Version 3), it is clarified that “in cases where a post-tax benchmark is applied the DOE shall ensure that actual interest payable is taken into account in the calculation of income tax”. Since a post-tax benchmark is applied by the Project, we would like to recalculate the project IRR taking into account the loan and interest payments, to satisfy this updated requirement. The results and the comparison to the previous ones are summarized as follows:

	Without CER sales revenues	With CER sales revenues
The project IRR without consideration of financing cost (%)	3.69	8.35
The project IRR with consideration of financing cost (%)	4.15	8.78

Based on the recalculation results, the Project is still financially unattractive without consideration of CDM revenues (the project IRR of 4.15% is below the benchmark of 8%). For the detailed calculations please refer to the attached calculation spreadsheet of the project IRR.

3. The DOE shall further explain how it has validated the baseline identification, as the project activity supplies waste steam for heating while the baseline alternatives identified are purely power generation projects, in line with the requirements of AM0029, ver. 3 (p.2).

Response:

Heat generation is along with the electricity generation in the Project. The baseline scenario in China for district heating is well noted as coal fired boiler/coal fired cogeneration plant¹ and the Project Owner would like to use natural gas as a clean source of heating. It is obvious that using natural gas for district heating is a less carbon intensive project. But due to methodology constraints, only the natural gas fired power generation project is feasible for claiming emission reductions as per the methodology AM0029. As a result, we clarified in the beginning of Section A.2 of the PDD that we do not plan to claim emission reductions from natural gas fired district heating project and therefore ONLY mean to natural gas fired power generation project. So, the baseline alternatives identified are pure power generation projects.

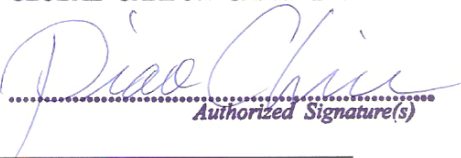
Although it is slightly different compared with other natural gas fired pure power generation projects, we do not find any inappropriateness when identifying the baseline scenario as per the methodology AM0029. More important, registration of Taiyanggong project (Ref. no. 1320, registered in February 2008) and Wuchang project (Ref. no. 1927, registered in June 2009), exact the same situations with us (as generate electricity and heat together with the identified baseline scenario of pure power generation plant) and without any question in baseline identification, substantiates our belief that CDM EB all along has the same understanding with us about the baseline identification in the methodology AM0029. We believe that this is not a project specific issue but should be a consistent understanding, so we have confidence in submitting our registration application in September 2009.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully

For Global Carbon Capital Ltd.,

For and on behalf of
GLOBAL CARBON CAPITAL LIMITED


Authorized Signature(s)

1 <http://www.sei.gov.cn/ShowArticle.asp?ArticleID=144880&ArticlePage=1>,
<http://www.chinaheatpipe.cn/Thermal/hr365.html>.