

## RESPONSE TO THE REVIEW REQUEST

Bureau Veritas Certification (formerly BVQI) had performed the validation of the CDM Project 2909- "Sichuan Heishui Zhawo No.1 Hydropower Project". Subsequently, there were four requests for review.

Our responses to the review requests raised are given below:

### ***Issue 1 for request for review***

*The PP/DOE are requested to provide further details of the reasons for ceasing the construction of the hydroelectric power plant in November 2006.*

### ***Bureau Veritas Certification's and PP joint response:***

As the evidence provided, Sichuan Heishui Zhawo No.1 Hydropower Project (the Project) started construction on 12/08/2005. However, the implementation ceased in Nov. 2006 due to a significant increase in the construction cost resulting from difficult geological conditions. BVC has checked Notice of stopping the construction of Sichuan Heishui Zhawo No. 1 Hydropower Project /Ref-1/ issued by Supervision Company of the Project, Sichuan Jingxin Construction Supervision Company, and found that the increase of total investment was incurred due to:

- 1, Based on the construction status of headrace tunnel of the Project, it was found that the geological condition of the pilot system was poor, also the surface earth behind powerhouse was soft; therefore, the initial slope protection plan had to be modified. And the PP had to increase the slope protection mortar in range, height, and depth around the powerhouse, thus the quantity of civil engineering has been increased;
- 2, Due to the bad geological In order to guarantee the quality and safe operation of the Project, the PP had to change the Shotcrete Tunnel to Pouring Tunnel, which increased the total investment;
- 3, The diversion tunnel has been revised from free-flow tunnel to pressure tunnel, thus need to backfill grouting for the whole tunnel and increase the quantity of civil engineering;
- 4, At the same time, since the price of metals and electrical equipments increased greatly.

The increased investment would be 20.35 million Yuan, and the specific items and amount are listed as follows:

Item	Increased amount (million Yuan)
Grouting of the headrace tunnel	6.37
Slope protection of workshop	1.69
Revised tunnel plan	6.43
Water pilot system (glass fiber reinforced tube)	1.95
Steel material	1.16
Electrical equipment	2.75
<b>Total</b>	<b>20.35</b>

As shown above, due to the increase of the price of raw materials and the construction work loads,



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the total investment cost increased substantially compared to the one estimated in the former approved FSR. However, the former PP, Heishui Sanlian Hydropower Development Co., Ltd. is a small local private company, and it can not afford the increasing of investment. Considering the construction of the Project was hard to continue because of the shortage of funds, the board of Heishui Sanlian Hydropower Development Co., Ltd. (Heishui Sanlian) held a meeting on 26/10/2006 and decided to cease the construction. Subsequently, the Project stopped construction in Nov. 2006, evidenced by the signed cancellation contract. /Ref-2/ /Ref-3/

## ***Issue 2 for request for review***

*The DOE is requested to explain how 19 May 2007 is set as an appropriate project starting date considering the definition given for re-starting activities as per the CDM glossary of terms (pg. 29).*

## **Bureau Veritas Certification's response:**

The detailed timeline of the Project implementation was listed as follows:

<b>Date</b>	<b>Milestone</b>
Oct. 2004	FSR finalized
20/03/2005	Construction contract for tunnel was signed between the PP and the construction party, Sichuan Dujiangyan Construction Engineering Co., Ltd.
05/06/2005	Construction contract for powerhouse was signed between the PP and the construction party, Dujiangyan Juxing Construction & Installation Engineering Co., Ltd.
12/08/2005	Construction started
26/10/2006	A board meeting was held to decide to stop construction of the Project due to the evident increase total investment and shortage of funds
07/11/2006	Notice of stopping the construction of the Project issued by the Supervision Company of the Project
15/11/2006	Cancellation of construction contract was signed between the PP and the construction party, Dujiangyan Juxing Construction & Installation Engineering Co., Ltd. /Ref-2/
15/11/2006	Cancellation of construction contract was signed between the PP and the construction party, Sichuan Dujiangyan Construction Engineering Co., Ltd. /Ref-3/
28/02/2007	A board meeting was held to decide to transfer the ownership of the Project
Mar. 2007	An adjusted FSR was carried out by the same designer of the approved FSR to evaluate the investment return of the Project, which showed that the project IRR is lower than the benchmark, and CDM was suggested in the adjusted FSR
19/04/2007	Based on the conclusion of adjusted FSR, Beijing Energy Corporation, Ltd. held a meeting to develop the Project as a CDM project after it was transferred /Ref-4/
19/05/2007	Hydro turbines purchase agreement was signed /Ref-5/



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June 2007	A Property Evaluation Report was carried out to reflect the recoverable value of the assets
20/06/2007	A Meeting was held by local Government to discuss transfer issue of the Project, in the meeting, CDM was recommended
27/06/2007	An agreement was signed to transfer 100% share of the project company to Beijing Energy Corporation, Ltd.
Jun. 2007	the Project was restarted

*As per the CDM glossary of terms (pg. 29),*

*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. Any investment analysis used to demonstrate additionality shall comply with the requirements of paragraph 7 of the "Guidance on the assessment of investment analysis" (version 02).*

From above table, we can find that the construction contract was signed on 05/06/2005, which is prior to the project construction suspension. And the contract was cancelled through the cancellation agreement thus the cessation of the project implementation has been demonstrated by the Notice of stopping the construction of the Project issued by the Supervision Company of the Project and the cancellation contract.

*As per the CDM glossary of terms (pg. 29),*

*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. 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. For those project activities which do not require construction or significant pre-project implementation (e.g. light bulb replacement) the start date is to be considered the date when real action occurs. In the context of the above definition, pre-project planning is not considered "real action".*

From above table, it can be found that the signed date of 19/05/2007 of hydro turbine purchase agreement was the first contract that the PP committed to expenditures related to the implementation of the project activity, after the board decision to take the project activity as a CDM project. Therefore, 19/05/2007 was chosen as and deemed appropriate as the starting date of the Project.

### ***Issue 3 for request for review***

*The DOE is requested to provide details of the Power Purchase Agreement as the date and terms of the agreement are not clear.*

### ***Bureau Veritas Certification's response:***

The Power Purchase Agreement /Ref-6/ was signed at 25/10/2008 between the PP and the grid

company. The terms include electricity sale and purchase, tariff, connection point, electricity monitoring equipment, electricity measurement, electricity calculation, electricity power charges payment, and force majeure etc.

#### ***Issue 4 for request for review***

*The DOE is requested to clarify how it validated the expenditure committed by the project up to the date of the cessation, the ratio of this to the total investment, the price the holding company purchased the ownership, whether this price represents a fair value and the remaining expenses expected in the implementation of the project activity in line with paragraph 7 of the current "Guidance on the assessment of investment analysis".*

#### ***Bureau Veritas Certification's response:***

In November 2006, the construction of the Project ceased due to shortage of fund. The cost incurred up to the date of the cessation was 20.26 million RMB, which was indicated from the audit report /Ref-7/ accomplished in Nov. 2006 by a professional accountant, Sichuan Zhongtian Accounting Firm. BVC has checked the audit report and found the report can clearly show the expenditure committed by the Project up to the date of the cessation, and the expenditure committed by the Project is 70% of the total static investment estimated in the FSR developed in October 2004.

The engineering supervision company recalculated the total investment based on the construction status, and the amount of construction work would have to increase due to the bad geological conditions of the project activity. So the engineering supervision company recalculated the total investment of the Project and it would reach 49.65 million RMB.

On 27/06/2007, the agreement of transferring the Project /Ref-8/ was signed by Heishui Sanlian and Beijing Energy Corporation, Ltd. The price the holding company purchased ownership was 49.72 million RMB, which including the investment that had been made, such as the account payable to construction contractor and equipment supplier, the loan from rural credit cooperatives, the principal and interest of the loan, the earnest of contract and the expected investment of the unfinished construction. The price the holding company purchased the ownership was indicated from the assets evaluation report accomplished by Beijing Yanhui Assets Evaluation Co, Ltd., which is a professional and qualified company.

Furthermore, an adjusted FSR made by the same designer of the approved FSR in March 2007 to assess the increased total investment cost of the Project, and the total static investment of the Project was recalculated as 49.65 million RMB. Based on the conclusion of adjusted FSR, the project IRR of the Project is 8.14%, which is lower than the benchmark of 10%. Beijing Energy Corporation, Ltd. realized that the investment return would be low except seeking additional financial support from CDM to make the Project feasible. Considering that the benefits of the CDM were a decisive factor to proceed with the Project, on 19/04/2007, Beijing Energy Corporation, Ltd held a meeting on developing the Project as CDM project.

Therefore, BVC can confirm that this price represents a fair value and the remaining expenses expected in the implementation of the project activity in line with paragraph 7 of the current "Guidance on the assessment of investment analysis", and the investment analysis reflect the economic decision making context at point of the decision to recommence the project.

Project

/Ref-2/ Cessation contract of powerhouse construction

/Ref-3/ Cessation contract of tunnel construction

/Ref-4/ Board Meeting Minute

/Ref-5/ Hydro Turbine Purchase Contract

/Ref-6/ Power Purchase Agreement

/Ref-7/ Audit Report

/Ref-8/ Agreement of transferring the Project

Hope the above responses given clarify the queries raised. In case you have any further inquiries please let us know as we kindly assist you.

Yours faithfully,

Bureau Veritas Certification Holding SAS



Jasmine Tang Xuemei  
Team Leader  
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Robin Wang Jing  
Internal Technical Reviewer  
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