

27 December 2012

UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

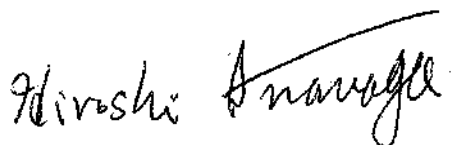
**Response to request for review of project activity 7289 entitled
“Jiangxi Xiajiang Hydropower Project”**

Dear Members of the CDM Executive Board,

We refer to your request for review of project activity “Jiangxi Xiajiang Hydropower Project” (Ref. No. 7289). Please find below the following clarifications for your consideration.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours sincerely,



Hiroshi Inanaga
CEO

Deloitte Tohmatsu Evaluation and Certification Organization (Deloitte-TECO)

Response to the CDM Executive Board

The purpose of this response is to clarify the proposed project activity of “**Jiangxi Xiajiang Hydropower Project**” (Ref. No. 7289) and the relevant verification findings for the request for review, which is notified by UNFCCC secretariat on 13 December 2012. To confirm clarification of the proposed project activity, Deloitte-TECO used its local and sectoral knowledge and requested the project participants to provide additional information, which are discussed in the following section. Deloitte-TECO hopes the responses for request for review will help well understanding of the proposed project activity applying for Clean Development Mechanism.

Issue 1

1) The DOE is requested to further validate: (a) how selecting Jiangxi province as the geographical scope meets paragraph 5 of the additionality tool (version 06.0.0) which states the country as default considering the capacity (360 MW) of the project activity, and (b) how the DOE ensures the credibility of the publicly available information sources (such as Baidu Encyclopedia) used to identify the similar hydropower plants in the province and/or the country. Please refer to Paragraph 5 of the methodological tool for "Demonstration and assessment of additionality" (version 06.0.0).

Response by Deloitte-TECO

Paragraph 5 of the methodological tool for "Demonstration and assessment of additionality" (version 06.0.0):

5. Applicable geographical area covers the entire host country as a default; if the technology applied in the project is not country specific, then the applicable geographical area should be extended to other countries. Project participants may provide justification that the applicable geographical area is smaller than the host country for technologies that vary considerably from location to location depending on local conditions.

(a) How selecting Jiangxi province as the geographical scope meets paragraph 5 of the additionality tool (version 06.0.0) which states the country as default considering the capacity (360 MW) of the project activity.

According to the paragraph 5 of the methodological tool for "Demonstration and assessment of

additionality" (version 06.0.0), applicable geographical area covers the entire host country as a default. However, the project applied Jiangxi province as the geographical area in the PDD at the time of request for registration due to the following reasons.

1. Uneven distribution of water resources

According to the Introduction about the Water Resource Amount and Distribution Feature of China (Annex 1) issued by Hydrochina Corporation, a state-owned enterprise and qualified design institute with Grade A certificate (Annex 2, Annex 2.1), water resources are unevenly distributed in China due to different terrain, river and rainfall, etc. Water resource in the western twelve provinces accounts 81.46% of total amount in China. Eight provinces in the middle China share 13.66% while the remaining eleven provinces in eastern China only account 4.88%.

2. Investment climate

(1) Industrial development

The mainland of China includes total 31 provinces, autonomous region and municipality. According to the “Number of Legal Entities by Three Strata of Industry and Type of Institutions and Region (2010)” (Annex 3) from the Chinese State Statistics Bureau¹, the industrial development situation in these 31 provinces, autonomous regions and municipalities are quite different.

(2) Water resource fee

According to “Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees” issued by the State Council of P. R. China on 21st February 2006 and came into effect on 15th April 2006 (Annex 4), the standard of water resource fee is regulated by the price management department with the finance department and water administration department of the same level of the governments of each province, autonomous region, municipality. Therefore, the water resource fee is varied and distinguished from one province to another.

(3) Tax policies

In China, the different preferential tax policies are implemented for different areas. The Suggestions

¹ <http://www.stats.gov.cn/tjsj/ndsj/2011/html/B0109e.htm>

on the Implementation of Policies and Measures Pertaining to the Development of the Western Region (Annex 5, issued by the General Office of the State Council on 29/09/2001, regulated the preferential income tax in the business of transportation, electric power, water conservancy, postal service and broadcasting for the development of the western region. Specifically, the income tax shall be exempted in the first two years, and half imposed from the third to the fifth years. In addition, according to the Notice on the Expansion of VAT Offset in Northeast of China, issued by the State Administration of Taxation on 14/09/2004, more VAT occurred such for the purchase of equipment can be offset in northeast of China (Annex 6). Since the project is located in middle China, the different tax policies are applied.

(4) Electricity tariff

According to the Notification on Adjusting Electricity Tariffs of the CCPG (Annex 7) issued by NDRC on 18/11/2009, the CCPG consists of six provincial power grids including Jiangxi province. All of these six provinces execute different electricity tariffs, which are regulated by local government, respectively as per the national regulation.

In conclusion, based on the analysis above, the hydropower development depends on local conditions, available water resource and investment climate including the legal regulations of tax policy, electricity tariff and water resource fee, etc. are different from province to province. Deloitte-TECO concluded that the hydropower development is province-specific in China, and the “applicable geographical area” covering only Jiangxi Province for a common practice analysis of this proposed project is appropriate.

[For reference]

In addition to above analysis and clarification, Deloitte-TECO further analyzed the proposed project even by taking a broader geographical area “Central China Power Grid (CCPG)” into consideration to confirm that the project is not common. The CCPG, including Henan, Hunan, Hubei, Jiangxi, Sichuan and Chongqing provincial grids, is included in the project boundary so it is also reasonable to select the CCPG as geographic area of the project. The number of similar projects between

180MW~540MW which are in operation and not CDM projects is 23 in total, sourced from: 1) Yearbook of China Water Resources (2003-2010); 2) public statistics from the State Power Information Network; 3) registered CDM project PDDs; 4) CDM Pipeline issued by the UNEP²; and 5) other public available sources. Yearbook of China Water Resources is an authoritative publication. The State Power Information Network is an authoritative platform for information service of power sector in China. Other information is also from public websites.

The similar projects, between 180MW~540MW which are in operation and not CDM projects, are summarized in Table 1 attached.

On 10th February 2002, an Electric Power System Reform was issued by the State Council. It broke the state-monopoly of the electric supply system, separated electric power generation and electric grid operation into sectors, and promoted market competition and other benefits. Therefore, 11 projects operated before 10/02/2002 (Project No.1~3, 5~7 & 10~14 as shown in Table 1) are excluded for further analysis due to the changed investment climate of the power projects resulting from this reform.

Among the remaining, 12 projects are further checked. Project No.4 was financed by the State Water Resource Bureau; Project No.8 and No.9 were supported by ODA; Project No.18 was adopted overseas technology with technological advantage comparing with the proposed project. Therefore, these four projects are also excluded.

Furthermore, Projects No.15~17, No.19 and No.21~23 are with lower investment and higher operation hours comparing with the proposed project, which means higher internal rate of return. So those projects are distinct from the proposed project and excluded.

In conclusion, only one project No.20 is finally deemed to be similar to the proposed project.

As per common practice in “Tool for the demonstration and assessment of additionality (Version 06.0.0)”, $N_{all} = 12$, $N_{diff} = 11$, therefore, (a) $F = 1 - N_{diff} / N_{all} = 0.08$, smaller than 0.2; and (b) $N_{all} - N_{diff} = 1$, smaller than 3.

Therefore, it also can be concluded that the proposed project is not common practice even within the geographical area of the CCPG.

² <http://cdmpipeline.org/cdm-projects-region.htm>

(b) How the DOE ensures the credibility of the publicly available information sources (such as Baidu Encyclopedia) used to identify the similar hydropower plants in the province and/or the country.

Deloitte-TECO assessed publicly available data source for similar projects. In accordance with the authoritative publications and information as mentioned in Section (a) above, the hydropower projects in the range of 180 MW to 560 MW connected to the CCPG are shown in Table 1. Only one project (Wan'an Hydropower Project) is located in Jiangxi province. This is consistent information with the on-site interview with the representative of Water Conservancy Bureau of Xiajiang Baqiu Town. Wan'an Hydropower Project is located on the Gan River and put into operation in 1991 (first generator) before the stating date of the proposed project. The public information of Wan'an Hydropower Project from Baidu Encyclopedia was searched and provided by the PP.

However, Baidu Encyclopedia is not the only source to give the information of the project. Besides the sources mentioned in Section (a), more details of Wan'an Hydropower Project were further checked by the “The Information of Wan'an Hydro Power Project” published on the website of Large Dam Safety Supervision Center, State Electricity Regulatory Commission (Annex 8). It shows that Wan'an Hydropower Project with installed capacity of 500MW was put into operation in 1991. Large Dam Safety Supervision Center is a national governmental department affiliated to the State Electricity Regulatory Commission. Therefore it is confirmed that the publicly available information about Wan'an Hydropower Project from the website Large Dam Safety Supervision Center and from Baidu Encyclopedia are consistent therefore credible.

In conclusion, the information of Wan'an Hydropower Project stated in the review-requested PDD is reliable. The review-requested PDD adopted Baidu Encyclopedia as a reference. To be more credible and transparent, the reference of Large Dam Safety Supervision Center's website is applied, to replace Baidu Encyclopedia, in the revised PDD and further confirmed in the validation report.

Additional Documents for Submission

No.	Title of documents
Table 1	Hydropower Projects with capacity between 180MW~540MW connected to the CCPG
Annex 1	Introduction about the Water Resource Amount and Distribution Feature of China
Annex 2	Certificate of Zhongnan Institute of Hydrochina Corporation (Grade A)
Annex 2.1	Certificate of Hydrochina Corporation (Grade A)
Annex 3	Number of Legal Entities by Three Strata of Industry and Type of Institutions and Region (2010)
Annex 4	Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees
Annex 5	Suggestions on the Implementation of Policies and Measures Pertaining to the Development of the Western Region
Annex 6	Notice on the Expansion of VAT Offset in Northeast of China
Annex 7	Notification on Adjusting Electricity Tariffs of the CCPG
Annex 8	The Information of Wan'an Hydro Power Project