

CDM Executive Board
UNFCCC Secretariat
Martin Luther King Strasse 8
P.O. Box 260124
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Germany

30 September 2011

Subject: Request for review of the Additionality of the CDM Project 3497: *Sujiahekou Hydropower Station*

Dear Mr. Hession,

We are writing to express our serious concern about the proposed project activity: 3497: *Sujiahekou Hydropower Station*.¹ Registration has been requested following a validation report by ERM Certification and Verification Services Limited which recommends approval. Since the **deadline for requesting review is 2 October 2011**, we trust that you will take our concerns seriously and initiate a review as soon as possible.

Sujiahekou is a new hydropower station constructed and operated by Yunnan Baoshan Binglangjiang Hydropower Development Co., Ltd. Currently under construction, it is the third and largest hydropower station out of four dams on the Binglangjiang cascade. We were notified about this project by an anonymous source, who sent us a copy of the written approval for the project's Feasibility Study Report.

Due to inconsistencies between the project information reported in the Project Design Document (PDD)² and the information provided by official news sources and by the Feasibility Study approval document, we believe that the additionality, feasibility, and the legality of the project are highly questionable.

In April 2011, we and our partners sent a letter to ERM Certification and Verification Services during the public comment period detailing the reasons why the project should not qualify for CDM credits.³ The project was nevertheless validated on 8 July 2011.

We urge the CDM Executive Board to request a review of this project and to carefully examine the following reasons we have identified, which indicate that the Sujiahekou Hydropower project is non-additional (detailed information about each point can be found below):

- (1) **The project is not additional** as it could not have considered CDM before the construction began;

¹ <http://cdm.unfccc.int/Projects/DB/ERM-CVS1268905256.3/view>

² <http://cdm.unfccc.int/UserManagement/FileStorage/GV1186LQSDC0FRXK354HP2U9ETWOJY>

³ Comment by International Rivers, CDM Watch, Green Watershed and Mr. Wen Bo can be found on our website: <http://www.internationalrivers.org/en/node/6476>

- (2) **The project may have violated CDM rules and procedures**, as we have evidence that the project may have reported its project information untruthfully to either the National Development and Reform Committee of the People's Republic of China (hereafter referred to as "NDRC") or the ERM Certification and Verification Services Ltd.; and
- (3) **The project may have violated Chinese law** as it may not have obtained the necessary approval from the NDRC of the People's Republic of China prior to the start of construction.

We are confident that after a rigorous examination of the *Validation Report* and other project documents, you will agree that the proposed Project does not comply with the CDM's additionality requirements, and will recommend that the Executive Board reject the request for registration.

Discussion

- (1) **The project is not additional** as it could not have considered CDM before the construction began. According to the Guidance on the Demonstration and Assessment of Prior Consideration of the CDM, for project activities with a start date before August 2, 2008, the project participant must indicate awareness of the CDM prior to the project activity start date. In the PDD, it is reported that the project owner of Sujiahekou Hydropower Station held directorate meetings in September 2006 to consider the application of CDM, approximately three months before the reported start date of the project, which is December 16, 2006. However, there is clear evidence that the project construction had already started well before this reported start date and the directorate meetings.

On January 9, 2007, a news article published on the official website of the Central People's Government of China regarding the river closure of Sujiahekou project states that the construction of Sujiahekou dam began in July 2006.⁴ The river closure, on the other hand, was reportedly completed on the first day of 2007. Another article published on the official website of Sinohydro Group Ltd. on March 15, 2011 states that the construction of dam abutment, which was carried out by Sinohydro Engineering Bureau 3 Co., Ltd., started in March 2006 following the Bureau's winning of the bid for abutment construction in February.⁵

Given the fact that both articles come from official news sources, we believe that the start date (December 16, 2006) reported in the PDD is false and that the actual start date goes back to as early as mid-2006. This means that the project owner either did not consider CDM financing during project preparation, as the directorate meetings were not held until September of that year, or they viewed CDM financing as extra icing on the cake for a project that was already financed and underway. In either case, the project cannot be viewed as additional since the construction long preceded any serious consideration of CDM.

- (2) **The project may have violated CDM rules and procedures**, as we have evidence that the project may have reported its project information untruthfully to either the National Development and Reform Committee of People's Republic of China (hereafter referred to as "NDRC") or the ERM Certification and Verification Services Ltd.

⁴ http://www.gov.cn/ztl/2007-01/09/content_491067.htm (in Chinese)

⁵ <http://www.sinohydro.com/664-2564-506254.aspx> (in Chinese)

In the written approval of Sujiahekou hydropower station's FSR (Feasibility Study Report) issued by Yunnan Development and Reform Committee (hereafter referred to as "Yunnan DRC") on July 24, 2006, the total installed capacity of the project is noted as 240 MW. However, the PDD states that the project capacity is 315 MW. This number has been confirmed by several other sources, including a news article on the website of Sinohydro Group Ltd.,⁶ a notice issued by the Yunnan Department of Finance regarding the levying of a "Reservoir Region Fund" for medium and large reservoirs in Yunnan Province,⁷ and two research papers published in a bimonthly academic journal titled "Yunnan Water Power." All these sources show that 315 MW has been the capacity for Sujiahekou project since the very beginning of the planning process.

There are several important implications of this inconsistency. First of all, given the difference between 240 MW and 315 MW, it is highly questionable that the results of the investment analysis and feasibility study on other aspects will still hold if the number is suddenly increased by 75 MW. Secondly, if the planned capacity was indeed 240 MW at the time when the FSR was approved, then the decision made by the project owner to apply for CDM at the directorate meeting (which is more than a month earlier than the issuance of the approval) must be based on this number as well. Finally, this inconsistency should not only lead us to question the reliability of the project's feasibility and additionality, but also the accuracy of the project owner in providing key project information to the relevant authorities.

- (3) **The project may have violated Chinese law** as it may not have obtained the necessary approval from the NDRC of the People's Republic of China prior to the start of construction, as required by law. As demonstrated above, the project FSR and its approval were made based on the 240 MW design, while the reported capacity in the PDD is 315 MW. According to the "Regulations for Management of Power Generation Using Renewable Energy" issued by NDRC in early 2006, hydropower projects built on major rivers and hydropower projects over 250 MW are subject to the approval or examination of the NDRC.

Yet according to the PDD, the project owner did not submit the project to the NDRC until December 2010. Furthermore, there is only evidence that the NDRC approved of the project in June 2011 (available on the CDM project page), five years after the start of the project. No official news reports have confirmed the issuance of the approval prior to the start date.

Conclusion

Based on these concerns, we respectfully request that you recommend that the Executive Board reject this request for registration.

Respectfully submitted,

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⁶ <http://www.sinohydro.com/664-1000-6919.aspx> (in Chinese)

⁷ <http://www.yunnanpower.cn/showinfo.asp?id=2946> (in Chinese)