

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION  
REPORT FOR THE FUJIAN PACIFIC ELECTRIC COMPANY  
IN THE PEOPLE'S REPUBLIC OF CHINA  
(Equity Investment 7144 and Loan 1610-PRC)**

On 18 September 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

**A. Overall Assessment**

1. Management appreciates OED's endeavor to carry-out an evaluation of this private sector equity investment and loan project for the Fujian Pacific Electric Company in the People's Republic of China. The project started in 1998 and was completed in 2004. We note that the Project Performance Evaluation Report (PPER) rated this project as successful, it being sustainable, its social impacts highly successful, and its development outcomes satisfactory.

**B. Findings, Lessons Identified, and Follow-up Actions**

2. On the issue of the project's tariff and environmental mitigation measures, the PPER suggests that the project should have installed flue gas desulfurization (FGD) equipment as best practice environmental mitigation measures, for which Fujian Province offers a 1.5 fen per kilowatt-hour premium covering most of additional costs of FGD equipment (paras. 21 & 57). If this were the case, the project tariff could have gone up by the premium paid. However, it is pointed out that the project's relatively higher tariff was a disadvantage in competing in Fujian electricity system. These two aspects seem to be conflicting. Therefore, it would have been more desirable if the PPER had provided a more practical analysis and recommendation on how these (conflicting) issues could have been structured in the project.

3. We note the lessons identified in the PPER for future similar projects. For the suggested follow up actions; however, since ADB disinvested its holdings in this private company in September 2004 and ADB's loan was also fully prepaid, we may have little leverage to carry out or enforce their implementation effectively. We would notify and suggest the project company to consider the follow up actions.