

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<p><b>Financial Management</b> Reduction or removal of subsidies on gas and wind will adversely affect the financial viability of the project.</p>	<p><b>Medium</b></p>	<p>The State Council's air pollution reduction and control measures have triggered wider use of natural gas for district heating. Most of the northern provinces and cities have introduced or plan to introduce a subsidy scheme to switch to natural gas. Hohhot Municipal Government (HMG) introduced a natural gas subsidy scheme for district heating in 2013 and provided CNY30 million in natural gas subsidies for residential heating that year. In 2015, HMG will allocate more than CNY250 million. In addition, HMG supports heating companies that run small neighborhood boiler houses by sharing 50% of investment costs to upgrade pipeline networks associated with natural gas replacement and reconstruction projects. In 2013, CNY100 million was paid, and more than CNY200 million will be paid under this supporting scheme for natural gas heating. HMG is committed to continue providing natural gas subsidies for residential heating until further government notice. In the project team's assessment, the growing public opinion against worsening air quality has built a compelling case for switching to cleaner natural gas. Thus, the government policy support and incentives for natural gas use are irrevocable. The assessment also shows that the natural gas subsidy is a well-funded scheme as Inner Mongolia Autonomous Region (IMAR) gets large revenues from energy resource utilization in the province.</p>
		<p>The project pilots an innovative approach to utilize curtailed wind power [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97, (v) of ADB's Public Communications Policy (2011)]. Under the project, the innovative business model is developed based on an agreement signed by all three parties: Datang (Hohhot) New Energy; Inner Mongolia Power Grid Company; and the Hohhot City Development, Investment, and Operation Company (HCDIO), which represents the Hohhot Chengfa Heating Company (HCHC). As the Government of IMAR is committed to promoting wind-to-heat projects as a means of reducing wind curtailment in IMAR, it is anticipated that successful demonstration of the business model will lead to a policy announcement promoting wind power utilization for heating in northern People's Republic of China and reducing wind power curtailment.</p>

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<p><b>Procurement</b></p> <p>Project implementation may be delayed due to limited experience in ADB procurement procedures.</p>	<p><b>Medium</b></p>	<p>The HCDIO and the HCHC have project experience in foreign assistance from the Japan Bank of International Cooperation and KfW, but they do not have Asian Development Bank (ADB) project experience. Thus, the staff at the HCDIO and the HCHC received training on ADB's procurement and disbursement procedures during project preparation. During project implementation, institutional capacity will be further strengthened. The China Far East Tendering Company, which has extensive experience in ADB procurement procedures, is engaged to further supplement the capacity of the project management office, which has already been set up.</p>
<p><b>Other Risks</b></p> <p>Reductions in urban air pollution from the project may be negated by the construction of additional polluting industries in urban areas.</p>	<p><b>Low</b></p>	<p>Responding to the State Council's air pollution reduction and control measures, the Government of IMAR has taken measures, including (i) elimination of small coal-fired boilers in urban areas, (ii) enhancement of air pollution control measures in key industries, (iii) introduction of more stringent fuel standards for vehicles, (iv) promotion of cleaner energy, (v) industry relocation and elimination of outdated polluting plants, (vi) introduction of more stringent environmental standards for industry approval, and (vii) enhancement of monitoring of particulate matter and other pollutants. Therefore, it is unlikely that new polluting industries will get government approval to operate in urban areas of Hohhot.</p>
<p><b>Overall</b></p>	<p><b>Medium</b></p>	

Source: Asian Development Bank.