

Case Bl.06 and Bl.07 as compared with Bl.01 illustrate the cost impact of an increase in the cost of foreign exchange borrowings to 12% (Bl.06) or of reducing foreign borrowing cost to 6% (Bl.07). The latter case might be considered representative of the average cost of foreign borrowing if substantial amounts of concessional finance were allocated to development of this project by the State.

Case Bl.08 as compared with Bl.01 illustrates the cost impact of an increase in the domestic borrowing rate from 3.6% to 8.0%.

Case Bl.09 as compared with Bl.01 illustrates the impact of a tariff increase to 5.5 fen/kWh. (It may be noted that in 1984 the IBRD estimated an LRMC (long run marginal cost) of power at 5.3 fen/kWh in Jiangsu province. This province is part of the Eastern Power Region which would be fed from Three Gorges.)

Case Bl.10 as compared with Bl.01 illustrates the cost impact of a 33% increase in capital cost (from US\$ 600 per kW to US\$ 800 per kW). It is worth noting that even under this assumption of increased cost the project remains financially viable and capable of retiring all foreign loans as well as a portion of foreign equity within the overall implementation period.

Case Bl.11 as compared with Bl.01 illustrate the cost impact of a 30% reduction in capital cost and revision of the investment profile in accordance with data provided by the Yangtze Valley Planning Office (YVPO). In Annex A Cases Bl.11\$ and Bl.11Y are identical, with all prices denominated in US\$ and in Yuan respectively, with conversion at 1 US\$ = 2.8 Yuan.

Case Bl.12 as compared with Bl.01 illustrates the cost of utilizing foreign equity in project financing.

It may be noted that a high level of equity financing results from the assumption that the Chinese equity consists of the asset value of the Gezhouba project and the capitalized value of its revenues over a period of 11 years up to generation of first power from the Three Gorges