Response to Request for Review
Heilongjiang Fujin Phase II 18MW Wind Power Project
With the reference number 1866

Dear Members of the CDM Executive Board,
We refer to the issues raised by three Board members concerning the request for registration of project activity 1866 “Heilongjiang Fujin Phase II 18MW Wind Power Project” and would like to provide below response to these issues:

Issue 1 and 2 for request for review

Further clarification is required on how the PP can explain and the DOE has validated the credibility and appropriateness of the investment analysis, in particular, the discrepancy of the assumed tariff in the FSR (0.70 RMB/kWh included VAT) versus the tariff value as given (shortly after approval of the FSR) by the National Development & Reform Commission for renewable energy projects in the province with a maximum value of 0.6067 RMB/kWh included VAT, thereby creating an immediate need for CDM.

Further clarification is required on how the DOE has validated the appropriateness of the investment analysis, in particular, the basis for the assumed tariff in the FSR and whether the change in tariff is not considered to be an E+ policy, according to EB 22, Annex 3, para. 6.

PP Response:

The Feasibility Study Report (FSR) of the Heilongjiang Fujin Phase II 18MW Wind Power Project was designed by Heilongjiang Electric Power Design Institute in 2006. Before that, the tariff of the Heilongjiang Fujin Phase I Wind Power Project had been approved by the Heilongjiang Price Bureau in 2004, which was 0.79 RMB/kWh (incl. VAT). The Project owner and the Institute presumed that the Project could get the similar tariff as the Fujin Phase I Wind Power Project, therefore, the Institute adopted 0.70 RMB/kWh (incl. VAT) as the tariff of the Project in the FSR. Using this tariff and the other investment data in the FSR, the total investment IRR of the Project could reach the financial benchmark (8%).

Soon after, the Project owner got to know two regulations: *The Adjustment of the tariff in Northeast China Grid from Nation Development and Reform Commission* (hereafter, NDRC)[1] and *The some regulation about Renewable Energy*[2] from NDRC. According to the two regulations, the tariff of wind power project in Heilongjiang Province is 0.6067

[1] http://www.ndrc.gov.cn/zcfb/zcfbtz/tz2006/t20060630_75078.htm
[2] http://www.gov.cn/ztzl/2006-01/20/content_165910.htm

RMB/kWh[3] (incl. VAT), much lower than what used in the FSR. In the past, the electrical output of the renewable energy project could not always be full amount purchased by gird enterprises[4] and the wind power project enjoyed the high tariff. However, all the electrical output of the wind power project would be accepted by the gird enterprises when *The Renewable Energy Requirement* was issued by Standing Committee of the National Peoples Congress[5]. So the current tariff of the wind power project was lower than before. Based on the data from the FSR and the guidance tariff from the NDRC, the total investment IRR of the Project is lower than the financial benchmark, which means the Project is not financially attractive.

At that time, CDM under Kyoto Protocol had already been well known by the energy industry in China and even some CDM projects had been registered in EB (such as Fujian Zhangpu Liuao 30.6 MW Wind Power Project[6] , Ningxia Tianjing Shenzhou 30.6MW Wind-farm Project[7] and so on). The Project owner got to know the CDM information from internet and the Project was suggested to be developed as a CDM project by CDM consulting company. In order to alleviate the financial disadvantages of the Project, the Project owner decided to develop the proposed project as CDM project. While taking into account the CDM revenues (calculated with 9 Euro/t CO2e, 7×3 years crediting period), the total investment IRR of the Project will be 9.81%, which is higher than the financial benchmark 8%. With the compensation from CDM project, the Project IRR can be increased to normal level to promote the continuous development of the Project.

In conclusion, the Project owner and the Institute didn’t know the regulations about the tariff of wind power project while designing the FSR. That is why there is the gap between the tariff in the FSR and the tariff given by the NDRC for the Project. The gap resulted in the Project financially unattractive, which need revenues from CDM to overcome the financial disadvantages.

As per the definition in EB 22, Annex3, the E+ policy means the policy that increases the GHG emissions. The tariff policy was issued by NDRC in 2006. But the tariff policy didn’t create policy-driven market distortions which give comparative advantages to more emissions-intensive technologies or fuels over less emissions-intensive technologies or fuels. The analysis is as following.

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[3] According to *The Adjustment of the tariff in Northeast China Grid from NDRC,* the demarcated tariff, in Heilongjiang is fixed as 0.3567 RMB/kWh, and referring to *The some regulation about Renewable Energy from NDRC*, the renewable energy project in Heilongjiang will get subsidy as 0.25 RMB/kWh, so the total tariff is 0.6067 RMB/kWh.

[4] http://www.newenergy.org.cn/Html/0091/1220924902_3.html

[5] http://gyb.serc.gov.cn/Article/e/200604/20060429004325.html

[6] http://cdm.unfccc.int/Projects/DB/DNV-CUK1145978917.74/view

[7] http://cdm.unfccc.int/Projects/DB/DNV-CUK1146207502.96/view

According to the China power electric yearbook 2006 and 2007, the installed capacity of wind power in the total installed capacity in Heilongjiang province are 0.42% and 0.86% respectively in 2005 and 2006, which means the installed capacity of wind power in Heilongjiang province was increased 105%. Furthermore, the electricity generated by wind power in the total electricity in Heilongjiang province are 0.17% and 0.25% respectively in 2005 and 2006, which means the electricity generated by wind power was increased 47%. No matter installed capacity or generated electricity of wind power in Heilongjiang province, are increased greatly in 2006 compared to year 2005. Therefore, the change in tariff of wind power should not be considered to be an E+ policy.

Issue 3: The DOE is requested to further clarify the suitability of the input values to the investment analysis as per the requirements of EB 38 paragraph 54(c) guidance.

PP Response:

The FSR, the approval for the FSR, the approval for the tariff and the project finance audit report were submitted to DOE.

We fully support the DOE’s response.