RESPONSE TO THE REVIEW REQUEST

Bureau Veritas Certification (formerly BVQI) had performed the validation of the CDM Project 1866 - "Heilongjiang Fujin Phase II 18MW Wind Power Project ". Subsequently, there have been three requests for review.

Our responses to the review requests raised are given below:

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 (0.70RMB/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.

Bureau Veritas Certification's response:

The validation team reviewed the input values used for the financial analysis in the PDD and approved FSR, and confirm that all the input values are taken from the approved FSR except the value of Feed-in tariff of 0.6067 RMB/kWh (incl.VAT) derived from the notification of tariff issued by the national government at the time of PP's investment decision made. The FSR was completed by an authorized third party Heilongjiang Electric Power Design Institute in the power sector in China. The input values used in the FSR were verified against the relevant national regulations on taxation, criteria of economic analysis in power sector, guidance on design of wind farms etc by the validation team and found the credibility and appropriateness during the period of feasibility study. (See response to issue 2 below)

In the very beginning stage of wind power development in China, the most wind turbines were imported from European due to the immature technologies of local manufacturers. At the same time, there is also a shortage of the experiences in operation of wind power plants. Consequently, in order to facilitate the development renewable energy from wind power, the local government implemented the higher tariff (e.g. above 0.70 RMB/kWh) for the several wind farms in the province built before 2006. Considering the actual tariff of 0.79 RMB/kWh approved in 2004 to the nearby wind farm i.e. Heilongjiang Fujin Phase I Wind Power Project, the tariff was thus estimated as 0.70 RMB/kWh during the period of feasibility study.

According to the pricing notification issued by the national government in January 2006 (reference no.6 of the validation report), the tariff for wind power should be determined through the franchise tendering for the specific projects, which will lead to a much lower tariff under price competition of the bidders. The validation team had checked the official data of all franchise tendering projects in China (from 2003 to 2007) and found that the highest tariff is 0.60 RMB/kWh (incl.VAT). http://www.windpower.org.cn/rule/fd4.jsp While as the pricing notification stated, the tariff for biomass power has a fixed subsidy to be 0.25 RMB/kWh above the levelized tariff of thermal power of 0.3567 RMB/kWh, i.e. 0.6067 RMB/kWh for biomass power in Heilongjiang Province.

Then, the higher value i.e. 0.6067 RMB/kWh reflecting the actual investment climate was taken into consideration in the PP's decision in end of 2006, which was creating an immediate need for CDM . Finally, after the Project implementation, the tariff of 0.61 RMB/kWh endorsed to the Project by the national government on 23/07/2008 (reference no.12 of the validation report http://www.gov.cn/zwgk/2008-08/14/content_1071728.htm) The validation team replicated the actual tariff and ensured the same conclusion as what in the PDD.

In addition, it is evident that there are no national and/or sectoral policies or regulations that give comparative advantages to more emissions-intensive technologies or fuels over less emissions-intensive technologies or fuels as E+ policy, according to EB 22, Annex 3, para. 6 since 2005 the Renewable Energy Law issued by the national government (NDRC). The grid connected power from renewable energy has been encouraged continuously in China. The tariff was declined from 0.70 RMB/kWh to 0.6067 RMB/kWh in Heilongjiang Province is caused by the below reasons,

a) Prior to the implementation of *"Regulation of supervision and management of receving full amount of the power generation from renewable energy*" issued by the national government (SERC- State Electricity Regulatory Commission) on 25/07/2007 , the power generation from wind power plants can not be ensured to be full amount purchased by grid enterprises due to their consideration in the stability and cost control of the grid operation system. After the regulation to be effective, the power exported to the grid by wind power plants can be considerably increased without the restriction of the grid side as before.

b) According to the "*Regulation of supervision and management of receiving full amount of the power generation from renewable energy*", the part of investment in the grid connection system should be undertaken by the grid enterprises other than the power plants as before, therefore, the investment cost of wind power plants can be slightly saved.

c) The localization progress of wind turbine manufacturing is growing rapidly along with the effective of the *Renewable Energy Law* issued by the national government. The investment costs of joint venture or domestic wind turbines have been slightly lower than the imported.

d) The technical difficulties of both installation and operation of wind turbine are going to be minimized along with the development of wind power industry.

Based on the above factors, the subsidy of tariff to wind power have been set by the national government as a whole since 2007 other than each provincial government. The income of selling power to the wind power plants would not be decreased due to the slight decline of the Feed-in tariff. Actually, as known globally, the growth of wind power in China is fast since 2006, whereas there are not any advantages to the more emissions-intensive technologies such as common coal-fired power in China.

Therefore, the validation team can confirm that the input value of Feed-in tariff was credible and applicable at the time of PP's investment decision made, and the gap to the tariff used in the FSR is not considered to be an E+ policy, according to EB 22, Annex 3, para. 6.

Issue 3 for request for review

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.

Bureau Veritas Certification's response:

In China, the project IRR of 8% referred to in "Interim Rules on Economic Assessment of Electrical Engineering Retrofit Projects" issued by State Power Corporation of China in 2002 is regarded as the recognized benchmark in large scale power generation projects including wind power. As a consequence, the validation team was able to verify the project IRR of the Project against this benchmark.

decision of the PP , the validation team verified the input values used in the investment analysis of the PDD complying with the requirements of guidance of EB38 para.54, and the approaches undertaken are as following:The validation team had verified the sources of the input values used in the calculation of the PDD of the Project and confirmed that the sources are taken from the FSR, which was completed by the Heilongjiang Electric Power Design Institute in Nov.2006 and soon approved by Heilongjiang Development and Reform Commission on 30/11/2006.

All the key input values used in the investment analysis are taken from the FSR except for the Feed-in tariff. The credibility and appropriateness of the value of the Feed-in tariff has been justified above.

The details on how the validation team has validated the credibility and appropriateness of the input values to investment analysis are summarized in the table below:

Item	Unit	Value	Data source review	Further assessment by crosschecking	BV's conclusion
Total (static) investment	Million RMB	195.6911 80% loan	Check FSR and signed loan contract and Final financial balance report	Crosschecked with the investment costs per MW of those nearby registered CDM projects. The total static investment occurred is 209,1477 million RMB as stated in the report which was validated by Heilongjiang Power Engineering Supervision Co.,Ltd.	Credible and Valid
Annual O&M cost	Million RMB	4.21	Check FSR	Crosschecked with the similar projects with CDM registration in Heilongjiang Province.	Consistent and reasonable
Annual generation	MWh	131970	Check FSR The value based on the historical data	Crosschecked with the wind farms in the same region.	Approximate and reasonable
Operation lifetime	Year	20	Check FSR	Crosschecked with the general design criteria in the sector	Consistent
Feed-in tariff	RMB/kWh Incl. VAT	0.6067	Check FSR, and tariff policies made by the government in 2006, and the highest tariff of franchise tendering of wind power projects in China from 2003	Cross-checked with the notification of tariff issued by NDRC in January 2006 for the grid connected power by renewable energy, i.e. 0.6067 for biomass, higher than the highest tariff of 0.60 in franchise tendering and approximately equal to	Valid and credible

			to 2006, and actual tariff approved to the Project in 2008	the actual tariff.	
Income tax rate	%	33	Check FSR	Crosschecked with the official web information about national taxation regulations in 2006.	Consistent
VAT rate	%	8.5	Check FSR	Crosschecked with the official web information about national taxation regulations in 2006.	Consistent

Integrating the responses to the above issues based on expertise of our own, the validation team was able to conclude that the input value of Feed-in tariff in the PDD is credible, and the others of key input values to investment analysis are fully consistent with those in the approved FSR, which is in accordance with the requirements of guidance of EB38 para.54 (c).

Hope the above responses given clarify the queries raised. In case you have any further inquiries please let us know as we kindly assist you.

Yours faithfully,
For Bureau Veritas Certification Holding SAS

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09/02/2009

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