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DNV CERTIFICATION AS

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Att: CDM Executive Board

Your ref.: CDM Ref 1010 Our ref.: MRSA/COV Date: June 26, 2007

Subject: DNV Response to request for review "Laizhou Diaolongzui Wind Farm" (1010)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by three Board members concerning DNV's request for registration of the "Laizhou Diaolongzui Wind Farm" (1010) and would like to provide the following initial response to the issues raised by the requests for review.

Comment 1:

The project proponents and DOE should clarify the consistency in the use of the latest tools for the demonstration and assessment of additionality/Version 02 (28 Nov. 2005) as in identifying the technological barrier they state that the proposed project will use larger turbines than those commonly used in China, while in the common practice analysis it is stated that within the Nord China Grid the wind farm capacity in 2004 accounted only 0.142% of the total installed capacity, and it has reached the 0.05% of actual supply to the North China Grid. (See Validation Report, pages 12 and 13).

DNV Response:

The additionality of the project is demonstrated, as stated in the validation report, based on a investment analysis (step 2 of the "*Tool for the demonstration and assessment of additionality")*, the existence of barriers to the project implementation and operation (step 3) and the analysis of the common practice in the area (step 4).

The investment analysis concludes that the project's IRR is 6.56% below the selected benchmark of 8%. The data source and calculations of the IRR were assessed and found correct. A sensitive analysis shows that not even in the case of critical variables being decreased/increased, the project's IRR reaches the benchmark.

It was confirmed during validation that the project faces investment barriers and technological barriers. The technological barrier is based on the installation of large turbines (1.25MW) which are not commonly used in China. This can be confirmed in public available sources ("Installed Capacity of Wind Farm in China in 2005, by Mr. Shi Pengfei, Vice Chairman of Wind Power Association of China". http://www.cwea.org.cn/upload/200612391640820.doc). In China, of 1854 turbines installed up to 2005, only 97 turbines have an installed capacity of 1,25MW or higher and only 55 are installed in the North China grid.

In addition to the barrier analysis, the common practice analysis has assessed the wind farm capacity at the North China Grid level and the provincial level (Shangdong province). This grid covers Beijing, Tianjin, Hebei, Shanxi, Shandong Province and Inner Mongolia Region. Projects developed within the same province face a similar regulatory framework that make them comparable (e.g. the electricity price is approved at the provincial level) and the projects supplying electricity to the same grid also have in common other aspects which make them comparable. Hence, it is DNV's opinion that the selection of the province and the North China grid as the benchmark area to analyze similar activities is in line with the requirements of the step 4a of the additionality tool version 02 "Analyze other activities similar to the proposed project activity".

At the time the PDD was submitted for validation (PDD version 01 of 26 October 2006), the latest available data were for 2004 (China Electric Power Yearbook 2005). DNV confirms the information provided in the PDD is correct and the wind farm installed capacity in 2004 in the North China Grid accounted for 0.142% of the total installed capacity and represents 0.05% of power generation. Only 3 wind farms are installed in Shangdong Province, accounting for 0.0097% of the power generated in the province in 2004.

In conclusion, it is DNV's opinion that the "*Tool for the demonstration and assessment of additionality*" version 2 was consistently applied and the additionality of the project was correctly demonstrated through an investment analysis, the existence of investment and technological barriers and the analysis of the common practices in the province and the grid level.

Comment 2:

They should also clarify which is the current percentage of wind energy provided to the North China Grid today rather than in 2004.

DNV Response:

2004 data were the latest data available at the time of PDD submission for validation (October 2006). The 2006 China Electric Power Yearbook containing the data for 2005 was published in November 2006. Hence, it is DNV's opinion that the common practice analysis

based on 2004 data is correct. Nonetheless, project proponents include in their response the requested information for year 2005.

Comment 3:

In addition, clarification is needed about what is the meaning of "possible" in this statement made by DOE: "Consequently, it's possible to conclude that wind farm activities are not common within the Shandong Province;" (See Validation Report, page 13)

DNV Response:

The data analysis for the wind farms installed in Shandong province evidences that wind farm activities are not common in the province. As stated in the PDD only 3 wind farms are installed in the province, accounting for 0.0097% of the power generated in the province in 2004 (source: *2005 China Electric Power Yearbook)*

We sincerely hope that the Board accepts our aforementioned explanations,

Best Regards,

Yours faithfully.

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