



UNFCCC Secretariat
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DET NORSKE VERITAS
DNV CERTIFICATION AS

Att: CDM Executive Board

Your ref.:
CDM Ref 1090

Our ref.:
MRSA/MLEH

Date:
10 October 2007

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Response to request for review

"Shandong Changdao 27.2 MW Wind Power Project" (1090)

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 project activity entitled "Shandong Changdao 27.2 MW Wind Power Project" (1090), and we would like to provide the following response to the issues raised by the requests for review.

Requests for review 1, 2, 3:

Comment 1:

Version 3 of the "Tool for the demonstration and assessment of additionality" should be correctly applied.

DNV's response:

A revised PDD is submitted as part of the project developer's response applying version 03 of the "Tool for the demonstration and assessment of additionality".

The PDD submitted for registration, applying version 02 of the tool, correctly demonstrates the additionality of the project, independently of the version of the additionality tool applied. For this specific project, both versions lead to the same result.

At the time of approval of version 03 of the "Tool for the demonstration and assessment of additionality" (EB29), the "Procedures for the revision of an approved baseline or monitoring methodology by the executive board" did not include the case of revision of tools. In EB30 the mentioned procedure was revised to include eight months grace period for old versions of methodologies and tools after the approval of a new version. It was DNV's interpretation that this was applicable to the version 03 of the "Tool for the demonstration and assessment of additionality". Further clarification is sought from the EB to clarify on this issue.

Comment 2:

The start date of the project activity should be revised in the PDD to the earliest of the dates at which the implementation or construction or real action of the project activity began. Further, in accordance with section B5 of the PDD Guidelines, "If the starting date of the project activity is before the date of validation, provide evidence that the incentive from the CDM was seriously considered in the decision to proceed with the project activity. This evidence shall be based on (preferably official, legal and/or other corporate) documentation that was available at, or prior to, the start of the project activity."

DNV's response:

At the time of the project submission for registration, the clarification by the Executive Board (EB33) on the correct interpretation of the starting date of a project activity was not available.

The revised PDD proposes as starting date of the project activity the date of completion of the supplementary report to the feasibility study report (11 July 2005) which was approved by the Provincial Development and Reform Commission of Shandong on 19 July 2005. DNV has verified that the consideration of CDM as a key factor for proceeding with the construction of the project was included in the supplementary report of the feasibility study report submitted for approval to the Provincial government. In addition, as pointed out in the

validation report, DNV had access to the minutes of the first meeting of the temporary Board of Directors which confirm this process. Hence, it is DNV's opinion that the incentive from the CDM was seriously considered in the decision to proceed with the project activity and more specifically that was one of the reasons for applying for the approval of a supplement to the feasibility study report.

Request for review 2:

Comment 1:

The PP shall further demonstrate the additionality of the project activity.

DNV's response

In our opinion, the additionality of the project has been sufficiently demonstrated as per the additionality tool based on the project's investment analysis, the existence of barriers and the demonstration of the project not being a common practice activity as described in the PDD and the validation report submitted for registration and the additional information included in the project developer's response and DNV's response to the request for review (see below).

Comment 1.1:

The PP/DOE shall further substantiate the financial analysis and the projection that the project IRR amounts to an IRR of 6.59%, which demonstrates that the project is less financially attractive than a baseline scenario defined by the benchmark: as with an increase in the tariff by 10% the project IRR will be higher than the benchmark IRR, as shown by the sensitivity analysis. There is no substantiation of how unlikely the tariff increase by 10% might be.

DNV's response:

The validation report, page 8, states: "(...) Only if the tariff is increased by 10% will the project IRR be higher than the benchmark IRR. However, as the tariff is strictly regulated for the NCPG grid, it is unlikely that the tariff will increase by 10%. A copy of the tariff approval letter endorsed by Shandong province price bureau has been provided to DNV to evidence this /17/". The reference /17/ of our validation report is the "tariff approval letter endorsed by Shandong province price bureau".

The above mentioned document establishes the electricity tariff for the first year of the project operation. After that period, the electricity tariff could vary as determined by the bidding process established in China from 2005 to set the electricity tariff for wind farms. An analysis of the tariffs approved through that process from 2005 shows that the average tariff in China has been 0.52 RMB/kwh, lower than the 0.7 RMB/kwh used in the project's IRR calculation. Furthermore, other public sources referenced in the project developer's answer confirm that the electricity price trend is likely to decrease. The sources and data included in the project developer's answer have been checked and are considered correct. DNV acknowledges that the bidding process may increase the electricity tariff paid to the project developer, but taking into account the historical trend and the information available in the market, it is DNV opinion, that is unlikely that the electricity tariff would increase to a level where the project can be financially attractive.

Comment 1.2:

The technical and investment barriers analysis is weak and should be further substantiated.

DNV's response:

As stated in the validation report, DNV's verified during the validation the existence of the financial barrier claimed by the project developer related to the equity/external financing ratio the project was able to obtain and the barrier pose by the lack of qualified staff in the area. Further details are provided in the project developers' answer to this comment. Due to the lack of time, DNV has not been able to confirm the new barriers claimed by the project developers in their response.

It is DNV's opinion that the additionality of the project is sufficiently demonstrated through step 2 of the version 03 of the "Tool for the demonstration and assessment of additionality" and the fact that the project activity has been demonstrated not to be common practice in the different provinces included in the North China power grid.

Comment 2:

The DOE shall explain under which contractual arrangements the personnel of DNV Beijing were participating in the assessment.

DNV's response:

DNV fails to see that this is an issue associated with the validation requirements in accordance with paragraphs 37 and 40 of the CDM modalities and procedures. This issue has been addressed as part of the accreditation of DNV and will be revised during DNV's upcoming reaccreditation process.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully

for DET NORSKE VERITAS CERTIFICATION AS



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