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Att: CDM Executive Board

Your ref.:	Our ref.:	Date:
CDM Ref 1077	MRSA/MLEH	10 October 2007

Response to request for review
"Fujian Pingtan Changjiang'ao 100 MW Wind Power Project" (1177)

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 "Fujian Pingtan Changjiang'ao 100 MW Wind Power Project" (1177), and we would like to provide the following response to the issues raised by the requests for review.

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 version 03 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 2:

"The economic and financial analysis is weak, and the following issues should be clarified"

Comment 2.1.:

"It is not clear from the PDD or validation report if the system PLF could be higher or lower than 30% and its effect in the project financing. The sensitivity analysis uses only Investment/Mw, O&M and tariff. Information about the PLF is critical because it could generate uncertainty in this project".

DNV's response:

The sensitivity analysis included in the PDD analyzes the impact of the tariff on the project's IRR. The impact of the tariff is equivalent to the impact of the load factor i.e. an increase of 10% in the tariff/load factor would lead to a project's IRR of 7.29%, below the selected benchmark. This is shown in the annex1 to the project developer's answer. The calculations have been checked by DNV and found correct.

The 30% load factor uses in the PDD has been approved by the National Development and Reform Commission on 27 December 2004 as contained in the feasibility study report. Furthermore, as stated in the project developer's answer, there is a decreasing trend of the average wind speed at the project site, as also confirmed in the feasibility study report. Hence, it is DNV's opinion that is highly unlikely that the load factor could increase to a level where the project developers could consider the project financially attractive without CDM revenues.

Comment 2.2.:

The financial analysis is using a 10 years span and 5% of residual life in the calculations. On the other hand, the operational life of the equipment is 21 years and the residual life could be lower or should be based on fair value principle. This point changes the flows and the IRR/CERs effect and should be reviewed.

DNV's response:

As per the PDD the financial analysis uses 15 years depreciable life for fixed assets and 10 years amortization period for other assets. DNV has confirmed this is in line with the Chinese taxation laws which stipulates that depreciable life of fixed assets cannot be less than 10 years, amortization period of other assets cannot be less than 5 years and the residual value of fixed assets cannot be more than 5%. All the parameters for the financial analysis are from the Feasibility Study Report of the proposed project, which has been approved by the Development and Reform Commission of Fujian Province.

The project developers' response provides details of the project's IRR if a residual value of 0% is used, in that case the project's IRR would increase from 6.08% to 6.23%, below the benchmark of 8%. If the intangible asset amortization period or the fixed asset depreciation period is set to 21 years, the IRR would indeed decrease to 6.06% and 5.88%, respectively. The annexes 2 and 3 submitted as part of the project developers' response wiht the detailed calculations have been assessed by DNV and are found correct.

Comment 2.3:

The validation of additionality is complemented with comments about the importance of maintenance due to corrosion, training, location of equipment in an inland, and others. However, there is no opening of the operational costs, all the data is consolidated and it is not possible to confirm the impact of all this. The PP/DOE shall provide the information to substantiate further the additionality of the project in clear and transparent manner, including spreadsheet with open information to be able to check the information.

DNV's response:

As stated in the validation report the feasibility study report and other document supporting the investment analysis were assessed by DNV during the validation process and were found to be correct.

We refer to the project developer's answer which provides details of the operational costs.

Comment 3:

The technical and investment barriers analysis is weak and should be further substantiated. It is not clear whether the thermal power plant alternative is technically feasible in "an island with plain field, which has few rivers and a lower sea level between 4m and 52m". Is there a provision of fossil fuel for the thermal power plant? The legal and regulatory framework prohibits a thermal power plant because it does not comply with the national regulation for controlling small scale thermal power plant. Hence, the wind power project would not be additional if the other alternative is not allowed.

DNV's response:

The baseline scenario is the alternative d) of the possible baseline scenarios listed in the validation report page 12, i.e. "*East China Power Grid as the provider for the same capacity and electricity output as the proposed project*", which is the only one credible and realistic alternative to the project activity.

Four different alternatives were analyzed as possible baseline scenarios:

a) Installation of a thermal power plant with the same capacity or the same annual electricity output than the proposed project;

b) The proposed project not undertaken as a CDM project activity but as a commercial project;

c) Another renewable energy power plant with the same capacity or the same annual electricity output as the proposed project;

d) The East China Power Grid as the provider for the same capacity and electricity output as the proposed project.

The arguments provided in the PDD and validation report confirm that the option a) does not comply with the Chinese regulations; option b) is not a realistic alternative as demonstrated through the investment analysis and option c) is not a realistic alternative for this project developer or similar project developers taking into account

the project location. Hence, the alternative to the project activity is the generation of an equivalent amount of electricity by the generation mix of the East China power grid, which constitutes the baseline scenario.

Comment 4:

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

DNV's response:

Version 3 of "*Tool for the demonstration and assessment of additionality*" was indeed applied in the PDD for the proposed project activity, as stated in section B.1 and B.5 of the PDD and in chapter 4.4 of the validation report submitted for registration.

Request for review 1, 2, 3

Comment:

Clarification is sought regarding why electricity is not measured on hourly basis as required by the methodology.

DNV's response:

We acknowledge this was not sufficiently specified in the PDD and the validation report.. The text in the PDD and validation report did not reflect the actual monitoring practices in this project. DNV confirms that the installed electricity monitoring equipment monitors the electricity continuously and record the electricity from and to the grid every 15 minutes (equipment type: ABB-AINRTAL, accuracy: 0.2s).

We sincerely hope that the Board accepts our above explanations.

Yours faithfully

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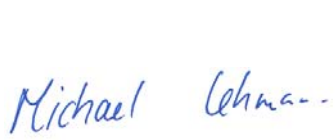

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