



**UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany**

5th June, 2008

Response to Request for Review

“Shibeishan Wind Power Generation Project in Huilai County, Guangdong Province” (Registration No. 1627)

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 project activity 1627 “Shibeishan Wind Power Generation Project in Huilai County, Guangdong Province” and would like to provide the below initial response to the issues raised in the requests.

Issue 1. The DOE shall confirm how it has validated that the input values used in the investment analysis particularly the modifications in the investment and the tariffs, taking note of the guidance provided in EB 38 paragraph 54.

PP Response:

We apology the confusion however we did not have a chance to recognize the said note of guidance since the DOE had requested for registration on **29th Feb, 2008** and PP had submitted registration fee on **3rd March, 2008** which was before EB 38 became effective.

The total installed capacity of Shibeishan Wind Power Generation Project in Huilai County, Guangdong Province is 100.2MW (167×600KW).

Actual financial situation of the proposed projects

Please see below for information about the investment analysis:

All the input parameters used in the financial analysis are taken from the project design report of Preliminary Design Report (PDR) developed by the Modification of Financial Analysis on Shibeishan Wind Farm, which is a component of PDR. The PDR was developed by the Guangdong Electric Power Design Institute in July 2004, and approved by Guangdong Province Construction Bureau dated 30th July 2004.¹ Therefore, the data is reliable and credible.

¹ The project preliminary design report and the approval letter by Guangdong Province Construction Bureau, Construction [2004] No. 306, dated 30 July 2004.

Therefore, data used in PDD from the project design report of PDR is credible and was the most current available information at the time of the start of the project activity.

The relevant assumptions, which are shown in table 1 of section B.5 of the PDD submitted for registration, are as follows:

Table 1 Main parameters for the calculation of financial indicators

Items	Unit	Amount
Capacity	MW	100.2
Total Investment (Total fixed asset investment)	Million Yuan	709.30
Annually output	GWh/year	198.96
Annually O&M costs	Million Yuan/year	10.77
Electricity Tariff (including VAT)	Yuan/kWh	0.5013
Electricity Tariff (including VAT)	Yuan/kWh	0.3038
Value Added Tax (VAT)	%	8.5
Income tax	%	33
Expected CERs Price	\$/tCO ₂	10
Project operation life time	Year	23
CERs crediting time	Year	10

The IRR with and without the income from CERs sale are listed in table 2 below. Without the income from CERs, the IRR of the proposed project is 7.05%, lower than the benchmark IRR set in “*Interim Rules on Economic Assessment of Electrical Engineering Retrofit Projects*”, so the proposed project is financially unacceptable. With the income from CERs, the IRR is increased to 8.23%, which is feasible and attractive to the investors.

Table 2 Comparison of financial indicators with and without income from CERs

Item	Unit	Without the income from CERs	Benchmark rate	With the income from CERs
IRR of total investment	%	7.05	8	8.23

Issue 2. The DOE shall confirm how it has validated that the common practice analysis, taking note of the guidance provided in EB 38 paragraph 60.

PP Response:

We apology the confusion however we did not have a chance to recognize the said note of guidance since the DOE had requested for registration on **29th Feb, 2008** and PP had submitted registration fee on **3rd March, 2008** which was before EB 38 became effective.

Guangdong Nanao Wind farm and Guangdong Jiadong Wind farm, which have been registered in EB, will be excluded in latest PDD. Guangdong Honghaiwan Wind farm, which started its construction before 10th February 2002, will be excluded from the similar projects through following Common practice analysis:

Step 4. Common practice analysis

Sub-step 4a. Analyze other activities similar to the proposed project activity:

The wind farms existing or under construction in China Southern Power Grid with installed capacity above 20 MW are listed in the following table:

**Table 3 Wind farms with installed capacity above 20 MW
in China Southern Power Grid**

Wind farm	Owner	Installed Capacity
Guangdong Honghaiwan Wind farm	Guangdong Jihua Wind Energy Co. Ltd.	20.4MW

Source: <http://www.cwea.org.cn/upload/200612391640820.doc>

Sub-step 4b. Discuss any similar options that are occurring:

Faced on the similar financial and technical barriers as the proposed project, the Guangdong Nanao Wind farm² and Guangdong Jiadong Wind farm³ has already applied for CDM registration.

According to the Notice on Issuing ***Electric Power Sector Reform Programme*** by State Council on 10th February 2002⁴, China began undertaking significant electric power sector reform including dividing the former single national power company into regional companies and separating generation and distribution responsibilities. This electric power sector reform has the following features:

- Firstly, the State Power Grid Corporation and the South China Power Grid Corporation were established. The State Grid Corporation was responsible for establishing limited liability companies or corporations in five districts including North China, Northeast China, Northwest China, East China and Central China. The South China Power Grid Corporation was consisted of the grid assets of the former State Electric Power Corporation in Yunnan, Guizhou and Guangxi. According to the held grid assets ratio, ultimate controlling party was

² <http://cdm.unfccc.int/Projects/DB/TUEV-RHEIN1144397841.66/view>

³ <http://cdm.unfccc.int/Projects/DB/BVQI1189424843.32/view>

⁴ <http://www.lawon.cn/law/detail.do?id=2211075>



responsible for establishing the South China Power Grid Corporation. The electric power enterprises in Tibet were managed by the State Power Grid Corporation.

- Secondly, the five main electricity generation groups were restructured. In the aspect of electricity generation, five electricity generation corporations were established including China Huaneng Corporation, China Datang Corporation, China Huadian Corporation, China Guodian Corporation, and China Electric Power Investment Corporation. In addition, four assisting corporations were established: China Electric Power Engineering & Consulting Corporation, China Hydropower Engineering & Consulting Corporation, China Hydropower Construction Corporation and China Gezhouba Corporation.
- Thirdly, tariff competition policy has been shaped. The core content of this electric power sector reform was price competition, cost reduction and forming new electricity pricing system. The new pricing system designed by this electric power sector reform is, differentiating grid-in tariff, transmission/distribution tariff, and terminal sale tariff. The grid-in tariff was consisted of capacity price fixed by the state and electricity price from market competition price. For grid corporations still in operation/management monopoly status, their transmission/distribution pricing mechanism should be fixed by the government under strict efficiency principle, cost restriction and incentive policy, and their terminal sale price should be based on the above mentioned prices and the established grid-in electricity tariff linkage mechanism. If possible, electricity generation enterprises can supply electricity to big clients directly through negotiation, implement transmission/distribution price fixed by the state, and finally form relatively reasonable electricity sale price.
- Fourthly, the State Electricity Regulatory Committee was established. According to the setting of vertical management system, it was necessary to dispatch delegate institution to regional grid corporation and electricity trade dispatching centre and encourage inner industry competition.

In conclusion, Guangdong Honghaiwan Wind farm project, which started its construction before 10th February 2002, has the essential difference and will be excluded from the similar projects in the latest PDD.

Issue 3: The start date of the project activity is 20 August 2004, the evidence of prior consideration of the CDM is dated 16 February 2004, however the investment analysis considers costs incurred in 2003. Further clarification on the precise start date of this project activity, the means of validation of this start date and the appropriateness of including costs from 2003 should be provided.

PP Response:

1. Precisely the year 2004 is the very first year the project started and costs incurred.

1) It is not likely any costs incurred in the year 2003:

a) The FSR was approved NDRC on **29th Jan 2004**. According to Chinese policy the Project Participant is not allowed to make any investment before government approval on FSR⁵.

b) Start Construction was approved by Guangdong Province NDRC on **20th August 2004**. According to Chinese policy the Project Participant is not allowed to start construction before government approval on construction⁶.

2) 2004 is the first year the project started and costs incurred:

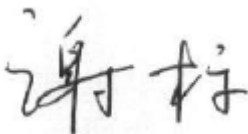
Both **Audit Report** and the **Certificate Letter** issued by CPAs demonstrate that no investment had been made by the Project Participant before the beginning of year 2004 on the project.⁷

2. We apology the confusion, which is caused by Project Participant's typo mistake. The time sequence, shown as year "2003", "2004"...in IRR calculation spreadsheet, in PDD is wrong. According to Modification of Financial Analysis on Shibeishan Wind Farm it should read as year "2004", "2005"...instead. The Project Participant will revise it in the latest PDD accordingly.

Based on the above, the start date of the project activity is precisely 20th August 2004⁸.

We sincerely hope that the Board accepts our explanations. May you have any questions, please feel free to contact us. Thank you!

Yours faithfully



Xie Biao
General Manager

⁵ <http://www.law110.com/law/jiwei/16044.htm>

⁶ <http://www.ccc.org.cn/news/showc.asp?ID=11937>

⁷ The Audit Report dated 14th Jan 2005 and a Certificate Letter dated 5th Jun 2008 issued by Tin Wha Huayue CPAs Guangdong have been submitted to DOE. And the web page of the CAPs is: <http://www.gdtwhycpa.com/index2.asp>

⁸ Notice of New Start Construction Projects for 8th & 9th Group of 2004 issued by Guangdong Province NDRC on 20th August 2004