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Att: CDM Executive Board

Your ref.:
 CDM Ref. 1627

Our ref.:
 MLEH/HP

Date:
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Response to request for review “Shibeishan Wind Power Generation Project in Huailai County, Guangdong Province” (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 Huailai 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.

All the input parameters used in the financial analysis are taken from the Modification of Financial Analysis on Shibeishan Wind Farm, which is a component of the project preliminary design report (PDR). The PDR was developed by the Guangdong Electric Power Design Institute in July 2004, and approved by Guangdong Province Construction Bureau dated 30 July 2004.¹ The input parameters used in the financial analysis are thus considered information provided by an independent and recognized source.

DNV compared the input parameters for the financial analysis included in the PDD with the parameters stated in the PDR and was able to confirm that the values applied are the same.

The PDR was developed only one month prior to the project’s starting date.² Given this relative short period of time, it is unlikely in the context of the project that the input values would have materially changed. It is thus reasonable to assume that the PDR has been the basis for the decision to proceed with the investment in the project.

The input parameters used in the financial analysis were compared with the data reported for other similar proposed CDM projects in Guangdong Province, by comparing investment costs per MW, electricity tariff, percentage of O&M costs relative to total investment costs. By applying our sectoral competence, DNV was able to confirm that the input parameters used in the financial analysis are reasonable and adequately represent the economic situation of the project.

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.

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

² Project construction starting permission, 20 August 2004. Guangdong Province Development and Reform Committee, [2004] No. 688.

The common practice analysis assesses the existing wind farm projects with installed capacity above 20 MW in China southern power grid.³ This analysis shows that there are three similar wind farm projects with installed capacity above 20 MW. As per the guidance provided in EB 38 paragraph 60, “project participants may exclude registered CDM project activities and project activities which have been published on the UNFCCC CDM website for global stakeholder consultation as part of the validation process.” Two of the three projects have been registered as CDM projects and are hence excluded.⁴ The third project, Guangdong Honghaiwan Wind farm, is thus the only project considered in the common practice analysis. Compare with the proposed project, Guangdong Honghaiwan Wind farm started construction before year 2002 when *the Notice of Electric Power Sector Reform Programme* was issued by State Council. This reform came into force on 10 February 2002, and involved that former single national power companies were divided into regional companies, separating generation and distribution responsibilities, and shaping the tariff competition policy. Before the reform, the investment of the wind farms were decided by state government and the tariff was also decided by government, while after the reform, the investment and the tariff became more flexible. This project thus had a different regulatory framework and is not comparable with the proposed project activity. DNV rechecked all sources mentioned in the analysis and could conclude that the construction of a wind farm project of 100.2 MW is not a common practice in Guangdong province.

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.

The project FSR was approved on 29 January 2004 by the National Development and Reform Committee.⁵ According to Chinese policy the Project Participant shall not make any investment before government approval of the FSR⁶. The project was permitted construction on 20 August 2004.² According to Chinese policy the Project Participant shall not start construction before government approval of the construction⁷. DNV rechecked the project construction start permission approved by Guangdong Province Development and Reform Committee [2004] No. 688, and verified that the start date of this project is 20 August 2004. The construction permit in August 2004 is considered as the earliest of implementation, construction and real action.

DNV rechecked the Modification of Financial Analysis on Shibeishan Wind Farm which is a component of the project preliminary design report (PDR), and verified that 2004 was the first year of the financial analysis instead of the year 2003. DNV also checked the Audit Report of the project by Tin Wha Huayue CPAs Guangdong on 14 January 2005, in which it is clearly announced that no investment had been made by the Project Participant before the beginning of year 2004⁸.

³ <http://www.cwea.org.cn/upload/200612391640820.doc>

⁴ Guangdong Nanao Wind farm, EB registration webpage: <http://cdm.unfccc.int/Projects/DB/TUEV-RHEIN1144397841.66/view> Guangdong Jiadong Wind farm, EB registration webpage: <http://cdm.unfccc.int/Projects/DB/BVQII189424843.32/view>

⁵ Approval letter of feasibility study report of Shibeishan Wind Power Generation Project in Huailai County, Guangdong Province, National Development and Reform Committee, 29 January 2004.

⁶ <http://www.law110.com/law/jiwei/16044.htm>

⁷ <http://www.cec.org.cn/news/showc.asp?ID=11937>

⁸ The Audit Report of Guangdong Yudean Shibeishan Wind Power Development Co. Ltd. dated 14th Jan 2005 and a Certificate dated 5th Jun 2008 issued by Tin Wha Huayue CPAs Guangdong. And the web page of the CPAs : <http://www.gdtwhycpa.com/index2.asp>

Hence, DNV verified all related documents and confirm that there had not been any investment made in the year 2003 and the first investment on the project was made after 20 August 2004, the project construction permit.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully
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