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Att: CDM Executive Board

Your ref.:
 CDM Ref 2062

Our ref.:
 ZXJ/DUDAG/BRINKS

Date:
 6 February 2009

Response to request for review of the project “Heilongjiang Yilan Hezuolinchang Wind Power Project” (2062)

Dear Members of the CDM Executive Board,

We refer to the issues raised by the requests for review by three Board members regarding project activity, “Heilongjiang Yilan Hezuolinchang Wind Power Project” (UNFCCC reference number 2062) and would like to provide the following initial responses to the issues raised.

Comment 1: The DOE should further clarify the change in the project start date, as in the PDD made available for public consultation it was stated that construction had started on May 25, 2007 and in the validated PDD the project start date refers to June 10, 2007 (construction permit).

DNV Response:

In the final validation report, DNV mentioned the construction permit date of 10 June 2007 after reviewing the appropriate documents during the site visit. The date 25 May 2007 refers to the construction application date by Yilan Longyhuan Wind Power Co. Ltd, which is not a correct starting date of the project activity. CL9 was raised to correct the PDD. The construction started after 10 June 2007.

The definition of project activity starts date: “the earliest date at which either the implementation or construction or real action of a project activity begins”. The EB further clarified that: “In light of the above definition, the start date shall be considered to be the date on which the PP has committed to expenditures related to the implementation or related to the construction of the project activity.

DNV accepted the third party construction permit approval date (10 June 2007) as the project start date. This date corresponds to the date for which financial expenditure can be committed to the project.

Comment 2: *The PP should further substantiate and the DOE should clarify how the investment analysis was validated as credible and appropriate, in particular regarding two issues:*

- a) *the basis for the assumed tariff in the FSR and whether the change in tariff is not considered to be an E+ policy, according to EB 22, Annex 3, para. 6); The sudden change of the assumed tariff in the FSR (as conducted in March 2007, showing a tariff of 0.6028 RMB/kWh, resulting in an IRR of 8.76%) into a reduced tariff of 0.5622 RMB/kWh as specified in the propositional letter of the local DRC, which was issued on 14 April 2007, making the project financially unattractive, forcing the project developer to apply for CDM;*
- b) *As replication of the calculations in the spreadsheet provided indicates that applying the tariff used in the FSR yields an IRR that is different from what was obtained in the same document.*

DNV Response for a):

According to EB 22, Annex 3, para 6, an E+ policy are:

‘National and/or sectoral policies or regulations that give comparative advantages to more emissions-intensive technologies or fuels over less emissions-intensive technologies or fuels’.

Therefore, the type E+ policy would result in increase in GHG emissions.

The change of the assumed tariff (0.6028 RMB/kWh) in the FSR into a realistic tariff of 0.5622 RMB/kWh does not contradict the Chinese policy in favour of renewable energy industry. DNV has verified the tariff of thermal power plants as 0.305 RMB/kWh (excl. VAT)¹ in Heilongjiang Province; and ascertained that the tariff of renewable energies is composed of two parts: 1) levelised price of thermal power; and 2) the subsidy above levelised 0.305 RMB/kWh from central government. The reduction from assumed 0.6028 RMB/kWh to realistic 0.5622 RMB/kWh (still above the levelised tariff of thermal of 0.305 RMB/kWh) falls into the subsidy range. The conclusion is that those subsidies, though reduced in magnitude, still pertain to the renewable energies such as wind projects to be supported by national and/or sectoral policies or regulations. E+ policy is therefore not considered relevant in this context.

The timeline for the selection of the electricity tariff can be described as follow:

- March 2007: the FSR dated March 2007 was developed by Xinjiang Province Wind and Electricity Design Institute which is accredited directly by National Construction Ministry. The FSR indicate a tariff of 0.6028 RMB/kWh.
- 15 April 2007: Letter from the local DRC, which propose a reduced electricity of 0.5622 RMB/kWh.
- 22 May 2007: The FSR approval letter for Heilongjiang Yilan Hezuolinchang Wind Power Project was issued by the government after expert panel² suggestions were fully addressed in the FSR.
- 10 June 2007: Project starting date

The tariff assumed in FSR is a price estimate from the FSR designer based on the local economic development, national regulations and the specific circumstances of the proposed project. However, the electricity tariff in China for renewable energies such as wind power is regulated

¹ Notice on Tariff of Northeast China Power Grid issued by NDRC in 2006 (<http://china.findlaw.cn/fagui/jj/26/104270.html>)

² Expert panel opinion for Yilan Hezuolinchang Wind Power Project dated 15 May 2007

according to the “notice on tariff determination method” (NDRC2005, No.514), by the government tariff bureau, the regulation is in respect of market principle covering the cost and ensuring a certain level of profit. Therefore, the final/actual tariff of a project is defined *ex-post* when considering the circumstance of local and central government policy, economic situation and consumption status. The project participants have to adopt to the tariff they achieve and decide to go ahead with the project or not.

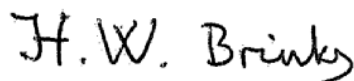
The IRR calculations were provided in a spreadsheet. The calculations were verified and found to be correct and in accordance with the EB’s latest guidance on the assessment of financial calculations (EB38 - EB41). The project-IRR without CDM revenues is 6.71%, which confirms that the project in the absence of CDM benefits and compared to the benchmark of 8% is not financially attractive. With CER revenues the project IRR increases to 9.16%, which is above the benchmark.

DNV Response for b):

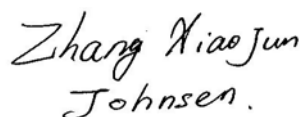
When taking the tariff of 0.6028 RMB/kWh as input to replicate the calculations in the spreadsheet provided, the IRR changes to 7.64%, not 8.76% as mentioned in the FSR. The reason for this is a different approach in the present calculation by excluding loan payment in construction period as well as exclusion of loan interest for the years of operation. DNV has verified the calculation and the calculation in the spreadsheet submitted for registration is in line with the project-IRR calculations as also determined by EB41 Annex 45 paragraph 9.

We sincerely hope that the Board find our elaboration on the above satisfactory.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS



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