

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

February 4th 2009

Dear Members of the CDM Executive Board,

Please find below our response to the issue raised by request for correction of the "Liaoning Changtu Quantou Wind Power Project (2219)".

1. The DOE should explain the basis for the tariff assumed in the FSR and whether the change in the electricity tariff has not been considered as an E+ policy, according to EB 22, Annex 3, paragraph 6.

R:

- a) The FSR is completed by the design company, which is a qualified, competent, experienced, and professional wind power designer owns the qualification, abundance experience and experts for making FSR. According to the compiling method of the FSR for wind power project issued by NDRC¹ on 30th sept.2003, the design company for the FSR assumed the tariff in the FSR following two principles. First, under the condition of the determinate investment of the project, the assumed tariff must enable the IRR to exceed the industrial benchmark. Second, it must cover the cost and ensure a certain level of profit². It is highlighted that the tariff in the FSR, i.e., 0.5998 RMB/kWh (excl. VAT) is not an approved or implied tariff in any official sense. Instead it is only an estimated price estimated by the FSR designer, based on the region local economic development environment, national policy regulations and the specific condition circumstances of the proposed project made by the feasibility study institution. Actually the tariff will be subject to separate government approval . Therefore, the project owner consults the local government whether the assumed tariff in the FSR was reasonable. After that, the Official Letter about the tariff of the proposed project issued by the Development and Reform Bureau of Changtu County in Liaoning Province on 8th Jan. 2007 proposed the tariff as no more than 0.5714 Yuan/kWh (Excluding VAT). Therefore, the tariff proposed by the local DRC should be seemed as the basis of approval tariff for the proposed project by the project owner. In the PPD, the project owner use the proposed tariff to reappraise the financial analysis instead of the tariff assumed in the FSR.
- b) The change in tariff is not considered to be an E+ policy, for the following reasons. First, the final tariff of the proposed Project is 0.5714RMB/kWh (excl. VAT), 81.9% higher than the benchmark thermal power tariff in Liaoning grid 0.309 RMB/kWh (excl. VAT). It gives a significant comparative advantage to the low-emission wind farm project over more emission intensive technologies, as it effectively grants a premium of 0.2624RMB/kWh for the wind farm above the electricity tariff for thermal power plants. Second, the change in tariff is basically not a policy, as the initial tariff was nothing more than a calculated and desired valued by the Project owner and was not a tariff in any official sense, while the later tariff was a proposed value by local DRC, which was of instructive

¹ <http://www.whdpc.gov.cn/dispxnr.asp?id=103283>

² http://www.sdpc.gov.cn/nyjt/nyzywx/t20050810_41378.htm

sense but no approval sense. The fact that both the initial tariff 0.5998 RMB/kWh and the final tariff 0.5714 RMB/kWh were of no approval sense means that the change itself in tariff has little official sense either, and should not be regarded as a policy. Third, the change in tariff showed in this case is only for the proposed project. It is case-specific and inapplicable to other projects. Moreover, with the development of commercial process for wind power plants in China, the subsidy for wind power plant still is implemented. Therefore, from this perspective it should not be regarded as a policy either. Therefore, the change in tariff has no E+ effect either. With the three points above combined, the change in tariff is not considered as an E+ policy.

2. The data used to calculate the grid emission factor in the PDD submitted for registration was not available at the commencement of validation (May 2007). The PP and DOE are therefore requested to amend the grid emission factor using data which was available at this date.

R: The timeline of key references for the proposed project were shown as follows:

- 1) China Electric Power Yearbook 2006 was published in Nov. 2006
- 2) China Energy Statistical Yearbook 2006 was published in March 2007
- 3) The date of the PDD was 15/03/2007 and the date of GSP of the PDD was 31/05/2007
- 4) Baseline Emission factor (EF_y) of the Northeast China Power Grid updated by China NDRC in August 2007

According to the timeline list mentioned above, Even though China Electric Power Yearbook 2006 and China Energy Statistical Yearbook 2006 could be obtained before the date of the GSP PDD ,parts of key factors used for calculation could not be obtained in public in China, including efficiencies of electricity transmission of the fossil fuel power plants. Moreover, according to the comparison of the latest data available and the values of OM and BM issued by China NDRC before May 2007, the calculated results of OM and BM based on China Electric Power Yearbook 2005 and China Energy Statistical Yearbook 2005 were smaller, and the updated edition of calculations of OM and BM based on China Electric Power Yearbook 2006 and China Energy Statistical Yearbook 2006 were not issued by China NDRC. Therefore, in accordance with the conservative rule, the GSP edition of PDD of the proposed project still adopted the conservative values (Baseline Emission factor (EF_y) of the Northeast China Power Grid issued by China NDRC in December 2006) to calculate the emission.

According to the request mentioned by the experts of EB, the Baseline Emission factor (EF_y) of the Northeast China Power Grid was updated based on the latest available date at the time of GSP in the corrected PDD.

Best regards

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