TÜV SÜD Industrie Service GmbH · 80686 Munich · Germany

Industrie Service

Choose certainty.
Add value.

DAP-PL-2885.99
DAP-IS-2886.00
DAP-PL-3089.00
DAP-PL-2722
DAP-IS-3516.01
DPT-ZE-3510.02
ZLS-ZE-219/99
ZLS-ZE-246/99

Your reference/letter of	Our reference/name	Tel. extension/E-mail	Fax extension	Date/Document	Page
	IS-CMS-MUC/ Cuiyun Zhang	+49 89 5791-3038 Rachel.Zhang@tuev-sued.de	+49 89 5791-2756	2008-12-11	1 of 11

Response to Request for Review

Dear Sirs,

Please find below the response to the request for review formulated for the CDM project with the registration number 1956. In case you have any further inquiries please let us know as we kindly assist you.

Yours sincerely,

Cuiyun Zhang
Carbon Management Service

Industrie Service

Response to the CDM Executive Board

Issue 1:
The DOE is requested to further clarify and provide evidence on the suitability of the input values to the investment analysis as per the guidance of EB 38 paragraph 54 (c).

Response by the Project Participants:

According to paragraph 54 of the EB 38 report:

"54. The Board clarified that in cases where project participants rely on values from Feasibility Study Reports (FSR) that are approved by national authorities for proposed project activities, DOEs are required to ensure that:

(c) On the basis of its specific local and sectoral expertise, confirmation is provided, by cross-checking or other appropriate manner, that the input values from the FSR are valid and applicable at the time of the investment decision."

For the calculation of the IRR of the proposed project activity, the parameters listed in the Preliminary Design Report (PDR) and grid price agreed upon in the Power Connection Intent Agreement (PCIA) have been used as input values applied in the investment analysis.

The PDR was completed and issued (August 2005) by the "Xinjiang Uygur Autonomous Region Water Conservancy and Hydropower surveying and designing Institute of the Ministry of Water Resource of the People's Republic of China." This entity is an independent organization which is qualified to compile design reports for hydropower projects (it has obtained an A grade certificate in electricity industry (hydro power) issued by the "Ministry of Construction" of the Peoples Republic of China). Additionally, the PDR has been approved by the "Development and Reform Commission of Xinjiang Uygur Autonomous Region" later. The PDR can be considered as an independent and realistic assessment of the proposed project activity, including the parameters listed therein which are used as input values in the investment analysis.

The PDR was completed and issued in August 2005, additionally, the actual grid price of the project was known before the time of the investment decision as the Project Owner signed the Power Connection Intent Agreement (PCIA) with the Grid company in June 2005 (confirmed later by the Power Purchase Agreement (PPA) of the project and actual sale invoices of another earlier implemented project operated by the same project owner). Therefore, in accordance with the "Guidance on the Assessment of Investment Analysis" (Version 02.1), all input values were known before the investment decision/start of the project activity (March 2006[1]) and can be considered as appropriate values to be used in the financial calculation of the proposed project activity.

The IRR calculation employs fixed real input values (as opposed to nominal terms[2]). The use of fixed real input values (such as grid price and O&M cost) is common practice in China and is in

[1] During this month the equipment purchase contract was signed and subsequently construction activities started.

[2] Nominal value refers to any price or value expressed in money of the day, as opposed to real value. The latter adjusts for the effect of inflation.

accordance with guidance for the preparation of feasibility studies which demonstrates that the benchmark is defined in real terms and therefore the application of fixed real input values is appropriate.[3] The IRR calculation compares the real IRR with a real benchmark which in both cases takes out the effects of general price increases due to inflation. Furthermore, we will show below that this approach (i.e. the approach of applying real fixed grid price and O&M cost) leads to a conservative IRR calculation, as it leads to a higher IRR than applying flexible and variable input values.

Finally, to confirm the appropriateness of input values applied in the investment analysis, we have compared them to the actual values where possible.

Static Total Investment:
We compare the Static Total Investment in the PDR (i.e. 1,094,010,000 Yuan RMB) to the actual Static Total Investment taken from the "Financial Balance Sheet of November 2008" of the project activity.[4] This comparison confirms that the estimated and assumed value in the PDR was realistic and slightly conservative (i.e. leading to an overestimation of the IRR) when comparing it to the actual and confirmed Static Total Investment of 1,104,325,573 Yuan RMB.

Table 1: Static Total Investment

Source	Value
Preliminary Design Report (PDR)	1,094,010,000 Yuan RMB
Financial Balance Sheet of November 2008 (actual investment)	1,104,325,573 Yuan RMB

Power supply:
The project activity is only expected to be fully operational in January 2009, and it is therefore not feasible to compare the estimated annual net power supply from the PDR (i.e. 570,856 MWh) to actual net power supply during the first year of operations.

We do however confirm the estimated value of power generation is calculated on a strong statistical basis, namely on 46 years of water flow measurements (1957-2002) by the "Qiafuqihai Hydrological Station". Therefore, a significant change in power generation of the project during the crediting period is not likely to occur. Additionally, for the calculation of estimated power generation, it is assumed that the turbines/generators will operate at a 100% reliability level throughout the year, which is unlikely. Finally, during "high water seasons", the grid company might not off-take all electricity generated by the project activity due to an oversupply of electricity (this is agreed upon in the Power Purchase Agreement).

To conclude, the estimated power generation is calculated on a strong and long-term statistical basis but might be overestimated due to the assumption of 100% reliability. Additionally, esti-

[3] The application of a fixed grid price for the financial calculation is appropriate in case both the input values and the benchmark are defined in real terms and when there is no expectation that the change in the nominal value of the input parameters will differ significantly from the rate of inflation.

[4] Based on the Financial Balance Sheet of November 2008, the actual investment is 1,104,325,573 Yuan RMB up to November 2008. But the project construction is not yet completed (expected to be completed early 2009), and therefore the actual investment will be higher than the figure from the November 2008 balance sheet.

mated power supply to the grid might also be overestimated due to the fact that the grid company might not actually off-take all generated electricity during periods with a high water flow. Therefore, the estimated annual net power supply from the PDR is reasonable and credible.

Grid price:

The fixed grid price of 0.202 RMB/kWh with VAT used as input value for the financial calculation of the project activity is taken from the Power Connection Intent Agreement (PCIA), which was signed in June 2005 (and confirmed by electricity invoices of another earlier implemented project operated by the same project owner later).

In addition, the project owner signed PPA with the project owner in July 2007. The PPA confirms that the actual grid price of the project is 0.202 Yuan RMB/kWh with VAT during the whole operating period, which is identical to the price agreed upon in the PCIA. It therefore can be concluded that the fixed grid price used as input value for the financial calculation is 100% accurate and applicable.

For the IRR calculation the grid price has been assumed a fixed real input value (see also explanation above in the introduction why this is appropriate). An analysis of the actual development of the grid price over time is hampered by the fact that the power sector in China has undergone several regulatory changes and consistent grid price data over a longer period is not available. It is however expected that the grid price will be adjusted in the future to correct for inflation and therefore the assumption that the grid price will develop proportionally to the rate of inflation (as done in the IRR calculation assuming fixed real input values) can be considered reasonable. However, as any of such corrections for inflation would lag behind actual inflation, assuming that grid prices will be corrected for inflation instantaneously, as is done in our analysis (i.e. assuming a fixed flat grid price in accordance with the definition of the benchmark), implies that actual real revenues from the sale of power are somewhat overstated and the IRR calculation likely leads to a conservative interpretation of the additionality requirements.

Operations and Maintenance Cost (O&M Cost):

The project activity is only expected to be fully operational in January 2009, and it is therefore not feasible to compare the estimated O&M cost from the PDR. But, even the O&M cost is zero, the IRR is 6.73%, which is still lower than the benchmark of 8%.

In addition, the O&M cost are calculated according to the data from the approved PDR. It can be further demonstrated that the input value of O&M cost is appropriate through cross-check. Based on the PDR and *The Interim Regulations of Hydropower Construction Project Financial Evaluation (*The PDR was completed by the institute based on *The Interim Regulations of Hydropower Construction Project Financial Evaluation)*, O&M costs mainly include payroll, overhaul cost, welfare fund, employee's insurance, housing provident fund, water charges, reservoir maintenance fund and other cost. The parameters using to calculate the O&M costs of the project have been analyzed respectively:

- ✧ Based on *The Interim Regulations of Hydropower Construction Project Financial Evaluation*, the average rate of overhaul cost is 1%, which is fixed and consistent with the IRR calculation of the PDD;
- ✧ Based on *The Interim Regulations of Hydropower Construction Project Financial Evaluation*, the material cost and other cost is 5 Yuan RMB/kW and 24Yuan RMB/kW respectively, which is fixed and consistent with the value in the IRR calculation of the PDD;
- ✧ Based on *The Interim Regulations of Hydropower Construction Project Financial Evaluation*, the welfare fund for employees should be 14% of the total wage, which is fixed and consistent with the IRR calculation of the PDD. Based on the relevant regulations published by China government, the maximum value of the employee's insurance is about 26%

Industrie Service

of the total wage, which is fixed and consistent with the value of 20.5% in the IRR calculation of the PDD; the range of the housing provident fund is about 5%-12% of the total wage, which is fixed and consistent with the value of 6% in the IRR calculation of the PDD.

- ✧ According to *The Interim Regulations of Hydropower Construction Project Financial Evaluation*, the reservoir maintenance fund of hydropower station should be 0.001Yuan RMB/kWh, which is also fixed and consistent with the IRR calculation.
- ✧ According to *The Standard of Water Charge of Xinjiang Uygur Autonomous Region*, the water charge of hydropower station should be 0.003Yuan RMB/kWh, which is also fixed and consistent with the IRR calculation.
- ✧ Based on the PDR, the payroll was 12,000 Yuan RMB/Person annually. But according to the payroll record of employees of the project owner, the actual average payroll of the employees is 18,500 Yuan RMB/Person annually, which is higher than the payroll in PDR.

Therefore, most data of O&M Costs are fixed and comparatively stable, but only the salary of the employees has been increased from 12,000 Yuan RMB/Person annually in PDR to 18,500Yuan RMB/Person annually. Thus, the actual O&M Cost is higher than the designed value in PDR.

Furthermore, to ensure a conservative approach we will analyse recent development of wages in Xinjiang Uygur Autonomous Region and compare this to inflation over the same period. During the period 2000 - 2006, wages in Xinjiang Uygur Autonomous Region increased annually on average with 11.9%.[5] At the same time the annual rate of inflation in Xinjiang Uygur Autonomous Region was 1.13%[6] during the period 2000-2006. Therefore the real wage rate (corrected for inflation) increased substantially during this period. Considering that wages take up a significant part of the O&M cost, this means that the assumption of fixed real O&M cost can be considered a conservative assumption in the context of the rapidly increasing wages in China in general and Xinjiang Uygur Autonomous Region in particular.

Therefore, based on the above cross-check, the important input values used in the financial analysis are more conservative than the actual values.

Conclusion:
It can be concluded that the input values are taken from credible data sources as the PDR was issued by a certified design institute and approved by the government, and the grid price was agreed upon between the Project Owner and the Grid Company in an official Power Connection Intent Agreement (PCIA).
Additionally, both data sourced were issued and signed respectively before the start of the project activity and the investment decision and were therefore applicable at the time of the investment decisions.
Furthermore, we have compared the input values to actual values were possible and can conclude that the input values overall have been a conservative interpretation of the additionality requirements (i.e. leading to a systematic overestimation of the IRR).
It can be concluded that the input values used in the financial calculation are valid and applicable at the time of the investment decision.

5 China Statics Year Book 2001-2006 (http://www.stats.gov.cn/tjsj/ndsj/)
6 China Statics Year Book 2001-2006 (http://www.stats.gov.cn/tjsj/ndsj/)

Industrie Service

Response by TÜV SÜD:
To confirm and verify the appropriateness and validity of the input values as used in PDD to perform the investment analysis, the assessment team have reviewed each figure as follows:

Static Total Investment:
The value of the Static Total Investment, 1094.01 Mio Yuan RMB, lead to a ratio investment/capacity of 7.76 Mio/MW which has been considered reasonable according to the experience reached by the assessment team in China on hydropower stations projects validation and assessment. The unitary static total investment for the proposed project is furthermore close to the lower limit of the range 7-10 Mio Yuan/MW defined by a local consulting (Beijing Hualing Sifang Investment Consultant Company) as the reference for this parameter as evidenced with an article issued on 2006 and published on a chinese research website on industrial projects (http://www.badassets.com). . The reasonability and conservativeness of the figure used for the Static Total Investment in PDD, receives confirmation comparing it with the costs which have been actually undertaken by the project up to date. In particular, according to the financial balance sheet as requested by the DOE and provided by the project owner, the costs incurred up to November 2008 take the amount to about 1,104 Mio Yuan RMB, even if the project will be completed on early 2009.It is therefore confirmed that the value assumed in PDD is reasonable and that this value has been verified to be conservative if compared with the costs which have been actually undertaken by the project owner.

Grid Price:
The grid price which was assumed according to the most reliable information available at the time, which was the Power Connection Intent Agreement (PCIA) dated June 13th, 2005; the document has been verified by the assessment team and it's confirmed that a price of 0.202 Yuan RMB/kWh (VAT included) would have been likely to be received by the project. This Intent agreement was lately confirmed with the Power Connection Agreement dated July 2007 setting the same grid price of 0.202 Yuan RMB/kWh (VAT included)

Furthermore, according to the same agreement, the grid price was stated to be fixed during the whole operating period as explicitly mentioned in both the PCIA and the PCA. DOE is confident that these additional proofs provide reliability of the assessment and of the assumption done by PPs in using such figure for the electricity price.

Annual utilization hours (power supplied):
A value of 4,070 hours has been assumed in PDD according to the value as reported in PDR which relies on a strong hydrological study, taking into consideration data from 1957 to 2002. The value of the annual utilization hours has been compared to the average value obtained by the analysis of more than 250 hydro power projects currently under validation. According to this DOE's internal statistics, the average annual utilization hours is 3,871, confirming that the proposed project estimated a reasonable and even conservative value. Furthermore, the genesis of this value has been evaluated by the DOE: the hydraulic regime of the Tekesi River has been studied by the institute in charge to prepare the PDR considering a consistent amount of historical flow data and water availability, between 1957 and 2002. The validation team has verified the section of the Preliminary Design Report (dated August 2005) where the hydrological assessment is presented. The strong hydrological basis behind the study allows to state that the annual utilization hours have been consistently estimated and that no significant changes will occur in this operational parameter. The figure of the annual utilization hours has been furthermore compared with the value observed in many other large scale hydropower plants in China and it's confirmed as a reasonable and conservative value. The data assumed

in PDR and in PDD has been therefore considered acceptable and consistent with the specification of the project as evidenced during both the on-site audit and the subsequent additional review.

Annual O&M Costs:
The annual O&M costs as calculated by the PPs to be about 22.57 Mio Yuan RMB have been considered by the DOE acceptable during the assessment as the calculation parameters match with the local policies and regulations (in terms of overhaul costs, material cost, welfare, maintenance fund, water charge, payroll) and with the situation as evidenced during the on-site audit. Furthermore the value obtained by the PPs lead to a ratio Annual O&M costs/Static Total Investment which result about 1.99% which is considered a reasonable and conservative value, according to previous experiences on similar scale plants. Furthermore, the unitary operational cost of 0.04 Yuan/kWh has been confirmed to be a reasonable value according to the range 0.04-0.09 Yuan/kWh defined by a local consulting (Beijing Hualing Sifang Investment Consultant Company) as the reference for this parameter as evidenced with an article issued on 2006 and published on a chinese research website on industrial projects (http://www.badassets.com). The actual costs undertaken by the project owner in terms of personnel payroll have been evidenced; in particular, the payroll records allows to confirm an annual average payroll of about 18,500 Yuan RMB/person; furthermore, according to the Standard of Water Charge of Xinjiang Uygur Autonomous Region, issued by the local Development and Reform Commission in 2006, the water charges have been confirmed to be 0.003 Yuan RMB/kWh; the source of the assumptions done in PDR regarding the average rate of overhaul costs, the material costs, other costs, welfare funds and the reservoir maintenance fund have been confimred as consistent with the *The Interim Regulations of Hydropower Construction Project Financial Evaluation.* The DOE confirms that, according to these considerations, the annual O&M costs as stated by the PPs in the PDD have been estimated basing the calculation on provable parameters and reliable assumptions and that the figure obtained is even conservative if compared with the amount mentioned in the PDR.

Issue 2:
Further clarification is required on how the DOE has validated the common practice analysis, in particular the exclusion of hydropower plants consisting of installed capacities below 50 MW

Response by the Project Participants:
According to the “Tool for the Demonstration and Assessment of Additionally”, projects are considered “similar” in case they, amongst others, are of “similar scale”. We have excluded projects with an installed capacity below 50MW as the scale of these projects differs significantly from the scale of the proposed project activity (i.e. 141 MW). Beside the significant difference in scale which influences the technical and design specifications, the chosen range can be substantiated by means of official national policy documents:

1) The “Almanac of China’s Water Power (2005, page 141)” provides a formal definition of hydropower in China, which is the official classification of the Chinese government:
    - ✧ Large scale hydropower stations include hydropower stations with installed capacity more than 300MW (including 300MW);
    - ✧ Middle scale hydropower stations include hydropower stations with installed capacity between 50MW and 300MW (including 50MW and excluding 300MW);
    - ✧ Small scale hydropower stations include hydropower stations with installed capacity between 0.5MW and 50MW (including 0.5MW and excluding 50MW).

Industrie Service

2) The small scale hydropower industry benchmark "Economic evaluation code for small hydropower projects (SL16-95) provide a special 10% project IRR industry benchmark for small scale hydropower stations:
    - ✧ This industry benchmark is significantly higher than the benchmark for normal hydropower stations, and is only applicable to hydropower stations below 50MW according to the SL16-95 regulation.

These Chinese policies and regulations (different standards/benchmarks) influence the feasibility of hydropower stations below and above 50MW in a different manner, besides the difference in scale and size, which naturally exists. All Chinese policies and regulations (different standards/benchmarks) are applicable to total installed capacities of hydropower stations (individual unit capacity of turbine or generator is not considered). The total installed capacity of the project activity is 141MW and we conclude that it is reasonable to exclude hydropower stations below 50MW as they are not similar in scale in China.
However in our PDD requesting registration,

- ✧ First, all hydropower stations (Yearbook of China Water Resources 2006 and registered PDDs) located in Xinjiang Uygur Autonomous Region have been listed in Table B.5. There are nine hydropower stations in Xinjiang Uygur Autonomous Region
- ✧ Second, eight stations (all except the Qiafuqihai Hydropower Station, with an installed capacity of 320MW) have started operations before 2002 and were therefore developed under a power system environment that is substantially different from the current power system environment (the Power System Reform Blue Print has been published by State Council in February 2002).[7]
- ✧ Third, the remaining Qiafuqihai Hydropower Station with an installed capacity of 320MW has been excluded as it's total installed capacity is above 300MW and therefore this project falls in a different category of hydropower stations (see also explanation above).
- ✧ Additional to the above, all listed hydropower stations (as explained in the PDD) have been developed by state owned entities or are invested in by the government. They therefore benefit from favourable policies amongst others relating to finance and taxation. These projects have a stronger ability against financial risk and other barriers. The relevant evidences have been provided and validated by DOE.

Based on the above, we have concluded that the proposed project is not common practice as no similar project has been implemented.

Response by TÜV SÜD:

The exclusion of hydropower plants consisting of installed capacities below 50 MW relies on the definition of "similar scale" plants; according to this has been evidenced by PPs and confirmed by the DOE that the most reliable Chinese standards and regulations define the 50 MW capacity as a cutting border between what should be considered as small (below 50 MW) and what should be classified as middle (or large).
The documents considered as reference have been the "Almanac of China's Water Power (2005)", which explicitly set to 50 MW the border between small and middle power plants,and the "Economic evaluation code for small hydropower projects (SL16-95)" which both have been widely used as authoritative sources also in the CDM context.
The range chosen (50 MW to 300 MW) for the common practice analysis it's therefore confirmed to be appropriate and supported by reasonable argumentations and verifiable documents.

[7] Power System Reform Blue Print, published by State Council, February 10, 2002. And the power system reform changed the market environment for power producers

Industrie Service

Issue 3:

The monitoring plan should include the monitoring of the electricity transaction with each transformer stations (sub stations) separately.

Response by the Project Participants:

As indicated in the grid connection diagram, the proposed project activity is connected to the grid via three power lines.

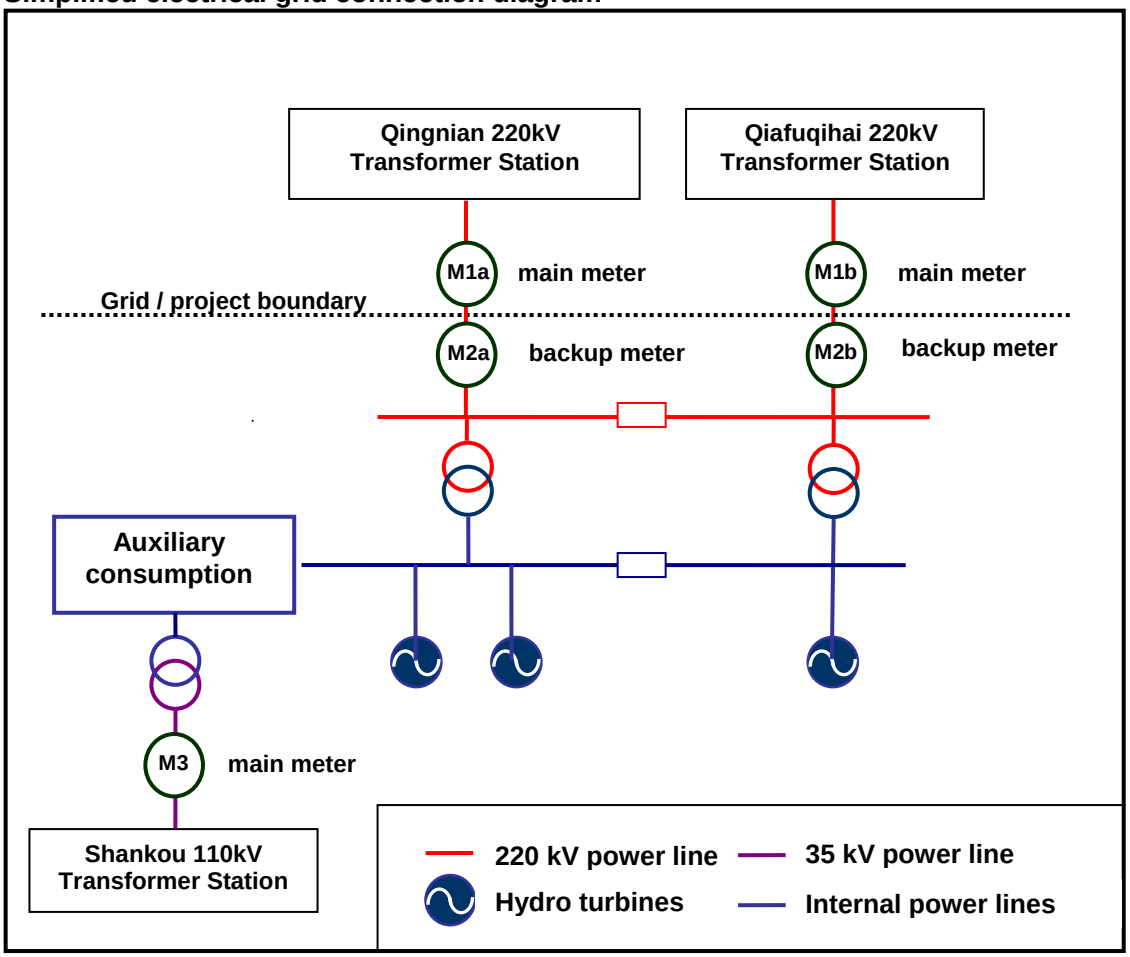
Two main power lines, which are employed to supply power to the grid through two grid transformer stations (i.e. the Qingnian 220kV Transformer Station and the Qiafuqihai 220kV Transformer Station, both belonging to the Grid Company), are only for power supply to the grid from the project activity. Therefore, there is no electricity transaction between the two substations (i.e. the two grid transformer stations).

Additionally, one back-up power line, which is employed to import power from the grid through the grid transformer station (i.e. the Shankou 110kV Transformer Station belonging the grid company), is only for power import to the project from the grid company in case of emergencies.

The back-up power line will only be used in case of emergencies when power is imported to the project from the grid company. There is no direct electricity transaction between the three substations (i.e. the three grid transformer stations) as they are not directly connected to each other. In the highly unlikely event that the project activity would received electricity via the back-up power line and export this to the grid via any of the two main power lines, this would not effect the net power supply (M1a+M1b-M3) as power imports will be deducted from gross power supply to calculate net power supply (M1a+M1b-M3).

Industrie Service

Simplified electrical grid connection diagram



Response by TÜV SÜD:

According to the information collected during the assessment, the net power delivered to the grid will be monitored as a result of the metering of the electricity delivered to the local grid through the two transformer stations (Qingnian 220kV Transformer Station and the Qiafuqihai 220kV Transformer Station) minus any occasional power imported from the Shangkou 110kV Transformer Station to the project. According to the diagram as presented in PDD (please see also above) any of the three connection points has its own meter which will monitor the related power transactions. In particular, meters M1a and M1b will monitor the power transferred by the project to the Qingnian 220kV Transformer Station and the Qiafuqihai 220kV Transformer Station respectively; the meter M3 will monitor the electricity that, in case of emergency, will be imported by the project from the grid company through the Shankou 110kV Transformer Station.

Industrie Service

Issue 4:
The DOE should clarify how they have validated that electricity imports from the Shankou line, if any, will not be exported to Qingnian line and that corresponding CERs will not be claimed.

Response by the Project Participants:
As indicated in the grid connection diagram, the proposed project activity is connected to the grid via three power lines;

- Two main power lines to supply power to the grid (i.e. the Qingnian 220kV Transformer Station and the Qiafuqihai 220kV Transformer Station), which are used only for power supply to the grid from the project activity. Main meters are M1a and M1b will measure gross supply of electricity to these two main grid transformer stations respectively. Therefore gross power supply to the grid is the sum of the measurements of metering instruments M1a and M1b,
- One back-up power line from the grid (i.e. the Shankou 110kV Transformer Station), which will be used only for power imported by the project activity from the grid company in case of emergencies. Therefore total power imported by the project from the grid is measured by metering instrument M3.

Please see the **electrical grid connection diagram** above.
CERs will be claimed based on net power supply to the grid. Power imported by the project activity from the grid will be metered and deducted from gross power supply from the project activity to the grid as explained above and in the PDD.
Therefore, the net power supplied to the grid will be calculated as:

$$EG_y = M1a + M1b - M3$$

The back-up power line will only be used in case of emergencies when power is imported to the project from the grid company. In the highly unlikely event that the project activity would received electricity via the back-up power line and export electricity to the grid via any of the two main power lines, this would not affect the Net power supply (M1a+M1b-M3) as power imports will be deducted from gross power supply to calculate net power supply and claim CERs. As Net power supply will be used for the calculation of emission reductions, it is not possible for the project owner to import and export electricity at the same time and claim emission reductions for this.

Besides the fact that Net power supply will be used for the calculation of emission reductions, it is (as stated above) highly unlikely that the project owner would import and export this electricity at the same time. The reason is that the electricity purchase price for imported electricity (i.e. the price the project owner pays for the purchase of electricity in emergencies) is higher than the electricity sales price (i.e. the price the project owner receives for the sale of electricity). The purchase price for imported electricity is 0.57 RMB/kWh (including VAT),[8] which is significantly higher than the sales price for exported electricity of 0.202 RMB/kWh (including VAT). It would make no economic sense for the project owner to purchase/import electricity and subsequently export/sell it for a price less than half of what they paid for it.

It can be concluded that firstly it is not possible to increase the amount of CERs claimed by importing and exporting electricity at the same time as Net electricity supply is used for the calculation of emission reductions, and secondly that it would make not economic sense for the

[8] The notice on the electricity purchase price for imported electricity from local grid company, published by Development and Reform Commission of Xinjiang Uygur Autonomous Region

Industrie Service

project owner to do so, as the purchase price for imported electricity is significantly higher than the sales price for exported electricity.

Response by TÜV SÜD:

The electricity imported through the Shankou line (if any) will be deducted from the power delivered to the local grid through the Qingnian 220kV Transformer Station and the Qiafuqihai 220kV Transformer Station, according to the provisions in the monitoring plan.

With reference to the electrical grid connection diagram as in the monitoring plan of the PDD requesting for registration (see also above), any transaction from the Shankou line to the project activity will necessary be monitored through the M3 meter operated by the grid company. The system in place, in other words, allows to identify any power transaction that might occur from the Shankou line to the project, without leaving any possibility of fraud or intent to deceive. According to this consideration, the DOE confirms that the monitoring plan is robust and transparent and allows to verify the amount of net power delivered to the local grid and the related claimed emission reductions with certainty and without any reasonable doubt.

It should also be noted that, anyway, importing the electricity from the Shankou line exporting it to the Qingnian line would be a non convenient operation as the power plant will be operational and will produce energy at a lower cost than the cost that would be payed for the electricity imported from the Shankou grid. In particular has been evidenced that the price of the power from the Shankou Grid is substantially higher than the price of 0.202 Yuan RMB/kWh (including VAT) which is the sales price of the exported power through the Qingnian 220 kV and the Qiafuqihai 220 kV transformer stations: in fact, according to a Notice on the electricity purchase price for the imported electricity from local grid company, published by the local Development and Reform Commission, the price f the power imported from the Yili grid (which the Shankou Grid Transformer station belongs to) is 0.57 Yuan RMB/kWh (including VAT).

According to the above, the DOE is confident that no displacement of power imported from the Shankou Grid will occur to claim CERs and that, if this would ever happen, the system will allow a clear identification of the same. Definitely, the transparency of the monitoring plan and the location and type of monitoring equipments in place leave no margins of uncertainty on the unlikely possibility to claim undue emission reductions by using electricity imports from the Shankou line.