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Dear Sir or Madam,

Please find below the response to the request for review formulated for the CDM project with the title “Hebei Wanquan Yulong Wind Power Project”, with the registration number 2205. In case you have any further inquiries please let us know as we kindly assist you.

Best regards

Thomas Kleiser
Carbon Management Service

Annexes:

Annex 1 – Revised information reference list

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Response to the CDM Executive Board

Request 1:

The DOE has validated that the FSR (approved in April 2006) is the source of all input values used in the investment analysis, except for the tariff (0.4977 RMB/kWh without VAT), which was replaced by the tariff issued by Hebei price bureau on 9 June 2007. This new tariff is considerably lower than the one indicated in the FSR (0.6268 Yuan/kWh without VAT), and thus as a result of this change the project became financially unattractive. Taking into account that many - if not all - major investment decisions in China are based on an approved FSR, the PP is requested to clarify this sudden change and the DOE should clarify how the investment analysis was validated as credible and appropriate.

Response from PP:

The input values used in the investment analysis in the PDD are all sourced from the officially approved FSR except the tariff, which is from the Tariff Approval for Heibei Yulong Wind Power Project[1] issued by the NDRC at June 9th 2007 before the time of investment decision taken by the project owner on June 11th 2007, and prior to the project starting date (June 25th 2007). The appropriateness of the investment analysis had been seriously validated by DOE. Please refer to the DOE response for details.

The feasibility study report (FSR) was co-designed by two accredited consultancy institutions (China Fulin Wind Power Development Co., Ltd. and China Guodian hydro power company). The tariff in the FSR was predicted by the FSR designer following the principle[2] of covering the basic costs and ensuring an acceptable profit. It is used for the project owner to assess the feasibility of the proposed project and decide whether to invest the proposed project. It is the tariff that the Project owner hopes to apply for and be approved by the government when the FSR was prepared. It is not an approved or implied tariff in any official sense.

Notwithstanding the FSR is approved on 28 April 2006(IRL 8), however the in-grid tariff must be approved additionally by NDRC as per State Renewable Law and the tariff regulation[3] on wind power project issued by NDRC. The Law regulated that the tariff should be determined considering of the local wind resources, traffic condition, regional economic developing status and the local average price level. The later regulation stated that the tariff of the un-tendering projects (projects with a capacity below 50MW, which is applicable to the proposed project) should be determined by the government with reference to the tariff of tendering wind projects (projects with a capacity exceed 50MW). The implementation of tendering mechanism improved the localization of the wind turbines production, consequently decreased the investment cost of the wind farms, under such full-competent commercial environment, the wind power in grid tariff is

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[1] Tariff Approval for Heibei Yulong Wind Power Project issued by NDRC on June 11th 2007, No.[2007]1260.

[2] NDRC Regulation about Wind Power Project Development, July 4th 2005, No. [2005]1204

[3] Trial Administration Measures about Tariff and Costs Sharing in the grid for Generation from Renewable Energy Resources, FAGAIJIAGE(2006) No.7 http://xbj.serc.gov.cn/Article_Show.asp?ArticleID=356, effective on 1st Jan 2006.

gradually lowering down. Knowing the decreasing trend of the in grid tariff, the project owner hesitated to implement the proposed project and would not start unless the tariff is ultimately confirmed by NDRC.

Until June 9th 2007, more than one year later the tariff of the proposed project was approved as 0.4977yuan/kWh (excl. VAT) by NDRC[1]. The project owner recalculated the IRR based on the approved tariff, which showed that the proposed Project would be financially unattractive. So as the meeting minutes at June 11th 2007 indicated, the project owner decided to start CDM application simultaneously with the project implementation to make the project financially attractive and to secure the successful implementation of the proposed project.

Response from DOE:

As per the requirement of EB 38 paragraph 54 guidance, TÜV SÜD performed a thorough evaluation and review of the values of the input parameters applied for the investment analysis of the proposed project. The key input parameters such as total investment, O&M costs, and the power generation were derived from the values presented in the officially approved FSR (IRL 6, 8). This study was finalized in April 2006, hence these values were well known at the time of the investment decision.

The financial decision was taken by the project owner in mid June 2007, evidenced by the Directorate Meeting Minutes (IRL 30). The financial decision was made based on the recalculated investment analysis, in which all the other key parameters remain unchanged from the calculation in the FSR, only the tariff was changed to the one derived from the NDRC approval document, which was more realistically reflecting the actual situation of the proposed project.

TÜV SÜD confirms that the investment analysis deemed to be appropriate and reliable because:

- The values used in the PDD and associated annexes are consistent with the FSR, and the only inconsistency of the tariff has been validated as reliable and appropriate.
- A cross-check has been performed for the key factors of the investment analysis, including the tariff, all the input values were verified to be valid and applicable at the time of financial decision in June 2007.(regarding more detailed information of this cross-check, please refer to the validation report)
- Since the period of time between the finalization of the FSR and publication of the tariff and the investment decision is sufficiently short, the input values were not materially changed.

The tariff in the FSR was estimated according to the relevant NDRC guidance, which suggests to apply the price principal of “covering the cost and with acceptable revenue” (IRL 30).

In June 2007, the in grid price of the proposed project was approved by NDRC considering of the local wind resources, traffic condition, regional economic developing status and the local average price level[4](IRL 32, 36). The ***Trial*** *Administration Measures about Tariff and Costs Sharing in the grid for Generation from Renewable Energy Resources* (IRL 31) was also considered by the government when determining the grid price of the proposed project. This measure regulates that the tariff of wind power projects (with a capacity below 50MW) should be determined by the government with reference to the tariff of tendering wind projects (projects

[4] State Renewable Law, executed on January 1th 2006.

with a capacity exceeding 50MW). The DOE confirms that the approved in-grid tariff as 0.4977 Yuan/KWh (excluding VAT), was deemed to be reliable and plausible based on the relevant national regulation. The project owner adopted the officially approved tariff in the investment analysis to make a final investment decision.

In conclusion, the investment analysis was validated as credible and appropriate as per the requirement of EB 38 paragraph 54 guidance during the validation process.

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Request 2:

The DOE should clarify how the investment analysis was validated as appropriate, in particular the basis for the tariff assumed 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.

Response from PP:

We would like to clarify that when the PDD of the Hebei Wanquan Yulong Wind Power Project was developed under the CDM mechanism, the applicable methodology was ACM0002 version6.
when establishing the baseline senario, we followd the II. BASELINE METHODOLOGY PROCEDURE, Identification of the baseline scenario:

> *For project activities that do not modify or retrofit an existing electricity generation facility, the baseline scenario is the following: Electricity delivered to the grid by the project would have otherwise been generated by the operation of grid-connected power plants and by the addition of new generation sources, as reflected in the combined margin (CM) calculations described below.*

Hence the E+ policy was not taken into account when establishing the baseline scenario of the proposed project activity since it was not applicable to the project.

The change in tariff is not considered to be an E+ policy, for the following reasons. First, the change in tariff has no E+ effect because the approved tariff of the proposed Project is 0.4977Yuan/kWh (excl. VAT), 73.6% higher than the benchmark thermal power tariff in Hebei grid 0.2867Yuan/kWh (excl. VAT)[5], and does not give comparative advantages to thermal power. On the contrary, 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 0.211 RMB/kWh for the wind farm above the electricity tariff for thermal power plants. Furthermore the wind power project also benefits from the favourable taxation regulation (such as the VAT is half of the fossil fuel fired power plants, and the income tax is 0% for the first two years, 15% for the following three years, 33% for the rest years)[6]. Second, the change in tariff is basically not a policy, as the initial tariff was nothing more than a predicted and desired valued by the Project owner and was not a tariff in any official sense; the later tariff was an approved tariff in the Tariff Approval especially for Hebei Yulong Wind Power Project, and it is only for the proposed project and inapplicable to other projects. Therefore, from this perspective it should not be regarded as a policy too. With above two points combined, the change in tariff should not be considered as an E+ policy.

The relevant evidences have been provided to the DOE.

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[5] Notice on Tariff of North China Power Grid issued by NDRC in 2006
(http://www.trgov.gov.cn/Article.asp?NewsID=8529)

[6] Taxation Regulation for Renewable Energy Projects, issued by State Administration of Taxation, No.[2001]198.

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Response from DOE:

The change in tariff is not considered to be an E+ policy according to EB 22, Annex 3, para 6. It is TÜV SÜD's understanding that above mentioned clarification refers to the establishment of baseline scenarios. In this regard the methodology ACM0002 clearly defines the baseline scenario of a new grid-connected renewable power plant/unit as:

> *"Electricity delivered to the grid by the project activity would have otherwise been generated by the operation of grid-connected power plants and by the addition of new generation sources, as reflected in the combined margin (CM) calculations described in the "Tool to calculate the emission factor for an electricity system".*

Given above circumstance we conclude that a change in tariff does not influence the establishment of the baseline scenario. The clarification provided by EB 22, Annex 3, does not apply here.

In validating the appropriateness of the investment analysis, TÜV SÜD performed a thorough check as per the requirement of EB 38 paragraph 54 guidance (please refer to the DOE's response to the first issue). In particular the applicability of the approved tariff instead of the predicted tariff has been checked by the DOE, we would like to further clarify the concern of not considering the tariff change as an E+ policy as following:

1) the renewable energy projects were comparable rare in China, especially there were few reference wind farm projects for the FSR writer in 2006, e.g. only one similar wind farm project in Hebei province was operational in the end of 2005, (Shangyi damanjin project, referenced from "Statistics of domestic wind farm installation capacity in 2005", Shi Pengfei. http://www.cwea.org.cn/upload/200612391640820.doc). As the principal to estimate the grid tariff is the commercial sense, FSR arrived at estimated tariff of 0.6268 Yuan/kWh (without VAT). This tariff was cross checked with similar projects listed in the common practice, and it is found that the in grid tariff of Damanjing project is 0.60yuan/KWh (including VAT), which is similar to the estimated grid price of the proposed project. TÜV SÜD therefore concludes that at the time of FSR preparation, the 0.6268Yuan/KWh was reliable and appropriate.
   Considering of the local wind resources, traffic condition, regional economic developing status and the local average price level[7] NDRC approved the in-grid tariff of the proposed project on June 9th, 2007(IRL 32), the DOE confirmed the authenticity of the in grid price determination document.

2) As clarified by the PP, from the grid tariff aspects, the renewable energy projects got more favourable grid tariff than the fossil fuel power generation projects in China, which means the government is encouraging the investors to invest in the renewable energy fields instead of the fossil fuel plants. Besides the favourable grid price, the taxation regulation is similar, renewable energy projects, especially wind power projects, they also benefit from favourable taxation regulations compared to the fossil fuel plants (IRL 35) e.g. the VAT is half of the fossil fuel fired power plants, while the income tax is free for the first 2 years, and the relevant income tax is 0% for the first two years, 15% for the following three years, 33% for the remaining operation period). Here we would like to stress that China is encouraging wind power projects.

[7] State Renewable Law, executed on January 1th 2006.

In conclusion, the change in tariff was seriously checked by the DOE when validating the appropriateness of the investment analysis. According to the methodology ACM0002, no E+ regulations should be involved in the establishment of the baseline scenario.

Reference No.	Document or Type of Information
1	Project Design Document for CDM project “Hebei Wanquan Yulong Wind Power Project ”, version 2, dated 3rd, March 2007.
2	Consolidated baseline methodology for grid-connected electricity generation from renewable sources ACM0002, version 06.
3	Tool for the demonstration and assessment of additionality, version 03.
4	Participant list of on-site interview, signed on 12th Oct, 2007.
5	On-site interviews at the project site in Zhangjiakou city, Hebei province, P.R. China conducted on 12th Oct 2007 by auditing team of TÜV SÜD: Validation team: Ms. Chen Xiaoying CDM Auditor TUV SÜD China Interviewed persons: Mr. Guo Huidong China Longyuan Electric Power Group Corp.cdm project office CDM office manager Mr. Sun Shiying General Manager of Bode Co. Ltd
6	Feasibility study of Yulong wind farm project, issued by China Fulin wind farm company and China Guodian hydro power company, dated March, 2006.
7	The supplementary Feasibility study of Yulong wind farm project, issued by China Fulin wind power Co., Ltd, dated 12th Apr, 2006.
8	Approval of Yulong wind farm project, issued by Hebei DRC, dated 28th, Apr 2006.
9	EIA of Yulong wind farm project, issued by Hebei Zhonglian environmental protection Co, dated Jan 2006.
10	Approval of EIA of Yulong wind farm project, issued by Hebei EPB, dated Feb 7th, 2006.
11	Purchasing contract of FL1500/77wind turbine, signed with Huarui wind farm technology Co, dated July, 2007.
12	CDM resolution meeting minute, issued by Tianjing Bod Real Estate Development Co., Ltd, dated 6th December 2005.

Reference No.	Document or Type of Information
13	Grid connection agreement, signed with Shenyang grid power company, dated 20th, Feb 2006.
14	Approval of grid price, issued by Hebei price bureau, dated 9th, June 2007.
15	The starting construction report of Yulong wind farm project, issued by Tianjin electricity distribution and construction Co., Ltd, dated 25th, June 2007.
16	Letter of intention of CERs purchasing, signed with Marubeni Co, dated Apr, 2007.
17	Special EIA assessment report, which indicates the land occupation is 27116m2, issued by Liaoning environmental research institute, dated Nov 2005.
18	Compensation of land occupation (for substation) agreement, dated Aug 2007, (112632 Yuan).
19	Bank loan contract, signed with China construction bank, dated June 2007.
20	Participation list of the stakeholders’ consultation meeting. Dated Oct 2006, and samples of the consultation questionnaire.
21	Business license of Zhangjiakou Bod Yulong power Co, Ltd, issued by Wanquan county industry and commercial administration bureau, dated 12th, Jan 2006.
22	The national policy about strictly prohibiting the installation of coal-fired generators under the capacity of 135MW. Submission date 2nd, Sep 2007.
23	LoA of China, LoA of Japan, submission date: 13th Feb, 2008.
24	Moc of Yulong wind farm project, submission date: 13th Feb, 2008.
25	Training records, from 2007 to March, 2008, submission date 17th Apr, 2008.
26	Operation commission contract, signed between Zhangjiakou Bode Yulong power Co, Ltd and Zhangjiakou Changcheng wind farm Co, Ltd, dated March, 2008. Submission date 17th Apr, 2008.
27	The EF calculation spreadsheet, submission date 21st Apr, 2008.
28	The “interim rule on economic assessment of electrical engineering retrofit projects”, the evidence of the selected benchmark, submission date 21st Apr, 2008.
29	CDM consulting contract, signed with China Longyuan Electric Power Group Corp.cdm project office, dated 14th July, 2007.
	The evidence below are relating to the Request for Review

Reference No.	Document or Type of Information
30	NDRC Regulation about Wind Power Project Development, July 4th 2005, No. [2005]1204
31	Trial Administration Measures about Tariff and Costs Sharing in the grid for Generation from Renewable Energy Resources, FAGAIJIAGE(2006) No.7 http://xbj.serc.gov.cn/Article_Show.asp?ArticleID=356, effective on 1st Jan 2006.
32	Tariff Approval for Heibei Yulong Wind Power Project issued by NDRC on June 11th 2007, No.[2007]1260.
33	State Renewable Law, executed on January 1th 2006.
34	Notice on Tariff of North China Power Grid issued by NDRC in 2006 (http://www.trgov.gov.cn/Article.asp?NewsID=8529)
35	Taxation Regulation for Renewable Energy Projects, issued by State Administration of Taxation, No.[2001]198
36	State Renewable Law, executed on January 1th 2006