

RESPONSE TO THE REVIEW REQUEST

Bureau Veritas Certification (formerly BVQI) had performed the validation of the CDM Project 1895 “CECIC Zhangbei Gaojialiang Wind farm Project”(hereafter referred to as the Project). Subsequently, there were two review questions raised by UNFCCC EB on 24/07/2009. We would like to provide our further clarifications and answers as required.

Our responses to the request for clarification are given below:

Issue 1

The DOE is requested to clarify the value of the project IRR as the PDD (p11) and Validation Report (p14) indicate values of 5.47% and 6.12% respectively.

Bureau Veritas Certification’s response:

The value of 6.12% as indicated in Validation Report (p14) is a typing error. The values of the project IRR mentioned everywhere else in the validation report are 5.47% except for this typing error. The values of the project IRR as the PDD submitted for public comments (GSP) and in PDD submitted for registration indicate the same values of 5.47%. The validation team has verified the FSR of the project and can thus confirm that the value of 5.47% used in the PDD is consistent with that used in the FSR.

Issue 2

The DOE is requested to confirm the appropriateness of the electricity tariff assumed in the FSR/PDD in comparison with previous tariff notifications since 2002 in the same region and whether such information was available at the time the FSR was prepared.

Bureau Veritas Certification’s response:

To confirm the appropriateness of the electricity tariff assumed in the FSR/PDD, BVC reviewed the following public information during validation and validated that all the values used in the PDD calculation are consistence with the FSR and appropriate:

- ✎ Statistics of wind power installation capacity in China by the end of 2007, by Professor Shi Pengfei
- ✎ Tariff notification issued by the NDRC in Feb. 2002, document No. Ji Jia Ge [2002]242
- ✎ Tariff notification issued by Price Bureau of Hebei province in Jun 2006, document No. Ji Jia Guan Zi [2006]57
- ✎ FSR approval and Tariff notification issued by the NDRC on 26/03/2007, document No. Fa Gai Neng Yuan [2007]654
- ✎ Document issued by NDRC on 09/06/2007, document No. Fa Gai Jia Ge[2007]1260 (referred to as [2007]1260)
- ✎ Document issued by NDRC on 03/12/2007, document No. Fa Gai Jia Ge [2007]3303 (referred to as [2007]3303)
- ✎ Document issued by NDRC on 23/07/2008, document No. Fa Gai Jia Ge [2008]1876 (referred to as [2008]1876)
- ✎ China Wind Power Report 2008 published by China Renewable Energy Institute Association (CREIA) and WWF in October 2008.

Since 2002, in Hebei Province, the approved electricity tariff of all wind farms built or under construction is listed as follows (the report of statistics of wind power installed capacity in China (2007) by Professor Shi Pengfei is adopted as the data source [1])

Year	Project title	Electricity tariff (with VAT) Unit: Yuan/kWh	CDM status	Reference
Prior to 2002	Zhangbei Changcheng wind farm	0.65	No carbon fund	Ji Jia Ge [2002]242 issued by NDRC in Feb 2002
	Chende Hongsong wind farm phase I		No carbon fund	
2006	Chengde Hongsong wind farm phase II	0.60	VER	Ji Jia Guan Zi [2006]57 issued by Price Bureau of Hebei province In Jun 2006
	Guohua Shangyi wind farm phase I	0.60	VER	
	Hebei Shangyi Manjing East Wind Farm	0.60	CDM project 0842, registered	
	Zhangbei Manjing Wind Farm	0.60	CDM project 0233, registered	
	Zhangbei Mijiagou 49.5 MW Wind Farm	0.60	CDM project 0845, registered	
	Hebei Kangbao Wolongtushan 30 MW Wind project	0.60	CDM project 0878, registered	
2007	CECIC HKC Danjinghe Wind Farm Project	0.5006	CDM project 2170, registered	Fa Gai Neng Yuan [2007] 654 issued by NDRC in Mar 2007
2007	Hebei Haixing 49.5MW Wind Farm Project	0.61	CDM project 2007, registered	Fa Gai Jia Ge [2007]1260 issued by NDRC in Jun 2007
	Guyuan 30.6MW Wind-farm Project	0.54	CDM project 0873, registered	
	Hebei Shirensan Wind Power Project	0.54	CDM project 2067, registered	
	Hebei Chengde Songshan Windfarm Project	0.54	CDM project 0877, registered	
	Hebei Wanquan Yulong Wind Power Project	0.54	CDM project 2205, correction	
	Hebei Yuxian Kongzhongcaoyuan 49.5MW Wind Farm Project	0.54	CDM project 2088, registered	
	Hebei Chongli Qingsanying 49.3MW Wind Farm Project	0.54	CDM project 2140, registered	
	Hebei Shangyi Manjing West Wind Farm Project	0.54	CDM project 2040, registered	Fa Gai Jia Ge [2007]3303 issued by NDRC in Dec 2007
	Hebei Weichang Zhangjiawan Wind Power Project		Under validation	
	Hebei Weichang Longyuan Construction Investment Shanwanzi Wind Power Project		Under validation	
2008	Hebei Shangyi Qijiashan Wind Farm Project	0.5006	Under validation	Fa Gai Neng Yuan [2008] 1812 issued by NDRC in Jul 2008
2008	CECIC Zhangbei Dayangzhuang Wind Farm Project	0.54	CDM project 1855, registered	Fa Gai Jia Ge [2008]1876 issued by

				NDRC in Jul 2008
<p>Before the Electric Power Sector Reform Programme in March 2002, there were two experimental wind farms (Changcheng Wind Farm with capacity of 9 MW and Chengde Hongsong Wind Farm Phase I with capacity of 3.6 MW) as the demonstration projects supported by government (such as low loan rate and high tariff) and ODA in the province. The objective of these projects was to stimulate wind power development in China, so the tariff (0.65 Yuan/kWh, VAT included) approved by provincial administration bureau is not comparable to subsequent projects. In March 2002, the State Council issued the Notice of Electric Power Sector Reform Programme to undertake the power sector reform in China. The reform was to divide the former single national power company into regional companies and to separate generation and distribution responsibilities and introduce market forces. High feed-in tariff for wind power would not be continued under the power sector reform.</p> <p>According to the notification issued by NDRC in July 2005, it is stipulated that the rate of domestic production of wind turbines should not be less than 70%.[2] Under this rules, the domestic production of wind turbines in China was encouraged which resulted in a production increase of wind turbines and relatively lower production costs of domestic manufacturers in terms of same model (capacity) compared to the costs of imported turbines. The increase of domestic production is also of benefit to the reduction of maintenance costs of wind power plants.</p> <p>According to the law i.e. "National Renewable Energy Laws"[3], the policy i.e. "Interim Regulation for Electricity Tariff of Renewable Energy Power Generation and Appointment of Expenses"([2006] No.7) made by Chinese government in January 2006, the electricity power generated by the wind power plants should be fully purchased by local grid companies, which benefits the electricity sales revenue of wind power plants compared to the situation before 2006. [4]</p> <p>Along with the government's polices to promote the wind power industry, the development of wind farm projects in China has been rapidly increasing, and the investment and cost for wind farms have been decreasing in relative terms. Local government issued tariff notification with tariff of 0.60 Yuan/kWh in 2006 and in June 2007 NDRC reassessed the price level of the feed-in tariffs and issued the new tariff notifications [doc.no.1260] with a tariff of 0.54Yuan/kWh. After these notifications, the consequent notifications [doc.no.3303] in December 2007 and [doc.no.1876] in July 2008 showed that the tariff is kept stable as 0.54Yuan/kWh in Hebei Province. At the same time, to further encourage the wind power development, in March 2007, the state council issued a new tax regulation [No.63] with a decrease of income tax rate from 33% to 25%.[5] So although the tariff in Hebei province was reassessed several times, the encourage to the incentives to wind farms are not reduced.</p> <p>At the time the FSR was being written, the proposed project had not received the approval for the tariff, so the authorized third party had to estimate a tariff of 0.54Yuan/kWh (including VAT), which was from the most recent tariff notification in Hebei Province [doc.No.3303] prior to the preparation of the project. After the compiling of the FSR, the notification on the neighbouring wind farm developed by the same project owner with the tariff of 0.54 Yuan/kWh (Incl.VAT) (CECIC Zhangbei Dayangzhuang wind farm project, registered as a CDM project in October 2008, ref no.1855)., showed that such estimation is reasonable.</p> <p>During the validation process, BVC has validated this and can confirm that even with the highest tariff (0.61Yuan/kWh, incl. VAT) in the previous tariff notifications since 2002 in Hebei province at the time the FSR was being prepared and the same income tax rate 25% which was adopted in the financial analysis in the PDD, the project IRR without CDM revenue of this project is 7.2%, still lower than the bench mark 8%, which was shown in the IRR calculation spread sheet submitted for registration.</p> <p>Hence, BVC was able to confirm that the tariff trend in the province is deemed to be stable since</p>				

2007 and the electricity tariff assumed in the FSR/PDD is appropriate and reasonable.

[Reference list]

- [1] Statistics of installed capacity of wind power in China in 2007, by Professor Shi Pengfei (CWEA).
- [2] <http://www.86wind.com/info/detail/34-6754.html>
- [3] http://www.windpower.org.cn/news/links/fl_2005_0510_02.htm
- [4] <http://www.law-star.com/cac/30004775.htm>
- [5] <http://www.chinagender.com/html/ZC/200809/25-132.html>

Hope the above responses given clarify the queries raised. In case you have any further inquiries please let us know as we kindly assist you.

Yours faithfully,

For Bureau Veritas Certification Holding SAS



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