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Work Stream 4 – Highest tariffs in China

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Objective & Outcome

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- Objective of Work Stream 4
  - Review and edit, as appropriate, the published list of highest observed tariffs in China
- Desired outcome of Work Stream 4
  - Joint submission to the EB regarding the published list of highest observed tariffs in China

Background to the highest tariff issue

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- In May 2009 the EB started raising questions regarding the tariff applied by (nearly all) wind/hydro in China:
- (Initially) *The DOE should clarify how the investment analysis was validated as appropriate, in particular 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*
- In December 2009 the EB rejected 10 projects
- EB53 (March 2010) attempted to clarify what the EB's requests means
- EB54 (June 2010) published the "Information Note on the highest tariffs applied by the EB"
- By then 24 wind projects had already been rejected

Background (2)

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- Information Note 7 (on the highest tariffs) provided much needed clarity for projects, and the rate of reviews/rejections has significantly reduced, but continue
- Welcoming the publication of the list which provides clarity – but disagreeing with the concept – in July 2010 the PDF submitted information to the EB to correct several errors in the published list, with clear references to existing validated documents submitted to the EB
- However, the errors are still not corrected, and projects continue to the be reviewed or rejected on the basis of this information

Proposal

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- Correct the errors in Information Note 7
  - Focus on errors that cause reviews and rejections
  - Disregard the rest
  - Reference validated documents with the EB
- Wind: EB stated that demonstration and ODA-funded projects can be excluded → 4 corrections
- Hydro: EB uses estimated tariffs rather than actual awarded tariffs, and provincial rather than regional where appropriate → 6 corrections
- No arguments against the concept of highest tariffs in this submission

Wind: Gansu

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- IN7: Highest tariff 0.585 for Gansu Jieyuan Technical Innovation Project (2001-2002)
- This is demonstration project with ODA from Denmark and Spain
  - Validated by BV (2916), DNV (3512), Tüv Rheinland (2766), Tüv Süd (2883)
- Next highest is 0.5599 for a single concession project (2193) (limited to 30,000h only)
  - All others are 0.54 or less
  - Current tariffs: wind resource II 0.54, wind resource III 0.58

Wind: Hebei

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- IN7: Highest tariff 0.65 for Zhangbei (1996-1998) and Chengde (2001) projects
- Both are small demonstration projects. Prior to power sector reform. Zhangbei received ODA from Denmark
  - Validated by BV (4095), DNV (4046), SGS (3800), Tüv Nord (2865), Tüv Rheinland (3079), Tüv Süd (3399)
- Hebei is divided in two wind resource regions, with different tariffs. Next highest in region II is 0.60 for 6 projects
  - Others and current are 0.54, two concession are 0.5006
  - Region IV is 0.61 for 30,000h
  - Validated by BV (3312), SGS (3800), Tüv Rheinland (3079), Tüv Süd (3399)

Wind: Heilongjiang

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- IN7: Highest tariff 0.79 for Fujin project (2004)
- This is a small demonstration project with ODA funding.
- Second highest is 0.78 which is also demonstration project and it received ODA from Germany and ADB
  - Validated by BV (2777), DNV (2124)
- Next highest is 0.72 for 4 projects (all CDM) as special commercial trial, which is not a standard tariff
  - Validated by DNV (2124)
- Others 0.61 for 30,000h
  - Current 0.61

Wind: Shandong

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- IN7: Highest tariff 0.76 for Jimo project (2000-2003)
- This is a small demonstration project. Started prior to power sector reform. It received ODA from Germany.
  - Validated by BV (3353), DNV (2397), Tüv Nord (2814)
- Next highest is 0.61 for 30,000h
  - Current tariff is 0.61

Wind: conclusion

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- Except Heilongjiang, the conclusions are unequivocal. The tariffs listed in the IN7 are for ODA-funded and/or demonstration projects. Thus erroneous and must be corrected. These errors are damaging to the integrity of the CDM
- For Heilongjiang, it is clear that the listed highest tariff is for ODA-funded demonstration projects. However, the next highest tariff could be considered 0.72 or 0.61. 0.72 was clearly only temporary, and as such we believe it should be 0.61, which is also the current tariff

Hydro: Gansu, Guanxi, Qinghai Expected vs actual

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- IN7: Gansu Large RoR highest tariff 0.29
- *This was expected tariff. Actual is 0.227*
- IN7: Guanxi SSC RoR highest tariff 0.304
- *This was expected tariff. Actual is 0.285*
- IN7: Guanxi Large Reservoir highest tariff 0.333
- *This was expected tariff. Actual is 0.26. Highest (other project) is 0.29*
- IN7: Qinghai Large Reservoir highest tariff 0.227
- *This was expected tariff. Actual is 0.21*

Hydro: Hunan
VAT

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- IN7: Hunan SSC Reservoir highest tariff 0.315 incl VAT and 0.314 excl VAT
- *VAT is incorrectly applied. VAT is 17%. Tariff should be 0.315 incl VAT and 0.269 excl VAT*

Hydro: Sichuan, Yunnan
Provincial vs regional

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- IN7: Assumes that all tariffs in Sichuan and Yunnan are regulated at the provincial level. However, this is not correct.
- Only projects dispatched at the provincial level are also regulated at the provincial level.
- Projects dispatched by local grids are awarded local prices, which may vary widely depending on the wealth of the region and other variables.

Hydro: conclusions

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- The majority of corrections are due to PDDs using the ex-ante expected tariffs from the FSR. However, the actual awarded tariffs were different from the ex-ante estimate.
- As the tariff for non-provincially dispatched projects are set at local levels rather than provincial levels, the appropriate highest tariff comparison should be at the same local level. Projects need to be compared in the same investment climate.

EB22 Annex 3 (E+/E-)

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- *7. (b) National and/or sectoral policies or regulations under paragraph 6 (b) that have been implemented since the adoption by the COP of the CDM M&P (decision 17/CP.7, 11 November 2001) need not be taken into account in developing a baseline scenario (i.e. the baseline scenario could refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place).*
- Projects representing more than 95% of all installed wind capacity in China as at 11 November 2001 are either demonstration project or supported by ODA
  - Only for less than 13MW no information confirming ODA funding or demonstration project status can be found online in English