Answers to Kulun project, registered with corrections:

We understand from EB 49 that the EB remains with 2 concerns:

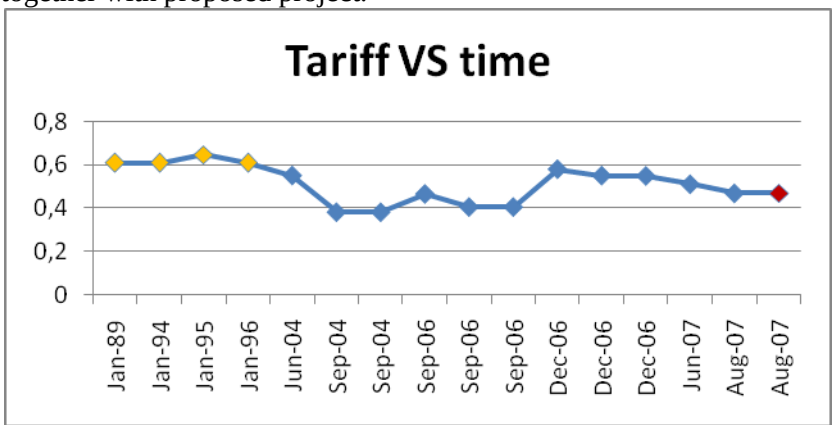
(a) Whether the higher tariff previously available could be considered an E- policy as it has not been demonstrated to be the result of a national or sectoral policy implemented after 11 November 2001:

(b) That the tariff is lower than tariffs previously issued for similar projects in the same region, and this lower tariff may result in the reduction in the incentives for investment in renewable energy which may create a comparative advantage for more emissions intensive technology. It should be noted that the Board did not consider that it had been proven that the reduction in tariff was solely related to the reduction in investment costs.

Answers:

(a): We believe the higher tariff previously is not relevant with E- policy.

1) According to Annex 3 of EB 22 meeting report, E- policy is defined as "National and/or sectoral policies or regulations under paragraph 6 (b)[1] 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". For a new grid-connected renewable power plant/unit like the proposed project, baseline is defined as the grid connected according to the methodology adopted by proposed project, i.e., ACM0002 version 7, which is totally irrelevant with tariff.
2) As for EB concerned about the higher tariff prior to proposed project, we'd like to explain the projects that enjoyed higher tariff below.
   - There are 15 projects were approved by government before the proposed project which was informed to EB during under review process, in which 4 projects are prior to 2002 when power sector reform started. Graph below shows the trend of the 15 projects together with proposed project.



(The red spot stand for the proposed project, yellow spots stand for projects previous 2002)

   - Since the public advantage policies relating with tariff were not available before year 2006 when *Renewable Energy Law* came into force, 4 projects prior to 2002 enjoyed higher tariff was impossible caused by legal encouragement but probably caused by the different tariff determination mechanism, i.e., power generation company is also the

[1] National and/or sectoral policies or regulations that give comparative advantages to less emissions-intensive technologies over more emissions-intensive technologies(e.g. public subsidies to promote the diffusion of renewable energy or to finance energy efficiency programs) can be called type E-, policy that decrease GHG emissions.

grid company and the electricity they were buying is generated from the same entity. The 4 projects belong to a company whose mother company is the Electric Power Ministration of Inner Mongolia[2], while it's very easy for them to get higher tariff.

- Tariff of projects between 2002 to end of 2007 was not simply lower down but fluctuated a lot. That is probably because the new tariff mechanism is not perfect and still under exploration stage. During the exploration stage, it was allowed by the government that tariff can be adjusted according to practical situation[3].
- After the fluctuate stage, tariff is getting stable. Tariff didn't change since end of 2007 which means the tariff determination system is becoming more and more commercialized and mature. Furthermore, on July 20th 2009, "Notification with regard to the maturity of tariff for wind power projects"4 was issued by NDRC, in which tariff of wind power projects in China was divided into 4 groups according to the location of wind projects. For the projects located in the same area as proposed project that will be approved after Aug. 1st 2009, tariff will be fixed as 0.51 RMB/kWh. Tariff determination system for wind power projects finally stabilized. For projects approved before 1st of August 2009, like Kulun, this tariff does not apply. This project would only hit the benchmark if it received 0.572 RMB/kWh, an unlikely high tariff given the past years' tariff development.

3) Based on description above we can conclude that the higher tariff prior to the proposed project was caused by different reasons. But no matter what tariff level was, they are not relevant to E- policy.

(b)

(1) According to the statistic data of installed capacity of wind farm projects during the past years, it is very clear that the investment on wind farm is growing fast, which clearly shows that the investors have not lost confidence in renewable energy investments and the incentives for investments in renewable energy have not created a comparative advantage for more emissions intensive technology.

[2] http://www.nmgdlxw.cn/history/mydoc0248.htm

[3] http://law.baidu.com/pages/chinalawinfo/5/78/2072952076205442618 0c79cbb8fbbd3_0.html

[4] Fagaijiage[2009]1906

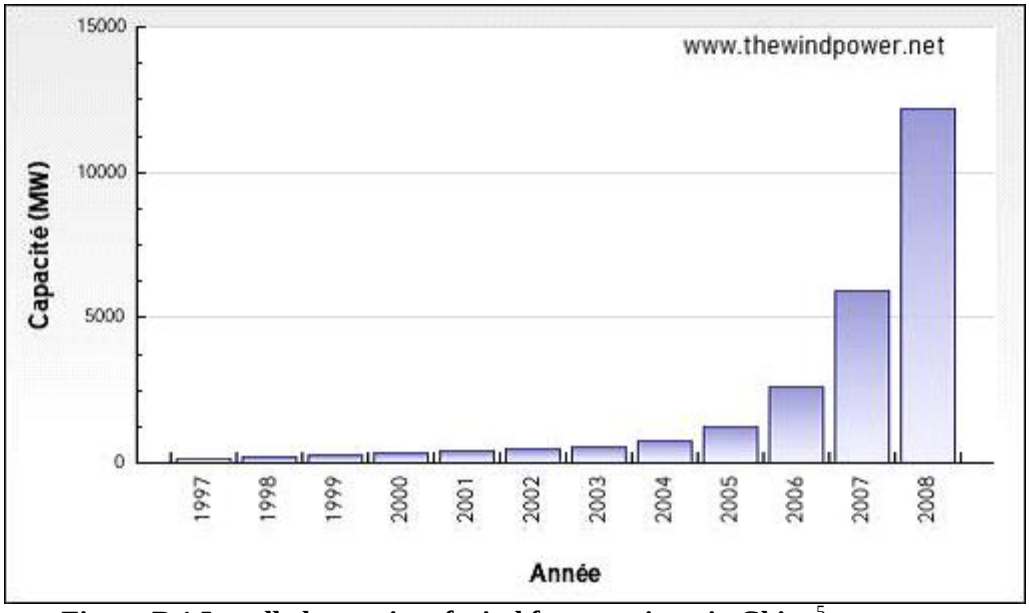


Figure B.1 Installed capacity of wind farm projects in China[5]

(2) The second graph shows that assuming a decreasing tariff trend is a misrepresentation of the facts in this region. After the fluctuations in early years, the tariff is stable and hence the assumption that the incentive for investment in renewable energy field decreases is equally flawed.

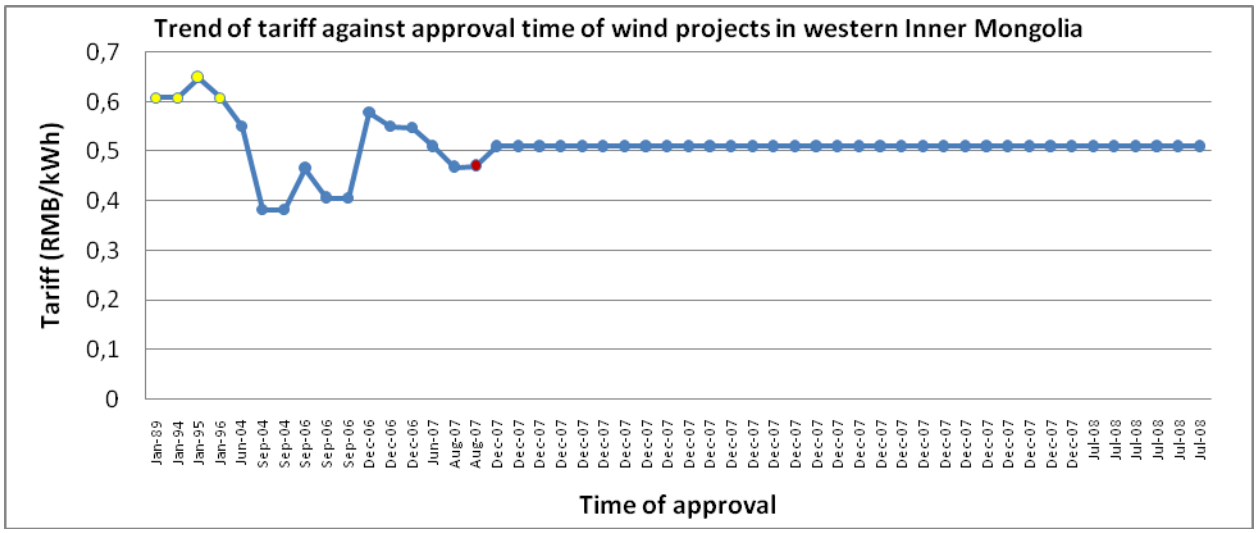


Figure B.2 Trend of tariff against approval time of wind farm projects in Inner Mongolia

(The red spot stand for the proposed project, yellow spots stand for projects previous 2002)

(3) Below graph shows the tariff in relation to the IRR for all 11 projects earlier implemented than the proposed project and where information is available.

[5] A Comparison of Wind Power Industry Development Strategies in Spain, India and China, by Joanna I. Lewis

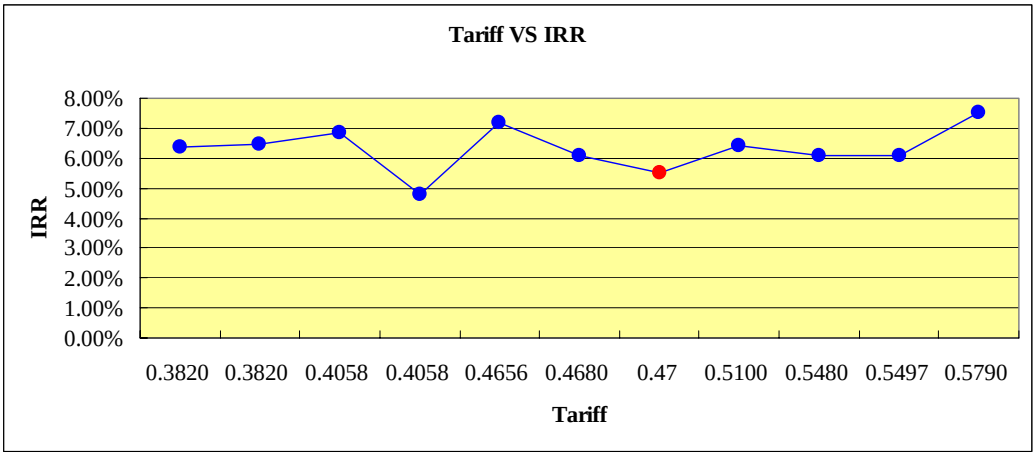


Figure B.3 Tariff VS IRR

(Red spot stand for the proposed project)

In this graph, we didn't consider about PA 0064 because the IRR is not available in the registered PDD. It shows the trend of IRR of the rest 10 projects together with the proposed project. This graph didn't show the result that low tariff lead to low IRR. Net internal return of most projects is around 6% and trend line is relatively smooth. Among the 6 projects whose tariff is lower than proposed project, 5 of which has higher IRR, e.g. tariff of PA 2153 is 0.4656 RMB/kW, but its IRR is higher than the IRR of projects with higher tariff (PA 1327 and Bailingmiao wind farm project). So it can be indicated that even if a project gets a higher tariff, it does not mean it will get higher net return.

To conclude, the tariff in western Inner Mongolia area was not simply decreased but fluctuated in the early stage and then kept stable. Besides, due to the sharp increase on wind power projects since 2006, we can definitely say that there wasn't a reduction in incentive for investment in renewable energy field.

A new possible EB concern seems to be that the tariff rates provided in the PDD in Chinese wind power projects may be different than the actual awarded tariff, and that the awarded tariff might be higher than the PDD tariff, thus making these projects more profitable than previously thought. Actually, this project is commissioned and awaits the government approved tariff forecast sometime in 2010. Given the tariff development of last couple of years as shown in figure B.2 above, it is highly unlikely that the tariff will get even close to 0.572 RMB/kWh, necessary for this project to reach the benchmark.