

Agenda item 3 f

Paragraph 64 of the annotated agenda

Highest tariff updates for Chinese wind and hydro projects

CDM EB 61

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Background

- ✓ In early 2009, **declining trend of electricity tariff** for wind and hydro projects in China was observed by the Board.
- ✓ **The declining trend was confirmed** by a detailed investigation of similar projects.
- ✓ This observation triggered concerns regarding the **impact of national policy** decisions on the **additionality** of specific CDM project activities (wind and hydro).
- ✓ **A first batch** of projects were **rejected at EB 51**, on the grounds that with the **application of a highest tariff** in the region or province, the IRR crosses the defined benchmark.



Background

- ✓ The Board at its 53rd meeting provided further **guidance** and highlighted the possibility of using a **reference tariff**.
- ✓ At its 54th meeting (24-28th May 2010), the Board requested the secretariat to publish an information note containing the highest tariffs for each province.
- ✓ The Secretariat published the **information note** in June 2010, using data from registered CDM projects available as of **December 2009** for each province.
- ✓ The secretariat published **highest tariffs for 13 provinces** for wind, and **11 provinces** for hydro (33 categories).



Criteria used to determine the highest tariff (June 2010)

1. There should be **more than one** registered project within the province.
2. There should be a **decreasing trend** of tariff over the time.
3. Source of the tariff should:
 - Be **after 2002**;
 - Be based on the **national/local tariff notifications** or **PPA**;
 - Not be based on the letters issued by the local government (such as guiding tariff letters and/or reply on feed-in tariff) or tariff notification coming from bidding process;
4. Especially for hydro - tariff notification/PPA should be clear whether it is applicable for the relevant category (RoR/R/L/S)
5. Especially for wind – based on information available while defining the highest tariff, it was observed that the policy defining the **two-phase** tariff was earliest observed only in **2004** and thus all the highest tariff was defined as a **flat** tariff for entire investment analysis period.



Mandate

- The Board requested secretariat to publish the highest tariff for new provinces for which the highest tariffs are not published and further update the highest tariff (if needed) based on the information generated through the assessment of projects submitted since **January 2010** on regular intervals.
- Further, the Board at its 60th meeting requested the secretariat to provide an assessment of the **response from the Chinese DNA** on historically highest tariffs applicable for wind and hydro facilities to be considered by the Board at its future meeting (paragraph 95, EB 60 report).

Highest tariff for new provinces (wind and hydro)

- Using the same criteria as used to define the highest tariff publication in June 2010, secretariat recommends to define the highest tariffs for four new provinces:
 - Highest tariff for new provinces/categories are based on the projects registered during last **14 months** (01/01/2010 to 28/02/2011).
 - The Secretariat recommends to publish highest tariff for **one new province** for wind projects and **three new provinces** for hydro projects.
 - WIND (1): **Ningxia**
Source for the highest tariff (0.53 RMB / kWh, with VAT): is based on the document Ning Jia Shang Fa[2004] No.116 published by the Ningxia Price Bureau.



Highest tariff for new provinces (wind and hydro)

HYDRO (3 provinces/4 categories):

Province	Category	Tariff (RMB/kWh with 6% VAT)	Source
Guangdong	S & RoR	0.48	Actual tariff issued by Heyuan city price bureau (2007).
Guangdong	S & R	0.448	Grid tariff notification issued by Guangdong price bureau (2007).
Guizhou	S & R	0.22	PPA in 2004
Xinjiang	S & RoR	0.28	Tariff approval issued by local DRC in 2007

DNA's response - wind projects

- The DNA has indicated that “....**tariff setting is totally independent from CDM....**”.
- The DNA **agrees in principle** with the highest tariff for **nine provinces** (Jilin, Inner Mongolia, Xinjiang, Fujian, Guangdong, Hainan, Hubei, Jiangsu and Liaoning) out of **13 provinces**.
- The DNA has proposed some **amendment for the highest tariff for four provinces** (Gansu, Hebei, Heilongjiang, and Shandong) due to significant difference with actual situation.

DNA's response - wind projects

- The DNA proposes to **exclude the certain type of projects** while identifying the highest tariff for wind projects:
 - **ODA funded projects;**
 - **Demonstration projects; and**
 - **The projects commissioned before power sector reforms (2002).**

DNA's response - wind projects

- For Gansu province – DNA proposes to revise the highest tariff (0.585 RMB / kWh, with VAT) to 0.56 RMB / kWh (with VAT, two-phase) as the project availing highest tariff was **funded by ODA**.
- For Hebei province - DNA proposes to revise the highest tariff (0.65 RMB / kWh, with VAT) to 0.60 RMB / kWh (with VAT) as the projects availing highest tariff were **demonstration projects**.
- For Heilongjiang province - DNA proposes to revise the highest tariff (0.79 RMB / kWh, with VAT) to 0.61 RMB / kWh (with VAT, two-phase) as the project availing highest tariff was **funded by ODA**.
- For Shandong province - DNA proposes to revise the highest tariff (0.76 RMB / kWh, with VAT) to 0.61 RMB / kWh (with VAT, two-phase) as the highest tariff was issued in **January 2001**, before the power sector reform (2002).



Secretariat assessment - wind projects

- The secretariat's update regarding wind tariffs **only focus on the four provinces** of which the DNA has strongly proposed to change the highest tariff. For the remaining provinces, no other evidence suggests revision of the defined highest tariffs.
- The Secretariat recommends not to **change the highest tariff** in the published Information Note for **three provinces** (Gansu, Hebei and Heilongjiang) as the criteria used to date by the secretariat to define the highest tariff **does not exclude ODA/demonstration** projects.
- The Secretariat recommends to **revise the highest tariff for other province (Shangdong)** in line with DNA recommendation.

DNA's response - Hydro projects

- The DNA has indicated that “....**tariff setting is totally independent from CDM....**”.
- The DNA **agrees** with the highest tariff for **four provinces** (Chongqing City, Fujian, Hubei and Jilin) **out of 11 provinces.**
- The DNA's opinion is that the **EB's approach** to assess the additionality of Chinese hydropower projects with the 'highest tariff' **is not consistent with CDM rules and methodology**, and it is **not consistent with the actual situation** in China either.



DNA's response - Hydro projects

- The DNA has described that various **tariff policies** are applicable to hydropower projects, which **are closely linked to drainage areas, grid-connecting situations and power supply and demand of the local power grid, etc.**
- The DNA stated that in China almost **no province sets tariff** according to the installed capacity and reservoir/run-of-river type, **as categorized in the Information Note.**
- The DNA has some concern on the highest tariff for hydro power projects in **Seven provinces/eight categories** (Gansu, Guangxi, Qinghai, Hunan, Jiangxi (typo), Sichuan and Yunnan) out of 11 provinces, and has proposed revision for the highest tariff of these provinces.



DNA's response - Hydro projects

The DNA **proposes to consider certain conditions** while identifying the highest tariff for hydro projects:

- **Actual tariff applicable to the project rather than source for the assumed tariff** (such as price notification available at the time of investment decision)
- **Dispatch point of the electricity (provincially and non-provincially)** – for Sichuan and Yunnan provinces

DNA's response - Hydro projects

- For Guangxi province (Large R) – DNA proposes to revise the highest tariff (0.333 RMB / kWh, with VAT) to 0.26 RMB / kWh (with VAT) as the highest tariff is an estimated tariff and the actual tariff availed by the project is 0.26 RMB / kWh (with VAT).
- For Qinghai province (Large R) - DNA proposes to revise the highest tariff (0.227 RMB / kWh, with VAT) to 0.21 RMB / kWh (with VAT) as the actual tariff availed by the project is 0.21 RMB / kWh (with VAT).
- For all categories of Sichuan and Yunnan provinces – DNA has suggested to also consider the dispatch points (**provincial and non-provincial**) as a criteria in addition to categories identified by the Board while defining the highest tariffs.

Secretariat assessment - Hydro projects

- The Secretariat recommends **to revise the highest tariff for three provinces/three categories** (Gansu - Large RoR, Guangxi - SSC RoR and Hunan - SSC R).
- The Secretariat recommends not to revise **the highest tariff in the published Information Note for four provinces/ten categories** (Guangxi - Large R, Qinghai - Large R, Sichuan - all categories and Yunnan - all categories) as:
 - For Guangxi (Large R) and Qinghai (Large R), the highest tariff defined in the Information Note is based on local and central government price notifications respectively, in line with the criteria used to date by the secretariat to define the highest tariff; and
 - For all categories of Sichuan and Yunnan provinces, there is not sufficient information available in PDDs and VRs for defining highest tariffs according to the dispatch points (**provincial and non-provincial**).
- The Secretariat recommends to **accept the typo** (20 MW instead 25 MW) on installed capacity for **other province** (Jiangxi), and will update the Information Note accordingly.

Thank You!!!

