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TÜV®

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Our / Your Reference

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Date
04.03.2009

Request for Review

“13.25 MW Wind Power Generation by RMTL, in Kutch, Gujarat” (2247)

Dear Sir/Madam,

Please find below the response of the project participant (Welspun India Limited) and the TÜV NORD JI/CDM Certification Program to the three (3) requests for review for the above mentioned project no. 2247.

If you have any questions do not hesitate to contact us.

Yours sincerely,

TÜV NORD JI/CDM Certification Program



Rainer Winter

Request for Review (1-1,1-2,1-3)	
Issue raised by EB Members / DNA	1. The DOE is requested to clarify how it has validated the investment analysis, in particular the sensitivity analysis, which should apply a $\pm 10\%$ variation of key input values, in line with the requirements of paragraph 17 of EB 41, Annex 45 guidance on investment analysis.
Response of project participant	A revised PDD is submitted as annex to this response with inclusion of the $\pm 10\%$ variation of key input values.
Response of DOE	<p>The question consists of two parts, viz.,</p> <ol style="list-style-type: none"> how the investment analysis was validated; and why a variation of $\pm 10\%$ in key input values was not applied as required under Annex 45 of EB 41. <p>Both the questions are dealt with in seriatim.</p> <p><u>Investment analysis validation</u></p> <p>As stated in the Final Validation Report, DOE adopted a six pronged strategy for validation which includes</p> <ol style="list-style-type: none"> determining the suitability of the benchmark applied for the type of financial indicator presented; assessing the parameters and assumptions used in financial indicator calculation and determining the accuracy and suitability of parameters; cross-checking the parameters with third-party / publicly available sources; reviewing annual financial reports related to the project participant; assessing the correctness of computations done and documented; and subjecting the critical assumptions of the project activity to reasonable variations to determine under what conditions project would become non-additional and the likelihood of occurrence of these conditions <p>The approach adopted is in conformity with the Validation and Verification Manual approved by EB in its 44th Meeting. A detailed account of the approach adopted under each of the steps listed above is given in the FVR. It is submitted that while validating the investment analysis, DOE ensured the following:</p> <ol style="list-style-type: none"> that the methodology adopted is strictly in conformity with the Additionality Tool and Guidance on the Investment Analysis issued by EB (period of assessment, computation of cash inflows for IRR, input values used, suitability of benchmark, etc.); that the assumptions are conservative, (benchmark analysis, PLF, tariff, etc); that the values are evidenced by acceptable documents (various cost components of project cost, terms of loan like rate of interest, repayment holiday and repayment period, O&M contract charges, depreciation and taxation rates, etc.); that the subsidies, concessions and benefits accruing to the projects are fully accounted for (accelerated depreciation, tax holiday, tax shield, etc.); that the accounting and financial management principles adopted are as per the accepted accounting principles and standards (capitalization of assets, block of assets, interest computation, provision of depreciation, accounting of expenditure etc.); and that the calculations are accurate and all the assumptions are presented in such a way that so that any reader can reproduce the analysis and obtain the same results. <p>DOE obtained copies of all documents and cross checked cost with the quotation, purchase orders, loan sanction letters, GERC Order, Income Tax Act, PPA electricity bill. DOE also checked the calculations. DOE also got itself satisfied that the Project IRR of 9.97% was much lower than even the Prime Lending Rate prevailing at the time of decision making, which was ranging between 11.00 - 11.50%.</p>

Sensitivity Analysis

Sensitivity analysis done with a 10% variation on either side is enclosed. The results are given below:

Factors	Project IRR		
	-10%	0%	+10%
Project cost	11.36%	9.97%	8.79%
CUF	8.34%	9.97%	11.52%
O&M cost	10.27%	9.97%	9.67%

It could be seen from the above that the project does not become additional even under the most optimistic assumptions of project cost going down by 10% or CUF going up by 10%.

Having said that, it is submitted that the sensitivity analysis was restricted to 5% for two reasons, viz.,

- Guidance on Investment Analysis permits the use of variation less than 10% as it states, "As a general point of departure variations in the sensitivity analysis should at least cover a range of +10% and -10%, unless this is not deemed appropriate in the context of the specific project circumstances"; and
- the specific project circumstances.

Of the three factors considered for sensitivity analysis, O&M cost makes very little impact on project IRR as evident from the data given above. That restricts the discussion to only two factors, viz., CUF and project cost.

As stated in the FVR, the CUF considered in projections is 23%, as against 16% obtained by the project in the last one year. In the above background, achieving a CUF of 25.3% (which a 10% increase in CUF would result in) is well nigh impossible. As stated in the FVR, this contention also derives its strength from an independent study conducted by CICERO¹ on the institutional barriers to commercialisation of wind power in India – The case of Gujarat, which states, "Only a 12% average annual capacity factor has been achieved so far, falling short of the 19% anticipated. Such low operating capacity factors, which have declined over the life of the project in many cases, are indication that wind power development has not been as successful as initially expected". As regards project cost, project developer has submitted that the cost taken into computation is based on quotations. Orders have already been placed. PP has also submitted copies of all quotations and purchase orders to DOE. The cost, therefore, represents firm cost and as such the question of any reduction in the cost is highly unrealistic. These facts have been brought out in the FVR.

In the above background, it could be appreciated that the *project circumstances* is *specific* and hence, the variation was restricted to 5%.

We appoint Mr Asim Kumar Jana as our contact person.

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¹ Institutional barriers to commercialisation of Wind power in India – The case of Gujarat, Amal-Lee Amin, Center for International Climate and Environmental Research – Oslo, page 13

Request for Review (2-1,2-2,2-3)

Issue raised by EB-Members / DNA	2. The DOE should clarify how it has validated that continuing and real actions were taken to secure CDM status for the project activity, as per the guidance of EB 41 Annex 46 paragraph 5 (b).																																											
Response of project participant	An updated table with the chronology of events is included in the revised PDD, attached as annex to this response.																																											
Response of DOE	<p>In response to the request for review the PP has submitted milestone date in a tabular form. In this table the PP has also provided the additional information on the timeline. The same information has been provided in the revised PDD submitted by PP. The chronology of the event as stated in the section B.5 of the PDD is as follows:</p> <table><tr><th colspan="4">Project Timelines</th></tr><tr><th>Date</th><th>Project Implementation</th><th>Actions for acquiring CDM</th><th>Supporting Evidence</th></tr><tr><td>9th January 2006</td><td>Techno-commercial offer from wind mill supplier Suzlon for 1.25 MW WTG</td><td></td><td>Letter from Suzlon (1)</td></tr><tr><td>9th January 2006</td><td>RM TL placed an LOI to Suzlon subject to their Board meeting for CDM consideration in the same month.</td><td></td><td>Letter from RM TL (2)</td></tr><tr><td>28th January 2006</td><td></td><td>Board ratifies the proposal that the company has to avail carbon revenue by registration with UNFCCC</td><td>Copy of Management Decision (3)</td></tr><tr><td>15th June 2006</td><td>RM TL approach the Consultant who was already entrusted with the responsibility of registration of their another pervious 5 MW wind project vide agreement dated 27th December 2005. Hence no offers from other Consultants were invited.</td><td>RM TL released LOI for CDM work to the Consultant for the additional 13.25 MW wind project as an extension to earlier agreement dated 27/12/2005.</td><td>Copy of the Agreement with the Consultant dated 27/12/2005. (4i) Copy of Letter of Intent dated 15/06/2006. (4ii)</td></tr><tr><td>19th June 2006</td><td></td><td>The Consultant accepts the LOI from RM TL.</td><td>Email print out (5)</td></tr><tr><td>12th December 2006</td><td>Techno-commercial offer from Suzlon for 8*1.5 MW WTGs.</td><td></td><td>Letter from Suzlon (6)</td></tr><tr><td>19th December 2006</td><td>RM TL places an order for the supply of 8 WTGs</td><td>The order states that CDM benefits will be availed subject to the Board's ratification.</td><td>Letter from RM TL (7)</td></tr><tr><td>29th January 2007</td><td></td><td>Board ratifies the proposal that the company has to avail carbon benefits by</td><td>Copy of Management Decision (8i) Copy of Letter to</td></tr></table>				Project Timelines				Date	Project Implementation	Actions for acquiring CDM	Supporting Evidence	9 th January 2006	Techno-commercial offer from wind mill supplier Suzlon for 1.25 MW WTG		Letter from Suzlon (1)	9 th January 2006	RM TL placed an LOI to Suzlon subject to their Board meeting for CDM consideration in the same month.		Letter from RM TL (2)	28 th January 2006		Board ratifies the proposal that the company has to avail carbon revenue by registration with UNFCCC	Copy of Management Decision (3)	15 th June 2006	RM TL approach the Consultant who was already entrusted with the responsibility of registration of their another pervious 5 MW wind project vide agreement dated 27 th December 2005. Hence no offers from other Consultants were invited.	RM TL released LOI for CDM work to the Consultant for the additional 13.25 MW wind project as an extension to earlier agreement dated 27/12/2005.	Copy of the Agreement with the Consultant dated 27/12/2005. (4i) Copy of Letter of Intent dated 15/06/2006. (4ii)	19 th June 2006		The Consultant accepts the LOI from RM TL.	Email print out (5)	12 th December 2006	Techno-commercial offer from Suzlon for 8*1.5 MW WTGs.		Letter from Suzlon (6)	19 th December 2006	RM TL places an order for the supply of 8 WTGs	The order states that CDM benefits will be availed subject to the Board's ratification.	Letter from RM TL (7)	29 th January 2007		Board ratifies the proposal that the company has to avail carbon benefits by	Copy of Management Decision (8i) Copy of Letter to
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		registering with UNFCCC and the company confirms the order to Suzlon.	Suzlon (8ii)
7 th March 2007		RMTL cancelled the earlier LOI with Consultant .	Email print out (9)
16 th March 2007	ICICI Bank approves loan for the project activity.		Copy of Loan document (10)
24 th April 2007, 23 rd June 2007, 26 th June 2007, 06 th August 2007, 08 th August 2007, 15 th August 2007		Emails received from various consultants for awarding the CDM work.	Email print outs (11)
30 th June 2007	Commissioning date of last WTG		Copy of commissioning certificate (12)
26 th September 2007		The project proponent engages another Consultant for registering the project under CDM at UNFCCC.	Contract with CDM consultant (13)
7 th November 2007		Validation quotation enquiry floated by the Consultant	Email print outs (14)
26 th November 2007		RMTL files for host country approval meeting	Copy of letter (15)
26 th December 2007		DNA letter to proponent for presenting the case	Copy of letter (16)
23 rd January 2008		Host Country Approval received	Copy of HCA letter (17)
6 th February 2008		RMTL enters in to contract for validation with DOE.	Copy of Contract (18)

From the timeline presented it can be seen that before the start date of the project i.e. 28.01.2006, the project proponent had entered in to "Agreement for success fee- post Registration emission Reduction Revenue"^{POT/} with Ms. Synergy Global Private Limited on 27/12/2005 for another 5MW project pertaining to PP. In continuation to this agreement the PP has placed the letter of intent on 15/06/2006 for extending the scope of this agreement to 1.25 MW WTG installed at Vanku and another 8 number of 1.5 MW WTGs to be installed. (i.e. total 13.25 MW WTGs belonging to this project activity). The confirmation of the acceptance of the letter of intent by Ms. Synergy Global was done on 19/06/2006. Management decision for the additional seven 1.5 MW WTGs was taken on 29/01/2007. This shows that the PP had initiated the actions to secure CDM status in parallel with the project implementation.

In the month of March 2007 due to the slow progress of the earlier appointed consultant, the PP cancelled to LOI on 07/03/2007 and started looking for other consultants. This process was started formally on 24.04.2007. Meanwhile the last WTG of the project activity was commissioned on 30/06/2006. This shows that the PP had initiated the actions to secure CDM status in parallel with the project implementation. Finally the contract for registration of this 13.25 MW project was awarded to Ms. Emergent Ventures on 26.09.2007. Subsequent to this the enquiry to the DOE was floated on 07/11/2007, the application to MOEF for HCA was made on

26/11/2007, the HCA was received on 28/01/2008 and the contract with DOE was entered on 06.02.2008.

The credible evidences for the above milestones have been verified by the DOE and based on the same DOE is convinced that the real and continuing efforts were made to achieve the CDM status subsequent to the project start date and parallel to project implementation.

The credible evidences for the above milestones have been verified by the DOE and based on the same it is concluded by the DOE that the real and continuing effort were made to achieve CDM status subsequent to the project start date parallel to project implementation. .

We appoint Mr Asim Kumar Jana as our contact person.

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