

## **RESPONSE TO REQUESTS FOR REVIEW**

BVQI have validated the CDM Project 'Grid-connected electricity generation from renewable sources at Satara by M/s Bajaj Auto Ltd. (BAL) using wind Power'. The request for registration was completed on 17th January 2006. The reference number of the project activity is UNFCCC00000221CDMP.

Subsequently, there have been 4 requests for review.

We thank the CDM executive board and the secretariat for giving us the opportunity to respond to the requests for review.

We find that each of the four requests is made against the two requirements of CDM modalities and procedures, viz. additionality and baseline and monitoring methodologies.

We further note that specific reasons for the review against the additionality requirement are available in these requests.

We also find that no specific reasons have been assigned for the baseline and monitoring methodologies. We therefore believe that our clarifications below will suffice in this regard as well.

The overall validation, from Contract Review to Validation Report & Opinion, was conducted using internal procedures (BMS, September 2003) which were audited by the CDM Accreditation Team in December 2004.

It may be noted that the project activity involves generation of electricity using wind mills by BAL who are one of the leading two wheeler manufacturers in the world. The power generated by these windmills is wheeled for captive consumption for BAL manufacturing units. The PDD uses western regional grid in India for baseline estimates. As mentioned in section B.1 of the PDD, the project activity fulfills the applicability conditions of the consolidated methodology ACM0002 version 4. The version 04 was the then valid version of the methodology during the validation process.

We therefore hereby confirm that in the opinion of the validation team, the said CDM project activity has correctly applied the baseline and monitoring methodologies ACM0002.

We give below our response to the requests for review. The initial discussions below are our common summary response to all the requests for review. Additionally, for the purpose of clarity, we also have attempted to give individual response to each of the requests for review of the CDM Project. These individual responses are derived from the common response below.

#### Common Response :

We observe that the main reason cited to requests is additionality. The gist of the comments is :

1. The PDD has muddled up the arguments on the investment analysis and the barrier analysis
2. The investment barrier analysis indicates no much difference between the debt service coverage ratio (of 0.72) with or (of 0.69) without CDM revenues.
3. The arguments on additionality are not convincing
4. The technological barriers presented by the project participant either apply to the identified alternative to the proposed CDM project activity or simply generic business risks that should be managed anyway.
5. The DOE in its validation report merely repeated these arguments without an independent assessment of interrogation of their validity
6. The validation report is not sufficiently transparent and DOE should qualitatively address the different aspects of the PDD and not just make a desk study.
7. All concerns raised in the project 224 are applicable to this project as well.

#### BVQI response :

We wish to clarify here that the validation for two windmill CDM projects [# 224 at Supa & # 221 at Satara] of BAL was conducted together by two of BVQI validators.

1. The project participant provided validation team with data on cost of unit power for wind mill and thermal power plant from 'Maharashtra Energy Regulatory Commission [MERC] Order dated 24th November 2003' under case # 17(3),3,4 & 5 of 2002. MERC is an independent government commission formed under ERC Act 1998. The MERC Order is a publicly available document. The data in the above mentioned order clearly shows that the unit cost of power for windmill is higher than the unit cost of power for one other alternative viz. thermal power plant. The validation team accepted coal power plant as a feasible alternative for BAL wind power project since the power generated from the windmills is used by BAL for captive consumption. The actual average tariff paid by BAL for the power imported from the grid is also lower than the unit cost of power from windmills as indicated in the MERC order. In conclusion, cost of unit power for two alternatives is less than the cost of unit power from project activity.

The validation team had discussed the use of step 2 for the investment analysis parameters. Project participant during the interviews had expressed that providing publicly available substantive data with respect to the alternatives to the project activity as required for sensitivity analysis under step 2d of the 'tool for demonstration and assessment of additionality' was not possible. Hence they had included the discussion on unit cost of power under step 3.

Considering that the project participant used publicly available data from MERC to prove that the unit cost of power for windmill was higher than that for coal power plant and the power imported from the grid, validation team accepted this approach.

2. The investment barrier analysis is based on DSCR, IRR as well as the unit cost of power.

It is true that there is no much difference in DSCR with and without CDM benefits. However, this does not necessarily negate the eligibility of the project as a CDM project.

In all, the validation team considered IRR and DSCR, among others, as only supplementing the discussions on additionality. The key features based on which the validation team considered the project activity as additional are explained below.

3. The validation team concluded that the project activity is additional based on the following key features of the project activity :
  - i. The penetration of windmills in the state of Maharashtra at the time of making the decision on CDM project investment was very less [to the tune of 2.64%]
  - ii. The proposed installed capacity for the project activity [45.2 MW] was almost double the total installed capacity in the whole state of Maharashtra [approx. 24 MW] at the time of making the decision on CDM project investment in the year 2000.
  - iii. There were uncertainties related to regulatory requirements in the Indian wind power sector at the time of making the decision on investment in the project activity. This was proved correct eventually by the actual changes in the tariff structure and the variations in the wheeling and transmission charges.
  - iv. BAL had made a large investment [INR 2,034 Million] in the project activity.
  - v. The unit cost of power for the project activity is higher than other two alternatives.
  - vi. BAL faced poor grid availability and loss of generation due to lack of adequate evacuation facility.

During the validation process, the validation team assessed these arguments for correctness through documentary proofs and publicly available information as applicable, provided by the project participant.

In the opinion of the validation team, the rest of the discussions in the PDD on additionality are only supplementary in nature to the above key features.

4. As explained above, the validation team considered the technological barriers as only supplementing the key features of additionality identified above.
5. The validation report on page 12 under section 3.2 summarized the additionality features. The report at other places clearly identified that the project activity is additional. Kindly refer page 12 under section 3.1 and on page 15 under section 5.

We however agree that conclusion at section 3.2 itself would have been better.

6. We request that our validation report be read in conjunction with the Appendix A & Appendix B of the validation report to get to the depth of the assessment done during the validation activity.

It is clear from these appendices that the validation report has comprehensively addressed all the aspects of the PDD.

We further state that the transparency is maintained by providing reference to the documents verified during the validation activity.

We trust that with this clarification, the EB members will be convinced that we have done a qualitative assessment of the different aspects of the PDD and that our validation activity was not limited to desk review.

7. We have provided a comprehensive response to the requests for review of project # 224 at Supa. It will be impractical to reproduce it here. We therefore request any one interested to kindly refer the response to those requests.



Our responses to the individual reasons for Satara project are given on the next pages. These are in line with the common response given above.

Request for review no. 1 & 2 : The reasons under the two requests are exactly the same. Hence a common response is provided as below :

Reasons and background for Request for Review (Additional Notes)	BVQI response
<p>The project participant did not provide any convincing argument to justify why the project activity is considered to be additional and the DOE did not make an independent qualitative analysis assessment of this aspect of the PDD.</p>	<p>The validation report on page 12 under section 3.2 summarized the additionality features. The report at other places clearly identified that the project activity is additional. Kindly refer page 12 under section 3.1 and on page 15 under section 5.</p> <p>We however agree that conclusion at section 3.2 itself would have been better.</p> <p>The validation team concluded that the project activity is additional based on the following key features of the project activity :</p> <ol style="list-style-type: none"> <li>i. The penetration of windmills in the state of Maharashtra at the time of making the decision on CDM project investment was very less [to the tune of 2.64%]</li> <li>ii. The proposed installed capacity for the project activity [45.2 MW] was almost double the total installed capacity in the whole state of Maharashtra [approx. 24 MW] at the time of making the decision on CDM project investment in the year 2000.</li> <li>iii. There were uncertainties related to regulatory requirements in the Indian wind power sector at the time of making the decision on investment in the project activity. This was proved correct eventually by the actual changes in the tariff structure and the variations in the wheeling and transmission charges.</li> <li>iv. BAL had made a large investment [INR 2,034 Million] in the project activity.</li> <li>v. The unit cost of power for the project activity is higher than other two alternatives.</li> <li>vi. BAL faced poor grid availability and loss of generation due to lack of adequate evacuation facility.</li> </ol> <p>During the validation process, the validation team assessed these arguments for correctness through documentary proofs and publicly available information as applicable, provided by the project participant.</p>
<p>In using the Additional Tool the PP muddled up the arguments using the barrier analysis and investment analysis. Moreover, the investment analysis indicated that two alternatives considered would have been cheaper than the proposed project activity.</p>	<p>The project participant provided validation team with data on cost of unit power for wind mill and thermal power plant from 'Maharashtra Energy Regulatory Commission [MERC] Order dated 24th November 2003' under case # 17(3),3,4 &amp; 5 of 2002. MERC is an independent government commission formed under ERC Act 1998. The MERC Order is a publicly available document. The data in the above mentioned order clearly shows that the unit cost of power for windmill is higher than the unit cost of power for one other alternative viz. thermal power plant. The validation team accepted coal power plant as a feasible alternative for BAL wind power project since the power generated from the windmills is used by BAL for captive consumption. The actual average tariff paid by BAL for the power imported from the grid is also lower than the unit cost of power from windmills as indicated in the MERC order. In conclusion, cost of unit power for two alternatives is less than</p>

	<p>the cost of unit power from project activity.</p> <p>The validation team had discussed the use of step 2 for the investment analysis parameters. Project participant during the interviews had expressed that providing publicly available substantive data with respect to the alternatives to the project activity as required for sensitivity analysis under step 2d of the 'tool for demonstration and assessment of additionality' was not possible. Hence they had included the discussion on unit cost of power under step 3.</p> <p>Considering that the project participant used publicly available data from MERC to prove that the unit cost of power for windmill was higher than that for coal power plant and the power imported from the grid, validation team accepted this approach.</p>
<p>The technological barriers presented by the project participant either apply to the identified alternative to the proposed CDM project activity or simply generic business risks that should be managed anyway.</p>	<p>The validation team concluded that the project activity is additional based on the following key features of the project activity :</p> <ol style="list-style-type: none"> <li>i. The penetration of windmills in the state of Maharashtra at the time of making the decision on CDM project investment was very less [to the tune of 2.64%]</li> <li>ii. The proposed installed capacity for the project activity [45.2 MW] was almost double the total installed capacity in the whole state of Maharashtra [approx. 24 MW] at the time of making the decision on CDM project investment in the year 2000.</li> <li>iii. There were uncertainties related to regulatory requirements in the Indian wind power sector at the time of making the decision on investment in the project activity. This was proved correct eventually by the actual changes in the tariff structure and the variations in the wheeling and transmission charges.</li> <li>iv. BAL had made a large investment [INR 2,034 Million] in the project activity.</li> <li>v. The unit cost of power for the project activity is higher than other two alternatives.</li> <li>vi. BAL faced poor grid availability and loss of generation due to lack of adequate evacuation facility.</li> </ol> <p>In the opinion of the validation team, these features neither apply generically to the identified alternatives like coal power plant or imports from grid nor are simple generic business risks.</p> <p>In the opinion of the validation team, all other features mentioned in the PDD with respect to additionality are supplementary in nature to the above key features.</p>

Request for review no. 3 & 4 : The reasons under the two requests are exactly the same. Hence a common response is provided as below :

Reasons and background	BVQI response
<ul style="list-style-type: none"> <li>• The PDD is identical to the PDD for project 0224 – Grid-connected electricity generation from renewable sources at Supa, for which the review has been requested. All the concerns raised</li> </ul>	<p>We have provided a comprehensive response to the requests for review of project # 224 at Supa. It will be impractical to reproduce it here. We therefore request any one interested to kindly refer the response to those requests.</p>

<p>with 0224 are valid for this project as well.</p>	
<ul style="list-style-type: none"> <li>Again the main point is additionality. None of the arguments put forward regarding technological and investment barriers were convincing. The described technological barriers either apply to all the identified alternatives or are simply generic business risks that need to be managed any way. The investment barrier analysis indicates no much difference between the debt service coverage ratio (of 0.72) with or (of 0.69) without CDM revenues.</li> </ul>	<p>The validation team concluded that the project activity is additional based on the following key features of the project activity :</p> <ol style="list-style-type: none"> <li>The penetration of windmills in the state of Maharashtra at the time of making the decision on CDM project investment was very less [to the tune of 2.64%]</li> <li>The proposed installed capacity for the project activity [45.2 MW] was almost double the total installed capacity in the whole state of Maharashtra [approx. 24 MW] at the time of making the decision on CDM project investment in the year 2000.</li> <li>There were uncertainties related to regulatory requirements in the Indian wind power sector at the time of making the decision on investment in the project activity. This was proved correct eventually by the actual changes in the tariff structure and the variations in the wheeling and transmission charges.</li> <li>BAL had made a large investment [INR 2,034 Million] in the project activity.</li> <li>The unit cost of power for the project activity is higher than other two alternatives.</li> <li>BAL faced poor grid availability and loss of generation due to lack of adequate evacuation facility.</li> </ol> <p>In the opinion of the validation team, these features neither apply generically to the identified alternatives like coal power plant or imports from grid nor are simple generic business risks.</p> <p>In the opinion of the validation team, all other features mentioned in the PDD with respect to additionality are supplementary in nature to the above key features.</p> <p>The investment barrier analysis is based on DSCR, IRR as well as the unit cost of power.</p> <p>It is true that there is no much difference in DSCR with and without CDM benefits. However, this does not necessarily negate the eligibility of the project as a CDM project.</p> <p>In all, the validation team considered IRR and DSCR, among others, as only supplementing the discussions on additionality. The key features based on which we considered the project activity as additional are explained above.</p>
<ul style="list-style-type: none"> <li>The DOE in its validation report merely repeated these arguments without an independent assessment of interrogation of their validity</li> </ul>	<p>The validation report on page 12 under section 3.2 summarized the additionality features. The report at other places clearly identified that the project activity is additional. Kindly refer page 12 under section 3.1 and on page 15 under section 5.</p> <p>We however agree that conclusion at section 3.2 itself would have been better.</p>