Fuel Free Electricity to Grid; Project activity 1331
Project Participant's Responses to the "Request for Review"

14 January 2008
The CDM Executive Board
c/o UNFCCC Secretariat
Martin Luther King Strasse 8
D-53153 Bonn
Germany

Dear CDM Executive Board,

We are hereby submitting our responses to the requests for review of the "Fuel Free Electricity to Grid; Project activity 1331". We hope the following responses provide the necessary details as required by the Executive Board.

Query 1 of the Request for Review:

The detailed IRR calculations should be provided, and the DOE must clearly indicate what steps have been taken to validate the accuracy of these calculations including the assumptions and input values.

Project Participant's Response to Query 1:

It may be noted that the detailed IRR calculations have been already submitted to the DOE during the time of Validation along with supporting documents for all assumptions and input values. The same has been already validated by a Chartered Accountant appointed by the DOE and found to be inline with standard accounting principles. The results of the IRR calculations were uploaded with the request for registration. The detailed IRR calculation sheets are now being submitted by the DOE.

Query 2 of the Request for Review:

The DOE is also requested to provide details regarding how the benchmark has been validated.

Project Participant's Response to Query 2:

The project activity consists of 22 Wind Turbine Generators (WTGs) of different capacities installed in different locations. The project promoter has divided them into13 groups based on their capacities and locations. The project IRR and benchmarks have been separately calculated for each of these groups. The benchmark Rate of Return (benchmark RoR) for a group has been determined as the weighted average of the cost of capital for the group.

For example:

Benchmark calculation for Group 3			
Cost Component	**Rupees (In Lacs)**	**% of total project cost**	**Cost of Capital**
Equity Capital	75	25%	16%*
Loan Capital	225	75%	10%**
Total	300	100%	Benchmark RoR = 16% X 25% + 10% X 75% = 11.50%

* – Cost of equity capital is taken as 16%. This is the approved and standard return on equity (RoE) allowed for private power producers by the Central Electricity Regulatory Commission (CERC). Refer Page 2 of CERC document - http://cercind.gov.in/08022007/starting-on-1.4.2009.pdf.

** – Cost of Loan Capital is adopted as the interest rate of the loan capital. This interest rate has been validated by the DOE based on the bank's Loan sanction document. This interest rate is linked to the prevailing Prime Lending Rates (PLR).

The project IRR of each of the 13 groups is compared with, and found lower than, their respective benchmark RoRs. Also, the weighted average of the project IRRs of all the 13 groups (8.62 %) is lower than the weighted average of the benchmark RoRs of all the 13 groups (12.76 %). Detailed IRR and benchmark RoR calculation sheets for all the 13 groups and their weighted averages are being submitted by the DOE.

Query 3 of the Request for Review:

Further information should be provided regarding the prior consideration of the CDM and how it has been possible for the project participant to operate the project activity for almost 5 years prior to it being submitted for registration as a CDM project.

Project Participant's Response to Query 3:

Prior consideration of CDM:

The project promoters first learnt about the Kyoto Protocol and the potential of CDM funds for wind power projects through "WINDPRO", the monthly journal of "Indian Wind Power Association" dated July 2002[i].

Subsequently, Khivraj Group, in its Board of Directors' meeting held on 30 August 2002[ii], decided to implement its new wind power project activity under the CDM to improve its viability. The concept of CDM and its potential benefits to wind power projects were further communicated to Khivraj Group's sister Companies and Affiliates, who have also installed wind mills expecting that CDM funds would support their viable operation.

---

[i] Refer page 10 to 14, Journal No.57, July 2002, Article "CDM Markets for Renewable Energy Projects" by Mr.Rakesh Bakshi. See Enclosure I

[ii] Refer "Minutes of the Board of Directors Meeting" being submitted by the DOE

How it has been possible for the project participant to operate the project activity prior to being submitted for registration as a CDM project:

The project promoters have funded the project activity through a combination of equity funds and bank loans. Since the commissioning of the Wind Turbine Generators (WTGs), the actual performance of the WTGs is as estimated in the IRR calculations. The actual returns (cash inflow – Refer Enclosure II) from the WTGs in these years have hardly been sufficient to service their debts (Interest and principal payable towards bank loans). In many of the years, the project promoters have been servicing their debts through funds from their other business operations (Reflected as negative cash flow in Enclosure II). The actual Return on Equity (ROE) in all the years is deficit of the Required ROE of 16%. The promoters hope to recover these funds and operate the WTGs profitably with the help of CDM funds. However, their wind farm operations is not self sustainable on a long term basis without the supplementary CDM funds.

Though the project promoters intended to pursue the CDM funds at the earliest, they awaited the formation of the CDM guidelines at the national and international levels and the successful Registration of a wind power project, before proceeding ahead. Subsequent to the Registration of the first wind power project in February 2006, the project promoters commenced their CDM process.

Yours truly,

For Khivraj Motors Private Limited

V. Rajamanickam

(V.Rajamanickam)
Authorized Signatory