KPTCL/2005-06/ 9456

October 6, 2005

Shri Kumar Nayak
Managing Director
BESCOM
K.R.Circle
Nrupathunga Road
BANGALORE 560 001

Dear Sir,

Sub: Sharing of carbon credits

We wish to inform you that we have entered into Power Purchase Agreement (PPA) with KPTCL in respect of our two wind power projects of 6 6 MW capacity commissioned at H.D.Pura and 1.9 MW capacity at Kunjabanahalli (both in Dist.Chitradurga) on 24.9.2003 and 15.7.2003 respectively. In both these projects, vide Article 3.1(vi), it is provided that the benefits accruing on account of carbon credits shall be shared between our company and KPTCL in the ratio of 30:70. The above clause is not in the interest of the owners of the wind power projects. If 70% of the carbon credits has to be passed on to BESCOM, nothing will be left for the owners of the wind power project since they are required to incur substantial expenses for getting the benefits of carbon credits. The expenses involved are payment of fees to the consultants for preparation of baseline studies, submission of papers to the Ministry of Environment, fees to be paid subsequently to accreditation agency/UNFCCC, payment of annual fee to consultants, travel expenses and other hidden expenses which are not known at present. Expenses on these accounts will be more than 30% of the total benefit that may accrue to the owner of the wind power projects from the carbon credits.

Therefore, if this clause is retained in its present form, no owner of wind power projects will make any effort to get the benefit of carbon credits, which ultimately will be a loss to BESCOM and the State of Karnataka. The PPAs were signed under duress at that particular time accepting this clause, since almost for about 1 1/2 years, PPAs were not signed by KPTCL for different reasons. We also understand that at present KERC has directed KPTCL and BESCOM that the benefit of carbon credits will not be passed on to BESCOM but 100% benefit will be retained by the owner of the wind power project.