UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

Att: CDM Executive Board

DET NORSKE VERITAS
DNV Certification
International Climate Change Services
Veritasveien 1
NO-1322 Høvik
Norway
Tel: +47-6757 9900
Fax: +47-6757 9911
http://www.dnv.com
NO 945 748 931 MVA

Your ref.:	Our ref.:	Date:
CDM Ref 0315	MLEH/ETEL	28 June 2006

Response to request for review

Request for registration of the "125 MW Wind Power Project in Karnataka, India" (0315)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by four Board members concerning DNV's request for registration of the "125 MW Wind Power Project in Karnataka, India" (Ref 0315) and would like to provide an initial response to these requests for review.

All the four requests for review refer to the lack of clarity on how the IRR has been calculated and that the DOE has not assessed the level of IRR argued in the PDD and therefore that the additionality of the project activity is not demonstrated in a sufficiently transparent manner.

Before providing a justification on the assessment of the IRR argued in the PDD, we draw your attention to the following facts: (as indicated in the PDD and also in DNV's validation report).

- The weighted average cost of capital (WACC) of the project activity has been used as benchmark to assess the financial attractiveness of the project activity
- The WACC of the MSPL project activity has been determined to be 10.75%
- It has been presented that the IRR of the project activity without CDM revenues is estimated at 7.36% which is significantly lower than WACC (estimated at 10.75%) for the project. The IRR improves marginally to 7.87% with CDM revenues.

The assessment of the IRRs by the project proponent is in DNV's opinion justified, based on the following facts:

- DNV was able to confirm the investment analysis and the associated IRRs determined through assessment of detailed spread sheet calculations forwarded by the project proponent. For reasons of confidentiality, only aggregated numbers from these detailed spreadsheets were presented in the PDD.
- DNV was able to confirm the WACC to be 10.75% (based on 70% term loans @ 8.5% and 30% equity @16%)
- The presented IRR estimated at 7.36% without CDM revenues and 7.87% with CDM revenues are the 'project' IRR's. These IRR's estimated have been verified to be correct and is based on the sale of power at INR 3.40 per unit for the first 10 years of the crediting period (as per a power purchase agreement (PPA) established by the project proponent

with the power utility Karnataka Power Transmission Corporation Limited). The period of 10 years chosen for the estimation of the IRR's is also justified for the following reasons:
    - The crediting period chosen by the project proponent is the fixed crediting period of ten years.
    - As per the PPA, the tariff of INR 3.40 is valid for a period of 10 years only. Subsequently the rates will have to be renegotiated with the power utility company.
- The analysis presented for IRR calculations considers all the applicable benefits under the Indian Income Tax Act.
- DNV was able to verify the presented sensitivity analysis (variation by 10%) for factors such as the annual exports to KPTCL and operation and maintenance expenses. Through this it is demonstrated that that the project IRR always is less than the WACC.

Though not highlighted in the validation report, the following has also been verified and is apparent from the presented analysis.

- When extending the financial analysis for a period of 20 years, the IRR of the project activity without CDM revenues is estimated at 11.38% without CDM revenues and 11.74% with CDM revenues, which are only marginally higher than the WACC.
- For a period of 20 years, the calculated equity IRR has been verified to be 13.23% without CDM revenues and 13.79% with CDM revenues. This is low compared to the benchmark of 16% post tax return on equity expectation in the Indian power sector.
- DNV confirms that the all documents pertaining to the presented analysis have been verified, such as,
    - Supply contracts for the wind mills
    - Erection and commissioning contracts
    - Operation and maintenance contracts
    - Power purchase agreements
    - Bank loan documents

Pertaining to the minor issue pointed out in one of the requests that IRR values mentioned in the PDD and validation report do not match; DNV acknowledges the same to be an error on our part. The project IRR has been erroneously indicated as 8.38% with CDM revenues, while the PDD correctly indicates the IRR with CDM revenues to be 7.87%

Based on the above, it is in DNV's opinion apparent that the presented IRR analysis has been presented and assessed appropriately. In conclusion, it is deemed likely that the project activity would not have been implemented in the absence of the CDM revenues.

We sincerely hope that the Board accepts our aforementioned explanations and we look forward to the registration of the project activity.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION LTD.

Einar Telnes
Director
International Climate Change Services

Michael Lehmann
Technical Director