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Att: CDM Executive Board

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Your ref.:	Our ref.:	Date:
CDM Ref 1086	ETEL/KCHA	19 July 2007

Response to request for review

"BHL Bilai project" (Ref. no. 1086)

Dear Members of the CDM Executive Board,

We refer to the issues raised in the requests for review raised by three Board members concerning DNV's request for registration of the "BHL Bilai project" (Ref. no. 1086) and would like to provide the following clarifications for your perusal and review. The points raised and our response to the same are indicated below.

Comment 1:
As the main barrier presented to support the additionality of the project activity is the low tariff paid in the state, it should be demonstrated that this project activity is not economically attractive at the current or expected tariff.

DNV Response:

The project proponents carried out an IRR analysis for the BHL Bilai project activity based on the tariff structure in the power purchase agreement (PPA),. The proponents have chosen the Prime Lending Rates (PLR) of the Indian banks (which was at 11% at the conceptualization stage of the project activity) as the benchmark for this financial analysis. The IRR for the project has been estimated to be 4.98 % without CDM revenues, which is below the benchmark PLR of 11%. With CDM revenues considered at USD 10 per ton of CO_2, the IRR improves to 14.11%.

In DNV's opinion the assessment of the IRR's, by the project proponent is justified and is based on the following facts:

- DNV was able to confirm the investment analysis and the individual factors for determination of the IRR through the detailed spreadsheet calculations provided by the project proponent. The cash flow analysis has been presented for a period of 10 years. (Please refer to attachment 1)
- DNV confirms that the all documents pertaining to the presented analysis have been verified, such as,
    - Investment costs (while all work orders and purchase orders have been verified by DNV, only the major orders such as the turbine and sub station have been attached as evidences, attachments 2A and 2B)
    - Power purchase agreement (attachment 3)
    - Benchmark / PLR (attachment 4)

DNV is able to verify that the assumptions used (as above) in the determination of IRR are conservatively applied and sourced from the appropriate industrial standards or are the realistic figures. In conclusion, it is

thus sufficiently demonstrated that the proposed project activity is not economically or financially attractive.

Comment 2:

The baseline emission factor (0.914 tCO_2/MWh) is higher than the factor published by the Central Electricity Authority of India (0.75 tCO_2/MWh). This discrepancy should be explained.

DNV Response:

We acknowledge that version 06 of ACM0002 (Page 5) stipulates the following: "*Calculations for this combined margin must be based on data from an official source (where available) and made publicly available.*" However, we would like to point to the fact that at the time of requesting the registration of this project, only a final report (published on November 2006) including the summary of the emission factor of the northern region grid (0.75 tCO_2/MWh) was made publicly available on the CEA website (http://www.cea.nic.in/planning/c%20and%20e/Government%20of%20India%20website.htm). The detailed calculations (excel sheets) for the baseline emission factor of northern region grid were not published by the Central Electricity Authority of India and thus not publicly available. As such, these do not meet the above quoted requirement of ACM0002, version 6 as explained below:

DNV is able to confirm the following:

- There is no detailed calculation (at the time of request for registration), for determining the emission factor of northern region grid, available on Central Electricity Authority of India (CEA) website (though it is a final report published on November 2006). As such the emission factor cannot be validated.
- DNV has accepted and confirms that the NCV data used by BHL, based on NATCOM data, is based on a reliable and official Indian source of data.

As such, it is DNV's opinion, that until the time CEA provides the detailed calculations for calculation of emission factor of northern region grid (by complying all the requirements of ACM0002) or there is a clear decision or guideline by DNA of India or by UNFCCC, BHL is eligible to use a calculation based on ACM0002 for calculations of the carbon emission factors of the grid (0.914 tCO_2/MWh) as long as this is based on transparent and official data.

It should also be noted that DNV in its validation report pointed out this discrepancy as well (CAR 6) and the response provided by the PP, elaborating on the above discussion, was subsequently accepted.

Further, the project proponent has also requested UNFCCC to provide guidance on the use of emission factor data, before UNFCCC concludes this point.

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 AS

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