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Att: CDM Executive Board

Your ref.:
 CDM Ref 1201

Our ref.:
 MLEH/KCHA

Date:
 10 September 2007

**Response to request for review
 10 MW Somasila Hydro Power Project for a grid system by Balaji Energy Pvt.Ltd.
 (1201)**

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 project activity 1201 "10 MW Somasila Hydro Power Project for a grid system by Balaji Energy Pvt.Ltd." and we would like to provide the following response to the issues raised by these requests for review .

Comment 1:

As the investment barrier is the key barrier used to demonstrate the additionality of the project activity further evidence is required to support suitability of the weighted average cost of capital as the benchmark.

DNV's response:

In DNV's opinion, the selection of the Weighted Average Cost of Capital (WACC) benchmark is justified. This opinion is based on the following:

- DNV was able to confirm that the WACC is the most commonly used tool by investors in their investment decisions (http://en.wikipedia.org/wiki/Weighted_average_cost_of_capital). This tool provides an indication of minimum return that can be expected on total capital invested (including debt and equity). In other words, this can be termed as an opportunity cost for any investor.
- The project IRR is based on the total investment (including the debt, equity or any other source of financing). In order to analyze the financial viability of the project, the project developer needs to see the minimum returns he can expect from all components of his investment. The benchmark selected needs to ensure that the minimum returns arrived at takes into consideration the risks associated with the different components of the total investment. Hence, from investor's perspective, the WACC is one of the most suitable benchmark for comparing project IRR since it is the weighted average of the total cost of the different components of the investment.

Comment 2:

Further details and evidence regarding the consideration of the CDM in the decision to proceed with the project activity are required.

DNV's response:

DNV was able to verify the barriers faced by the project before the actual start date (construction) of the project activity in November 2002. The project developer has had to rework on the design for water conductor system and had to seek approval for the revised design. These barriers along with inadequate funds and uncertainty due to tariff rates led to delay in implementing the project. In the light of all these barriers, the project developers decided to avail the benefits of CDM revenues. The matter was presented to the board of directors of Balaji Energy Private Limited in their meeting on 16 January 2002 (Ref: Certified resolution of Board of Directors of Balaji Energy Private Limited, dated 16 January 2002 as provided in the PP's response to the request for review). The evidence had been verified by DNV during the validation.

Comment 3:

Further clarification is required in relation with the maximum amount of renewable energy that can be generated as declared by PP

DNV Response:

The installed capacity of the project is 10 MW and the project developer has declared a maximum generation of 31 GWh per year based on an average PLF of 35% (as per the approved detailed project report). This is in line with the stipulation by the state electricity regulatory commission as well, which has declared a maximum PLF of 35% for small hydropower projects in the state of Andhra Pradesh (please refer to the attachment on State electricity regulatory commission order in the response by the PP to the request for review)

However, there is a possibility of variation in the PLF, such as in case of either floods (raising the level of reservoir above full reservoir level) or additional demand of water from the reservoir to meet the drinking water needs. Hence, for this reason, the project developer has also considered a 20% variation in the PLF in the sensitivity analysis of the financial analysis carried out for the project.

Comment 4:


The Monitoring Plan should be adjusted to reflect the circumstance that this project activity involves electricity being exported to two sub-stations.


DNV Response:

In response to the query, the project developer has revised the PDD to reflect the export of electricity to the two substations (please refer to the attachment on the revised PDD in the response by the PP to the request for review).

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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