



BHORUKA POWER CORPORATION LTD

May 30, 2008

The Secretariat,
CDM Executive Board,
UNFCCC
Bonn, Germany

Dear Sir,

Sub : 9 MW Neria Hydroelectric project, Karnataka, India (Ref.1549)

The project proponent desires to make a few submissions with respect to the "Request for review" taken up by the Executive Board on 9 MW Neria Hydroelectric project (Ref.1549) established in Karnataka.

While taking the project for "Request for review" EB members have raised the following issues on the project activity:

1. Variation of +/- 5% in the parameters considered for sensitivity
2. Appropriateness of considering 16% return on equity for the equity component of WACC
3. Essentiality of CDM to go ahead with the implementation of the project activity despite a 2 year delay in submission of PDD for validation

PPs response

1. It is submitted that +/- 5% variation in parameters considered for sensitivity are found to be appropriate for the following reasons :

We had taken three critical assumptions and subjected them to reasonable variations to demonstrate the need for CDM benefits. However, the optimistic assumptions made by us were more theoretical than practical. Tariff, for example, has been consistently coming down in Karnataka in the recent past. Originally the tariff was Rs.2.25 per kWh with 5% escalation with 1994-95 as the base year for calculation of escalation. This tariff was reduced to Rs.2.90 per kWh with 2% escalation subsequently. The tariff was again brought down to Rs.2.80 per kWh without escalation. Therefore, 5% variation is more appropriate for reduction and not increase. This shows that the trend is for reducing the tariff and the variation will only be in respect of reduction but not increase in tariff. Even in respect of other parameters the variation will always be for increase in the cost of O&M and not reduction. In respect of generation too, the project is totally dependant on monsoon for power generation, there is high degree of uncertainty on this front also. The generation achieved by the company for the first 12 months after the commissioning of the project as furnished below is an indication that increase of generation is not likely to take place than what is estimated in the project design. Therefore variation of 5% for the purpose of sensitivity is an optimistic assumption.

Date	Net elect. Generation(kWh)	Total (kWh)
27.07.06 to 01.08.06	469500	
01.08.06 to 01.09.06	3850500	
01.09.06 to 01.10.06	3627750	

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01.10.06 to 01.11.06	2694000	
01.11.06 to 01.12.06	1295250	
01.12.06 to 01.01.06	336000	
01.01.07 to 01.02.07	0	
01.02.07 to 01.03.07*	-15750	
01.03.07 to 01.04.07*	-17250	
01.04.07 to 01.05.07*	-16500	
01.05.07 to 01.06.07*	-18750	
01.06.07 to 01.07.07	1816500	
01.07.07 to 01.08.07	5593500	19614750

Though additional generation for 5 days is taken for annual figure it is still less than the projected figure. Kindly note that there is no generation from January'07 to May'07 as it is a dry season in the Karnataka region. It is against this background that we have made 5% variation on either side for the purpose of sensitivity analysis and presented the computations to DOE for validation.

2. With respect to 16% return on equity considered for calculation of WACC, the same is based on the return recommended by various regulatory commissions. Central Electricity Regulatory Commission (CERC) has recommended 16% return on investment and the same return has been accepted by Karnataka Electricity Regulatory Commission (KERC) also. In fact we have not considered the addition of compulsory transfer to reserves and dividend distribution tax for the 16% return as these additions are necessarily to be provided under the Indian laws (Companies Act and Income Tax Act) before payment of dividend. Therefore 16% of return considered on equity component of WACC is found appropriate.
3. The project activity commenced in September, 2004 when the civil works were awarded to a contractor. A decision was taken to consider CDM revenue for the project activity when the resolution was passed in September, 2003. The gist of discussion that took place in the Board Meeting while considering CDM revenue is given below:

A proposal has submitted to the committee for invest in one more hydro project on the Netravati River. The project capacity could be around 9 MWs. As hydro is the focused sector for the Company, investment in a small hydro project is an appropriate investment option. The committee made a observation that river Netravati passes through a thick forest and there is always the problem of trash in the high flood season. This problem may affect some times the head and the power generation inspite of taking precautions. Further there is the problem of high investment in a small project due to lack of advantages of scale and also uncertainty of discharges.



Due to all the above problems it is possible that the project may yield lower return than envisaged. In this context the committee has decided to consider income from carbon credits while making investment in the 9 MW small hydro project on Netravati river, which may bring additional revenue to mitigate some of the above hard ships and also make the project certainly viable for implementation.

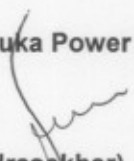
Due to wrong evaluation of the competency of the consultant, no work was carried out on PDD till July, 2004 and cancelled the appointment of the earlier Consultant. The company could not able to take a decision to appoint a new consultant for Neria hydro project due to negative experience with the earlier consultant. Further it was decided to achieve progress in respect of Chayadevi Hydro project (another CDM Project Ref.0836) under development during the same time with a higher generation before appointing a consultant for Neria project. After receiving host country approval for Chayadevi (on 21st November, 2005), a new consultant was appointed for Neria Project during December 2005.

This was the reason for delay in appointment of DOE. Chronology of events along with detailed explanation is enclosed.

Though there has been a delay of 2 years, during the interregnum, none of the parameters have undergone a change for the better. There was no change in the expected generation (as it is dependent upon monsoon), tariff remained unchanged (in fact, it had come down for new projects setting the trend for future), O&M expenses had increased marginally and there was no change in the term loan interest. Therefore, there was no change in the essentiality of CDM benefits for the implementation of the project activity. Considering the vagaries of monsoon (only for 4 months in a year – which incidentally determines the operating period of the project), on which this project is entirely dependent upon, the project cannot become financially attractive without CDM benefits.

It may kindly be observed that all the steps were taken much prior to the commencement of project activity (power generation). We shall be thankful if EB could consider the above explanation while reviewing the issues raised, when the project is taken up under Request for Review.

For **Bhoruka Power Corporation Ltd.,**


(S.Chandrasekhar)
Managing Director

Encl: as above



Chronology of Events & delay in submission of PDD for validation

The chronology of events on commencement of civil works and initiation for CDM process is furnished below :

1	Management decision by way of a board resolution to consider CDM Revenues	15/09/2003
2	Appointment of CDM consultant	16/12/2003
3	Letter of acceptance issued to civil contractor GDC	19/08/2004
4	Notice to proceed with the civil works	06/09/2004
5	Work order issued to Boving Fouress Limited for Turbine and Generator	20/09/2004
6	Cancellation of contract with the CDM consultant	14/07/2004
7	Work contract was placed on Zenith for CDM consultancy	02/12/2005
8	Appointment of validator	15/07/2006
9	Receipt of host country approval	07/02/2007

The Bhoruka Group is implementing two hydro projects simultaneously in Karnataka. One is 24MW Chayadevi hydro project registered with CDM executive board on 30th March, 2007 and the other one is the present 9 MW Neria small hydro project.

The decision to consider CDM benefit for both the projects was made much earlier to the commencement of tendering process for the respective projects. The decision was taken at the same time by virtue of resolution passed by the board of directors for both Chayadevi as well as Neria. A consultant by name Mr.V.N.Nutreja was appointed to take up the PDD work of Neria project. It was ultimately found that this consultant doesn't have necessary experience to take up CDM assignment therefore his contract had to be terminated.

Shortly after the termination, Zenith Energy was retained as CDM consultants for the Chayadevi project.

Given the negative experience with the first consultant, a decision was taken to start CDM works for Chayadevi only and see how these works progress. Chayadevi was selected because of its higher annual generation potential. This way the risk of expenditures for unsuccessful consultant was minimized.

We have placed an order on Zenith for CDM works for Neria soon after obtaining the host country approval for Chayadevi i.e., as soon as significant progress towards registration of Chayadevi had been achieved.

Thus it could be demonstrated that there was genuine concern with the project developer regarding the success of the CDM process due to bad experience and subsequently took necessary steps to proceed with CDM validation. Thus the delay to proceed with validation is genuine and the project proponent is not claiming any retroactive credits until the registration of the project with CDM EB.

**Letters evidencing appointment of consultant for CDM documentation and
cancellation of work order**



WORK ORDER

W.O. No. 369A/2003
December 16, 2003

Mr. V.N. NUTREJA,
Consultant (Power)
B-68, Vivek Vihar - 2
New Delhi - 110 095

Dear Sir,

Sub : CDM Assistance for 9 MW Neria Mini Hydel Scheme
Ref : (1) Your proposal dated 10.11.2003

We refer to your proposal under ref (1) and to the discussion further we had with you. We are pleased to avail your services under the following terms and conditions:

A. Scope of Work :

1. Preparation of Project Design document as per the UNFCCC / CDM format using approved methodologies.
2. Provide assistance for Project approval by Host Nation - Designated National Authority (DNA).
3. Provide assistance for Project validation by Designated Operational Entity (DOE).
4. Provide assistance for Project registration with the CDM Execution Board (EB)
5. Assisting in finding the best buyers for the CERs.

B. Deliverables :

Consistent with the tasks outlined in the 'scope of work', you will provide the following deliverables:

1. The completed PDD, including the monitoring and verification plan as per the approved methodology with the CDM:UNFCCC.



2. Assistance with the 'Host nation approval' and securing letter of approval for the project.
3. In collaboration with the BPCL, support the validation process by helping answer the comments and questions raised by the DOE during the validation process.
4. Assistance with completing all the documentation required for submitting the PDD for registration with the CDM:EB.

C. Schedule / Time Line :

Following activities shall be completed within periods mentioned below from the date of this Work order.

- | | | |
|--|---|-----------|
| 1. Complete the final PDD with inputs | - | 3 Months |
| 2. Host Nation approval | - | 5 Months |
| 3. Assistance for validation with DOE | - | 7 Months |
| 4. Assistance for registration with CDM:EB | - | 9 Months |
| 5. Latest date for registration | - | 10 Months |

D. Validation Fee :

The total fee for providing CDM assistance for 9 MW Neria Mini Hydel Scheme will be Rs. 4,50,000/- (Rupees Four lakhs fifty thousand only) exclusive of Service tax.

Travel, stay and other incidental expenses at actuals subject to a ceiling of Rs. 20,000/-.

The above validation fee does not include the registration fee to be paid to the UNFCCC when the project is recommended for registration.



E. Schedule of Payment :

1. 40% of the Work order value along with Service tax upon completion of final PDD.
2. 30% of the Work order value along with Service tax upon completion of Host Nation Approval.
3. 30% of the Work order value along with Service tax upon completion of validation assistance & registration with CDM:EB.
4. Travel and other incidental expenses shall be paid while making final payment on production of documentary evidence.

F. Confidentiality :

All documents received and prepared by you will be kept confidential until BPCL decides otherwise. However, you shall be free to disclose such information as is:

1. Known by statutory bodies prior to the information being disclosed by BPCL, or
2. Part of the public domain at the time of disclosure, or
3. Required to be disclosed by the CDM Executive Board or other authorities in accordance with the CDM modalities and procedures or applicable laws or regulations, respectively.

G. Contact Person :

Mr. V. V. Reddy, Vice President (Technical) - telephone No. 22272271 for any technical or commercial issues.

Thanking you,

Yours sincerely,

[V.V. Reddy]

Vice President - Technical.



WORK ORDER

W.O. No. 369A/2003
July 14, 2004

Mr. V.N. NUTREJA,
Consultant (Power)
B-68, Vivek Vihar - 2
New Delhi - 110 095

Dear Sir,

Sub : CDM Assistance for 9 MW Neria Mini Hydel Scheme

Ref : (1) Your proposal dated 10.11.2003.

(2) Our W.O No. 369A/2003 dtd: 16/12/03.

We refer to the Work Order cited in the above ref (2). It is noted that you were unable to complete the PDD and submit as per the schedule given in the Work Order. In spite of several reminders over telephone, neither you have given the PDD nor given any reason for not been able to complete.

As such we are forced to cancel the Work Order and seek alternative Consultant for the same.

Thanking you,

Yours sincerely,

[V.V. Reddy]
Vice President - Technical.

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Government of Karnataka
 Registration & Stamps Department

Certified that a sum of Rs. 100/- (Rupees One Hundred only) has been paid towards Karnataka Stamp duty by
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 Br. Name: P. U. B. Branch-4287
 Date: M. G. Road, Bangalore
 7 2 DEC 2005
 Authorised Agent to collect stamp duty on
 behalf of Government of Karnataka
 Mahesh P. U. B. Branch
 M. G. Road, Bangalore

AGREEMENT

This Agreement entered into on this 2nd day of December, 2005 at Bangalore.

By and Between

M/s. ZenithEnergy (division of Zenith Corporate Services (P) Ltd.,) a Company incorporated under the laws of the Republic of India and having its Registered office at 10-5-6/B, My Home Plaza, Masabtank, Hyderabad - 500 028, India (hereinafter referred to as "Zenith") represented by its Director Mr. A. Mohan Reddy, of the ONE PART.

And

M/s. Bhoruka Power Corporation Limited having its registered office at 48, Lavelle Road, Bangalore - 560 001, India (hereinafter referred to as "BPCL") represented by its Vice President- Technical Mr. V. V. Reddy of the OTHER PART

The Expressions "ZENITH" and "BPCL" shall wherever the context admits, mean and include their respective legal representatives, successors-in-interest and assigns and shall collectively be referred to as "the parties" and individually as "the Party".

M/s. Bhoruka Power Corporation Limited (BPCL) has invited ZenithEnergy to furnish a proposal for development of their proposed 9 MW (2 X 4.5 MW) Neria Mini Hydro project that is being set up across River Neria, near Dharmastala in Dakshina Kannada District in the State of Karnataka under Clean Development Mechanism(CDM) of the Kyoto Protocol and derive the benefits of GHG abatement Project. Upon ZENITH's proposal and after mutual discussions both the parties agreed to reduce the terms in writing here in under appearing:

[Signature]

[Signature]