



Mr. Hans Jürgen Stehr  
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UNFCCC Secretariat  
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24<sup>th</sup> January 2008

Re Request for review of the request for registration for the CDM project activity "Biomass Based Power Project of Balaji Agro Oils Ltd. "(Ref. no. 1398)

Dear Mr. Stehr,

SGS has been informed that the request for registration of the CDM project activity "Biomass Based Power Project of Balaji Agro Oils Ltd. "(Ref. no. 1398) is under consideration for review because three requests for review have been received from members of the Board.

The requests for review are based on the reasons outlined below. SGS would like to provide an initial response to the issues raised:

***Request for clarification to the DOE/PP:***

1. *Further information is required to justify the suitability of the applied benchmark.*

**SGS Reply:** The applied benchmark of APERC (Andhra Pradesh Electricity Regulatory Commission) was considered as this mentioned return on equity as 16% and this was the benchmark mentioned by Ministry of power government of Andhra Pradesh which is an authentic document so this was accepted, the same was submitted with the request for registration. When the project was conceptualized then the central electricity regulatory commission (CERC) also mentioned the return on equity as 16% and as this was the order of central government so this was also checked and as the benchmark values were same so APERC order was accepted. The CERC order is attached as Annex 1.

2. *Further clarification is required to explain how the participant was able to proceed with the project activity for 6 years prior to submitting a PDD for validation.*

**SGS Reply:** The PP conceptualized the project in 2001 and seriously considered the CDM benefits after discussing all the pros & cons of the project activity in July 2001 and continued the discussions in October 2003. In October 2003 the PP told that the internal people were told to start the process for getting the carbon credits as mentioned in the board minutes. As the plant personnel were doing it internally, no result came out till January 2006 because of their understanding of the procedure as discussed during the site visit. This prompted the PP to seek the consultants help for the same and discussed the matter in 30<sup>th</sup> January 2006 board meeting and appointed the consultant for the same in October 2006 after discussions and these are attached with the reply as Annex 2. The financial sustainability was also checked from the balance sheets which showed the loss for continuous 3 years and still the PP was operating the project considering

that CDM benefits they would get out of the project activity. This was accepted after reviewing the board minutes, discussions with consultant, documents related to financial sustainability and discussions with management during the site visit.

- 3. A sensitivity analysis for IRR calculation in PDD is requested to guarantee the robustness of the conclusion.*

**SGS Reply:** The sensitivity analysis was not carried out as the project was a small scale project activity. As per Attachment A of Appendix B it is not required to be carried out for small scale projects but this is now carried out for the plant load factor and operation and maintenance cost. This shows that the decrease in PLF and increase in O & M cost severely dealt the returns. The excel sheet is attached as Annex 3. The IRR calculations were checked and the same were accepted having approved by a Chartered Accountant (CA). The CA certificate is also attached as Annex 4 to this response.

- 4. Further clarification is required in order to support the confirmation that the small-scale project activity is not a debundled component of a large scale project activity*

**SGS Reply:** The biomass based power project of Balaji Agro Oils Ltd. is not a part of the larger project activity. The project is a stand alone project and is not part of any expansion plan or a larger project activity. Also, there are no projects of similar category and technology/measure from the same project proponent and within a project boundary of 1 km of the existing project. There is no other project activity registered with in 2 years. The project activity stipulates to all the requirements of a de-bundled project. This was also checked during the site visit.

- 5. Further evidence and justification showing that the CDM revenue was considered for the project investment is required.*

**SGS Reply:** The PP considered the CDM revenues in July 2001 and the project was commissioned by June 2003. In October 2003 the PP again continued the discussion and started the internal preparation of documentation but till 2006 there was no progress so they started the consultant hunt after reviewing the things in January 2006. They appointed the consultant in October 2006. The financial condition was also reviewed in the 2006 meeting and found that the plant is making losses and this will not be sustainable for them until they get the CDM funds for the same. This was discussed with the PP during the site visit and after going through the board minutes of July 2001, October 2003, January 2006 and financial sheets this was accepted. The losses made were also reviewed through the financial sheets mentioned with the PP reply. The discussion with consultant by PP was also checked and found that before appointing the consultant the PP has discussions with them for about 7 to 8 months. The supporting documents are attached in Annex 2 with the reply.

- 6. Annual monitoring of the surplus of biomass in Andhra Pradesh is required as it is established in paragraph 18 of the General guidance on leakage in biomass project activities (version 2, EB 28).*

**SGS Reply:** Biomass assessment in the region (Krishna District) will be carried out annually based on the latest available literature / data from the government sources to determine if the biomass is at least 25% larger than the total quantity utilized by the project activity as well as existing users as established in paragraph 18 of the General Guidelines on leakage in biomass project activities (Version 2, EB 28). In the absence of the official data, a biomass assessment study will be carried out by employing third party assessors who have past experience of doing such work. The revised monitoring plan including the above parameters has been provided in the PDD attached as Annex 5.



We apologize if the initial validation report has been unclear and hope that this letter, attached information and revised PDD address the concerns of the members of the Board.

Pankaj Mohan (0091 9871794671) will be the contact person for the review process and is available to address questions from the Board during the consideration of the review in case the Executive Board wishes.

Yours sincerely

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Annex 1 CERC benchmark proof  
Annex 2 Board Minutes & Consultant discussion  
Annex 3 IRR calculations  
Annex 4 CA certificate  
Annex 5 Revised PDD