Mr. R K Sethi
Chair, CDM Executive Board
UNFCCC Secretariat
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7th April 2008

Re Request for review of the request for registration for the CDM project activity "Surplus Power Generation for grid. "(Ref. no. 1472)

Dear Mr. Sethi,

SGS has been informed that the request for registration for the CDM project activity "Surplus Power Generation for grid. "(Ref. no. 1472) 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 same reasons outlined below. SGS would like to provide a response to the issue raised by the request for review:

Request for clarification to the DOE/PP:

1. *The use of a 10-year period of assessment for the investment analysis should be justified in the context of the project activity.*

SGS Reply: The 10 year period for assessment of the investment analysis was accepted due to two main reasons.
A) The project activity has replaced only the low pressure Turbo generator with high pressure Turbo generator. The boiler was slightly modified to operate at high pressure. This is in accordance with the methodology. The technical life time of the boiler is till 2019 which was only 13 years when validation started in 2006 and presently still it is 11 years.
B) The Power purchase agreement (PPA) was signed for 10 years and the tariff was prescribed for 10 years only by the Andhra Pradesh Electricity Regulatory Commission (APERC).
Due to above two basic reasons the 10 year period of assessment for investment analysis was accepted and justified. The 10 year assessment is certified by the Chartered Accountant (CA). The letter is attached as Annex 1 to this reply.

2. *The source of the input values in the investment analysis should be transparently described and be validated by the DOE.*

SGS Reply: The sources of input values used in investment analysis are transparently described and the values and sources were validated by the DOE from the documentary evidences listed below.

Capital Cost: - The project proposal mentions the capital cost as INR 2100 Lakhs. Actual capital cost is INR 2228 Lakhs. These figures were verified from the initial project proposal and Purchase orders of equipments respectively. The cost is also verified by the Chartered Accountant (CA).
Operating days: - This was estimated based on historical data of sugar plant and verified from the historical records of sugar plant operation. This was found to be conservative hence this was accepted.
Operation and maintenance cost (3%):- This was checked from the APERC tariff order page number 26.
O & M cost escalation (4%):- This was checked from the APERC tariff order page number 27.
Rate of depreciation Plant and Machinery (5.28%) and Civil work (3.34 %):- This was verified as per Schedule XIV of Companies Act of the Government of India, pages 76 & 77. APERC tariff order was also checked and the order mentions 7.84%. The values used in calculation were from companies act and this was found to be conservative.
Rate of depreciation for Income Tax computation for Plant and Machinery (80%) and civil works (10%):- this was checked from Income tax Act of Government of India.
Minimum Alternate tax (8.415%):- This was also checked as per Income tax Act of Government of India.
Salaries and wages: **-** This was estimated based on the employee's salaries at that time and the escalation was estimated based on 10% annual increase in salaries and wages. This was found to be the conservative approach and this was accepted after verbal confirmation from CA. The same pattern was there for other projects registered on investment analysis. Hence this was accepted.
Admin expenses and escalation of Admin expenses (5%):- This was also conservatively estimated as confirmed by CA verbally and hence this was accepted.
Hence the input parameters were reviewed and validated during the validation. The hard copies of the documents were also obtained. Documentary evidences are attached with PP's response.

3. *Given the time gap between the decision to invest in the project activity and the commencement of validation the DOE should state with what level of assurance it considers that this project activity would not have been implemented without the CDM.*

SGS Reply: Initially the decision to implement the 20MW project was taken in January 2002 but due to lack of funds and tariff uncertainties the implementation process was stalled. The project proposal and minutes were checked by the DOE. In 2003 PP appointed M/s. Green Power Management Services Pvt. Ltd. as consultants. The appointment letter of consultant was checked. In March 2004 the tariff uncertainty got some what cleared after APERC announced the revised tariff structure and reducing the tariff from Rs. 3.48 to Rs. 2.79 respectively. This was checked from the APERC order dated 20th March 2004. This still did not make the project viable for implementation. To overcome this the PP revised the plan for implementation and reduced the capacity of the project to 15MW from earlier 20MW in September 2004 and placed the orders for 15MW in November 2004. This was checked from the minutes of meeting in September 2004 and from the purchase orders placed to the equipment suppliers. The project participant got a setback when the consultant opted out in March 2005. This was checked from the letter provided by the consultant to abandon the project activity. PP had to start looking for a onsultant again and appointed a consultant in September 2005. This was checked from the various proposals and Appointment letter of the consultant provided by the PP. The PP got the DOE appointed in February 2006 for the project in small scale. This was checked from the contract copy between the PP and the DOE. The PDD was webhosted on UNFCCC website from 2nd March 2006 to 1st April 2006 on AMS 1D. This was checked from http://cdm.unfccc.int/Projects/Validation/DB/VN3O7BJTS173IRQ700328LQ43HLLG/view.html. During the validation a CAR was raised due to which it was concluded that the project does not fall under the small scale category as the boiler output is more than 45MWhth. This made the project to switch from small scale to large scale and in the meantime PP got the contract cancelled from the first DOE as they have taken more time than required. Then the PP appointed the second DOE in April 2007. The project was again webhosted on UNFCCC website from 2nd May 2007 to 31st May 2007 on ACM0006. This was also checked from http://cdm.unfccc.int/Projects/Validation/DB/MF0VJLP5AM0QJW74KHCGLTSZA6WTKT/view.html. From the above discussion we conclude that we can give reasonable assurance that the project would not have been implemented without CDM funds and also that the project is under validation since March 2006. All the documentary evidences checked during validation are attached with PP reply.

4. *The DOE should validate that the project activity complies with the requirement of scenario 14 of ACM0006 v4 that .the existing power plant would continue to operate without significant changes, until it would need to be replaced at the end of its technical lifetime., in particular that the end of the technical lifetime is not within the proposed crediting period.*

SGS Reply: The project activity complies with the requirement of scenario 14 of ACM0006 version 4. The existing power plant will continue to operate without significant changes till its technical lifetime. The technical life time for low pressure turbines was checked from the Life assessment report of the chartered engineer which is attached to this response as Annex 2. The technical life time of boiler was around 20 years and installed in 1999. This was checked from the certificate of boiler design and consultant. The certificate is attached as Annex 2 to this response. The crediting period ends in 2018 and boiler can operate till 2019 which is not inside the crediting period. Hence the requirement of ACM0006 version 4 is met.

5. *As the quantity of biomass consumed is to be reported on a wet basis, the NCV reporting should be done in a consistent manner.*

SGS Reply: The NCV reporting time period has been increased and it will be reported every 15 days. The quantity and NCV of biomass will also be reported on wet basis. The revised PDD is attached as Annex 3 to this response.

We apologize if the initial validation report has been unclear and hope that this letter and the attached information 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 CA certificate for 10 year assessment
Annex 2 Technical life time assessment certificates
Annex 3 Revised PDD.