

Mr. R K Sethi
Chair, CDM Executive Board
UNFCCC Secretariat
CDMinfo@unfccc.int

21st August 2008

Dear Mr. Sethi,

RE: Request for review for the request for registration for the CDM project activity “AIPL WHRB 1&2” (Ref. no. 1654)

SGS has been informed that the request for registration for the CDM project activity “AIPL WHRB 1&2” (Ref. no. 1654) 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 an initial response to the issue raised by the requests for review:

Request for Review 1-3, Issue 1:

1. Further clarification is required how the investment comparison analysis has been validated by the DOE, in particular the appropriateness of comparing : (a) a 16 MW coal based power plant with 95% PLF with the project activity with 66% PLF, and (b) backup power cost for the project activity with no back-up cost for the alternative

SGS' Response to Issue 1:

- (a) The investment comparison analysis has been validated on the basis of levelized cost of generation. The comparison of 16MW coal based power plant having 95% PLF with the project activity having 66% PLF was found appropriate. For the comparison between the coal based power generation scenario and project scenario, it has been considered that the power requirement would have been met by the coal based power plant of the equivalent capacity (i.e. 16 MW), whereas in the absence of the project activity, the total capacity of 37 MW CPP would have been based completely on Coal. Therefore making a comparison of levelized cost of generation from project scenario (i.e. 16 MW WHRB without CDM support) with the 16MW equivalent capacity coal based power plant is more conservative than making a comparison with 37 MW coal based power plant. In the Appendix-II page no. 71 and 72 of the PDD, the comparison between the project scenario with both 16 MW and 37 MW have been given, from which it is evident that the levelized cost of generation from 37 MW coal based captive power plant is much less than 16 MW coal based captive power plant. Hence the most appropriate and most conservative investment comparison analysis for levelized cost of generation is with 16 MW coal based power plant. This was checked from the Chartered Accountant (CA) certificate already provided with the request for registration.

The Plant load factor (PLF) is the average capacity utilization (http://en.wikipedia.org/wiki/Plant_Load_Factor) of the power plant, in the case of WHRB power generation based on flue gases of DRI kiln; it is totally based on Sponge Iron Plant's capacity utilization. The plant load factor is calculated as a percentage of the actual electricity generation during a year in proportion to the highest possible designed power generation capacity during the year; for example, in any project the highest possible power generation can be for 365 days, 24 hours and multiplied by the installed capacity in MW. If the actual electricity is produced in lower quantum, then this is divided by the highest annual quantum to arrive at the PLF.

WHRB PLF was validated on the basis of the CA certificate and also checked on the UNFCCC website for other WHRB Projects which, are already registered with the UNFCCC. This was also verified by the letter from the power plant manufacturer Sterling Strips Limited, dated 05-07-2002 which, states that the PLF of WHRB is around 65%. This letter is attached with the PP response.

In the case of coal based power plants, the PLF was validated from the publicly available data on the websites:

<http://www.projectsmonitor.com/detailnews.asp?newsid=12288> (99.62%);

<http://www.ntpc.co.in/cms/index.php?page=Turnaround-Capability> (97.69%).

This was also verified by the letter from the power plant manufacturer Sterling Strips Limited, dated 05-07-2002 which, states that the PLF of coal based captive power plant is around 95%. This letter is attached with the PP response.

- (b) The operational fluctuation in the WHRB Captive Power Plant may make the total generated power useless for the captive utilization, if a proper synchronized backup power support is not available to make up the supply deficiency due to reduced WHRB generation (fluctuations). It is also required to keep the kiln rotational so the temperature is maintained in the sponge iron kiln, on which the WHRB project activity depends. Since the generation of power from WHRB can not be regulated like in AFBC, therefore in order to make the WHRB generated power useable, backup power support from the grid is required. Therefore only the cost of assurance to draw power from the grid (minimum demand charges/ contract demand) has been considered, as cost of "backup power" in the cost of generation of power; whereas, if the actual impact (cost) of importing deficient power is calculated towards the cost of deficient power required to be purchased from the grid, then the average cost of power due to WHRB will be still quite higher than considered by the PP. To make up the 29% PLF deficiency ($95\% - 66\% = 29\%$), required for smooth captive load operation, the power if imported from the grid would cost @Rs.2.90/kWh towards energy charges as per the tariff order enclosed with the PP response (this energy charge does not include the demand charges which is already considered towards the cost of assurance to draw power from the grid as backup power cost). It is therefore evident that the more conservative approach is adopted by considering only the cost of assurance to the draw power from the grid as backup power cost.

Since power generation from AFBC can be more comfortably regulated as per the demand and requirement, and there is no fluctuation in AFBC power generation, therefore there is no need to have any backup power from the grid in case of AFBC. In addition, the PLF of coal based power generation is around 95%, which was checked from the publicly available documents explained above. Therefore there is no cost considered towards the backup power for coal based power generation in the calculation made for sake of comparison.

Request for Review 1-3, Issue 2:

2. The DOE is requested to provide explanation for the delay in submitting the project for validation to show that CDM revenues were considered essential in the decision to invest in the project activity. The response should provide a detailed timeline of project implementation with relevant, preferably third-party evidences.

SGS' Response to Issue 2:

The CDM revenues were considered essential in the decision to invest in the project activity. This was checked from the letters dated 01/11/2004, 03/11/2004, 05/11/2004 with Mr. M L Pareek (independent consultant) and 12/11/2004 from Cethar vessels (Boiler Manufacturer). The board minutes, dated 15-11-2004 were already submitted with the request for registration; subsequently Indus Technical & Financial Consultants (ITFC) was appointed as consultant on 10-12-2004. The effective steps to implement the project activity were started by placing order for a waste heat recovery boiler on 24-03-2005. The permission to establish from the Pollution Control Board was obtained on 07-10-2005. This was checked during site

visit. During this period, the PP was busy implementing the project and seeking various clearances from Government agencies and departments.

The PP approached the village local government for issuance of a No Objection Certificate (NOC) for the project activity. A meeting with Gram Sabha (local village government) was held on 08/02/2005 to appraise the project activity, to carry out the local public consultation and to obtain the NOC. The village local government issued a NOC for the project activity on 07/03/2005. In the meantime, when the ITFC team found it difficult to complete the documents and provided a letter on 20/01/2006, so the PP tried for another consultant. The PP started interacting with other consultants and later ITFC restored the services as Action Ispat & Power Limited (AIPL) CDM consultants on 10/07/2006 based on the telephonic request from AIPL. This was checked during validation with the letter from ITFC to AIPL and also interviews with the management of AIPL. The consultant demanded to review all the legal clearances for proceeding in the matter. This was checked while interviewing the consultant during validation. The PP had applied for obtaining IEM for the entire capacity of the project which was granted only on 12/12/2006. The PP was also informed that without the approval of Government of India i.e. DNA approval, they could not submit the project to the UNFCCC as a CDM project.

Chronological History for the Project Activity

Minutes of Meeting held with Mr. M.L. Pareek (an Independent consultant) regarding CDM consideration	01/11/2004
Letter from Mr. M.L. Pareek to Mr. Naresh Agrawal- CDM consideration	03/11/2004
Letter from Mr. Naresh Agrawal to Mr. M.L. Pareek- regarding CDM consideration	05/11/2004
Letter from Cethar Vessel(Boiler Manufacturer) suggesting CDM support to set up WHRB	12/11/2004
CDM Consideration – Board Minutes	15/11/2004
MOU with Govt. of Orissa – for installing captive power plant & Steel plant.	27/11/2004
Appointment of Consultant ITFC	10/12/2004
Local Panchayat NOC applied on – Requirement for local stakeholder & DNA Approval	15/01/2005
“Gram Sabha” meeting held on Marakota for discussion for providing NOC.- Requirement for stake holder.	08/02/2005
NOC issued on – Local stake holder requirement & DNA Approval	07/03/2005
LOI for WHRB Project activity	24/03/2005
Purchase order for turbine Project activity	16/05/2005
Consent to establishment 1x350 TPD and 8 MW power project received on -	07/10/2005
IEM thermal power	26/10/2005
Letter from ITFC ltd asking for the legal clearance for the remaining capacity of WHRB	02/11/2005
Letter from ITFC ltd expressing their inability to provide services due to personal problems	20/01/2006
Other consultant- PWC	18/04/2006
Other consultant – Manglam Carbon Assessts Pvt. Ltd	03/05/2006
Other consultant – Emergent Ventures India Pvt Ltd	22/05/2006
Restoration of the project services by ITFC ltd	10/07/2006
Preparation of draft PDD	25/08/2006

First 8 MW WHRB starting date i.e. operation started on	27/11/2006
IEM for 16 MW non conventional energy	12/12/2006
Offer for validation from SGS	27/12/2006
Appointment of Validator	25/01/2007
Letter from DNA for requiring the proof for Serious CDM consideration, and legal permissions	16/03/2007
Webhosting Of PDD For Validation	30/03/2007 - 28/04/2007
Submission of the Additional documents to DNA regarding the serious CDM consideration of the project activity	25/04/2007
Submission of the Additional documents to DNA regarding the additionality of the project activity	25/05/2007
HCA received from DNA	30/07/2007

From the above chronology, it was concluded that the total project was conceived in November 2004 and serious CDM consideration was observed at the time of investment decision. The letter dated 16-03-2007 from the Indian DNA also mentions that the proof (Board Resolution) to the effect that CDM was taken into consideration at the time of inception of the project. This demonstrates that the DNA has taken into account the documents submitted by PP on 25/04/2007 and 25/05/2007 and believes that the CDM was considered in November 2004. The host country approval was issued on 30-07-2007. These were checked by the DOE and accepted by the validator. The documents verified for reasons for delay are attached as Annex 1 with this response. This was also mentioned in the validation report. All these are more detailed in the revised validation report, attached with this response as Annex 2.

Request for Review 1-3. Issue 3:

3. Further clarification is required on the baseline alternative considered, as the PDD and the validation report do not refer to the same baseline alternative.

SGS' Response to Issue 3:

The baseline alternative was validated as Coal based captive power generation. This was a wrongly stated in the validation report and the same has been corrected and attached with this response as Annex 2.

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,

Irma Lubrecht

Technical Reviewer

irma@ir-on.nl

T: +31 181 693293

M: +31 651 851777

Encl:

Annex 1 - Delay Documents, Annex 2 - Revised Validation Report

Pankaj Mohan

Lead Auditor

Pankaj.Mohan@sgs.com

T: + 91 124 2399990 - 98

M: + 91 9871794671