

LANCO GREEN POWER PRIVATE LIMITED

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Budhil Hydro Electric Power Project in Himachal Pradesh, India

(CDM Reference 1844)

Response to Request for Review by the CDM Executive Board

1. Further clarification is required on how the DOE has validated the investment comparison analysis. The DOE is requested to substantiate that the alternatives considered will provide the similar level of services as that of the project activity.

The tool for the demonstration and assessment of additionality states "Identify realistic and credible alternatives available to the project participants or similar project developers that provide outputs or services comparable with the proposed CDM activity.

As LANCO owns, or is currently developing, both grid connected coal and gas fired power plants, further investment in coal and gas fired assets represent realistic and credible alternatives to LANCO's investment in the Budhil HEP. Appropriate evidence has been provided to the DOE to demonstrate LANCO's development of thermal power projects.

The equity IRR of the BHEP (11.89%) and the coal (19.3% - based on the expected performance of projects under development) and gas (15.3% -based on the performance of commissioned facilities) fired alternatives was calculated using MS Excel financial models which were provided to the DOE during validation. The equity IRR of the BHEP was lower than that of the two alternatives and thus it cannot be considered the most financially attractive option available to LANCO for investment.

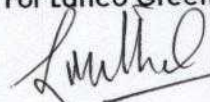
The Budhil HEP and the coal and gas fired alternatives are all grid connected power projects. The electricity from all three projects will be managed by a Regional Load Dispatch Centre and sold and exported according to the terms of a Power Purchase Agreement. The Budhil HEP and the coal and gas fired alternatives will therefore deliver outputs (i.e. electricity) at comparable quality and with comparable properties to the Indian power system for consumption by end users.



2. The DOE should clarify how it has validated that the parameters used in the investment comparison analysis were considered appropriate in line with the requirements of EB 41, Annex 45, para 6.

The equity IRR of the BHEP used in the investment comparison analysis was calculated using a MS Excel financial model. Input values used in the financial model are contained in the assumptions worksheet of the model. These input values are shown in the table below together with an appropriate source of evidence for these values, which were valid and appropriate at the time of the Investment Decision. The electricity tariff values considered in the finance model are taken from the Power Purchase Agreement which was valid and appropriate at the time of the investment decision.

For Lanco Green Power Pvt Ltd



S. K. Mittal
Director and CEO



INPUT	VALUE		Evidence
No of units		2	Implementation Agreement (22 nd November 2005)
installed capacity MW		70.00	Implementation Agreement (22 nd November 2005)
Estimated cost per MW	Rs in millions	59.86	Calculated
Project Cost	Rs in millions	4190.00	Loan Agreement (13th March 2006)
Equity	20.05%	840.00	Loan Agreement (13th March 2006)
Senior Debt	70.17%	2940.00	Loan Agreement (13th March 2006)
Subordinate Debt	9.79%	410.00	Loan Agreement (13th March 2006)
Rupee Debt	100%	3350.00	Loan Agreement (13th March 2006)
Auxiliary consumption			
Underground hydroelectric with rotating exifiers		0.40%	Detailed Project Report (28 th January 2005)
Plant Load Factor -			
Dependable Year		90%	Detailed Project Report (28 th January 2005)
units Generation in 90% dependable year (MU)		313.33	Detailed Project Report (28 th January 2005)
Transformation losses		0.50% of energy generated	Detailed Project Report (28 th January 2005)

Royalty - Free energy to home state per year up to 12 years		12% of energy generated	Power Purchase Agreement (30th March 2005)
Royalty - Free energy to home state per year from 13th year		18% of energy generated	Power Purchase Agreement (30th March 2005)
O& M Expenses		1.50% of total project cost	Detailed Project Report (28 th January 2005)
Annual Escalation		4%	Detailed Project Report (28 th January 2005)
Working Capital Norms			
O&M Expenses	Months	1	Detailed Project Report (28 th January 2005)
Maintenance Spares	%	1% of capital costs	Detailed Project Report (28 th January 2005)
Annual escalation of maintenance spares		6%	Detailed Project Report (28 th January 2005)
Receivables	Months	2 (of fixed charges for sale of energy. Calculated on normative capacity index)	Detailed Project Report (28 th January 2005)
Interest on working capital	%	10.50%	Detailed Project Report (28 th January 2005)

Financial Assumptions			
Estimated Exchange rate in April 2009		46	Exchange rate
Annual O&M Cost escalation		4%	Detailed Project Report (28 th January 2005)
Long Term Repayment schedule			
Rupee Loan Repayment	Quarters	60	Loan Agreement (13th March 2006)
Moratorium	Quarters	2	Loan Agreement (13th March 2006)
Dollar Loan Repayment	Quarters	60	Loan Agreement (13th March 2006)
Moratorium	Quarters	2	Loan Agreement (13th March 2006)
Installments per year		4	Loan Agreement (13th March 2006)
Interest on term loan			
Interest on Senior debt		9.00%	Power Purchase Agreement
Interest on Subordinate debt		10.50%	Power Purchase Agreement
upfront fees on rupee debt		1%	Loan Agreement (13th March 2006)
Depreciation as per Income Tax Act			
Under IT Act(WDV)- Equipment		25%	Income Tax Act
Under IT Act(WDV)- Buildings and civil works		10%	Income Tax Act
Depreciation for P&M - Hydro Electric		3.40%	Income Tax Act and Electricity Act
Depreciation Rate as per Electricity Act			Electricity Act
Vide Annexure II		2.57%	Electricity Act

Income Tax Rate			Income Tax Act
Basic Rate		35.00%	Income Tax Act
Surcharge		2.50%	Income Tax Act
Education cess		2.00%	Income Tax Act
Corporate Tax With Surcharge and cess		36.59%	Income Tax Act
Minimum Alternate Tax (MAT)		7.50%	Income Tax Act
MAT with Surcharge and cess		7.84%	Income Tax Act
Dividend Distribution Tax		12.50%	Income Tax Act
Dividend Distribution Tax with Surcharge and Cess		13.06%	Income Tax Act
Benefits Under Section 80(I)A of the IT Act for 10 years out of 15 years after commencement of Operations		100%	Income Tax Act
tonnes of CO2/MWh (Northern Grid)		0.81	CEA Baseline version 3
Rate per CDM in US \$		8	Estimated
Estimated Exchange rate in April 2009		46	Exchange rate

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