

	<p align="center"><b>CDM: FORM FOR SUBMISSION OF A “LETTER TO THE BOARD” (Version 01.2)</b></p> <p align="center">This form should be used only by project participants and other stakeholders for submitting a “Letter to the Board” in accordance with the latest version of the <i>Modalities and procedures for direct communication with stakeholders</i></p>
<i>Name of the stakeholder<sup>1</sup> submitting this form (individual/organization):</i>	<p>Carbon Market Watch</p>
<i>Address and contact details of the individual submitting this form:</i>	<p>Address: Rue du Albanie, 117 B-1060 Brussels, Belgium          Telephone number: +32 2 335 36 61          E-mail address: <a href="mailto:eva.filzmoser@carbonmarketwatch.org">eva.filzmoser@carbonmarketwatch.org</a></p>
<i>Title/Subject (give a short title or specify the subject of your submission)</i>	<p><i>*Requesting Registration: 23 Nov, 2012 - 20 Dec, 2012*</i>  <i>Project 7269: Small hydro power project by PHPPL. Review Additionality and Royalty procedures</i></p>
<i>Please mention whether the submitter of the form is:</i>	<p><input type="checkbox"/> Project participant  <input type="checkbox"/> Other stakeholder, please specify</p>
<i>Specify whether you want the letter to be treated as confidential<sup>2</sup>:</i>	<p><input type="checkbox"/> To be treated as confidential  <input checked="" type="checkbox"/> To be publicly available (UNFCCC CDM web site)</p>
<i>Please choose any of the type(s) below<sup>3</sup> to describe the purpose of this submission.</i>	
<p><input type="checkbox"/> <b>Type I:</b></p> <p style="padding-left: 40px;"><input type="checkbox"/> <b>Request for clarification</b>                      <input type="checkbox"/> <b>Revision of existing rules</b></p> <p style="padding-left: 80px;"><input type="checkbox"/> Standards. Please specify reference  <input type="checkbox"/> Procedures. Please specify reference  <input type="checkbox"/> Guidance. Please specify reference  <input type="checkbox"/> Forms. Please specify reference  <input type="checkbox"/> Others. Please specify reference</p> <p><input type="checkbox"/> <b>Type II: Request for Introduction of new rules</b></p> <p><input checked="" type="checkbox"/> <b>Type III: Provision of information and suggestions on policy issues</b></p>	
<i>Please describe in detail the issue on which you request a response from the Board, including the exact reference source and version (if applicable).</i>	

<sup>1</sup> DNAs and DOEs shall use the respective DNA/DOE forms for communication with the Board.

<sup>2</sup> As per the applicable modalities and procedures, the Board may make its response publicly available.

<sup>3</sup> Latest CDM regulatory documents and information are available at: <http://cdm.unfccc.int/Reference/index.html> .

There are increasing concerns about the impact of royalty payments on the additionality of certain types of CDM projects in India. In India, royalty refers to free supply of a portion of generated electricity, e.g. in most cases 13%, to the State government. We have looked at various large and small scale hydro power projects in India and it seems that royalty payments requested by the Government of India in the form of free energy or revenue payments to the Indian government, artificially keep the IRR below benchmark. We found that in cases where the royalty is requested, the free energy or revenue payments are not accounted for in the IRR calculation. This is particularly the case for **Project 7269: Small hydro power project by PHPPL; India which is currently**

**\*Requesting Registration: 23 Nov, 2012 - 20 Dec, 2012\***

**Project 7269: Small hydro power project by PHPPL; India**

Royalty payable to government is 12% of energy exported till 12<sup>th</sup> year and 18% of energy exported after 12<sup>th</sup> year. Benchmark is 10.75%. The IRR calculation is done with the inclusion of royalty, e.g. the respective amount of net electricity supplied and compensated is deducted. If the project IRR calculation would exclude royalty, then it may reach 10%, and thus approach the benchmark.

Question is: does the inclusion of royalty keep project IRRs ‘artificially’ down for purpose of CDM project registration, which would mean that the global public financing, subsidizes Indian renewable energy projects while the government of India is not willing to provide a sector policy that really promotes private sector investments into independent power production?

*Please provide any specific suggestions or further information which would address the issue raised in the previous section, including the exact reference source and version (if applicable).*

We would strongly encourage you to request a review of these projects in order to examine the impact of the royalty payments on the additionality of the projects.

In addition, we would recommend that the CDM Executive Board:

- Publishes/provides an analysis on when and why royalties were introduced in India by the various (State) Government(s) and for whom/which project types it is applicable;
- Clarifies the impact of the inclusion of royalty in IRR calculation, in particular addressing the risk to artificially keeping IRR well below benchmark;
- Clarifies why it would be correct that royalties are included in monetary terms (e.g. INR/kWh) if the DOE has confirmed that royalty refers to x% of electricity delivered for ‘free’ to the State Government;
- Requests a full review of all hydro power projects in India that are subject to royalty conditions;
- Addresses the negative impact of royalty payments on the additionality of CDM projects as part of the review of the modalities and procedures of the CDM.

*If necessary, list attached files containing relevant information (if any)*

- [replace this bracket with text, the field will expand automatically with size of text]

**Section below to be filled in by UNFCCC secretariat**

Date when the form was received at UNFCCC secretariat	17 December 2012
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History of document

Version	Date	Nature of revision
01.2	08 February 2012	Editorial revision.
01.1	09 August 2011	Editorial revision.
01	04 August 2011	Initial publication date.
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