	CDM: FORM FOR SUBMISSION OF A "LETTER TO THE BOARD" (Version 01.2) **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 *Modalities and procedures for direct communication with stakeholders***
Name of the stakeholder[1] submitting this form (individual/organization):	Carbon Market Watch
Address and contact details of the individual submitting this form:	Address: Rue du Albanie, 117 B-1060 Brussels, Belgium Telephone number: +32 2 335 36 61 E-mail address: eva.filzmoser@carbonmarketwatch.org
Title/Subject (give a short title or specify the subject of your submission)	*Requesting Registration: 26 Nov 2012 - 23 Dec, 2012* Project 5788: 15 MW Small Hydro Electric Project in State of Orissa. Review of Additionality and Royalty procedures
Please mention whether the submitter of the form is:	☐ Project participant ☐ Other stakeholder, please specify
Specify whether you want the letter to be treated as confidential[2]:	☐ To be treated as confidential ☒ To be publicly available (UNFCCC CDM web site)

Please choose any of the type(s) below[3] to describe the purpose of this submission.

☐ **Type I:**

☐ **Request for clarification** ☐ **Revision of existing rules**

- ☐ Standards. Please specify reference
- ☐ Procedures. Please specify reference
- ☐ Guidance. Please specify reference
- ☐ Forms. Please specify reference
- ☐ Others. Please specify reference

☐ **Type II: Request for Introduction of new rules**

☒ **Type III: Provision of information and suggestions on policy issues**

Please describe in detail the issue on which you request a response from the Board, including the exact reference source and version (if applicable).

[1] DNAs and DOEs shall use the respective DNA/DOE forms for communication with the Board.
[2] As per the applicable modalities and procedures, the Board may make its response publicly available.
[3] 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 5788: 15 MW Small Hydro Electric Project in State of Orissa**

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Project 5788: 15 MW Small Hydro Electric Project in State of Orissa
Additionality analysis: The project applied investment analysis, the benchmark was established at 12.5%. The project IRR was calculated at 9.8% using 2007 figure from Detailed Project Report, which contains all figure valid at the point of time when decision making to pursue this project under CDM was made. Power tariff contained in the DPR is 2.47 INR/kWh. This analysis does contain royalties. Royalty is includes as 0,06 INR/kWh. The 13% 'free electricity delivery' has not been deducted from gross electricity generation but the royalty is provided in form of a tax, in this case 0,06 INR/kWh as of 6th year. The validation Report at page 24/25 mentions: *"Orissa electricity regulatory commission has issued a tariff order for the renewable power projects which includes small hydro power projects on 14 September 2010 /28/ and based on which the project proponent has revised the Memorandum of understanding with Government of Orissa for implementation 15 MW Small hydroelectric project in Orissa dated 8 July 2010 /21/. As per this the company has to supply 13% free power (12% for the host Government/ State designated agency and 1% power as contribution towards local area development) and the project proponent will get an electricity tariff of 3.09 INR/kWh without any annual escalation. DNV has cross checked this and also find that even after considering this scenario the IRR for the project activity works out to 10.53% which is still below than the benchmark of 12.50% considered for the project."*

1. The validity of this statement made by the DOE (*the IRR for the project activity works out to 10.53%)* can not be publicly checked. The File "Appendix 1 – 5788 ER Sheet" does not contain the IRR calculation for the scenario including the more applicable tariff (3.09 INR/kWh; and the royalty fee applicable as of 6th year). Carbon Market Watch has made own calculations with the following results:

(a) Assuming actual power tariff of 3.09 INR/kWh (for 35 years, no escalation) would result in Project IRR of 13.75%, thus crossing the benchmark.

(b) assuming actual power tariff of 3.09 INR/kWh AND exclusion of royalty fee results in project IRR of 13,93 % (c) assuming actual power tariff of 3,09 INR/kWh and inclusion of royalty, but as reduced amount of net electricity supplied by 13% as of 6th year and not as fee of 0,06 INR/kWh), the IRR would amount at 12.48%, which is same as the benchmark. 2. We have doubts that this project is additional. 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 finacing, 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 project. 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	
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History of document

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01.2	08 February 2012	Editorial revision.
01.1	09 August 2011	Editorial revision.

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