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Ms. Eva Filzmoser
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CC to: Martin.Hession@decc.gsi.gov.uk

Date: 16 February 2012
Reference: 62-5
Direct line: +49 228 815-1687

Re.: CDM Project Application #4072: Wind power project by Patnaik Minerals Pvt. Ltd.

Dear Ms. Filzmoser,

On behalf of the Chair of the CDM Executive Board (hereinafter is referred to as the Board), Mr. Martin Hession, I would like to thank you for your communication, dated 26 May 2011, which has been made available to the Board. Please accept my apologies for the delayed response.

In your letter, you raised concern regarding compliance with the guidelines on the assessment of investment analysis. In the following two paragraphs, I would like to justify why the benchmarks used for the two cases (4072 and 2247) were accepted at the time of the assessment.

The two cases are similar in the way they have been presented by the designated operational entity (DOE) as they have calculated project IRRs which are compared with benchmarks based on **government bond rates plus a risk premium** as per paragraph 6 of the "Tool for the demonstration and assessment of additionality" (Version 05) which states that: *"discount rates and benchmarks shall be derived from government bond rates, increased by a suitable risk premium to reflect private investment and/or the project type, as substantiated by an independent (financial) expert or documented by official publicly available financial data."*

The applied approach has not resulted in a request for review and has been deemed valid on the basis of the following:

- the DOE follows paragraph 6 of the additionality tool.
- the benchmark is calculated from risk free rates (government security in India) and a risk premium which is specific to the energy sector as it (risk premium) uses expected market returns and beta value. Both cases presented project IRR calculations 11.24% and 11.15% (4072) and 10% (2247).
- the Prime Lending Rates (PLR) in India during the investment decision period were 11-11.5% (2005-2006). With the risk premium (between 2.4% and 3.5%) added to the lower value of the PLR (11%) would result in a benchmark between 13.4% and 14.5%.

With regard to public consultation, please note that no comments were received by the DOE during the global stakeholder commenting period (11 January 2008 - 09 February 2008)[1]. Your comments, if submitted to the DOE during the global stakeholder commenting period, must have been adequately addressed by the DOE in its validation report.

With regard to your remark on negligence of the DOEs, I wish to inform you that the Board, at its sixty-fourth meeting, considered means of addressing significant deficiencies in validation and verification reports which lead to registration/ issuance and agreed on main elements to be included in a modified draft[2]. The Board will continue to work on this before it can be adopted later this year.

I believe that this letter has adequately addressed the issue raised in your letter. Thank you once again for contacting the Board with your concern and request.

Yours sincerely,

Andrew Howard
Secretary to the CDM Executive Board

[1] http://cdm.unfccc.int/Projects/Validation/DB/GQ56N39MLSZ9QDRL6RUF5YJSFDPD1U/view.html
[2] http://cdm.unfccc.int/UserManagement/FileStorage/1GDBAIX2VSTOH5RE4NUKJWMZC3LP90