CDM Watch
Scrutinizing Carbon Offsets

Comments on the Project Design Document and Application for Validation

Nallakonda Wind Power Large Scale CDM Project

29 August 2012

CDM Watch respectfully submits the following comments on the *Nallakonda Wind Power Large Scale CDM Project*. We thank the CDM Executive Board (CDM EB) and Designated Operating Entity (DOE), Lloyd's Register Quality Assurance Ltd., for recognizing the integral role of transparency in the CDM validation process, and for taking this comment into consideration.

The large scale PDD, developed by Tadas Wind Energy Limited (TWEL) to seek registration with the CDM EB is related to implementation of 50.4 MW grid connected wind farm in Anantpur District, Andhra Pradesh in India. According to our research, there are serious deficiencies with the local consultation process as there has been deficient communication from the project developers' side with the local communities, absence of information through local newspapers or in the local language. Furthermore, significant negative environmental and social impacts have been reported by local inhabitants the need to have been completely omitted in the PDD. The PDD also lacks substantiation of factors / parameters / statements that are considered crucial for registration of CDM projects with the CDM EB. The transparency level and detailing aspects are lacking in the PDD and the project participant (PP) fails to demonstrate that they were not intentional by including all the crucial details.

Table of Contents:

1. SUMMARY

Additionality

1. The PDD claims a PLF of 25.41 % which is the second highest amongst all the grid connected wind projects in Andhra Pradesh. As PLF is directly related to the wind resource availability, additional information and reference are required to assess the reliability of the wind data and consequently the emission reduction potential.

2. According to the project PDD, the equity IRR without CDM revenue is 9.22 % as against the estimated benchmark of 17.07 %. The financial assumptions and information listed in the PDD is incomplete. The mode of sale of power, details of the Power Purchase Agreement (PPA), details of Generation Based Incentives (GBI) and the tariff are not mentioned in the PDD. Further, the reasons for selecting the equity IRR (and not the project IRR) are not provided.

3. As per a recent press release[1], the project (as a part of TWEL's 200.8 MW project) is scheduled to achieve commercial operations by September 30, 2012. Therefore it appears that the wind farm is nearing or already commissioned. Therefore the PDD should be updated with the actual means of finance and other critical financial assumptions.

4. As the Project Promoter TWEL is promoted by a leading financing institution, the internal benchmark (equity IRR) for any such project investments should be in place for facilitating management's investment decision. CDM Watch would like to know how TWEL was able to make the investment decision despite the IRR being well below the benchmark. Given the current status of the carbon market and poor price levels for primary CERs (pCERs), the final equity IRR (considering CER revenues) is also expected to be below the benchmark (17.07%).

5. The basis for selecting the Nall and Ndiff to address the common practice issue is not detailed in the PDD. The referenced database needs to be verified as the source doesn't seem to have information of a list of thermal and wind power projects. Despite the nature of financing, policy participation will impact estimation of Ndiff. We kindly request a clearer explanation in order to understand the standardization of this analysis. In general, the Central Electricity Authority, Government of India can take up this challenge and establish a procedure for estimating these two parameters for India for different scenarios.

[1] http://www.ilfsifin.com/pdf/Financial%20Closure%20of%20Tadas-%20march%202012.pdf

Local Stakeholder Consultation

6. Two neighbouring villages to the project affected area are not mentioned in the PDD. The PP has not provided full detail in the PDD. The villages are: Gondipalli, Duddebanda, Kogira, Mustikovila, Shapuram, Kambhalpalli. We therefore request prove that these villages have been included and if not they should be included in a new local stakeholder consultation process.

7. According to local research, there are serious deficiencies as to how the local stakeholder consultation process has been carried out as a whole. Several organisations working on site have approached CDM Watch to report deficient means of communication, exclusion of information or simply no approach at all.

Sustainable Development

8. The proposed sustainable development related activities for which an annual contribution of 2% of CER revenues (as stipulated by the Indian DNA) is to be spent are not time oriented and remains too generic. As regards creation of local employment during construction and operational phases, an estimation of jobs created should be provided in the PDD to justify the statement related to alleviation of poverty as major part of the employment are only during construction phase. Also the claim that the power generated will increase the availability of local power needs to be substantiated which on the contrary are not true if the power is supplied to high voltage long distance transmission lines for supply to other than local areas / consumers.

9. Although the Indian Government has not required submission of an EIA for wind power projects, neighboring communities have identified environmental impacts such as heavy deforestation, land degradation and biodiversity loss already occurring from project activities. CDM Watch requests the elaboration of a list with possible impacts the project may face especially during the construction period.

2. COMMENTS

2.1. Additionality

2.1.1. Prior Consideration

The PP has intimated the Indian DNA and the UNFCCC as regards demonstrating the prior consideration. There is considerable delay in the communication by the PP to UNFCCC from the project start date though well within the stipulated 6 months period. The actual date of communication to India DNA is not provided in the PDD.

2.1.2. Additionality tool

The steps described for estimating the factor for assessing the common practice are not substantiated with detailed assumptions. The basis for selecting the Nall and Ndiff is not detailed in the PDD. It is stated in the PDD that only thermal, wind and hydro power projects have been considered. The reasons for non-consideration of non-CDM projects in the biomass and bagasse co-generation sectors are not known. While a few PDDs have chosen the State as the geographical boundary for estimating these two parameters, most of the Indian PDDs have chosen India as the geographical boundary. Though the nature of financing, policy participation will impact estimation of Ndiff, a clear explanation would be required for the standardization of this analysis and the basis of estimating the factor to be zero. The comprehensiveness of the CEA power plant database needs to be explained as it excludes the list of all grid connected renewable energy projects and the PP has considered a separate source for the list of wind power projects.

2.1.3. Investment analysis

The PP has carried out the investment analysis based on the CDM EB's "Guidelines on the assessment of investment analysis". The benchmark approach has been chosen. The equity IRR is chosen as the benchmark for demonstrating the additionality. The details of the financial analysis are not available in any form in the PDD other than the resultant equity IRR and incomplete financial assumptions.

The PDD claims a PLF of 25.41 % which is the second highest amongst all the grid connected wind projects in Andhra Pradesh listed in the UNEP pipeline. The average PLF of wind projects from Andhra Pradesh in the UNEP pipeline is 22%. As PLF is directly related to the wind resource availability, additional information and reference are required to assess the reliability of the wind data and consequently the emission reduction potential. This will also impact the IRR calculation.

The financial assumptions and information listed in the PDD for estimating the equity IRR calculation is incomplete. The mode of sale of power, details of the Power Purchase Agreement (PPA) and the tariff are not mentioned in the PDD. Besides these, the salvage value, consideration of generation based incentives, are not provided. The appropriateness for selecting the equity IRR are not detailed in the PDD and the reasons for non-consideration of project IRR (Debt:Equity ratio being 3:1) are not provided. For a PP promoted by a financial institution, such details are essential to understand the basis of their investment decision in such projects claiming additional revenues from CERs.

A press release2 by IL&FS Financial Services Limited (IFIN) on 2 March 2012 states the following :

- successfully completed the syndication of Senior Term Loan facility of Rs. 876 crores (app. 16-18 Mn USD) for Tadas Wind Energy Ltd (TWEL), for their green field 200.8 MW wind farm project.
- TWEL is the SPV sponsored by IL&FS Renewable Energy Limited (IREL) for the execution of the project.
- the project envisages installation of 63 nos. of 800KW wind turbines totalling to 50.4 MW wind farm in Lalpur, Gujarat, 125 nos. of 800 KW wind turbines totalling to 100 MW wind farm in Tadas, Karnataka and 63 nos. of 800KW wind turbines totalling to 50.4 MW wind farm in Narmada (Nallakonda), Andhra Pradesh.
- The senior debt facilities have been financed by a consortium of 7 Banks and 1 Financial Institution, led by Canara Bank.
- The project implementation has progressed significantly. As on date, 117 turbines out of the total 251 turbines have been erected at the three locations and the construction of roads and base platforms has been completed for 214 turbine locations. The project is scheduled to achieve commercial operations by September 30, 2012

Based on the above it appears that the wind farm is nearing or already commissioned. Therefore the PDD should be updated with the actual means of finance and other critical financial assumptions. The management assumptions need to be corroborated with the market practice and thus to be evidenced. Adequate documentary evidence need to be shown against such assumptions rather than simply stating it as management assumptions.

[2] http://www.ilfsifin.com/pdf/Financial%20Closure%20of%20Tadas-%20march%202012.pdf

According to the PDD, the equity IRR without CDM revenue is 9.22 % as against an estimated benchmark of 17.07 %. As the Project Promoter TWEL is promoted by a leading financing institution (ILFS: www.ilfsindia.com), the internal benchmark (equity or project IRR) for any such project investments should normally be in place for facilitating management's investment decision. This information is not mentioned in the PDD. Mere compliance of the additionality tool though appreciated is not adequate as a practical approach to address these crucial issues is pertinent to demonstrate the true additionality scenario for the stakeholders to have better understanding on the investment scenario.

It is essential to know how TWEL was able to make the investment decision despite the IRR being well below the benchmark. Given the current status of the carbon market and poor price levels for primary CERs (pCERs), the final equity IRR (considering CER revenues) is also expected to be below the benchmark (17.07%).

Though CDM EB has done away with demonstration of IRR with CER revenues, a review of the final equity IRR (considering CER revenues) will help to understand :

- the equity IRR the project could achieve at the best
- whether the final equity IRR considering CER revenues matches or exceeds TWEL's internal benchmark for investment decisions.

This is particular important, as the project has only started global stakeholder comments in the second half of 2012, there is a high level of uncertainty regarding whether the project can get registered before the December 31st, 2012. This will affect the project credits eligibility under EUETS, and consequently affecting the project ability to fetch different CER price.

As the PDD claims that the project is availing GBI[3] (one of the Central Government financial incentives for promoting renewables) it is inferred that the project is selling power to the State at a preferential tariff (@ 3.5 (state tariff)+ 0.5 (GBI) INR per kWh). Therefore it is observed that the project is not eligible to generate and sell Renewable Energy Certificates. This information needs to be confirmed by the Project Promoter to provide a clear view on the investment analysis.

2.1.4. Discrepancies

[3] https://workspace.imperial.ac.uk/rajivgandhicentre/public/WPP.pdf

Further discrepancies noted in the PDD include difference in the dates for CDM prior intimation to UNFCCC, delay between start date and the CDM prior intimation date, absence of specific date for CDM prior intimation to DNA, non-provision of details as regards the accuracy class, electricity meters (main or check meter) after the transformers, nominal difference (lower side) in the calculation of annual power generation etc.. We request clarification to these.

2.2. Local stakeholder consultation

Local stakeholders have approached CDM Watch to inform that two neighbouring villages to the project affected area have not been included in the PDD. The villages are: Gondipalli, Duddebanda, Kogira, Mustikovila, Shapuram, Kambhalpalli. Given that these communities are being directly affected by the project activity on site, they should have been included and informed appropriately during the local stakeholder consultation process. We therefore request prove that these villages have been included and if not they should be included in a new local stakeholder consultation process.

In addition and according to local research, there are further deficiencies as to how the local stakeholder consultation process has been carried out as a whole. Several organisations working on site have reported that no invitations to locals to inform about the project were found in local newspapers or in the local language project. This has led to a strong sense of deliberate exclusion of locals by the PP leading to mistrust and disappointment. This has been exacerbated through direct environmental and social impacts triggered by the project activity. We urge the project developer and the DOE to include detailed information in the PD about how the local stakeholder consultation was carried out.

2.3. Environmental Impact Assessment and Sustainable development

Though Indian Government has not stipulated submission of EIA for wind power projects, it will be useful to list the possible impact the project may have on biodiversity, noise and other environmental factors, locally; especially on how the solid waste and waste water will be treated during the construction period and other possible environmental impacts, and the measures taken to minimise any impact to the local population. Our research shows strong dissatisfaction from locals with the project. Therefore, details of the land where the wind farm is located need to be described in the PDD to demonstrate that it is not implemented on forest land or agricultural land. If it is and activities have cause substantial forest loss and land degradation, an option would be to consider improving local participation, social compensation and consideration of resulting emissions in the calculations within the project boundary.

The activities listed for implementing sustainable development activities in the region are considered too generic. The proposed activities for which an annual contribution of 2% of CER revenues (as stipulated by the Indian DNA) is to be spent are not time oriented and lacks financial planning and priorities.

As regards creation of local employment during construction and operational phases, an estimation of jobs created should be provided in the PDD to justify the statement related to alleviation of poverty. It is however noted that the majority of the employment takes place only during construction phase. Also the claim that the power generated will increase the availability of local power needs to be substantiated which on the contrary is not true if the power is supplied to high voltage long distance transmission lines for supply to other than local areas / consumers.

3. CONCLUSION

- The details of estimating the Nall and Ndiff should be explained in the PDD.
- PDD lacks substantiation of factors / parameters / statements that are considered crucial for registration of CDM projects with the CDM EB. For example the mode of sale of power, tariff details, eligibility of RECs, details of GBI claimed should be outlined clearly alongwith other financial parameters like salvage value etc.,
- The internal benchmark for investment decision by TWEL should be provided in the PDD as well instead of merely attempting to demonstrate the CDM related benchmark.
- The transparency level and detailing aspects are lacking in the PDD and the PP needs to demonstrate that they were not intentional by including and updating all the crucial details for improving the success of registration.
- As the project is nearing / already commissioned and the financial closure successfully completed, the actual financial details should be included in the PDD
- As PLF is directly related to the wind resource availability, additional information and reference are required to assess the reliability of the wind data and consequently the emission reduction potential.
- Clear information of how local stakeholder consultation was carried out should be documented and included in the PDD showing among others which exact villages were

included, how local communities were specifically approached and in which language and how their concerns were addressed.

- The environmental impacts during construction, especially with regard to deforestation, should be documented and included in the PDD. The details of the land (forest or agricultural) should be stated in the PDD.
- A clear account of employment benefits accrued to the local community should be included in the PDD.
- The sustainable development spending plan and activities should be specific with an annual outlay and activities clearly mentioned in the PDD.

Respectfully submitted,

Eva Filzmoser
CDM Watch
eva.filzmoser@cdm-watch.org