

October 3, 2006

Comments about Budhil Hydroelectric project, Himachal Pradesh, India

Based on reading of the PDD, the EIA of the project prepared by Dhiman Environment Forestry Consultants (P) Ltd, the conditional environmental clearance given to the project and knowledge of the hydropower projects in Himachal Pradesh, it seems it will not be appropriate to validate the 70 MW Budhil Hydroelectric Power Project in Chamba district in Himachal Pradesh in North India in current form.

1. The fact that the project developer had entered into a legally bound Power Purchase Agreement in Nov 2004 (see Section A.2) means that developer was sure about the financial viability of the project and the application for CDM credits is only an afterthought and project thus fails on the additionality criteria.
2. The project developer (M/s Lanco) has not done any satisfactory consultation with the people in the affected villages. The local people have not been given any of the project documents like the detailed project report, the full environment impact assessment or environment management plan in the language that they can understand. Without such documents in their language the local people cannot effectively participate in any consultation. This is clear violation of the rights of the people and also violation of the CDM norms for consultation of the stakeholders and the local people.
3. Section F.1 and F.2 should have given complete details of the amount of total land to be taken for the project, which has not been given. For example, it does not state how much forest land is required for the project, whether permission for use of the forest land has been taken or not, etc. To the best of our information, permission to use forest land for the project has not been taken by the developer, and without such permission in place, the project should not have been submitted for validation, nor can be project start construction legally.

As per the conditional environmental clearance (as different from a separate clearance required for use of forest land, under Forest Conservation Act, 1980) given for the project on Feb 28, 2006, 34.29 ha of land is required for the project, including 27.94 ha of forest land. It is thus clear that without a forest clearance, project cannot start construction and should not have been submitted for CDM validation.

4. The contention of the developer in section B.3 that only Alternative to the project is to develop a coal or gas fired project is totally wrong and shows that the developer is not familiar with the electricity related issues in India. Some of the possible options to the project would include: demand side management, increasing end use efficiency of appliances, reducing transmission and distribution, reducing theft of electricity, increasing output from existing projects, taking up small hydro projects and so on, to mention only a few.
5. The contention of the developer (page 12) that he cannot disclose how the claimed rate of internal return was arrived at as it consists of business confidential information should be unacceptable. The project developers wants everyone to accept his claims in this regard and hence that additional revenue from sale of the CERs is necessary to

make the project viable, without the developer showing how this figure of IRR was arrived at, which cannot be accepted.

6. The claim of the project developer (Section B.3, page 13) that the Internal Rate of Return of the project is 11.9% and that it is lower than its expected return from coal and gas fired power projects and hence project qualifies for CDM validation is not an acceptable justification. This shows that the developer is on very weak ground for getting CDM credits.

7. The project also requires no objection certificates (NOC) from the local village governments, both for the project as well as separate NOC for use of forest land. Without such certificates, the project should not have applied for validation.

8. The claim made in Section A.2 on page 3 that “the project is consistent with the future plans of the Ministry of Non Conventional Energy Sources (MNES) of the Govt of India” is totally wrong, as the mandate of the MNES is only for hydro power project less than 25 MW and the proposed project being of 70 MW, does not fall within the mandate of MNES.

9. The claim on page 2 & 6 that by the end of 2007 Northern region will have 16.6% peaking power demand shortage is not correct. What the CEA URL mention states is that this deficit will be with respect to total electricity requirement.

10. The list of key assumptions on page 12 is not complete, it should have included the crucial assumption about hydrology of the project.

11. The claim on page 14 that just 20% of the hydropower potential of Himachal Pradesh has been developed so far is wrong. As per the Central Electricity Authority of Govt of India (see:

<http://cea.nic.in/hydro/Status%20of%20Hydroelectric%20Potential%20Development.pdf>)

, 31.6% of the potential has already been realised and additional 21.7% potential is under construction.

12. The claim on page 14 that hydropower projects above 25 MW are not viable is not correct, on the contrary, large hydropower projects are claimed to be more viable as per all proponents of such projects, including government. Moreover, in addition to the list of projects given on page 15 of PDD, a 1000 MW Karcham Wangtoo HEP and a 100 MW Sorang HEP are also under construction in Himachal Pradesh.

13. The information given in section D.5 that SMEC India (Pvt) Ltd is not a project participant is not entirely correct. As per http://www.cleantech-india.com/news/bin/printNews.asp?news_id=114200493452AM, SMEC entered into an agreement with Lanco in Nov 2004 to be a consultant for the project for a fee of USD 500 000, and hence SMEC cannot be considered fit to be a monitoring agency.

Under the circumstances, validation of the project in current form for CDM credits will not be appropriate.

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Comments to be submitted at:

<http://cdm.unfccc.int/Projects/Validation/DB/MD1KIL715SCA2KBCSHPI08UQZGS5IH/view.html>