

October 1, 2013

Comments from United Kingdom on Approval by mail: India: Development Policy Loan (DPL) to Promote Inclusive Green Growth and Sustainable Development in Himachal Pradesh

Dear Patricia,

We welcome the \$100m development policy loan (DPL) to the state of Himachal Pradesh, India, to reform and speed up procedures for site assessment, monitoring and administrative preparation for hydro power capacity. The proposal follows a very clear structure and we are grateful that the TFC member comments have been addressed in a very clear manner. However we still have some questions around the implementation potential and how the projects calculate results where renewable energy deployment may not be additional but is instead brought forward by a few years.

Abatement potential/cost-effectiveness:

The proposal has contradicting information on the expected carbon savings – while the cover page expects 20.72mt CO₂e saved over lifetime, the actual proposal speaks of 333mt CO₂e. The approach to calculate the CO₂e savings is very clearly set out and we highly welcome the dynamic baseline. We appreciate the UK's comments have been partly taken on board, but still have questions around the BAU:

How has the BAU been calculated (i.e. the 6780 MW until 2032)? As outlined in the responses to the UK the DPL would only result in a frontloading of the installed hydropower capacity. The policy objective of 10381 MW should still be achieved, though potentially with a different time line. When do you expect the installation of 10381 MW of hydro power capacity to be completed in the absence of the DPL?

Depending on the way carbon savings are calculated (i.e. the carbon savings that could be brought forward by the DPL), the cost/ton can be calculated. Based on the current information the cost/ton appears to be very low. However we would like to know more about the uncertainties around the total carbon savings as well as the level of public finance involved.

Leverage:

The project has as public leverage ratio of 1, and a private leverage ratio of 21 (4157:200). However it is unclear how the private sector leverage has been calculated. It seems to represent the private finance involved in building the individual power plants. Is this private finance above BAU (calculated similarly to the GHG savings)? What is the public finance expected to be involved in the individual projects? The co-finance number presented in the summary table on the cover page does not relate to the co-finance outlined in the project proposal.

Additionality and transformational potential:

The proposal mentions a second DPL financed by the IBRD. How do the two policies differ in their activities? How much additional renewable energy capacity is expected to be leveraged by the second DPL – calculated in a way to not double-count the capacity by the CTF co-financed DPL?

While successful reforms can have high replication potential it is not clear how the lessons learned are going to be transferred at regional and national level. Will policy makers from other states/at federal level accompany the process? While the DPL clearly makes sense for HP, the transformational aspect needs to be strengthened so that this DPL can lead to catalysing progress elsewhere in India. The current proposal even sets out the conceptual steps by which this could happen and states: ‘The replication potential of this project would be high and would accelerate the hydropower development in other resource rich states like Sikkim, Uttarakhand, and Arunachal Pradesh etc thus encouraging newer investments’. But the actual process by which this might happen is not articulated nor is it explicitly supported. We would like to see some of the steps planned to implement the transformation, for example some specific targeting of Sikkim, Uttarakhand and Arunachal Pradesh through a process of exchange, lessons learning and sharing. Perhaps making available a small extra component around lesson learning and sharing with the other Himalayan states would support the transformational potential of this DPL.

Implementation Potential

The **absence of adequate power evacuation and transmission infrastructure** is cited as one of the barriers to hydro development. The mitigating action to reduce this risk is to ensure that the State Transmission Utility is constituted and will hold regular committee meetings to sort evacuation problems. It would be useful to have more information about the barriers to development of transmission infrastructure as this is fundamental to project success. In the Rajasthan CTF project, public finance was required because of the unattractive IRRs associated with building transmission infrastructure – caused by low load factors, large distances between generation of and demand for electricity and also because of the publicly owned utility foregoing a return on equity in order to lessen pressure on consumer tariffs. Are these issues present in Himachal Pradesh? If so, will further public finance be required to invest in transmission infrastructure?

The **local benefit scheme** is an innovative product, and one that we support. However, it would be useful to understand how the developers/authorities will engage with the affected communities to ensure that local groups are educated about the developments, as well as being compensated. Will the study to understand social and environmental issues be used to feed into this?

The barrier of **lacking a regulatory framework to reduce transactions costs** is not necessarily addressed by additional online monitoring. To ensure the proposed outcome is achieved, we’d like to understand if there are any plans for development of the regulatory framework – is this something that is being addressed through the IBRD DPL?

Have the **changes in precipitation and glacial melt water due to climate change** mentioned in the proposal been factored into the long term productivity/economics of the proposals? The lifetime of the scheme is so long that the climatic impacts become relevant.

Kind Regards,

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