

**International Rivers Comments on CDM Project Design Document
for El Quimbo Hydroelectric Project (Colombia)**

27 November 2010

The El Quimbo Hydroelectric Project in Huila, Colombia on the Magdalena River should not be registered as a CDM project, as it is clearly not additional and has negative social and environmental impacts.

The project developer tries to use the benchmark, barrier, and common practice analysis to show that the project is additional. In all three cases the arguments presented are full of holes.

As shown by new research from the University of California, Berkeley¹, it is easy to fudge the numbers used in calculating a project's Internal Rate of Return (IRR) and should not be admissible for additionality testing. In the case of El Quimbo Hydroelectric Project, the long term expected energy spot price for the period 2009 – 2024 is one assumption with a wide range of possible forecasts. The tariff should be assumed to go up some percentage a year, at least to account for inflation over 50 years. I request that the validators do their own sensitivity analysis on the tariff by adding an escalation rate to the tariff that at least covers inflation. They should also try that with a range of possible initial tariffs in 2015. Remember, the various sensitivity analysis assumptions should be adjusted in tandem, since they are all assumptions, not just one by one.

Furthermore, it is preposterous to argue that having to provide adequate compensation to the local community and protect the environment increases the cost of the project and decreases the IRR. Besides additionality, projects must also promote sustainable development. Providing adequate compensation to affected communities is part and parcel of this requirement. It cannot then be turned around on its head to argue that this causes the project to not be financially viable.

With regards to choosing the benchmark, the project developer states in the PDD, "... in Colombia investment in the energy sector is a not regulated activity and perception of risk depends on each investor and project," but then goes on to arbitrarily choose a benchmark. This creates a farce of additionality testing.

The PDD also states that hydroelectric investments suffer from "high investment costs, difficulties in reaching financial closure," but this is not unique to hydroelectric projects – any power project faces these difficulties. The PDD also cites geotechnical barriers such as risk of mudslides and earthquakes. If there is a large risks of such natural disasters, then it is not prudent to build a dam in such region and no amount of money from the sale of carbon credits can lessen this danger and make a project more protected from such calamities. A smart decision is to not build in seismic prone regions.

The most laughable argument in the PDD is stating that hydroelectric power plants are not common practice, despite the fact that Colombia draws two-thirds of its energy needs from hydropower. The PDD even states, "As stated above, the Colombian power sector is dominated by hydroelectric generation power plants."

The burden of proof of additionality is on the developer, especially for a technology that is common practice like hydropower. A project like this should be considered non-additional unless there is strong evidence that it requires the carbon credits to go forward. This PDD does present strong proof that this project is additional. There are too many ways to strategically choose IRR analysis assumptions and the benchmark to manipulate the IRR.

¹ Haya, B. (2009) Measuring Emissions Against an Alternative Future: Fundamental Flaws in the Structure of the Kyoto Protocol's Clean Development Mechanism and Haya, B. (forthcoming) A reasonably accurate project-by-project filter for non-additional projects is infeasible.

Besides the fact that the project is not additional, it has a number of adverse social and environmental impacts – a chart that is four pages long is included in the PDD, so the project developer is also aware of this. According to an independent report by Professor M. Dussan of the Universidad Surcolombiana (Neiva, Huila, Colombia)², the local inhabitants were heavily pressured with force to abandon their land. Furthermore, the region has been turned into a military zone to oppress and persecute project opponents. Over 140 million pesos of public money is being used to secure the area for the company, much more than the local population is receiving as monetary compensation. Conveniently this information is absent from the PDD. While the PDD does indicate that a series of meetings were held to get acceptance of the project by local stakeholders, there is no indication in the PDD of resistance by the local community or the other means used to gain acceptance of the project from them.

The project is clearly not additional and makes a mockery out of additional testing. Furthermore, it does not contribute to sustainable development and violates the human rights of the local inhabitants. Thus, the El Quimbo Hydroelectric project should not be validated for the CDM.

Sincerely,



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² Calderon, M. (2010) Estudio sobre Impactos del Proyecto Hidroelectrico El Quimbo y Acciones de Resistencia Civil Paltforma Sur.