Comments on the CDM Project Design Document (PDD) for Marañon Hydroelectric Project (Peru)

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Additionality

There are several important inaccuracies in the investment analysis that must be corrected and verified. The financial benefits of the project to the developer are greater than what is included in the PDD:

1. First, tariffs in Peru are expected to increase over time. A flat tariff of US$ 0.038 per kWh would not accurately reflect the developer's expected revenues. For example, auctions were held this year for future hydropower projects, which were awarded contracts with energy tariffs between US$ 0.042 and US$ 0.059 per kWh, reflecting higher expected tariffs in the future. The sensitivity analysis of only a 10% increase in tariff does not cover the true higher expected future tariffs in Peru.
2. The investment analysis does not include the very real expected benefits of the project to the developer, a mining company. In addition to revenues received via tariffs, the mining company will benefit from assured access to electricity in an increasingly undersupplied grid. The benefit from assured access to electricity has a very real value to the developer and must be reflected in the investment analysis. The value is substantial.
3. On the cost side, cost estimates for a project of this size can vary substantially from one document to another since they involve many assumptions. The costs included in the investment analysis should be taken from an official document that the developers used to seek project financing, such as a loan application document. The verifiers should verify from the bank or other investment institution that the cost figures used in the investment analysis are the actual numbers used to seek project financing. The same must be true for the load factor.

The PDD also omits a number of hydropower projects in its common practice analysis. The PDD claims that hydropower is not considered common practice because it is "built sporadically." However, the government has planned a number of dams, which center on the Marañon River, which it calls Peru's "energy artery", with the capacity to generate 10,000 MW from six dams. But local people along the river say they have not been consulted about the hydroelectric schemes.

There are close to 50 dams on Peru's rivers that are proposed or planned. In April 2009, a memorandum of understanding that was signed between Brazil and Peru included the development of five large dams in Peru for export of energy to Brazil. In total, Brazil is interested in building up to 15 hydropower plants in the Peruvian Amazon, all for export to feed Brazil's giant aluminum and extractives industries.[1]

[1] http://www.internationalrivers.org/en/node/5193

There are plans for 20 dams on the Marañon River in northern Peru, which would flood between 50 and 60 Awajún and Wampis communities, according to Roberto Espinoza, an adviser to the Interethnic Association for Development of the Peruvian Amazon (*Asociación Interétnica de Desarrollo de la Selva Peruana*, or AIDESEP), the largest umbrella organization of Amazonian indigenous groups in Peru.

Connection to Mining Operations

The PDD does not mention the project's connection to the controversial mines in northern Peru. The energy generated from the project would be fed to the national grid and to mining projects like the new Yanacocha goldmine project Conga. Consorcio Energético de Huancavelica S.A., a 100% subsidiary of Compañía de Minas Buenaventura S.A.A., one of the largest Peruvian mining companies, acquired the Hidroeléctrica Marañón S.R.L. in 2006.[2] Indigenous communities oppose the Conga project, which – due to the amount of water it's expected to consume – will lead to the disappearance of the region's many lagoons. At least three have already disappeared due to Yanacocha's over use of water.[3] The project is plagued by problems and conflicts, which recently led to the resignation of the Peruvian Prime Minister.[4]

In conclusion, the PDD contains a number of inaccuracies that must be investigated. The project will also contribute to climate change, because its energy will feed dirty mining projects in northern Peru.

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