International Rivers Comments on CDM Project Design Document for Bujagali Hydropower Project (Uganda)

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To understand the largely fictional nature of this application to the CDM, one needs only to read the first line of the PDD: "The Bujagali Hydropower Project is a *proposed* hydropower…" It is not *proposed*. It is well over half complete. This basic fact is nowhere mentioned in the PDD. Bujagali Dam is going to be completed regardless of whether or not it is able to receive income from selling CDM offsets. It is non-additional and should not be validated as meeting the CDM's requirements.

According to the latest issue posted on-line of Bujagali Energy Limited's newsletter, as of 31 March 2010, **engineering for the project was 91% complete, procurement 99% complete, and construction 58% complete.** Project commissioning was at that time set for the third quarter of 2011. It has since been set back until 2012 – but there is no mention anywhere in the extensive on-line and hard copy literature about Bujagali that it will not be completed if it does not get approved for the CDM.

The PDD bases its flimsy case for Bujagali's additionality on the claim that CDM income was "considered" by project participants before construction started in 2007. This is certainly true. Bujagali had already tried (and failed) to apply for the CDM under its previous guise as an AES project. The Government of Uganda, the current project developers (IPS and Sithe Global), and the World Bank were all well aware that the project could receive some tens of millions of dollars a year in extra revenue were it approved by the CDM. But to claim that the investors and developers only went ahead with the project because of the potential for CDM income is blatantly misleading.

Bujagali was one of the most contentious World Bank projects of the 1990s and early 2000s (see numerous documents at www.internationalrivers.org/en/africa/bujagali-dam-uganda). The World Bank, the Government of Uganda, and the developers, first AES, and then Bujagali Energy Limited, repeatedly claimed during these years that the project was the best, least-cost option for increasing electricity generation in Uganda — yet they never mentioned that carbon credit income was necessary for the project to be viable. None of the various economic and financial reviews of the project states that CDM income was necessary for project viability or for attracting investors.

In fact, the key economic document leading to the World Bank's approval of Bujagali — the February 2007 Economic and Financial Evaluation Study (EFES) — assessed the impact of receiving carbon credit income and concluded "The greenhouse gas benefits are . . . not significant in the economic justification of the project" (p.15).

The PDD also claims that "anticipated CER revenues contribute significantly to mitigating" risks

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such as lower demand growth, low hydrology and capital cost escalation." Yet according to the EFES: "the expected economic return of the Bujagali project is high and very robust to adverse outturns" (p.139) in the key parameters, including lower demand growth, low hydrology and cost escalation.

The PDD recognizes that the EFES identifies Bujagali as the least-cost power supply option for Uganda. Yet its authors attempt to wriggle out of the problem this poses for their argument that Bujagali really wasn't a very attractive investment, by saying that being least-cost "does not necessarily attract private investors." This is true. But it is also true that Bujagali did attract a private investor (with the help of $360 million in loans and guarantees from the World Bank and more from other international public sector funders).

The PDD states that, "In February 2003, the Dutch government decided to abstain from buying emission reductions from the Project. Shortly thereafter [actually it was 6 months later – see below] AES decided to discontinue the development of the Project." The clear implication is that the Dutch decision led to AES's withdrawal. The reality is that, just as in this application for the CDM, carbon credit income was never an important consideration for AES.

A 2004 Harvard Business School case study of Bujagali (www.people.hbs.edu/besty/projfinportal/casehbs.html) explains some of the context of AES' withdrawal:

> "AES suddenly announced on August 8, 2003 that it was pulling out of the Bujagali project…'It boils down to two results,' Dale Perry, the Bujagali project director, explained, 'lowered returns for AES in the ongoing project balanced against increased risk. Those lower returns come about because there are some continued project delays.' Another AES executive added, 'The delay boosted costs, and the Ugandan government wouldn't agree to higher power prices to cover the expenses.' "

AES pulled out of Bujagali because of delays and uncertainties caused by a range of factors, including a local and international environmentalist campaign against the project, criticism by Ugandan parliamentarians of the terms of the PPA, a corruption investigation by the US Dept. of Justice, and several postponements in World Bank financing.

In conclusion, this is a deeply deceitful PDD containing false claims, deliberately misleading implications, and material omissions. Bujagali should not be validated for the CDM.

Sincerely,

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