



August 8, 2008

Ms. Manja Welzel  
TÜV SÜD Industrie Service GmbH  
Carbon Management Service  
Fax ++49 89 5791-2756

Dear Ms. Welzel:

**Comments on Changuinola I Hydroelectric Project (Panama)**

I am writing, on behalf of the Natural Resources Defense Council (“NRDC”), to express our strong opposition to the application by AES Changuinola (“AES”) for certified emission reduction credits (“CER”) from the Clean Development Mechanism (“CDM”) for its Changuinola I Hydroelectric project (“Chan 75”) in Bocas del Toro, Panama.

NRDC is a non-governmental environmental organization with offices in the United States and China with more than 1 million members and activists. NRDC’s lawyers, scientists, and experts address the broad range of environmental challenges, including climate change and biodiversity preservation. As part of our BioGems Initiative, we have worked closely with communities and groups throughout Latin America to protect threatened special natural areas and further sustainable development. NRDC has monitored the serious social and environmental problems associated with Chan 75 over the last years; and a NRDC group visited the region in 2006. We have also reviewed the Project Design Document (“PDD”) dated June 11, 2008 for the project.

NRDC submits that this project fails to meet the requirement of “additionality” because the construction of a coal-fired plant is not a plausible alternative and the proposed project is financially viable without the requested carbon credits. We also believe that Chan 75 clearly does not meet the CDM’s stated goal of promoting “sustainable development”. In fact, the proposed project will harm the people and biodiversity of the region as detailed in formal petitions now pending before the Inter-American Commission on Human Rights and UNESCO World Heritage Committee.

In regard to “additionality”, AES asserts in the PDD that construction of a 250 MW coal-based thermoelectric plant is the only alternative to the Chan 75 dam. However, there is no precedent for the construction of such a coal plant in Panama. AES fails to identify other less-carbon-intensive alternatives, such as natural gas, wind, and solar

power – all of which have been identified as options in the National Policy on Hydrocarbons and Alternative Energy.<sup>1</sup>

There is already strong interest in Panama in wind power. The National Environmental Authority (“ANAM”) has received applications for 16 wind projects totaling 1,731.2 MW. ANAM has already approved the environmental assessments for wind projects totaling 140 MW and is evaluating two other wind projects each with a potential of 400 MW.<sup>2</sup>

AES also fails to identify energy efficiency as an alternative to the project. The Government’s National Energy Policy 2005-2020 calls for increased energy efficiency. The Government has identified 723.4 to 1,071.68 GWh/year of potential savings from energy efficiency<sup>3</sup>, equivalent to between 12.4 and 18.4 percent of total generation in 2005.<sup>4</sup>

The PDD for Chan 75 asserts with little detail that it needs CERs to overcome low financial returns and barriers to hydroelectricity. In fact, the project appears to be completely viable without any CERs. AES has already secured a ten-year Power Purchase Agreement with Union Fenosa, S.A., Panama’s largest distribution company.<sup>5</sup> Hydroelectric dams can also sell power on the spot market at the same price as more expensive thermoelectric plants. Fitch, a credit rating agency, affirmed the positive rating of AES in Panama, noting that it benefited from “low-cost hydroelectric generating assets” and that its four hydroelectric dams with a total of 482 MW of installed capacity gave it a “very competitive position.” The Fitch report as well as AES Corporation financial statements, confirm that revenue for the company in Panama has grown due to high spot prices and increased hydroelectric volume.<sup>6</sup>

AES also claims there are barriers to hydroelectricity in Bocas del Toro, such as a lack of interconnection to the national grid. However, a transmission line is under

---

<sup>1</sup> Ministerio de Comercio e Industrias, *Política Nacional de Hidrocarburos y Energías Alternativas 2005*, <<http://www.mef.gob.pa/cope/pdf/Pol%EDtica%20Nacional%20de%20Hidrocarburos%20y%20Energ%EDas%20Alternativas.pdf>>

<sup>2</sup> National Environmental Authority, Climatic Change and Desertification Unit. *Clean Development Mechanism*, January 23, 2008. <[http://www.anam.gob.pa/uccd/cambio\\_climatico/documentos/Portafolio%20Proyectos%20MDL%20Panama.pdf](http://www.anam.gob.pa/uccd/cambio_climatico/documentos/Portafolio%20Proyectos%20MDL%20Panama.pdf)>

<sup>3</sup> Comisión de Política Energética, *Política Energética del Sector Eléctrico 2005*, <<http://www.mef.gob.pa/cope/>>

<sup>4</sup> Centro Nacional de Despacho, *Informe de la Operación del Sistema y del Mercado Mayorista de Electricidad del CND – 2007*, Panama.

<sup>5</sup> “AES to Build 150 MW Hydroelectric Plant with Long Term Contract in Panama; Company to Add a Total of 940 MW to Its Global Fleet.” AES Press Release, Jan. 26, 2006. <<http://investor.aes.com/phoenix.zhtml?c=76149&p=irol-newsArticle&ID=809237&highlight=>>

<sup>6</sup> “Fitch Affirms AES Panama’s IDR at ‘BBB-’; Outlook Stable,” Business Wire, Sept. 4, 2007 <[http://findarticles.com/p/articles/mi\\_m0EIN/is\\_2007\\_Sept\\_4/ai\\_n19494758](http://findarticles.com/p/articles/mi_m0EIN/is_2007_Sept_4/ai_n19494758)>

Ms. Manja Welzel

August 8, 2008

Page 3 of 4

construction that will connect the region to the National Interconnected System; AES signed an access contract with the state transmission company in early 2007.<sup>7</sup>

Hydroelectric plants also receive financial incentives under the 2005 Energy Policy for the Electric Sector, including the right to sell into the Central American power market. Panama is already a net electricity exporter into the Central American grid, exporting over 2% of its power generation in 2007.<sup>8</sup> A 230kV transmission line under construction from Changuinola to the Costa Rican border will add additional export capacity. A proposed transmission line connecting Panama to the South American grid via Colombia would further increase the capacity for AES to export electricity by 300 MW.<sup>9</sup>

It is clear that this project is indeed capable of moving forward without the requested credits. Any claim to the contrary is further undercut by the fact that AES has proceeded with construction of an access road and the start of work at the dam site itself.

The PDD claims that the project is important to the sustainable development of the Bocas del Toro province. However, the dam threatens the livelihood and cultural survival of approximately 5,000 members of the Ngöbe indigenous group living near the project site on the Changuinola River. The Ngöbe maintain a traditional lifestyle based on subsistence agriculture and fishing. These people will lose lands to flooding and potentially an important source of protein from fish species that are threatened.

The project has violated the fundamental rights of Ngöbes. Panama police hired by AES forced Ngöbe families to leave their homes and lands. The police also injured Ngöbe women and children during peaceful protests against the dam. AES coerced a number of Ngöbes to agree to the project. The Ngöbe have not given their free, prior and informed consent – as required by Articles 13 and 23 of the American Convention on Human Rights. In March 2008, Cultural Survival and Alianza para la Conservación y el Desarrollo filed a petition detailing these human rights abuses with the Inter-American Commission on Human Rights. More recently, the UN Special Rapporteur on the situation of human rights and fundamental freedoms of indigenous people, Mr. James Anaya, expressed to the Government of Panama his concern about the Ngöbe and Chan 75.

Chan 75 would also seriously harm a number of protected natural areas and species. The dam site is in the Palo Seco Protected Forest which is part of the La Amistad Biosphere Reserve (Panama-Costa Rica) and the Mesoamerican Biological Corridor. The Palo Seco Protected Forest also serves as a buffer zone for the La Amistad

---

<sup>7</sup>“AES, Etesa ink transmission system access contract,” Business News America. Feb. 6, 2007. <[http://www.bnamericas.com/news/electricpower/AES,\\_Etesa\\_ink\\_transmission\\_system\\_access\\_contract](http://www.bnamericas.com/news/electricpower/AES,_Etesa_ink_transmission_system_access_contract)>

<sup>8</sup> Centro Nacional de Despacho, *Informe de la Operación del Sistema y del Mercado Mayorista de Electricidad, 2007*, Panama.

<sup>9</sup>“Countries ink agreement to reach interconnection in 2012,” Business News Americas, August 3, 2008. <[http://www.bnamericas.com/news/electricpower/Countries\\_ink\\_agreement\\_to\\_reach\\_interconnection\\_in\\_2012](http://www.bnamericas.com/news/electricpower/Countries_ink_agreement_to_reach_interconnection_in_2012)>

Ms. Manja Welzel  
August 8, 2008  
Page 4 of 4

International Park, a UNESCO World Heritage Site which is home to diverse wildlife including endemic migratory species. The dam would affect the migration of the fish and shrimp in the Changuinola River, leading to the loss of major fish species upriver in La Amistad International Park. It would also impact the San San – Pond Sak Wetlands Ramsar Site, which is also part of the Biosphere Reserve and the Mesoamerican Biological Corridor. Thirty-seven Panamanian and international environmental, scientific and citizen groups filed a petition in 2007 with the UNESCO World Heritage Committee to designate Amistad as a site “in Danger”.

ANAM approved the project’s Environmental Impact Assessment (“EIA”) despite its failure to meet both Panamanian and international standards for scientific quality and public consultation. Specifically, the EIA did not adhere to the guidelines of the World Commission on Dams on environmental, social, health and cultural impacts. European Union legislation known as the Linking Directive mandates that CDM credits from hydro projects over 20 MW can only be used in the Emissions Trading Scheme, the EU’s greenhouse gas market, if the projects adhere to the standards of the World Commission on Dams. We strongly advise the CDM Executive Board to follow this precedent when evaluating requests for certified emission reductions.

In conclusion, we strongly urge the CDM Executive Board to reject the request for CERs for Chan 75. The credits will not result in new added reductions in greenhouse gas emissions. CDM should not provide its support to a project which undermines the prospects for sustainable development with its injury to the rights and well-being of Ngöbe communities and damages protected natural areas. At the very minimum, the Board should refrain from making a decision until the Inter-American Commission on Human Rights and the UNESCO World Heritage Committee have acted on the petitions now before them.

We appreciate very much your consideration of these comments and would be pleased to respond to requests for further comments or information.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Jacob Scherr". The signature is fluid and cursive, with a long horizontal stroke at the end.

S. Jacob Scherr  
Director, International Program  
Natural Resources Defense Council