



NTPC

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To: Mrs.
Mrs. Ame Trandem
SE Asia Program Director
International Rivers
2150 Allston Way,
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CA 94704-1378, USA

Dear Mrs. Trandem,

RESPONSE LETTER TO INTERNATIONAL RIVERS

Thank you for your letter dated 24 February 2011, which we read with great interest. We have carefully investigated and discussed the different concerns and issues which were raised after your visit of the NT2 site in September 2011. We are pleased to provide you with explanations and facts that shall hopefully answer the questions raised.

1. Downstream Program (DSP)

Question 1: We would be interested in learning more about the types of assistance NTPC has given Xe Bang Fai villagers since September to deal with the flood impacts and how NTPC is ensuring that food security does not become a major issue in the area.

We do share your concerns over the level of assistance that the flood prone downstream population has received after being affected by the natural flood along the Xe Ban Fai river (XBF), caused by the tropical storms in August 2011. NTPC and its shareholders provided 110,000 USD to the Provincial Government as a rapid response to the emergency

situation and for mid-term flood relief actions. NTPC also mobilized bulldozers and equipment to re-open and maintain open the damaged road to the Nakai plateau, in order to secure input supplies and market access for the Nakai population.

The NTPC DSP is pursuing its compensation and livelihood package with the riparian and hinterland villages in close collaboration with the Government of Laos (GOL). The NTPC DSP was able to distribute 7,155 kilos of locally produced seeds of flood tolerant rice varieties. These seeds were used during the current dry season for multiplication of approximately 75'000 kilos of seeds. The latter will be disseminated through the rice seed breeder's network for the next rainy season. Such rice varieties contribute to increase rice productivity and increase people's resilience to flood situations which may occur in future.

Question 2: Could you update us on what further investigations have been done since September and what those results are? If it does turn out to be cyanobacteria, this also has the potential to cause other health problems and we would appreciate hearing what measures NTPC is taking to ensure that this does not occur.

Regarding skin irritation cases observed in the XBF during the 2010 dry season, NTPC incepted two different researches to investigate potential causes, more specifically cecaria and cyanobacteria. However, both studies did not establish any clear cause for the symptoms. Few isolated cases of skin irritation reappeared during the 2011 dry season and disappeared completely with the onset of the rainy season. Although skin irritation cases have not been reported since then, NTPC continues to investigate the cyanobacteria hypothesis in the frame of research collaboration with international institutes. This research supplements our routine monitoring of phytoplankton and includes cyanobacteria. The new research component on cyanobacteria is expected to start in May 2012 and last for a 12-months period.

Question 3: Could you let us know what the explanation is for these fluctuations in water levels and whether there are any efforts being made to mitigate them?

Your report on villagers' observations on the water level fluctuations, confirm the predicted impact. Fluctuations of the levels of the water released by the power station are more pronounced during the dry season, especially during weekends when the electricity demand is reduced. But thanks to the buffer effect of the regulating pond and the 27 km long downstream channel, water level fluctuations in the XBF are kept at a minimum and occur gradually over an extended period of time. In addition to having implemented coordination between its operation and its downstream teams, NTPC also operates a notification system directly to riparian villages, which is activated when fluctuations exceed a defined gradient. A grievance system is in place to take care of possible claims for damages on people's assets, but no such report has reached the company so far.

Question 4: How is NTPC monitoring erosion and ensuring that villagers are adequately compensated for their losses?

The erosion prone sites indicated by your letter are part of NTPC's periodic physical erosion monitoring surveys. The latter include regular riverbank cross-sections assessments, site specific monitoring, aerial photograph and satellite imagery analysis, regular video and photographic documentation of riverbanks.

Much of the XBF is prone to natural erosion, which is particularly strong in a flood year like 2011. So far, the most exposed sites are related to years of human and animal movements along the river banks. Erosion also often occurs near irrigation pipelines, where surface runoff contributes to an increased rate of erosion on the river bank. At this stage, there was no acknowledgment of erosion directly related to the operation of the power station and the consequent releases of water in the XBF. In addition,

analyses of suspended solids, which are part of the water quality monitoring in the XBF, produced values within the norm.

A grievance system is in place to take care of possible claims for damages on people's assets, but no such report has reached the company so far.

Question 5: We would like to hear what steps NTPC is taking to ensure that wells are functioning and providing sufficient clean water to villagers.

All boreholes planned for riparian villages have been provided. A monitoring and maintenance process is in place to take care of mechanical or water quality problems as they arise. To address groundwater quality problems, sand filters are being put in place where required, as a means to reduce naturally-occurring high levels of sediments, and replacement boreholes are drilled for solving turbidity or salinity issues. NTPC continues to work with the relevant government agencies for rural water supply and within communities themselves, to identify issues, as well as to implement a community based operation and maintenance program, including provision of spare parts and tools.

Question 6: You informed us that NTPC fish monitoring data suggests a 10-15% decrease in fish catch during the dry season as a result of the dam. We would once again like to request access to this data so that we can make our own assessments.

Overall, fish catch has become more challenging due to the increased water levels, however the decline in fish catches is clearly below predicted impacts (reference Social Development Plan, 2005). The effective mitigation measures (aeration structures) built into the water release system have proven itself very efficient with no significant impact measured on the aquatic life. Variations in fish catch also exist across years and 2011 was a particular good fishing year due to the extensive floods along the XBF. Any conclusion on NT2 impact on the XBF fisheries is premature until a longer series of data is available.

The monitoring, oversight and public disclosure system for the NT2

project is a particularly strong one, and all parties to the project agreed to this system at the time of project approval. The system is designed to ensure that internal monitoring of the project is robust, and that there is expert external oversight to help advise NTPC and Government during the implementation of the project, as well as to ensure the integrity of the process. In addition, the system outlines specific responsibilities for reporting.

Question 7: We are aware that this is anecdotal evidence, but the number of complaints suggests that a more thorough investigation deserves to be made into compensation for riverbank gardens. In addition, we would like to know whether any studies have been conducted to determine the impacts that loss of riverbank gardens and fisheries have had on nutrition and food security in the area.

Riverbank garden losses affect the overall livelihoods of people but are insignificant for food security, as the crops grown on riverbank gardens were largely for sale, not for consumption. As of today, even if the compensations were paid for a full loss of the riverbank gardens, seventy percent of the riverbank garden areas remain above the new water levels and continue to be available for cultivation. The same applies for the fish catch, with remaining fish catches still exceeding subsistence consumption which therefore secure nutrient/protein intake. However a loss in fish sales revenue will impact livelihoods for which the 16 million USD (and an additional 2.3 million USD grant allocated by NTPC's shareholders) downstream compensation and livelihood support program was setup. A food consumption monitoring survey has been undertaken, and did not indicate significant changes in people's diet or food security during the surveyed period.

The compensation program for loss of riverbank gardens is unique to Laos and due to its scope, is a highly complex undertaking. With the DSP scope, NTPC has been working in more than 160 villages with over 20,000 households (HHs) and 3,322 HHs were entitled for riverbank garden compensation. In each riparian village, a Village Grievance Unit

was established and all HHs were informed of the Village Grievance Unit process and how to access it. The riverbank garden compensation process for the 3,322 eligible HHs has been completed and the number of processed grievances amounts to 1,109 cases, out of which 25% were assessed as valid. This high number of grievances indicates that the grievance system was widely used and was accessible to all concerned families. Six community grievances for lost access due to backwater effects in tributaries are currently being resolved and communities receive ferry boats or permanent structures to have all year round access to their traditional territories.

Question 8: Could you inform us whether there is a commitment from the GOL to use Nam Theun 2 revenues for Nam Theun 2-affected communities and also whether NTPC will continue to allocate any resources to the Downstream Program after its proposed withdrawal?

NTPC will maintain its extended monitoring system until the end of the DSP in 2015. In addition, a variety of oversight and monitoring bodies regularly visit the downstream areas to check on DSP progress and evolution, including the Panel of Experts, the Lenders Technical Advisors, and the Independent Monitoring Agency, among others.

Resources have been secured by GOL and NTPC to facilitate a gradual transition to handover the DSP from NTPC to the Province, handover to be completed by the end of 2012.

The GOL/Prime Minister approved a supplemental DSP budget in order to fund district working groups in 2012, when NTPC will no longer finance development activities directly. Budgets for the next fiscal year have been submitted and will follow the standard budget allocation process of GOL. Worldbank and ADB have extended their on-going development programs for continued capacity building of GOL institutions and service providers in the two provinces of Khammouane and Savannakhet.

NTPC has increased its legally bound budget by 14% in order to ensure a smooth transfer of activities and responsibilities to GOL agencies which

have contractual legal obligations with the International Finance Institutions to support the downstream population until the end of the DSP in 2015.

2. Nakai Plateau – Resettlement Villages

Question 9: What is NTPC's plan for helping villagers to make use of their 0.66 ha of land?

Recent socio-economic monitoring on the Nakai plateau shows that resettler's average income is clearly above the current national poverty line and three to four times above the pre-project situation. However, there is considerable variation in incomes and accrued asset levels across villages and HHs.

All resettled households have now received land titles for their 0.66 ha agricultural plot and for their HH plots. A Participatory Land Use Planning (PLUP) process has been completed to demarcate village boundaries and to identify additional land for the second generation of resettlers, as well as for resettler families with additional land needs. This process helps to establish permanent legal rights of each resettled families over their land-based resources, to clarify public and private responsibilities over them, and to open up additional land for individual and group cultivation.

The NTPC/GOL community and livelihood support teams continue to support resettlers in optimising the natural resource management and in strengthening local institutions, as a means to strengthen the enforcement of fisheries regulation on the reservoir and the law and special decrees on forest protection, a task which involves affected communities, as well as the government authorities.

Question 10: What is NTPC's plan for ensuring that as fisheries continue to decline and competition increases, there are alternative sources of income and food for Nakai Plateau resettlers?

A fisheries' co-management system has been established by NTPC/GOL in northern villages and starts to show its effects.

Fish stocks remain robust and provide resettler HHs with a readily available source of income and consumption. Most fish caught are sold and thus represent an important contribution to livelihoods. Prior to relocation, fishing was destined to household consumption only, not for sale. Monitoring of fish population and fish catch has shown that fish species remain reasonably diverse, although some species have experienced reductions in volume. This is normal for new reservoirs and we continue to expect some volatility in fish catch on the plateau. Fish catch volumes are related to the diversity of resettlers' livelihoods, the evolving ecosystem of a new reservoir, as well as the intensity of fishing effort.

Question 11: What sort of crops does NTPC envisage villagers being able to cultivate during this three-month timeframe?

In regards to the drawdown zone (DDZ), villagers have sufficient alternative revenues, from fishing, livestock rearing and NTFP collection and do not need to cultivate the DDZ at this stage. It is observed that local grass grow spontaneously in the DDZ. This natural fodder supports livestock production during the dry season months, when fodder becomes scarce on the plateau. The livelihood support teams have shortlisted a number of crops with short growing cycles, which are under experimentation.

Question 12: We are concerned that there continues to be unresolved issues concerning buffalo compensation after all this time, and would like to know what NTPC has done to try to resolve the situation?

All buffaloes officially reported as dead have been compensated at their market value and respective amounts were transferred to individual bank accounts of eligible HHS by end of 2011.

Question 13: What is NTPC doing to ensure that promises to affected communities are honored?

Your observation about on-going compensation payment is partially correct, as the Nakai Resettlement Program has spread the different compensation packages over time. The two last compensations packages are planned to be completed by the end of this year. Regarding the entitlements of jointly owned agriculture equipment and hand tractors, a decision has been made by the Resettlement Committee to convert these entitlements into resettlers' share capital. This share capital is individually owned and made accessible through the Village Credit Fund, which is currently being established in every resettler village.

We hope that the above explanations answer your questions and concerns and wish you a Happy Pimai Lao and a prosperous New Year 2555!

With best regards,



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