MANAGEMENT RESPONSE TO
REQUEST FOR INSPECTION PANEL REVIEW OF THE
CHILE: QUILLECO HYDROPOWER PROJECT (TRUST FUND NO. TF056272-
CL) AND LAJA HYDROELECTRIC PROJECT

Management has reviewed the Request for Inspection of the Chile: Quilleco Hydropower
Project (Trust Fund No. TF056272-CL) and Laja Hydroelectric Project, received by the
Inspection Panel on April 21, 2010 and registered on June 18, 2010 (RQ10/05).

Management observes that before the Request was filed, Management did not have the
opportunity to respond to specific claims regarding the Quilleco Project (which is the
only project referred to in the Request that both involves the Bank and against which
claims are made; the Bank is no longer involved in the Laja Project and no claims are
made against it). As reflected in the correspondence between the Requesters and Bank
staff (see Annex 3), the Bank received an initial letter requesting information (but
containing no claims), to which the Bank responded (this response included information
and documentation, queried the Requesters about their specific concerns and included an
offer by Bank staff to meet with them). The next inquiry letter to Bank staff from the
Requesters was on April 20, 2010, which is the day preceding the date of the Requesters’
letter to the Inspection Panel. This chronology reflects the lack of opportunity provided to
Bank staff to respond to Requester claims prior to the April 21st Request for Inspection.

Management therefore asks the Panel to consider the Request ineligible for investigation.

Management further notes that the Pangue project mentioned by the Requesters was an
IFC operation with no engagement of the World Bank. IFC Management has informed
the Bank that the project should be ineligible for investigation by the Inspection Panel
because the Compliance Advisor and Ombudsman (CAO) of the IFC is the designated
mechanism for addressing complaints regarding IFC-financed projects, and has already
investigated the Pangue project. IFC Management has also reported to the Bank that
information about this investigation is in the public domain.
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<tr>
<td>CDM</td>
<td>Clean Development Mechanism</td>
</tr>
<tr>
<td>CEA Ltd.</td>
<td>Centro de Ecologia Aplicada</td>
</tr>
<tr>
<td>CERs</td>
<td>Certified Emission Reductions</td>
</tr>
<tr>
<td>CFU</td>
<td>Carbon Finance Unit</td>
</tr>
<tr>
<td>CONADI</td>
<td>National Corporation for Indigenous Development</td>
</tr>
<tr>
<td>CONAMA</td>
<td>Comision Nacional de Medio Ambiente (National Environmental Commission)</td>
</tr>
<tr>
<td>COREMA</td>
<td>Comision Regional de Medio Ambiente (Regional Environmental Commission)</td>
</tr>
<tr>
<td>DIA</td>
<td>Declaración de Impacto Ambiental (Environmental Impact Statement)</td>
</tr>
<tr>
<td>DNV</td>
<td>Det Norske Veritas</td>
</tr>
<tr>
<td>DOE</td>
<td>Designated Operational Entity or UN accredited CDM auditor</td>
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<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>Environmental Management Plan</td>
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<td>Emission Reductions Purchase Agreement</td>
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<td>Hidroeléctrica Guardia Vieja</td>
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<td>International Bank for Reconstruction and Development</td>
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<td>International Financial Corporation</td>
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<td>IFIM</td>
<td>Instream Flow Incremental Methodology</td>
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<td>LBMA</td>
<td>Ley sobre Bases Generales del Medio Ambiente (General Environmental Law)</td>
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<td>LoI</td>
<td>Letter of Intent</td>
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<td>MEF</td>
<td>Minimum Ecological Flow</td>
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<td>MW</td>
<td>Mega Watt</td>
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<td>NCDMF</td>
<td>Netherlands Clean Development Mechanism Facility</td>
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<td>PAD</td>
<td>Project Appraisal Document</td>
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<td>QAT</td>
<td>Quality Assurance Team</td>
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<td>RCA</td>
<td>Resolución de Calificación Ambiental (Environmental Order)</td>
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<td>SEIA</td>
<td>Sistema de Evaluación de Impacto Ambiental (Environmental Impact Evaluation System)</td>
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<td>SIC</td>
<td>Sistema Interconectado Central (Interconnected Central System)</td>
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<tr>
<td>UNFCCC</td>
<td>United Nation Framework Convention on Climate Change</td>
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<tr>
<td>WCD</td>
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Chile
EXECUTIVE SUMMARY

i. On June 18, 2010, the Inspection Panel registered a Request for Inspection concerning the Quilleco Hydropower Project and the Laja Hydroelectric Project in Chile. The Request was submitted by residents of Tucapel, Santa Barbara, Ralco Lepoy, and Concepcion (the Requesters) in the Bío Bío region of Chile. The Requesters have asked the Panel to keep their names confidential. The Request and the correspondence related to it also make reference to several other hydropower projects in: (a) the Bío Bío basin where Quilleco and Laja are located; and (b) the Aconcagua basin, 600 km north of the Bío Bío basin.

ii. Of the projects referred to in the Request and related correspondence, the Quilleco Hydropower Project (the Project) is the only one in which the IBRD is involved, acting as the Trustee of the Netherlands Clean Development Mechanism Facility, and for which there are project-specific claims. Nevertheless, Management has taken a comprehensive approach in responding to the Request and related correspondence by describing: (a) the context of the Project and the other hydropower projects mentioned by the Requesters; (b) the corporate entities mentioned by the Requesters; (c) the Chilean regulatory framework for hydropower development; (d) past and present IBRD and IFC support for hydropower development in Chile; (e) Management’s understanding of the Request with respect to the Project, clarifying the nature of IBRD involvement; (f) the due diligence carried out in the preparation and implementation of the Project; and (g) Management’s response to the claims raised by the Requesters and to other aspects noted by the Panel.

The Quilleco Project

iii. The overarching objective of the Project is to help mitigate global climate change by supporting clean energy development in Chile. The Project involves the purchase of emission reduction credits from the Quilleco Project, a 70 MW run-of-river hydropower plant built, owned and operated by Colbún, a private sector company. It is located in Chile’s 8th region, 35 km east of Los Angeles city. It feeds into the Central Interconnected System through a 0.5-km 220-kV transmission line. The Quilleco power plant has been in operation for three years. The Quilleco plant was designed to run in cascade on water directly discharged from the Rucue hydropower plant, a 178 MW run-of-river facility located upstream of Quilleco on the Laja River and which began its commercial operations prior to the beginning of environmental assessment work on the Quilleco Project.

iv. The Bank did not finance preparation or development of the Quilleco Project. Rather, IBRD’s financial role is that of an intermediary, facilitating the use of market-based mechanisms to mitigate climate change specifically through the purchase of carbon emission reductions, sanctioned under the Clean Development Mechanism.

v. As is common with Carbon Finance operations, IBRD became formally involved with the Quilleco Project when it was at an advanced stage of preparation. At the Project identification stage in July 2004, the EIA for Quilleco had been completed and already
approved by the Chilean regulatory authorities. As part of its due diligence, IBRD undertook a comprehensive review of the preparatory work carried out by Colbún, including the Environmental Impact Assessment (EIA) and a supplemental cumulative impact assessment for Quilleco that was required by the Chilean National Environment Commission (CONAMA). Following this review, a determination was made that Colbún had prepared the Quilleco Project in a manner that was consistent with the application of all relevant Bank policy requirements.

Management Response

Project-Specific Claims in the Request

vi. The Requesters raise two specific claims relating to the Quilleco Project in their formal request: (a) absence of an adequate cumulative impact assessment; and (b) the need for the Bank to sever all ties with Colbún.

vii. **Cumulative Impact Assessment:** Management believes that the cumulative impact assessment carried out for the Quilleco and Rucúe projects was appropriate to the nature and scale of the project investments. The area of influence for the Quilleco Project with respect to cumulative impacts was appropriately determined by CONAMA as the direct effects of the Rucúe and Quilleco Projects in cascade on river hydrology and on aquatic habitat. The methodological approach used by Electrowatt Engineering, an independent and internationally recognized engineering consulting firm, to assess aquatic habitat value and possible cumulative and synergistic impacts on aquatic resources in the Project’s area of influence represents good practice, as does the Instream Flow Incremental Methodology used for determining Minimum Ecological Flows (MEF) for the Quilleco Project. An amendment to the EIA presenting the results of this assessment was disclosed in March 1999, prior to the Bank’s involvement in the Project.

viii. Moreover, appropriate methodology has been used since 1999 to monitor the cumulative effects of the Rucúe and Quilleco Projects on aquatic habitat and on fish populations, particularly populations of two endangered fish species in the Project area of influence. The monitoring data have shown that the MEF designated initially for the Rucúe Project and subsequently for the Quilleco Project has been able to maintain the diversity of aquatic habitats and the fish species within the area of influence as determined by CONAMA.

ix. **World Bank Group Involvement with Colbún.** Based on the due diligence done in the preparation of the Quilleco Project, the Bank believes that Colbún carried out its operations with respect to the Quilleco Project in a manner that was consistent with the application of relevant World Bank policies. The Bank applies its policies on projects receiving Bank support (including through Carbon Finance operations). The Bank does not extend this requirement to all the other activities of a company or country that is partnering with the Bank.
Main Issue Raised in Separate Letters to Bank Staff

x. In addition to the two specific claims relating to Quilleco, the Requesters have raised the issue of affected populations in separate letters to Bank staff.

xi. **Affected Populations.** Management believes that the consultation process offered communities in both Quilleco and Tucapel adequate opportunities to express their views and concerns on the Quilleco Project, and that their concerns were addressed at different stages of the Project. Consultations on the Quilleco Project and its potential environmental and social impacts were carried out as part of the preparation of the EIA between June 1997 and December 1998. Public hearings were organized by CONAMA in Quilleco and were announced in local and regional newspapers. The Addenda of the approved EIA includes Colbún's responses to the issues raised during consultations. Colbún commissioned a hydro-geological study in response to concerns expressed by Tucapel residents about the potential impacts of the Project on groundwater levels. The findings of the study – that the Project would not affect groundwater levels or water resources of the community of Tucapel – were communicated to the communities. Consultations continued during Project preparation and supervision to enable communities to raise issues and concerns, and enabled Colbún and IBRD to respond to those concerns. During a September 2004 mission, some residents of Tucapel expressed their continued concern to the Bank team about the possible impact of the Project on well water levels. The IBRD recommended that Colbún carry out further consultations with the community of Tucapel to address their concerns. Based on the November 2005 Environmental and Social Report commissioned by the Bank, Bank staff confirmed that periodic meetings between Colbún and the Tucapel community were being held.

xii. During the appraisal mission of April 2006, representatives from Tucapel mentioned that 25 families in the Valle del Laja still did not feel that their concerns had been resolved. Colbún indicated that it had sent letters responding to the concerns, but had not received any response from the community. The mission recommended that Colbún make additional efforts to reach out to the community, create a committee to resolve potential disputes, and commission a baseline study in Valle del Laja. Following the recommendations of the Bank mission, Colbún completed a baseline study in Valle del Laja, and wrote to the community at Valle del Laja reiterating that the Quilleco Project did not affect groundwater levels. Colbún also wrote to the community offering to meet with them, but did not receive any response from the community. The committee to resolve disputes was not formed as no formal complaints were received by Colbún from the communities.

General Issues Regarding Policies and Safeguard Compliance

xiii. **OP 4.01, OP 4.04, OP 4.12, OD 4.20, OPN 11.03 and OP 13.05.** Management believes the following operational Policies and Procedures listed by the Inspection Panel were applied appropriately, namely: (i) OP/BP 4.01 - Environmental Assessment, (ii) OP/BP 4.04 - Natural Habitats, (iii) OP/BP 4.12 - Involuntary
Resettlement, (iv) OD 4.20 - Indigenous Peoples, (v) OPN 11.03 - Cultural Property, and (vi) OP/BP 13.05 - Project Supervision.

xiv. **OP/BP 4.37, Safety of Dams.** OP 4.37 was reviewed in light of its requirements with respect to the Quilleco plant and it was determined that no action was required regarding this facility. The Quilleco Project involves a run-of-river plant (i.e., relies on the river’s flow rather than, for example, a reservoir behind a retaining dam) but no dam or storage reservoir. Given these technical characteristics, Management believes that the judgment not to apply the provisions of OP 4.37 to the Quilleco facilities was justified.

xv. OP 4.37 also stipulates that, for Bank projects that could be affected by existing dams upstream, due diligence should be carried out on the safety of these upstream dams upon which the Bank project’s performance depends to ensure that appropriate safety measures are in place and implemented upstream of the Bank’s project. There are two dams located upstream of Quilleco, namely el Toro and Antuco (which are owned by Endesa and were not mentioned in the Request). Although the Requesters have not voiced concerns about dam safety in the Laja sub-basin, Management recognizes that given the Project’s context on the Laja River, the Project team should have reviewed and evaluated the operation of the two dams located upstream of the Bank’s project. It should be noted that implementation of the Quilleco Project does not modify the risk profile of these existing two dams that have been in operation for the past 25 years or more in the upper Laja watershed.

**Actions Proposed**

xvi. **Actions.** In Management’s view, the Bank has followed the guidelines, policies and procedures applicable to the matters raised by the Requesters. Management does note that additional due diligence should be carried out with respect to the issue of dam safety regarding the dams located upstream of the Quilleco Project in the upper Laja watershed; Bank staff will consult with Endesa and the responsible Chilean authorities to determine whether appropriate safety measures are in place and implemented at these dams and will follow up with a supervision mission. The Bank will continue to supervise the Project, including evaluating any potential concerns of affected populations. The Bank also will continue to exchange information with the Requesters through the ongoing correspondence between them and Bank staff.
I. INTRODUCTION

1. On June 18, 2010, the Inspection Panel registered a Request for Inspection, IPN Request RQ 10/05 (hereafter referred to as “the Request”), concerning the Chile: Quilleco Hydropower Project (Trust Fund No. TF056272-CL) and the Laja Hydroelectric Project.

2. The Quilleco Hydropower Project is the only project referred to in the Request that raises claims of adverse impacts and also involves the IBRD. In the Inspection Panel Request and related letters, the Requesters make claims related to numerous hydropower projects in Chile, however, Management would like to emphasize that among the mentioned projects, the Quilleco Project is the only one with IBRD involvement against which claims are made. The Bank is no longer involved in the Laja Project and no claims are made against this project. Although the Requesters mention two other IBRD Carbon Finance Projects that involve the Bank, Chacabuquito and Hornitos, no specific claims are made against those projects, which are located in another river basin almost 600 km to the north. Accordingly, Management’s response focuses on the issues relating to the Quilleco Project, while at the same time providing background information about the other projects in an effort to provide context for the Requesters’ claim and Management’s response. Additionally, the Requesters refer to projects that had some IFC involvement in the past. Management’s response does not address these projects except to provide context.

3. It is important to note that the Quilleco Project is a Carbon Finance operation and not a traditional IBRD loan or guarantee operation. Under the Carbon Finance structure, IBRD does not itself provide financing for the development of projects but acts as an intermediary for the acquisition of emission reductions from projects for the account of participants in carbon funds for which IBRD acts as trustee. In such cases, while IBRD’s environmental and social safeguards are applicable, other IBRD operational policies and procedures (e.g., procurement, financial management) do not apply. There was no Bank financing or involvement in the development or construction of the Quilleco Project.

4. Management requests that consideration be given to finding the Request ineligible. Management did not have an opportunity to address the concerns raised before the Request was filed and registered (see Annex 3).

5. Structure of the Text. The document contains the following sections: (i) an introductory section; (ii) a description of the Request; (iii) a description of the context relating to the Bank’s projects, including a description of the physical plants mentioned by the Requesters and information on the nature of World Bank and IFC involvement with these plants; (iv) Management understanding of the Request, including an itemization of the claims set out in the Request with respect to the World Bank-supported and other hydropower projects; (v) a description of the Quilleco Project; (vi) a description of the due diligence conducted by the Bank with respect to the Quilleco Project; and (vii) Management’s response to the claims raised by the Requesters and to
other aspects noted by the Panel. Annex 1 presents the Requesters’ claims, together with Management’s detailed responses, in a matrix format. Annex 2 describes IBRD’s due diligence for Carbon Finance operations, Annex 3 details all IBRD correspondence with the Requesters, and Annex 4 includes a list of relevant project documents mentioned in this response.

II. THE REQUEST

6. The Request was submitted on April 21, 2010, by residents of Tucapel, Santa Bárbara, Ralco Lepoy, and Concepción (the “Requesters”) in the Bío Bío region of Chile. Two of the Requesters are representatives of the Pehuenche indigenous community affected by some of the projects. The Requesters have asked in their correspondence that the Panel keep their names confidential.

7. Attached to this Request is correspondence sent by the Requesters to the Country Office in Buenos Aires, Argentina. In addition, the Inspection Panel included the following in its Notice of Registration:

   (a) Letter of November 10, 2009, from the Requesters to the Inspection Panel and the International Finance Corporation’s Compliance Advisor Ombudsman (IFC CAO);

   (b) Letter of December 10, 2009, from the Requesters to the Panel and the IFC CAO; and

   (c) Letter of clarifications on May 24, 2010, to the Inspection Panel.

8. The Request states that it includes: “the WB Buenos Aires response and our counter-response.” For ease of reference, we have attached (as Annex 3) the various correspondence between the Requesters and Bank staff (referred to herein as the “Related Letters”), namely:

   (a) January 21, 2010, first request for information sent to the former World Bank Country Director for Chile;

   (b) January 22, 2010, first World Bank response to request;

   (c) February 9, 2010, second World Bank response to request;

   (d) April 20, 2010, second request for information sent to the former World Bank Country Director (which letter was included in the materials provided by the Inspection Panel);

   (e) April 21, 2010, first World Bank response to second request;

   (f) May 14, 2010, second World Bank response to second request; and
9. The Request also states that it includes “a copy of the Executive Summary of the May 2003 CAO Pangue Report and the Lessons Learned Document.” Management would like to clarify that the CAO Pangue Report and the Lessons Learned Document were not part of the documentation shared with Management.

10. The Request contains claims that the Panel has indicated may constitute violations by the Bank of various provisions of its policies and procedures, including the following:

   - OP/BP 4.01, Environmental Assessment
   - OP/BP 4.04, Natural Habitats
   - OP/BP 4.12, Involuntary Resettlement
   - OP/BP 4.10 and OD 4.20, Indigenous Peoples
   - OP/BP 4.37, Safety of Dams
   - OP/BP 4.11, Physical Cultural Resources and OPN 11.03, Cultural Property
   - OP/BP 13.05, Project Supervision.

III. CONTEXT

11. The Request refers to a number of hydropower projects located on the Bio Bio River and its main tributary, the Laja River. Previous correspondence from the Requesters also refers to several other hydropower projects located in the Aconcagua basin, around 600 km to the north of the Bio Bio basin. This section provides: (a) a description of these various hydropower plants, (b) a short summary of the corporate ownership of the plants, (c) a summary of key elements of Chile’s environmental regulatory framework regarding the development of hydropower plants, and (d) a description of the nature (if any) of World Bank and IFC financing for these plants.

A. HYDROPOWER DEVELOPMENT ALONG THE BIO BIO AND LAJA RIVERS, AND OTHER LISTED PROJECTS

12. The Bio Bio River basin, located in central Chile, is the country’s third largest river basin (see Map 1). It occupies an area of 24,371 km² (3 percent of the country’s continental territory) stretching from the Andean slopes in the east on the Chilean-Argentinean border, to the Pacific Ocean in the west. Approximately 72 percent of the Bio Bio basin is located within the Bio Bio region, whereas the remaining 28 percent is located in the Araucania region. The Bio Bio River is the longest river in the basin and Chile’s second longest river, extending 380 km. The river originates from the small Galletué Lake, located in the Andes at 1,430 meters above sea level, and reaches the Pacific Ocean near the city of San Pedro de La Paz, close to Concepción. The Duqueco, Bureo, Malleco and Laja Rivers are its main tributaries. Along its route, the
Bio Bio River is a multi-purpose water resource. Its main uses are hydropower generation, water supply, irrigation, receiving municipal and industrial wastewater, aquaculture, recreation and tourism.

**Map 1: The Bio Bio River Basin and Its Rivers**

Source: IBRD Map 37947. Full version at the end of the document.

13. **The Laja River sub-basin drains an area of 4,364 km² representing 18 percent of the Bio Bio River basin.** The hydrological regime of the Laja River depends both on snow melt coming from the Andean range in the spring and on winter rainfall in the intermediate valleys. The length of the Laja River from its source is 160 km to the confluence with Bio Bio, and an additional 79 km to the Pacific Ocean in Concepción. The flow of the Laja River is naturally and heavily regulated by glaciers in the upper Andean range and by Lake Laja, which is a large natural reservoir located at the source of the river with a capacity of 8,000 million m³. The hydrological regime is further regulated through interactions with well developed aquifers in the alluvial valleys, recharged mostly from waters percolating from river beds in upper reaches which drain into the river in the intermediate and lower sections.
14. **The Bío Bío River basin has a long history of hydropower development.** Currently ten hydropower plants are installed and operational in the Bío Bío region, and there are two additional plants under active preparation. These plants are located on the main stem of the Bío Bío River, and on two of its tributaries, the Laja River, and the Duqueco River.

(a) Along the **Bío Bío River** there are currently three operating hydropower plants and one planned facility. One of the operating plants is the Pangue hydropower plant, a 467 MW reservoir facility that began operation in 1996 (and originally had IFC financing – see discussion in Section III.D). The second operating project is the Ralco hydropower plant, a 690 MW reservoir facility that began operation in 2004. The third plant is Palmucho, a small 32 MW run-of-river plant located close to Ralco and under operation since 2007. These three plants, Pangue, Ralco and Palmucho, are currently owned by ENDESA S.A. Downstream from the Pangue, Ralco and Palmucho plants, Colbún plans to construct the Angostura plant, a 316 MW reservoir facility. Colbún estimates that construction will begin this year, and the plant will be in operation by December 2012.

(b) Five of the ten operating plants are located on the **Laja River**. The oldest plant in the region is the Abanico, a 136 MW run-of-river facility which began operation in 1948 (with the support of an IBRD loan approved on March 25, 1948 and closed on December 31, 1954). This plant, in addition to the El Toro (a 450 MW reservoir plant that became operational in 1973 and is located on a tributary of the Laja River) and the Antuco (a 320 MW reservoir facility that became operational in 1981), make up an important hydropower complex at the source of the Laja River. All three plants are owned by ENDESA. Downstream (about 25 km) from this complex on the Laja River is Rucúe (a 178 MW run-of-river hydropower plant that began operation in 1998); approximately 8 km further downstream is the Quilleco hydropower plant (a 70 MW run-of-river facility that began operation in 2007 and is currently the smallest facility on the river). Both are owned by Colbún. In addition, GDR Suez is proposing a 33.7 MW run-of-river facility, the Laja hydropower plant, located an additional 43 km downstream from Quilleco on the Laja River. This would represent the sixth plant along a 90 km stretch on the Laja River. Quilleco, Rucúe and other run-of-river plants, primarily rely on the river’s flow for generation, rather than the energy created from a reservoir.

(c) Near the source of the **Duqueco River**, two run-of-river facilities are operated by Ibener S.A.⁴, namely: (i) Peuchen, a 75 MW facility, and (ii) Mampil, a 49 MW facility. Both became operational in 2000.

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⁴ For more information regarding IBENER S.A. please visit the following website: [*www.ibener.cl*](http://www.ibener.cl)
15. All of the plants are connected to the Interconnected Central System (SIC) through the Charrua Substation. Today, 48 percent of the installed hydroelectric generation capacity of the SIC in Chile is located in the Bío Bío basin.

16. The following table summarizes key information regarding these installed plants and near-term proposed projects in the Bío Bío region. Map 2 below shows the location of these projects, including all those mentioned by the Requesters (Quilleco, Laja, Angostura, Pangue and Ralco). As illustrated by the map, the Quilleco Project is located about 70 km upstream from where the Laja River flows into the Bío Bío River, and the Angostura project (which, as described later, is one focus of the claim) is to be located about 110 km upstream along the main Bío Bío River stem from that juncture, with the Pangue and Ralco located even further upstream.
<table>
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<th>Plant</th>
<th>Plant Type</th>
<th>Size of Plant (MW)</th>
<th>Location/River</th>
<th>Status</th>
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<td>136</td>
<td>Laja Lake</td>
<td></td>
<td>IBRD Loan</td>
<td>None</td>
<td>R. &amp; RL</td>
<td>1948-1959</td>
</tr>
<tr>
<td>El Toro</td>
<td>Reservoir</td>
<td>450</td>
<td>Laja Lake and Puelcura River</td>
<td></td>
<td>None.</td>
<td>None.</td>
<td>none</td>
<td>1973</td>
</tr>
<tr>
<td>Antuco</td>
<td>Reservoir</td>
<td>320</td>
<td>Puelcura, Laja and Puelcura Rivers and waters from Abanico and El Toro.</td>
<td></td>
<td>None.</td>
<td>None.</td>
<td>none</td>
<td>1981</td>
</tr>
<tr>
<td>Peuchen</td>
<td>Run-of-River</td>
<td>75</td>
<td>Duquique River</td>
<td></td>
<td>Ibex S.A.</td>
<td>None</td>
<td>none</td>
<td>2000</td>
</tr>
<tr>
<td>Mampul</td>
<td>Run-of-River</td>
<td>49</td>
<td>Duquique River</td>
<td></td>
<td>None.</td>
<td>None.</td>
<td>none</td>
<td>2000</td>
</tr>
<tr>
<td>Laja</td>
<td>Run-of-River</td>
<td>33.7</td>
<td>Laja River.</td>
<td>Project phase</td>
<td>CDF Suez</td>
<td>Bank considered purchasing carbon credits, Project dropped April 2009.</td>
<td>R. &amp; RL</td>
<td>N/A</td>
</tr>
<tr>
<td>Angostura</td>
<td>Reservoir</td>
<td>316</td>
<td>Rio Bio Bio</td>
<td>About to start construction</td>
<td>Colbún</td>
<td>None.</td>
<td>R. &amp; RL</td>
<td>Dec-12</td>
</tr>
<tr>
<td><strong>Aconcagua Basin</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
17. The Requesters also include references in previous correspondence (letter to the Inspection Panel dated November 10, 2009) to several projects involving IBRD/IFC that are located in the Aconcagua basin, stating,

“The WB, through its Carbon Facility Unit maintains commercial relations with Colbún by purchasing carbon emission reductions from the Quilleco (located in the larger Bío Bío basin), Chacabuquito and Hornitos hydroelectric projects, owned also by Guardia Vieja S.A, a subsidiary of Colbún”.

“According to WB documents, the IFC maintains an equity share in Hidroeléctrica Aconcagua S.A. The Corporation maintains a 14-17% share in this power project controlled by Hidroeléctrica Guardia Vieja, which in turn is controlled by Colbún.”
18. **These plants have no relationship to the projects in the Bio Bio basin.** The Chacabuquito, Hornitos and Aconcagua projects are run-of-river facilities located in the Aconcagua River basin (see Map 3). This basin is located about 600 km to the north of the Bio Bio basin (see Map 4). There is no complaint about any of these projects.

**Map 3: Aconcagua Basin Projects**

![Map 3: Aconcagua Basin Projects](image)

Source: IBRD Map 37962. Full version at the end of the document (Map 37936)

**Map 4: Aconcagua Basin relative to Bio Bio Basin**

![Map 4: Aconcagua Basin relative to Bio Bio Basin](image)

Source: IBRD Map 37963.
B. CORPORATE ACTORS

19. There are several key companies that own plants that are referred to in the Request. These are: (a) Colbún, (b) ENDESA, and (c) HGV.

(a) *Colbún*\(^2\) is a Chilean company controlled by the Matte Group. It is an important player in the electricity generation sector in Chile, and the second largest participant in the SIC. Colbún has 21 power plants distributed in the center and south of Chile adding up to 2,615 MW, with 1,268 MW coming from hydro plants and 1,347 MW from thermal plants. As noted in the table, Colbún is currently the owner of the Quilleco plant (as described in Section III.D, the only plant with IBRD involvement against which claims are made), and is developing the Angostura project (which, as illustrated by the discussion in Section IV, is at the center of the Requesters’ concerns). Colbún is also the owner (through HGV, see below) of the Chacabuquito and Hornitos plants (the only other plants with IBRD involvement, through the Carbon Finance program – as described in Section III.D).

(b) *ENDESA*\(^3\) Chile, a former public sector enterprise, is currently controlled by Enersis, a multinational energy sector company in Latin America which in turn is controlled by ENDESA, the Spanish multinational. ENDESA Chile is involved in generation and commercialization activities as well as consulting work. Its generation capacity is 5,650 MW. It has 16 hydroelectric plants, 10 thermal plants and 2 wind farms. It owns the Pangua plant (also the subject of specific concerns on the part of the Requesters). ENDESA’s Spanish parent company is a participant in several Bank-managed carbon funds, but not in those with interests in the Colbún projects.

(c) *Hidroeletrica Guardia Vieja (“HGV”)* is a Chilean company and the sponsor of the Chacabuquito and Hornitos plants. HGV was also the original sponsor of the Aconcagua project. HGV and Colbún merged in 2005. HGV is currently a subsidiary of Colbún. Given HGV’s experience with carbon finance operations in the context of the Chacabuquito and Hornitos projects, Colbún designated HGV to manage the carbon finance transaction for Quilleco.

C. CHILEAN ENVIRONMENTAL REGULATORY FRAMEWORK

20. Chile has an elaborate environmental and social framework to regulate large infrastructure projects. In March 1994, the Chilean General Environmental Law 19.300 (Ley sobre Bases Generales del Medio Ambiente – LBMA) was issued, which contains various environmental management instruments that aim to prevent and address

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\(^2\) Colbún is a publically listed company. For more information on Colbún, please visit www.colbun.cl.

\(^3\) ENDESA is a publically listed company. For more information on ENDESA, please visit www.endesa.cl.
environmental issues. The LBMA law also created the Chilean National Environmental Commission (CONAMA), and established the requirement of an Environmental Impact Assessment (EIA) or Environmental Impact Statement (DIA in Spanish, required for smaller projects) for all projects. The System for the Evaluation of Environmental Impacts (SEIA in Spanish) created by the LBMA became compulsory in 1997.

21. **CONAMA serves as a regulatory oversight body which provides analysis and coordination of various government entities on environmental issues.** CONAMA’s main functions are: (a) to propose environmental policies to the President of the Republic; (b) to inform the President of the Republic periodically on the application of environmental laws; (c) to act as a consulting, analysis, communication and coordination entity for environmental issues; (d) to maintain a countrywide public environmental information system, with regional divisions; (e) to manage the national environmental information system, coordinating the process of generating environmental quality norms, and (f) to manage the project evaluation system and regulate project specific social and environmental requirements set by government institutions involved in EIA. CONAMA is decentralized, with regulatory bodies overseeing each of the fifteen regions of the country. Each of the regional regulatory bodies is referred to as a Regional Environmental Commission (COREMA).

22. **As part of the SEIA, the LBMA established an environmental permitting process within Chile which requires a comprehensive analysis of the social and environmental impacts of a project through an EIA or DIA, in addition to the specific sector permits.** The appropriate tool (EIA vs. DIA) for a hydropower project is selected depending on the installed capacity and the nature, intensity and extent of its potential impacts. CONAMA then sends the EIA or DIA to the relevant COREMA for review and processing. COREMA distributes the document to the authorities involved with the identified project impacts, such as the General Water Direction, National Forestry Corporation, National Monument Council, and National Fishing Service. These authorities review the document and send comments, which are then reviewed by COREMA and integrated into a single consolidated report. Following this review, a summary of the report is published, and a 60-day period for public consultation begins. COREMA assesses comments submitted and asks the sponsor to answer them and update the EIA accordingly. Once the concerns have been addressed, the EIA is reviewed and, if found acceptable, approved by CONAMA and a formal authorization is issued (Resolución de Calificación Ambiental, RCA).

23. **Supervision of the commitments outlined in the RCA is a collective responsibility of CONAMA and various public agencies.** Once a project is approved and operational, CONAMA is not legally entitled to enforce, by itself, the fulfillment of all environmental and social commitments established in the RCA. In order to assure compliance, CONAMA annually supervises selected projects in coordination with the public authorities that imposed the relevant requirements during the earlier assessment process. For projects with large environmental and/or social impacts, a permanent follow up committee is established. In the event of a stakeholder complaint, on a case by case basis, CONAMA coordinates with the public sector agencies concerned given the nature
of the complaint in order to perform inspections. Clear procedures for complaints are described in the LBMA.

D. IBRD AND IFC SUPPORT TO HYDROPOWER DEVELOPMENT IN CHILE: A HISTORICAL PERSPECTIVE AND ONGOING CARBON FINANCE OPERATIONS

24. Although IBRD and IFC engagement in the hydropower sector in Chile has a long history, of the projects for which the Requesters make specific claims, the Quilleco Project is the only one with IBRD engagement.

25. IBRD has financed three hydropower projects in Chile, and its engagement in hydropower development dates to 1948. The First Development Loan for hydropower development was given in 1948 by the IBRD to ENDESA. Subsequent IBRD loans in the 1950s and 1960s continued to support hydropower development in Chile, including a 49 MW expansion of the Abanico hydropower project in the Bio Bio basin and the 280 MW Rapel hydropower project, located in the Rapel River basin, in the Bernardo O’Higgins Region. In the 1980s, the IBRD financed the 500 MW Pehuenche Hydroelectric Project. The Pehuenche Hydroelectric Project, located in the Maule region, included both an addition to the capacity of the plant and a national environmental program to implement recommendations on protection of the environment. All these IBRD-financed projects are now closed.

26. IBRD is currently also involved in hydropower projects in Chile as trustee of carbon funds. Carbon finance operations involve mobilization of private and public sector resources by IBRD, as trustee, to purchase greenhouse gas emission reductions from projects in developing countries and economies in transition for the participants in carbon funds managed by IBRD. IBRD is trustee of twelve carbon funds, having a total capitalization of about USD 2.5 billion. Sixteen governments and 66 companies participate in IBRD’s carbon funds. Unlike IBRD’s normal lending activities, the Carbon Finance operations of IBRD do not provide funding for the development of projects. Instead, they involve the acquisition of emission reductions generated by projects after they have been developed and are up and running. Many of the emission reductions so acquired are Certified Emission Reductions (CERs) issued by the United Nations under the Kyoto Protocol.4

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4 Under the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC), many industrialized countries adopted obligations to reduce greenhouse gas emission reductions from 1990 levels over a five-year commitment period from 2008 through 2012. Such countries can meet their obligations by taking domestic actions to reduce emissions or by acquiring emission reductions from projects in developing countries under the Clean Development Mechanism (CDM) of the Kyoto Protocol or from projects in transition economies under the Joint Implementation mechanism of the Kyoto Protocol. Under the CDM, projects that are registered by the Executive Board of the CDM are eligible to generate CERs. CERs are issued by the CDM Executive Board, following an extensive process that involves an independent evaluation of the proposed project by an independent entity that must determine that the proposed project meets the CDM requirements. The CDM Executive Board reviews the validation report prepared by the independent entity and, if the Executive Board determines that the project meets CDM requirements, registers the projects as a CDM project. Subsequently, the project entity monitors the
27. In recent years, IBRD, as trustee for two carbon funds, has entered into contracts to acquire emission reductions from three hydropower projects in Chile, and considered a fourth one as well:

(a) In February 2002, IBRD, as Trustee for the Prototype Carbon Fund, entered into an Emission Reduction Purchase Agreement (ERPA), a sale and purchase agreement for a certain quantity of reduction of carbon emissions, with HGV, to acquire emission reductions from the 25 MW Chacabuquito hydropower project in the Aconcagua basin.

(b) In June 2005, IBRD, as Trustee for the Netherlands Clean Development Mechanism Facility (NCDMF), entered into an ERPA with HGV to acquire CERs from the 55 MW Hornitos hydropower project in the Aconcagua basin.

(c) Beginning in 2004, IBRD, as trustee for the NCDMF, began to evaluate the possibility of purchasing emission reductions from the 70 MW Quilleco Project to be located on the Laja River within the Bio Bio basin. In April 2006, IBRD, as Trustee for the NCDMF, entered into an ERPA with HGV to acquire CERs from the Quilleco Project. This is currently the only project in the entire Bio Bio basin in which IBRD is involved in any capacity.

(d) Prior to April 2009, IBRD, as trustee for various carbon funds, had considered buying emission reductions from the 33.7 MW Laja River hydropower project in the Bio Bio basin, which is currently under development. IBRD, as trustee for various carbon funds, signed a letter of intent on November 3, 2006, with the project entity, Alberto Matthei e Hijos, Ltda, Chile. The letter of intent confirmed the intention of IBRD, as trustee, to acquire CERs from the project, provided certain conditions were met. The letter of intent provided that the parties would use all reasonable efforts to conclude an ERPA within 12 months from the date of the letter of intent (the “exclusivity period”) and that, if they were unable
to do so, the project entity would, in certain circumstances, reimburse IBRD, as trustee, for its preparation costs. The period ended without the parties reaching an agreement on an ERPA. In accordance with the provisions of the letter of intent, IBRD, as trustee, is pursuing the recovery of preparation costs. IBRD has no plans to purchase carbon credits from this project.

28. **IFC has been involved with several hydropower projects in Chile.** In the 1990s, IFC supported the development of the 73 MW Aconcagua project, owned by Colbún, and the 467 MW Pangue project in the Bio Bio basin owned by ENDESA. IFC sold its interest in the Pangue project in 2002. IFC is currently involved as an equity owner in the Aconcagua project through an ownership stake of 15 percent.

29. **The Quilleco Project is currently the only hydropower power plant along the Laja River, or in the Bio Bio basin, that involves IBRD.** Regarding the other projects with respect to which the Requesters raise concerns: (a) the Bank is not and has no plans to become involved in the Angostura project (although reference was made to the Angostura project and to the rest of Colbún’s project portfolio in the context of general discussions of a new Carbon Finance product);³ (b) the Bank is not involved in nor has it ever financed the Pangue project; (c) the Bank is not involved in nor has it ever financed the Ralco project; (d) the Bank is not involved in any of the other projects on the Bio Bio River or the Laja River, although it provided financing in 1948 for the Abanico project and did, as trustee for various carbon funds, consider the possibility of acquiring CERs from the Laja hydropower project; and (e) the Bank has no plans to finance, or, as trustee for any carbon fund, to acquire emission reductions from, any project in the Bio Bio River basin other than the Quilleco Project.

### IV. MANAGEMENT UNDERSTANDING OF THE REQUEST

30. **As the Request and related letters mention various issues concerning a number of different hydroelectric projects, this section categorizes the claims by project in order to clarify which claims pertain to World Bank operations.** As illustrated by the following discussion, of the various projects mentioned, Angostura is the main concern for the Requesters and Quilleco is the only project involving IBRD with respect to which claims are made.

31. **Quilleco (Bank Carbon Finance operation).** The Requesters raise two concerns regarding this Project:

   (a) **Cumulative impacts.** The Requesters raise the issue of cumulative impacts of the Quilleco Project and the existing Pangue and Ralco projects and the proposed Angostura project, including on endangered fish populations.

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(b) **Relationship with Colbún.** The Requesters propose that the World Bank sever all ties with Colbún and related companies because they believe that the company does not abide by acceptable social and environmental standards in the Biobío region (issue raised in Request dated April 21, 2010, and in previous letter submitted to the Inspection Panel dated November 2009).

32. For purposes of completeness regarding concerns raised by the Requesters related to the Quilleco Project, it should be noted that in their separate letter to Bank staff of April 20, 2010, the Requesters also raise a concern regarding affected populations. Specifically, the Requesters indicate that they doubt whether the concerns of all those impacted are being addressed. To support this claim the Requesters noted a discrepancy between the number of people who signed a letter of complaint to Colbún against the Quilleco Project (36 people signed the letter), and the number of landowners identified in the Valle del Laja baseline (27 families).

33. **Chacabuquito, Hornitos and Aconcagua (mentioned but with no claims).** The Chacabuquito, Hornitos and Aconcagua hydropower projects are mentioned by the Requesters, but there are no claims made against any of these projects. All three projects are located in the Aconcagua basin, and are mentioned in the November 10, 2009, letters to the Panel. As explained in Section III.D, the IBRD is involved in the Chacabuquito and Hornitos plants, and IFC owns 15 percent of the Aconcagua plant. As there are no claims against any of these projects, except that the IBRD or IFC are or were involved with them, no specific issue regarding these three projects is addressed in the Management Response.

34. **Laja (mentioned but with no claims).** The World Bank is not involved in the Laja project and the Requesters raise no specific claim with respect to this project. As already explained in Section III.D, the IBRD investigated the potential of acquiring carbon credits but the project was dropped in April 2009. As there is no claim against the Laja project, except that the IBRD had plans to engage with it, no specific issue regarding this project is addressed in the Management Response.

35. **Pangue (no Bank involvement; prior IFC participation) and Ralco (no Bank involvement).** The Requesters raise concerns regarding the Pangue and Ralco projects, but neither of these projects involves the World Bank. In the December 10, 2009, April 21, 2010, and May 24, 2010, letters to the Inspection Panel, the Requesters make various claims against Pangue and Ralco regarding the following topics:

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6 In the April 20, 2010 letter and an earlier January 21, 2010 letter to Bank staff, other questions were raised, such as a request for reports, the release of the ERP, etc. Bank staff has been responding to these questions through various letters (letters dated February 9, 2010, May 14, 2010 and June 10, 2010), see Annex 3. Additional work is also underway, as illustrated by the discussion on affected populations (see discussion in Section VII).
(a) **Cumulative impacts.** The Requesters state that no cumulative impact study was conducted when the Pangue dam was built. The Requesters also claim that a downstream impact study on fish populations would be carried out and that this study has not been made publicly available.

(b) **Affected populations.** The Requesters claim that the families relocated because of the Pangue dam were not considered indigenous and have been negatively impacted as a result. They also claim that the families relocated because of the Ralco dam likewise face difficulties, with high levels of alcoholism and dependence on aid provided by the project company.

(c) **Safety.** The Requesters claim that several people have died – including nine people in 2006 – because of the lack of emergency plans and adequate warning systems in case of floods, earthquakes or eruptions.

36. **Angostura (no Bank involvement).** As noted in the Requesters’ supplemental letter to the Panel of May 24, 2010, “the Angostura project [is] the most serious and urgent issue....”; however, this project does not involve the World Bank. In the November 10, 2009, December 10, 2009, and April 21, 2010, letters to the Inspection Panel and the April 20, 2010, letter to Bank staff, the Requesters make various claims against Angostura, relating to the following issues:

(a) **Cumulative impacts.** The Requesters claim that there is a lack of cumulative impact assessment and that the dam will impact local fish, birds, and other species, already impacted upstream by other dams (Pangue and Ralco).

(b) **Other impacts on the environment.** The Requesters believe that Angostura will negatively impact the Bío Bío and Huequecura rivers that are popular summer recreation spots for the 6,000 people of Santa Barbara, a nearby town.

(c) **Affected populations.** The Requesters express concern for the Mapuche Pehuenche indigenous group in the area along the Bío Bío River where the dam will be constructed. They claim that there is a blatant disregard of their rights. They add that an agreement reached between the Organization of American States and the Chilean government said that no more hydropower projects would be implemented in Pehuenche territory.

(d) **Resettlement.** The Requesters claim that the Angostura project would result in the second relocation of five families that were already relocated for the Pangue project.

(e) **Cultural property.** The Requesters claim that Angostura would directly and indirectly affect an old Mapuche Pehuenche religious-cultural-political complex as well as sacred dance sites and observation posts. The Requesters add that the sector is also home to the El Piulo Bridge, site of
executions during the Pinochet Government, which should be protected and kept accessible to all.

(f) **Release of information.** The Requesters consider that the environmental monitoring and emergency plans for the Angostura project should be released.

(g) **Need for World Bank action.** The Requesters demand that the World Bank Group force Colbún to comply with World Bank standards and immediately cancel plans for damming the Bío Bío through the Angostura Project.

37. **Although the Requesters raise various concerns regarding many projects, the claims made about the Quilleco Project are the only ones within the Bank’s area of responsibility.** The Resolution establishing the Panel makes it clear that the Panel investigates projects financed by the Bank in which harm may have come about due to the Bank’s failure to comply with its operational policies and procedures. Thus, the Quilleco Project is the only project that appears relevant for the purposes of Bank operations. In addition, because IBRD is not a party to the other projects to which the Request refers, Management is not able to offer a definitive response regarding possible details and responsibilities concerning projects that other entities within the World Bank Group may have supported. Therefore, Management’s response (presented in Section VII below) and the Project discussion (in Sections V and VI) will focus on the claims made in regard to the Quilleco Project.

V. **THE QUILLECO PROJECT**

38. This section gives a general overview of the Quilleco Project and provides a brief history of the Bank’s involvement in the Project and the Carbon Finance operational context.

A. **PROJECT OVERVIEW**

39. **The overarching objective of the Quilleco Project is to help mitigate global climate change by facilitating the use of market-based mechanisms sanctioned under the Kyoto Protocol to support clean energy projects in Chile.** By providing incremental financial support, the Project assists Chile in its long-term electricity supply strategy, stimulating and accelerating the development of renewable energy applications at the grid-connected level, under private ownership and operation.

40. **The Quilleco Project is a 70 MW run-of-river hydropower plant owned by Colbún and located in Chile’s 8th region, 35 km east of Los Angeles city and 500 km south of Santiago.** The plant is designed for a water flow of 130m³/s, channeled through 4.4 km of concrete channels and a 3.2 km aqueduct tunnel (see Figures 1 and 2). Average annual electricity generation from the Quilleco plant at project design was foreseen to be 422 GWh. The project feeds into the SIC through a 0.5 km 220 kV transmission line.
41. **The licensing and construction of the Quilleco facility spanned ten years (three for the EIA, four in preparation, and three for construction), and the plant has now been in operation for three years.** Colbún began the EIA process in 1998, and concluded it in December 2000, with CONAMA’s approval – see discussion in Section VI.A. Construction began in January 2005, and the plant became operational in April 2007. Since then and through May 2010, the electricity generated totals 1,206,560 MWh.

42. **There are a number of plants located upstream of Quilleco, whose operations predate Quilleco.** The Quilleco plant runs on water discharged from the Rucúe
Hydropower Plant, a 178 MW run-of-river facility.\(^7\) The Rucúe plant is located eight km upstream of Quilleco on the Laja River and became operational in 1998. The EIA for Rucúe is dated March 1995. There is also the Antuco power plant, located about 35 km upstream from Quilleco, and two additional hydropower plants located further upstream at the source of the Laja River, El Toro and Abanico; the three were built between twenty-five to sixty years before the Quilleco plant, as explained in Section III.A.

43. **IBRD currently acts as the trustee of the IBRD-NCDMF in order to purchase CERs from the Quilleco Project, contributing to key development objectives in Chile.** Through the sale of CERs, under the CDM of the Kyoto Protocol to the UNFCCC, the Project contributes to the reduction of greenhouse gases (GHG) and other emissions. The Project also helps meet increasing energy demand and addresses the need for energy diversification.

**B. PROJECT HISTORY**

44. **As is the case with various other Carbon Finance operations, IBRD became involved with the Quilleco Project after the EIA had been completed and approved by the national authorities.** The IBRD Project Idea Note for the proposed Carbon Finance Operation was submitted in July 2004. In September 2004 a Bank team undertook a first mission to the area and began reviewing the earlier environmental and social documentation for the Project. In January 2005, construction of the Quilleco facility began. The Project Concept Note was completed on March 23, 2005. The PAD was reviewed on April 3, 2006, and issued on May 31, 2006, after construction was already underway.

45. **IBRD, as trustee of the NCDMF, and HGV (the “Project Entity” and a subsidiary of Colbún) entered into an ERPA for the Chile Quilleco Hydroelectric Project.** Although the ERPA is dated April 27, 2006, the ERPA was not signed by IBRD until after the PAD was issued. Under the ERPA, the counterparty, HGV, agrees to sell emission reductions to IBRD, as trustee of the NCDMF, in return for payments over the term of the contract as the counterparty delivers emission reductions to IBRD.

46. **The Quilleco Project was registered by the UNFCCC on July 9, 2008, after going through an initial validation process.** Currently 172,176 tCO\(_2\) are under the verification process for the period from July 2008 to July 2009; therefore no CERs have yet been issued and no payment has been made under the ERPA.

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\(^7\) The Rucúe plant was designed for a flow of 130 m\(^3\)/s, (120 m\(^3\)/s from the Laja River and 10 m\(^3\)/s from the Rucúe River which is a tributary from the Laja River). Civil works for the plant included about 22 km of channels and 1,560 meters of barriers (1400 m of which are located in the Laja River and 160 m in the Rucúe River).
VI. QUILLECO PROJECT DUE DILIGENCE

47. This Section describes the key assessments and due diligence that were carried out for this Project before Bank involvement, during appraisal and during implementation. In the subsequent section (Section VII), Management responds to the specific claims against the Quilleco Project and World Bank involvement with Colbún, and addresses related Bank policy and safeguard compliance issues.

A. PRIOR TO IBRD ENGAGEMENT

48. In accordance with Chilean law, the Project owner was required to undertake a variety of environmental, social and consultation activities. These activities are discussed below.

49. **Environmental and Social Commitments.** The Project owner was obligated under Chilean law to prepare an EIA (see discussion in Section III.C), which was subject to publication and comment. An initial EIA was completed (dated September 1998) and reviewed under a process coordinated by CONAMA. The document included a proposed Environmental Management Plan (EMP). The EIA had been carried out by Electrowatt Engineering, an independent and internationally recognized engineering consulting firm. The EIA was subsequently revised in March 1999 to include additional information on the results of consultation and on the cumulative and synergistic impacts of the Quilleco Project, among other important additions. Following a subsequent review period, CONAMA issued its RCA dated December 26, 2000, which was amended on January 22, 2001, requiring the Project owner to implement the Quilleco Project in compliance with the EMP. The EIA and EMP were developed prior to IBRD involvement.

50. **An aquatic ecological baseline for the Project was developed by the Center of Environmental Sciences as part of the EIA process in 1999** (the center is regionally known as the EULA center because of its creation as part of a joint collaboration between universities in Italy–Europe (EU) and Chile–Latin America (LA)) at the University of Concepción, Chile. This baseline was included in the Project EIA (Electrowatt, 1999). It describes the pre-project aquatic ecosystems with respect to water quality, condition of biologic environment (including the presence of rare or important fish species) and condition of aquatic habitats.

51. The original Electrowatt EIA and its 1999 revision provide detailed baseline information on the social and environmental context of the Project; describe the likely impacts; and propose mitigation, management and monitoring measures to address the likely adverse impacts.

52. **Consultations on the Project and its potential environmental and social impacts were carried out at various stages, including as part of the preparation of the EIA between June 1997 and December 1998.** The communities and local authorities of Quilleco and Tucapel were consulted. Five consultation meetings took place with the Junta de Vecinos Camino el Peumo-Valle del Laja and six meetings were
organized with local authorities (municipal authorities of Tucapel; municipal authorities of Quilleco; and Governor of the Province of Bio Bio). The purpose of the consultation meetings was to inform the local communities and authorities about the Project and to give them an opportunity to express their concerns. Local communities, local authorities and relevant government agencies also had an opportunity to review the draft EIA and submit comments during the 60-day consultation period. Public hearings were held in Quilleco, and included participants from both Quilleco and Tucapel. The public hearings were organized by CONAMA and announced in local and regional newspapers. The Addenda of the approved EIA include Colbún’s responses to the issues raised during the consultation meetings.

53. As part of the consultations carried out during the pre-construction phase, residents of the community of Tucapel expressed concerns about the potential impact of the Quilleco Project on groundwater levels. In order to address this concern, Colbún commissioned a hydrological study to evaluate the impact of the Quilleco Project on the water resources. The study concluded that the Quilleco Project would not affect groundwater levels or water resources of the community of Tucapel because studies showed that groundwater movement was toward the river, rather than away from it. The conclusions of the study were incorporated in COREMA’s resolution approving the EIA, dated December 26, 2000.

B. APPRAISAL STAGE

54. As explained in Section V, the World Bank began appraising the Project in July 2004, about four years after the EIA documentation was approved by the Chilean regulatory authorities. The Bank began Project identification in 2004, prior to physical construction. By the time the PAD was completed and the ERPA signed, the Project was already under construction.

55. Policies Requiring Action. Once the World Bank began work on the Quilleco Project in July 2004 its process of due diligence and safeguards review went into effect. At the project concept stage, the Quality Assurance Team (QAT) of the Latin America and Caribbean Region determined that three World Bank policies required action: Environmental Assessment (OP 4.01), Natural Habitats (OP 4.04) and Cultural Property (OPN 11.03). Based on the information available to QAT at the time, and as stated in the PAD, the Project was considered to present a “low” environmental risk level and as a consequence the Project was given a Category B environmental risk rating.8

56. Environmental Assessment (OP 4.01). The Project team benefitted from the fact that during the earlier preparation and government approval stage a detailed EIA had already been completed by the Project sponsor (1998).

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8 As stated in the Quilleco PAD, the B environmental rating was confirmed considering the limited sensitivity of the environmental baseline, the adequate EIA consultation and approval process and the relatively insignificant impacts of the project, for which adequate protection and mitigation measures have been defined.
(a) After the Bank became involved in the Project in 2004, it reviewed the EIA and EMP, which, as noted above, provide detailed baseline information on the social and environmental context of the Project; describe the likely impacts of the Quilleco Project; and propose mitigation, management and monitoring measures to address the likely adverse impacts. The EIA (with the draft EMP set out as Annexes 7 and 8 in the EIA document), which had been disclosed in-country (see CONAMA web site), was also disclosed in the World Bank’s InfoShop on September 20, 2004.

(b) The Bank reviewed the EIA documentation with respect to the treatment of cumulative and synergistic effects of the Quilleco and Rucúe plants. During the course of developing the EIA for the Quilleco Project, the cumulative and combined effects of the proposed Quilleco Project and its predecessor Rucúe were explicitly taken into account. The initial EIA (1998) focused on the concept of the Minimum Ecological Flow (MEF). Subsequently, in March 1999, the Addendum to the EIA prepared by Electrowatt Engineering evaluated the cumulative and synergistic effects of the two projects, taking into account MEF, water quality, and aquatic habitat impacts, with particular emphasis on the implications for fish living in the Laja River (Addendum Anexo 3 “Impactos Acumulativos o Sinergicos Medio Acuatico Centrales Rucúe – Quilleco”).

(c) In addition to reviewing the Electrowatt EIA, the Bank recruited independent environmental and social consultants to review the work conducted prior to Bank involvement and to make an independent evaluation of issues and concerns regarding the Quilleco Project. The environment and social report of the consultants was completed in 2004 and finalized in 2005.

57. **Natural Habitats (OP 4.04).** The Natural Habitats safeguard policy required action due to concerns over the presence of endangered fish species within the Project area of influence. At the Project Concept Note stage specific concerns were raised by the QAT about the possible impacts of modified stream flows on the local habitat of these species. The principal measure developed to protect those habitats and the species dependent on them was the formulation of MEF requirements. The objectives of the proposed MEF were: (a) to conserve the landscape structure of the river system in the critical zone; (b) to conserve habitat for all existing species; (c) to conserve biodiversity of all species (micro algae, primary consumers and secondary consumers); (d) to increase habitat for all permanent and temporary species; (e) to ensure maintenance of species under extinction risk (Diplomyctes nehuelbutensis and Percilia irwini), as well as of vulnerable species (Trichomycterus areolatus, Percichthys trucha, Bailichthys australis and Cheirodon galusdae) and (f) to ensure maintenance of the most economically important non-native species Onchorhynchus mykiss (rainbow trout).

58. **Physical Cultural Resources and Management of Cultural Property in Bank Financed Projects (OPN 11.03).** As reflected in the Bank appraisal documentation
(see, e.g., the discussion in the PAD), part of the EIA included an assessment of possible impacts on known cultural property. An archeological site was found in the Project’s area of influence and mitigation measures were developed for this particular case, including locating construction activities so as to avoid the site. At appraisal, the probability of further additional finds was considered low. Nevertheless, contingency measures for such “chance finds” were defined in the EIA and local authorities were officially informed about these requirements, consistent with the applicable National Monument Law.

59. **Other Policies Appraised But Not Requiring Action.** In addition to the policies that required action due to possible impacts, Indigenous People (OP 4.10), Involuntary Resettlement (OD 4.20) and Safety of Dams (OP 4.37) safeguard policies were evaluated at the PCN stage and were determined not to require any specific action.

(a) **Indigenous People (OD 4.20).** Since none of the studies or Bank missions carried out during Project preparation identified Indigenous People in the Project area, as per criteria in paragraph 5 of OD 4.20, the policy did not require any action.

(b) **Resettlement (OP 4.12).** Since land acquisition for the Project was completed many years before the Bank’s involvement and there were no outstanding issues that needed to be addressed, the policy did not require any action.

(c) **Dam Safety (OP 4.37).** Quilleco is a run-of-river hydroelectric project with no dam or weir. Rucúe is a run-of-river project that uses low weirs to divert part of the river flows into intake structures. Due to these technical characteristics, the Dam Safety policy was viewed as not requiring action (but see reassessment in Management’s Response).

60. **Consultations.** Subsequent consultations were also carried out with community representatives during the preparation of the Carbon Finance transaction. During IBRD’s first Project site visit in September 2004, the mission met with representatives of Quilleco (September 1-2) and Tucapel (September 14-16). In Quilleco, the mission met with 22 representatives of the municipality. The community was generally supportive of the Project and indicated that it created job opportunities during the construction period. During the meetings in Tucapel, the mission met with eight farmers who work in small scale agriculture and stockbreeding. They expressed their belief that a decrease in well water was associated with the construction of the Rucúe plant, and noted that they were concerned about further adverse impacts on water resources from the proposed Quilleco Project. As a result, IBRD recommended that Colbún carry out further consultations with the community of Tucapel to address their concerns.

61. In April 2006, a World Bank mission once again met with representatives from Quilleco and Tucapel. The representatives of Quilleco noted that there were no major
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issues with the Project and that members of the Quilleco community had benefitted from satisfactory employment opportunities generated during project construction. The mission also met with representatives of Tucapel. The mission recommended that Colbún make additional efforts to better explain the scope of the impacts of the Quilleco Project to the community. Colbún commissioned a baseline study of the Valle del Laja community.

62. **Issue regarding Potential Impacts on Groundwater and Wells.** During the pre-construction phase and as mentioned in paragraph 60 above, villagers from Tucapel had expressed concerns about potential impacts of the Quilleco run-of-the-river project on groundwater levels and specifically about possible impacts on wells. In particular, this issue had already been raised and addressed as part of the Question No.14 included and answered in the Addendum to the Project EIA (1999). As an additional and updated response to this concern, and to address a COREMA requirement as part of the EIA process, Colbún SA requested INGENDESA\(^9\) in May 2000 to assess the impact of the Quilleco Project on the aquifers in the Project’s area of influence.

63. The assessment process concluded with a report including a characterization of: (a) groundwater (aquifers); (b) wells supplying Tucapel and rural residents; and (c) the possible impact of the Quilleco Project in these aquifers and wells. The assessment concluded that:

(a) In the Project’s area of influence, an aquifer that discharges water directly into the Laja River coincides with the 8 km segment of the River affected by the Project. The flow of this discharge reaches a minimum of 25 m\(^3\)/sec, contributing to maintaining the MEF. This ensures *per se* the water flow in that river segment.

(b) In the upstream area adjacent to the Laja River there is another extended aquifer at a depth of 300 m, which supplies water to Tucapel and Huepil villages. This aquifer receives in-flows from rain and from surface wetlands. It is completely independent and it is separated from eventual fluctuations in the flow of the Laja River.

(c) Water exploitations located in the aquifer mentioned above will not be affected by Quilleco’s operation because they are physically independent from the water flows in the river.

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\(^9\) INGENDESA S.A. Engineering Company is a closely held corporation, a branch of Empresa Nacional de Electricidad S.A., ENDESA, whose corporate objective is the provision of engineering consulting services in all its specialties. Its field of action is mainly the design and direction of projects of large engineering works, especially in the field of hydroelectric and thermelectric power generation and their associated transmission systems. It has extended its scope to projects in the sectors of infrastructure (motorways and roads, highway tunnels, irrigation works, ports, metro) mining and industry. INGENDESA uses its staff of professionals and technicians in multidisciplinary teams. In the last years it has invested about a million man-hours in the development of its services, with a mean annual billing of USD30 million.
(d) Any exploitation to be planned in the aquifer strictly related to Laja River will also not be affected by Quilleco’s operation, because as explained in (a) above, the river receives water from said aquifer.

64. Given the concerns of the Tucapel community regarding groundwater levels and the impact on wells, the Bank team recommended to Colbún in September 2004 that further consultations be held with the Tucapel community on this issue. According to the November 2005 Environmental and Social Report, as of 2005, there were periodic meetings between Colbún and the Tucapel community (see also further discussion on follow-up action regarding affected populations in Section VII).

65. **Corporate Due Diligence.** As a part of its due diligence as the Trustee for the NCDMF, the IBRD undertook due diligence on the sponsor. The Bank undertook due diligence at two distinct levels. First, it reviewed Colbún’s ability to carry out the required environmental and social management aspects, finding it acceptable\(^\text{10}\) and, second, it reviewed other aspects of Colbún’s operations. The general due diligence for a Carbon Finance operation is described in Annex 2.

66. For the Quilleco Project, the Carbon Finance Document (and Cover Note), dated April 27, 2005, prepared for the review of the proposed operation by the Carbon Finance Unit, recorded that:

Colbún S.A. has a strong and experienced management team with a successful track record. Colbún is the third largest electric company in Chile. It was born from privatization of Empresa Nacional de Electricidad S.A. (ENDESA). Colbún has been a successful operator in the sector with near 1,600 MW of total installed capacity, where 550 MW are reservoir, 200 MW are run of the river, and 850 are natural gas fired plants. All power plants are modern, well maintained and efficiently operated in accordance with the highest technical standards. Colbún financial management has been prudent and profitable, as evidenced by its conservative balance sheet and stable profit record.

The project sponsor has completed the feasibility study and basic engineering studies. The EIA has been approved by COREMA, bidding documents for the procurement of detail engineering, civil works and equipment under turnkey contracts are being finalized, and construction of the tunnel commenced in December 2004…

67. The Carbon Finance Document, which provides a potential buying fund with information to help decide whether to accept a project into the Fund, recorded that “Colbún has an extensive track record in developing and operating similar hydroelectric plants. It has ample knowledge of local conditions and sector regulations. Its personnel are knowledgeable and its financial position is strong.”

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\(^{10}\) The PAD notes that Colbún has experience in this type of operation and has an environmental management system certified according to ISO 14001.
C.  IMPLEMENTATION PHASE

68.  During the operation phase, between 2008 and 2009, Colbún contracted for the preparation of the follow up Environmental Monitoring Plan to help establish trends and evaluate possible impacts from the operation of Quilleco. This monitoring plan was developed in response to the RCA N°338/2000 (cleared by CONAMA). During the pre-construction and pre-operation phase, the plan was implemented by the EULA Center; after 2008, when operations began, the plan has been implemented by the Centro de Ecología Aplicada (CEA Ltda.).\(^{11}\) CEA Ltd. states in its reports that, given Quilleco’s technical and operational characteristics (run-of-river hydro), the area of influence under analysis has not indicated changes in flows caused by the Project. The monitoring covers conditions in the 8 km segment of the Laja River during Quilleco operations, using 10 sampling sites. One of them is in the Rucúe River, six are in the Laja River and three others correspond to restoration plots for degraded areas.

69.  As no reservoir was constructed for Quilleco, the potential impacts on the river’s ecosystems in the Project’s area of influence depend to a great extent on the correct definition and maintenance of a MEF that is intended to ensure ecological balance and habitat for fish and other aquatic species. To determine the appropriate MEF, the Instream Flow Incremental Methodology (IFIM)\(^{12}\) was used. IFIM is an integrated planning methodology recognized and endorsed by the United States Geological Survey to scope issues, identify problems, evaluate alternatives and resolve problems associated with water allocation decisions and their potential impacts on aquatic habitats.\(^{13}\)

70.  According to the nine available monitoring reports issued since the Project became operational, it can be concluded that the defined MEF for the south branch of the river between the former Rucúe water release and current Quilleco release has been systematically respected by Colbún. Compliance with agreed MEFs has been demonstrated between 2008 and 2010 in 15 technical reports prepared by AZIMUT Ingeniería Limitada. Therefore, the monitoring plan has focused primarily on the presence and distribution of aquatic habitats as an indicator of the fluvial ecosystem status/health.

\(^{11}\) Centro de Ecología Aplicada Ltd. Is a well-known consultant firm in Chile created in 1992. One of its main strengths is environment monitoring in water related environments.

\(^{12}\) Instream flow methods have been developed by biologists and hydrologists working for agencies having regulatory responsibility related to water development. Such efforts since the late 1960s have provided the impetus for ecological studies leading to a growth in the understanding of the relations between stream flow and aquatic habitats. Most of the evidence gathered to date has focused on fish and macro-invertebrate habitat requirements, with recent emphasis on the relation between stream flow and woody riparian vegetation and recreation. Water management problem solving has matured from setting fixed minimum flows with no linkage to a specific aquatic habitat benefit to incremental methods in which aquatic habitats are quantified as a function of discharge.

\(^{13}\) For a complete description of the history and technical parameters evaluated using IFIM methodology please refer to the United States Geological Survey website on IFIM http://www.mesc.usgs.gov/Products/Software/ifim/history.asp.
71. The main findings of available monitoring reports can be summarized as follows:

(a) Studies report that water quality in the Project area of influence is within applicable standards.

(b) Monitoring of invertebrate communities does not indicate differences between the Project pre-operational and operational stages.

(c) As the Project has not changed the river geomorphologic structure, and the MEF is ensured, there are no major issues reported in terms of fisheries sustainability.

(d) Monitoring indicates vegetation in a successful growing stage and in generally good condition.

72. **Use of Local Labor.** The use of local workers during the construction phase was one of the main community concerns. The construction phase monitoring included this item as one of the monitoring variables and it showed that in most of the months, between 60 percent and 80 percent of the employment corresponded to Quilleco, Tucapel, Antuco and Los Angeles workers.

73. **IBRD Supervision.** World Bank supervision of the Project was conducted through missions and review of documentation, supplemented by independent monitoring systems in connection with the CDM process.

74. The Bank conducted numerous supervision missions, including site visits and meeting with the Project sponsor. In November 2006, an IBRD mission visited the Project site and assessed compliance with environmental and social commitments. In March 2007, a Bank team met with Colbún to discuss Project implementation. In August 2008, another Bank team met with Colbún to follow up on Project implementation. In June 2009, a supervision mission took place which included a site visit. Recently, in June 2010, the Bank carried out another site visit. No significant issues were identified but water availability and well levels were still identified as concerns on the part of Valle del Laja community.

75. In addition, monitoring has been complemented by several independent monitoring activities that are specific to UNFCCC Kyoto Protocol CDM projects and the World Bank was informed of the results:

(a) **CDM Validation.** The UNFCCC’s initial validation report was prepared by Det Norske Veritas (DNV) on May 2007. DNV is a UN accredited CDM auditor, referred to as a Designated Operational Entity (DOE). In addition to CDM information, this document includes information regarding the EIA, the Monitoring Plan and a stakeholder consultation
process undertaken by Colbún. In order to prepare this report DNV conducted interviews in April 2007. The Project Design Document of March 31, 2007, was made available for public consultations on the UNFCCC website (http://cdm.unfccc.int/Projects/Validation/index.html) and stakeholders, including nongovernmental organizations and other interested parties, could provide comments during a 30-day period from May 6, 2007, to June 4, 2007. No comments were received. As required by the CDM, the DNV validation report and letters of approval from the Governments of Chile, the Netherlands and United Kingdom were submitted to the CDM Executive Board and as a result the Project was registered by the UNFCC on July 9, 2008 (as indicated in Section V).

(b) **CER Monitoring Report.** In September 2009, a CDM monitoring report for the period July 2008–July 2009 was prepared by Poch Ambiental, a Chilean consultant firm, and submitted by Colbún to the CDM Executive Board. AENOR, a Spanish DOE, is reviewing the information presented by Colbún and preparing the verification report. To accomplish this task, a site visit was made in October 2009. The final version of this report will be disclosed on the UNFCCC website.

**VII. MANAGEMENT’S RESPONSE**

76. **In this section Management responds to the claims raised in the Request that relate to IBRD, namely two claims relating to Quilleco.** In addition, Management addresses the issue of affected populations that was raised in a separate letter to Bank staff (see Annex 3). Finally, Management addresses the more general safeguards compliance issues raised by the Panel. The Requesters’ claims, accompanied by Management’s detailed responses, are provided in Annex 1.

A. **REQUESTERS’ CLAIMS RELATED TO QUILLECO**

77. The Requesters raise two specific claims relating to the Quilleco Project in their formal Request: (a) absence of an adequate cumulative assessment; and (b) need for the Bank to sever all ties with Colbún and related companies.

78. **Cumulative Impact Assessment.** Management believes that the cumulative impact assessment carried out for the Quilleco and Rucúe projects was appropriate to the nature and scale of the project investments. The area of influence for the Quilleco Project with respect to cumulative impacts was appropriately determined by

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14 It is a CDM requirement that comments by local stakeholders be invited, a summary of comments received provided and that the project entity report to the DOE on how due account of any such comments has been made. It is also a CDM requirement that the project entity submit to the DOE an analysis of the environmental impacts of the project and, if those impacts are considered significant, undertake an environmental impact assessment in accordance with procedures required by the country where the project is located.
CONAMA as the direct effects of the Rucúe and Quilleco Projects in cascade on river hydrology and on aquatic habitat. The methodological approach used by Electrowatt Engineering to assess aquatic habitat value and possible cumulative and synergistic impacts on aquatic resources in the Project’s area of influence represents good practice, as does the IFIM methodology used for determining MEF for the Quilleco Project.

79. Hydropower development occurred within the upper basin (high elevation area) of the Laja River basin between 1948 and 1981 (Table 1; Map 2); those developments in the high Andes have been in operation for over a quarter of a century. At the time EIA work for the Quilleco Project began (1998), Rucúe had just begun commercial operation (1998) as the first hydropower project in the middle basin (foothills) of the Laja River basin. As part of the original EIA for Quilleco the issue of MEF was assessed.

80. Upon review of the EIA for the Quilleco Project, CONAMA required additional assessment work to focus on the cumulative and synergistic impacts of the Quilleco and Rucúe projects. In the revised analysis, the defined area of influence for cumulative effects for the Quilleco Project was these two run-of-river projects in cascade, including the stretch of river between the intake for the Rucúe project and, downstream, the discharge back into the river from the proposed Quilleco power plant. This definition of the Project’s area of influence for cumulative impact assessment on resident fish populations was appropriate, given the topography and terrain of the Laja River basin, its confluence with the rest of the Bio Bio River basin farther down in the lower basin of the Bio Bio, and the fact that the Rucúe and Quilleco Projects are the first hydropower developments in the middle basin of the Laja River. Since the Quilleco power plant uses water released by the Rucúe hydropower project, transporting it via an 8 km long aqueduct along the south bank of the Laja River to the power plant before discharging back into the river, operation of the two facilities, therefore, is linked by effects on the hydrology of the river, defining a common area of influence.

81. The possible cumulative effects of Rucúe and Quilleco on aquatic habitat and fish populations in the area of influence were carefully studied, and an amendment to the EIA presenting the results of this assessment was disclosed in March 1999, prior to the Bank’s involvement in the Project. Moreover, appropriate methodology has been used since 1999 to monitor the cumulative effects of the Rucúe and Quilleco Projects on aquatic habitat and fish populations, particularly populations of two endangered fish species in the area of influence (see discussion on OP 4.04 in Section VI.B and on Implementation Phase in Section VI.C of this Management Response).

82. The monitoring data (see Section VI.C of this Management Response) have shown that the MEF designated initially for the Rucúe project and subsequently for the Quilleco Project has been able to maintain the diversity of aquatic habitats and the fish species within the area of influence as determined by CONAMA. As noted in Section VI.C, the monitoring data demonstrate that water quality, key aquatic invertebrate populations, river geomorphology, and composition of the fish community remain acceptable with respect to the baseline.
83. **World Bank Group Involvement with Colbún.** Based on the due diligence done in the preparation of the Quilleco Project, as described in Section VI, the Bank believes that Colbún carried out its operations with respect to the Quilleco Project in a manner that was consistent with the application of relevant World Bank policies. The Bank applies its policies on projects receiving Bank support (including through Carbon Finance operations). The Bank does not extend this requirement to all the other activities of a company or country that is partnering with the Bank.

**B. MAIN ISSUE RAISED IN SEPARATE LETTERS TO BANK STAFF**\(^{15}\)

84. **Affected Populations.** Management believes that the consultation process offered communities in both Quilleco and Tucapel adequate opportunities to express their views and concerns on the Quilleco Project, and that their concerns were addressed at different stages of the Project. As discussed in Section VI, consultations on the Project and its potential environmental and social impacts were carried out as part of the preparation of the EIA between June 1997 and December 1998. Public hearings were organized by CONAMA in Quilleco and were announced in local and regional newspapers. The Addenda of the approved EIA includes Colbún's responses to the issues raised during consultations. Colbún commissioned a hydro-geological study in response to concerns expressed by Tucapel residents about the potential impacts of the Project on groundwater levels. The findings of the study – that the Project would not affect groundwater levels, or water resources of the community of Tucapel – were communicated to the communities. Consultations continued during Project preparation and supervision to enable communities to raise issues and concerns, and enabled Colbún and IBRD to respond to these concerns.

85. During a September 2004 mission, representatives of the Quilleco municipality conveyed their support to the Project and appreciated the job opportunities created during the construction period. When some residents of Tucapel expressed their concerns about the possible impact of Quilleco on well water levels, IBRD recommended that Colbún carry out further consultations with the community of Tucapel to address these concerns. Based on the November 2005 Environmental and Social Report commissioned by the Bank, Bank staff confirmed that as of 2005, periodic meetings between Colbún and the Tucapel community were being held.

86. The appraisal mission of April 2006 also met with representatives of Quilleco and Tucapel. While the members of the Quilleco community were satisfied with the Project, the representatives from Tucapel mentioned that 25 families in the Valle del Laja did not feel that their concerns had been resolved. Colbún indicated that they had sent letters responding to the concerns but had not received any response from the community. The mission recommended that Colbún make additional efforts to reach out to the community, create a committee to resolve potential disputes and commission a baseline study.

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\(^{15}\) As noted in an earlier footnote in Section IV, the April 20, 2010 letter and the earlier January 21, 2010 letter to Bank staff raised other questions, such as a request for reports, the release of the ERPA, etc. Bank staff has been responding to these questions through various letters (letters dated February 9, 2010, May 14, 2010 and June 10, 2010), see Annex 3.
study in Valle del Laja. Following the recommendations of the Bank mission, Colbún completed a baseline study in Valle del Laja, and wrote to the community at Valle del Laja reiterating that the Quilleco Project did not affect groundwater levels. Colbún also wrote to the community offering to meet with them, but did not receive any response. The committee to resolve disputes was not formed as no formal complaints were received from the communities.

C. GENERAL ISSUES REGARDING POLICIES AND SAFEGUARD COMPLIANCE

87. **OP/BP 4.01, Environmental Assessment.** Management believes that OP 4.01 was applied appropriately and that the EIA and subsequent independent evaluations were consistent with the requirements of this policy as defined for Category B environmental risk projects. Based on the review of key Project documentation which was used as the basis for the Bank’s decision to move ahead with the Quilleco ERPA, Management believes that the package of documents is of professional quality and provides a comprehensive and reasonable assessment of potential environmental and social risks and impacts associated with the Project. The Project EMP was comprehensive and provides mitigation, management and monitoring measures for the principal impacts identified.

88. The CONAMA regulatory oversight body has not registered any complaint from any member of the public regarding the Quilleco Project, and the Project’s license remains in effect. According to the CONAMA Bio Bio office, which is responsible for Quilleco’s environmental evaluation, CONAMA Bio Bio has regularly received Quilleco environmental reports. These reports have been distributed to relevant authorities, and to date, no comments have been made. A CONAMA Bio Bio official did note, however, that there had been some problems with reforestation compliance due to rabbits. As described above (see Section III), in the event of a stakeholder complaint, on a case by case basis, CONAMA coordinates with the public sector agencies concerned given the nature of the complaint in order to perform inspections. Clear procedures for complaints are described in the LBMA. The Project team has confirmed that there has been no complaint against the Project, based on a review of the SEIA website (see link [www.e-seia.cl/expediente/expedientesSyF.php?modo=ficha&id_expediente=1782](http://www.e-seia.cl/expediente/expedientesSyF.php?modo=ficha&id_expediente=1782)). This information is consistent with the information Colbún supplied to the World Bank team.

89. **OP/BP 4.04, Natural Habitats.** Management believes that OP 4.04 was applied appropriately with regard to the importance of the possible aquatic habitat impacts and the presence of important and endangered fish species. The EIA and EMP identify these risks and require a program of monitoring to assess possible Project impacts during Project operations. Management believes that the MEF defined for the Project is an appropriate mitigation measure, given the nature and scale of the likely impacts on aquatic habitats and key species.

90. OP 4.04 was applied to this Project due to concerns about possible impacts on the aquatic habitats of the Laja River in the Project’s area of influence. As part of the EIA, the Project sponsor undertook analysis of important fish species in the Project area and
evaluated potential impacts on habitat as a result of lower flows in the Laja River. The main mitigation measure proposed for the area of influence was the establishment of a MEF which, among other objectives, was designed to ensure viable river structure and conserve existing habitats. The EIA/EMP established monitoring requirements for the Project sponsor, which have been carried out by qualified independent specialists.

91. **OPN 11.03, Cultural Property.** Management believes that OPN 11.03 was applied appropriately to address the presence of physical cultural resources, as defined under the policy. The EMP defined management and mitigation measures which were appropriate to the nature and scale of impacts and contingency measures to address chance finds of other physical cultural resources during construction were included.

92. As part of the EIA, a survey of important physical cultural resources was carried out and the findings documented as part of the baseline studies. As part of the mitigation of potential adverse impacts, construction contracts included chance finds procedures which would guide the field construction in the event that cultural resources were discovered during excavation or other construction activities.

93. **OP/BP 13.05, Project Supervision.** Management believes that its actions have been consistent with the Bank operational policy for supervision of this project. These actions have included visits to the site, meetings with the Project sponsor, and third-party reviews (notably in connection with the CDM process).

94. **OD 4.20, Indigenous Peoples.** Management believes that OD 4.20 was applied correctly given the absence of Indigenous Peoples meeting the criteria of the OD. The Project was processed under OD 4.20. The criteria for identifying Indigenous Peoples set forth in paragraph 5 of OD 4.20 require the presence, in varying degrees, of the following characteristics: (a) a close attachment to ancestral territories and to natural resources in the project area; (b) self identification and identification by others as members of a distinct cultural group, (c) an indigenous language often different from the national language; (d) the presence of customary social and political institutions, and (e) primarily subsistence oriented production. Management concludes that the Quilleco Project has not affected any Indigenous Peoples for purposes of OD 4.20. None of the studies carried out to date (including the EIA of 1998 and the baseline study of 2007) or Bank supervision visits have identified indigenous groups or individuals in the Project area.

95. The Corporación Nacional de Desarrollo Indígena (CONADI) has confirmed that there are no indigenous lands within Quilleco and Tucapel. CONADI has also confirmed that there are no lands that are being claimed by indigenous communities or that are in the process of being adjudicated to indigenous communities. Information provided by the municipality of Quilleco and CONADI indicates that there are no legally constituted indigenous communities in this municipality, nor any informal organizations representing indigenous groups. The municipality of Quilleco also confirmed that there are no events or celebrations within the municipality that suggest the presence of indigenous
communities. The situation is similar in Tucapel, according to the information provided by CONADI and the municipality.

96. **OP/BP 4.37, Safety of Dams.** OP 4.37 was reviewed in light of its requirements with respect to the Quilleco plant and it was determined that no action was required regarding this facility. The Quilleco Project involves a run-of-river plant (i.e., relies on the river’s flow rather than, for example, a reservoir behind a retaining dam) but no dam or storage reservoir. Given these technical characteristics, Management believes that the judgment not to apply the provisions of OP 4.37 to the Quilleco facilities was justified.

97. OP 4.37 also stipulates that, for Bank projects that could be affected by existing dams upstream, due diligence should be carried out on the safety of these upstream dams upon which the Bank project’s performance depends to ensure that appropriate safety measures are in place and implemented upstream of the Bank’s project. There are two dams located upstream of Quilleco, namely el Toro and Antuco (which are owned by Endesa and were not mentioned in the Request). Although the Requesters have not voiced concerns about dam safety in the Laja sub-basin, Management recognizes that given the Project’s context on the Laja River, the Project team should have reviewed and evaluated the operation of the two dams located upstream of the Bank’s project. It should be noted that implementation of the Quilleco Project does not modify the risk profile of these existing two dams that have been in operation for the past 25 years or more in the upper Laja watershed.

98. **OP/BP 4.12, Involuntary Resettlement.** Management believes that OP 4.12 was applied correctly. The Project acquired 112.42 ha of land which was mainly under forest and small scale farming activities. The land was owned by one private company (Forestal Cholguan S.A, currently Celulosa Arauco y Constitución S.A.) and four individuals. It was acquired through the process of “perpetual easements” provided under the Chilean General Law of Electric Services. The Law establishes the types of compensation and other assistance to which affected people are entitled. It covers compensation for perpetual easement, as well as for potential damages during construction, and includes mechanisms to resolve conflicts that may arise regarding easements. The Law also provides for the establishment of a Commission of three independent persons to assess land valuation in case the parties concerned cannot reach a mutually agreeable settlement. In case the decision of the Commission is not acceptable to the affected person, he/she can lodge an appeal within a period of 30 days. In the case of Quilleco, all land was acquired through a process of negotiation which helped reach a mutually agreed settlement on compensation levels between Colbún and the affected parties. There was no need to establish the Commission to assess land value, and there were no appeals from the process. The details of land acquired are given in the Table below.
### Table 2. Quilleco Land Acquisition

<table>
<thead>
<tr>
<th>Proprietary</th>
<th>Date</th>
<th>Surface of the easement (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestal Cholguán S.A.</td>
<td>9/7/99</td>
<td>76.82</td>
</tr>
<tr>
<td>María Inés R.</td>
<td>11/12/98</td>
<td>23.90</td>
</tr>
<tr>
<td>Luis Hugo O.</td>
<td>12/4/98</td>
<td>6.67</td>
</tr>
<tr>
<td>Juan H.</td>
<td>11/23/98</td>
<td>2.53</td>
</tr>
<tr>
<td>Ramón V.</td>
<td>12/4/98</td>
<td>2.50</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td><strong>112.42</strong></td>
</tr>
</tbody>
</table>

Source: Colbún

99. In all cases, the area of land acquired for the Project was only a fraction of the total land holding of the entities from whom the land was acquired. No houses or other structures belonging to the five affected entities were affected by the Project and no physical relocation took place. Some additional grazing and agricultural lands required during the construction phase were obtained through easement agreements. All of the land acquisition (easement) and easement agreements were completed by 1999, five years before the World Bank became involved in the Project.

100. According to the information provided by the Project sponsor, the valuation of land was done by a private land valuator from the city of Los Angeles, based on the quality of the land and its productive capacity. The land compensation offered by the Project sponsor was acceptable to all land owners and none of the cases needed to be referred to the Commission or to the Chilean courts. There were no outstanding issues related to land acquisition or compensation when the Bank became involved with the Project in 2004.

101. At the time of Project preparation, the task team decided not to require any action under OP 4.12 since land acquisition for the Project was completed many years before the Bank’s involvement, was acquired in accordance with national laws, and there were no outstanding issues that needed to be addressed.

102. **Actions.** In Management’s view, the Bank has followed the guidelines, policies and procedures applicable to the matters raised by the Requesters. Management does note that additional due diligence should be carried out with respect to the issue of dam safety regarding the dams located upstream of the Quilleco Project; Bank staff will consult with Endesa and the responsible Chilean authorities to determine whether appropriate safety measures are in place and implemented at the existing dams in the upper Laja watershed and will follow up with a supervision mission. The Bank will continue to supervise the Project, including evaluating any potential concerns of affected populations. The Bank also will continue to exchange information with the Requesters through the ongoing correspondence between them and Bank staff.
ANNEX 1: CLAIMS AND RESPONSES

Presenting the Requesters’ claims in an easy-to-understand manner is challenging due to the fact that there are multiple letters that mention various claims, many of which do not relate to Bank activities. Prior to the submission of the Request on April 21, 2010, and the subsequent May 24, 2010 letter of clarification, the Inspection Panel received two letters dated November 10, 2009, and December 10, 2009. Bank staff also received two letters from the Requesters dated January 21, 2010 and April 20, 2010. The letters contain claims on similar topics but such claims are expressed differently in different letters. In addition, each letter is not necessarily a self-contained document as references are made in some cases to the text of earlier letters.

In an effort to present the Requesters’ claims as clearly as possible, the table below groups all claims by topic. For each topic, relevant quotes from the various letters sent by the Requesters are listed in chronological order with each quote preceded by a mention of the date of the letter which includes that quote. The response, for each one of the main topics, begins with a brief statement clarifying whether this topic relates to Bank activities and the extent to which Management has the obligation and the ability to respond to the claims pertaining to that topic.

<table>
<thead>
<tr>
<th>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Eligibility of Claims and Inspection Process</td>
<td>Management observes that before the Request was filed, it did not have the opportunity to respond to specific claims regarding the Quilleco Project (which is the only project referred to in the Request that both involves the Bank and against which claims are made). Management therefore asks the Panel to consider the request ineligible for investigation.</td>
</tr>
<tr>
<td>1.1. Contacts with WB</td>
<td>These statements appear to relate to eligibility claims by the Requesters with respect to Inspection Panel criteria.</td>
</tr>
<tr>
<td>Communication between the Requesters and the WB</td>
<td>Management notes that the concerns raised in the Request about activities in which the Bank is involved were not previously brought to Management’s attention. Specifically:</td>
</tr>
<tr>
<td>April 21, 2010 – Request to Inspection Panel</td>
<td>• Bank staff received an initial letter from the Requesters on January 21, 2010. In this first letter, the Requesters asked for</td>
</tr>
</tbody>
</table>
**Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.**

<table>
<thead>
<tr>
<th>Claim/Issues</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>satisfy us. Please check our counter-response for more details on this.</td>
<td>various pieces of information and documentation about the Quilleco Project. The letter did not mention any complaint or specific concern about the Quilleco Project.</td>
</tr>
<tr>
<td></td>
<td>• Bank staff responded by email the next day (January 22, 2010), indicating that a full answer was being prepared and asking the Requesters to identify the specific environmental and social issues of concern regarding the Quilleco Project.</td>
</tr>
<tr>
<td></td>
<td>• Bank staff responded fully on February 9, 2010, answering all questions, providing available requested documentation, and offering the possibility to meet in Chile to discuss the request.</td>
</tr>
<tr>
<td></td>
<td>• On April 20, 2010, Bank staff received a second letter replying to the response sent on February 9. This letter thanked the Bank for the prompt reply, raised some additional questions, but again did not mention any specific harm that the Requesters had suffered as a result of the Quilleco Project. They requested more information about how affected populations were accounted for and monitored, insisted on the release of the ERPA and expressed concern about the impartiality of some reports about fish. Additionally, they requested the World Bank to cut all ties with Colbún, specifically by not investing in any project in which it is involved.</td>
</tr>
<tr>
<td></td>
<td>• Once again, Bank staff immediately (i.e., the next day, on April 21, 2010) informed the Requesters by email that a response was being prepared.</td>
</tr>
<tr>
<td></td>
<td>• It appears that the next day (namely April 21, 2010), the Requesters sent a letter to the Inspection Panel.</td>
</tr>
<tr>
<td></td>
<td>• Bank staff sent a letter to the Requesters on May 14, 2010, with responses,</td>
</tr>
<tr>
<td>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</td>
<td>Response</td>
</tr>
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</table>
| indicating that additional information would follow. The Bank repeated its offer made in the February 9, 2010, letter to meet in Chile with the Requesters to discuss their concerns.  
- Bank staff provided further information on June 10, 2010, and continued to conduct further due diligence to respond more fully to the questions raised in the Requesters’ letter.  
All correspondence with the Requesters is included in Annex 3. | |

1.2. Claimants

**Claims regarding the number and identity of affected people**

December 10, 2009 – **Letter to Inspection Panel**

The requirements for filing claims were complied with and we do not understand why this is being questioned, as if two people affected were somehow not enough or not too relevant. But on the other hand, yes, it is useful to mention other affected people and specify that not only the two people that signed the letter would be affected.

It is appropriate to remember that the November 1995 claim presented to the Inspection Panel was signed by 389 people, among them 47 Pehuenche, 194 people from Concepcion (where the Bío Bío meets the Pacific Ocean) and 145 Chileans from other cities. 49 NGOs from around the world also signed a letter to WB President asking for an investigation.

The 2002 claim on the other hand was signed by 43 Pehuenche, 35 non-Pehuenche living downstream and 4 social groups.

So, if you are concerned about who the claimants are, and considering that there are signed mandates from them, me should consider

These statements appear to relate to eligibility claims by the Requesters with respect to Inspection Panel criteria.
### Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

<table>
<thead>
<tr>
<th>Response</th>
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</thead>
<tbody>
<tr>
<td>all of the original claimants as present claimants. Nevertheless we are sending signatures from two Pehuenche that were also part of the other claims, another Santa Barbara resident and a person living in Concepcion.</td>
</tr>
</tbody>
</table>

May 24, 2010 – **Request to Inspection Panel**

We […] inform you that a new requester that shares our same interests and concerns has joined our group. Another point is that we are glad to inform you that Ms. __________, *from Tucapel, located right next to the Quilleco project, has agreed to formally be one of the claimants because she feels actually and potentially affected by this project. She explicitly requests that her name be kept confidential by the Panel.

### 1.3. Damages

<table>
<thead>
<tr>
<th>Claims regarding damages</th>
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<tbody>
<tr>
<td>December 10, 2009 – <strong>Letter to Inspection Panel</strong></td>
</tr>
<tr>
<td>On pages 3 and 4 of the letter we sent on November 10 we mention 8 different specific areas related to actual or aggravated damages that the Angostura project would mean for us. Furthermore we specifically asked that the 1995 and 2002 claims be considered part of this complaint. As we talked over the phone we, Pehuenche and Chileans living in the Bio Bio basin and other Chileans, continue to be affected because of mistakes and/or violations of the past and will be even more so if the Angostura dam is implemented. These environmental, social and political impacts are amply described in the 1995 and 2002 documents that we imagine are available to both your offices.</td>
</tr>
</tbody>
</table>

These statements appear to relate to eligibility claims by the Requesters with respect to Inspection Panel criteria. Management notes that the Request does not seem to contain allegations of direct affects on the Requesters from any project in which the Bank is involved.
### Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

<table>
<thead>
<tr>
<th>Response</th>
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</thead>
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<tr>
<td>Let us give you three examples:</td>
</tr>
<tr>
<td>1. Both in 1995 and 2002 we mentioned the lack of [Pangue and Ralco’s] downstream emergency plans for floods and earthquakes and eruptions […]</td>
</tr>
<tr>
<td>2. Regarding environmental impacts, the impact on endangered fish for example is very relevant. In fact, the company in its EIA mentions this impact as the main negative impact of the [Angostura] project. […]</td>
</tr>
<tr>
<td>3. Last, but definitely not least, example is what is happening to the Pehuenche population. […] In the early 90s Endesa and IFC refused to consider the Pangue relocated families as indigenous Pehuenche […]. Up to this day these families, and others living on potentially inundated land, are denied their rights as indigenous people and are not considered as such. For Colbún, there is no Pehuenche land being affected by their Angostura project […]</td>
</tr>
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</table>

### 1.4. Inspection Process

**Request for input on the timing and manner of the investigation**

**May 24, 2010 – Request to Inspection Panel**

Lastly we would like to see if we could have some input regarding the timing and manner of the investigation. Unfortunately the Angostura project, the most serious and urgent issue before us, is being rapidly constructed. In this context, it may be that untimely on the ground visits might be regarded not only as useless, albeit late, but almost as an implicit support for the Quilleco and Angostura projects.

This comment appears to be a procedural request to which the Inspection Panel is best suited to respond directly.
## Claim/Issues from the Request for Inspection, the letter complementing the Request for Inspection and previous letters sent by the Requesters to the IP and to WBG management.

<table>
<thead>
<tr>
<th>2. Quilleco</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2.1. WB Involvement</strong></td>
<td>The WB is involved in the Quilleco Project. As mentioned under Item 1 above, it is the only project referred to in the Request that both involves the Bank and against which claims are made. It is important to note that the Quilleco Project is a Carbon Finance operation and not a traditional IBRD loan or guarantee operation. Under the Carbon Finance structure, IBRD does not itself provide financing for the development of projects but acts as an intermediary for the acquisition of emission reductions from projects for the account of participants in carbon funds for which IBRD acts as trustee.</td>
</tr>
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</table>

### WB Involvement with Quilleco

**November 10, 2009 – Letter to Inspection Panel**

The WB, through its Carbon Facility Unit maintains commercial relations with Colbún by purchasing carbon emission reductions from the Quilleco (located in the larger Bío Bío basin), Chacabuquito and Hornitos hydroelectric projects, owned also by Guardia Vieja S.A, a subsidiary of Colbún. […]

Although, as stated by an official document concerning the Quilleco project “the project does not include World Bank Group financing”, nevertheless “the World Bank acts as Trustee of the NCDMF for payment of CERs under the ERPA.” […]

This [Quilleco] is the third such deal between Hidroeléctrica Guardia Vieja, subsidiary of Colbún, and the WB in the green carbon reduction business, having seen the light, before the Quilleco project: those of Chacabuquito and Hornitos.

### 2.2. Cumulative Impacts
<table>
<thead>
<tr>
<th>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management</th>
<th>Response</th>
</tr>
</thead>
</table>
| **Claim that the fish studies completed in the context of the Quilleco project were not independent.**  
**Claim that cumulative impacts were not adequately considered under the Quilleco project.** | The scientific studies were conducted by EULA, one of the most respected authorities in the region on river basins and fisheries. In the same letter (April 20, 2010) the Requesters themselves later refer to EULA as being “probably the most knowledgeable academic institution regarding the Bío Bío basin.” |
| **April 20, 2010 – Letter to Bank staff**  
The answer given to question 3 [in communication with Buenos Aires office] concerning this commitment [commitment by Colbún to conduct research and scientific publications on endangered fish species of the Laja River in the area of influence of the Quilleco project] is vague and we believe misleading. You mention a number of studies that have been conducted for Colbún projects and not necessarily independent scientific studies. The link you sent pertains to a scientist that has close links with Colbún, working among other projects in a scientific center located near another Colbún hydroelectric plant in the San Pedro River. Nothing illegal of course, but definitely Colbún does not appear to be conducting and/or financing independent scientific studies. | Management believes that cumulative impact assessment carried out for the Quilleco and Rucúe Projects was appropriate to the nature and scale of the project investments. The area of influence for the Quilleco Project with respect to cumulative impacts was appropriately determined by CONAMA as the direct effects of the Rucúe and Quilleco Projects in cascade on river hydrology and aquatic habitat. The methodological approach used by Electrowatt Engineering, an independent and internationally recognized engineering consulting firm, to assess aquatic habitat value and possible cumulative and synergistic impacts on aquatic resources in the Project area of influence represents good practice, as does the IFIM methodology used for determining MEF for the Quilleco Project. |
| **April 21, 2010 – Request to Inspection Panel**  
In our letter we include information on the lack of coordination and non-consideration of cumulative impacts studies of the Quilleco and Angostura projects, which have failed to take into account the impacts of Pangee and Ralco on the endangered fish population. |  |
| **2.3. Relationship with Colbún** |  |
| **Request that the World Bank sever all ties with Colbún and related companies.**  
**November 10, 2009 – Letter to Inspection Panel** | As stated in paragraph 83, based on the due diligence done in the preparation of the Quilleco Project, as described in Section VI, the Bank believes that Colbún carried out its operations with respect to the Quilleco Project in |
<table>
<thead>
<tr>
<th><strong>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</strong></th>
<th><strong>Response</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WHAT WE ARE ASKING FOR:</strong> Urgently have IBRD and IFC move to sever all business relations with Hidroelectrica Guardia Vieja, Hidroelectrica Aconcagua, Colbún, and other affiliated companies, until they fully respect WB policies and past commitments of all its member groups in the Bio Bio region. This should be applied to both present and future investment proposals and joint projects, including transactions of the Carbon Facility Unit. December 10, 2009 - – <strong>Letter to Inspection Panel</strong></td>
<td></td>
</tr>
<tr>
<td>Our claim, filed both at the CAO Office AND the Inspection Panel, is against WBG doing business with Colbún and/or related companies, be it directly in the Angostura project and/or other projects. […]</td>
<td></td>
</tr>
<tr>
<td>We believe and are asking that the WBG severe all present business ties with Colbún and its related companies, even if there is no direct involvement with Angostura. This possibility and the need to have companies respond for their actions through the same or related companies and in the various operations of the World Bank Group was something we asked in our 2002 claim before the CAO office. We understand, as we stated in our November 10 letter, it is also a practice that is recommended both by the Hair report and the CAO reports. […]</td>
<td></td>
</tr>
<tr>
<td>We believe it is not too far fetched to ask for “sanctions” against companies even if the Bank is not directly involved. On the contrary, we believe this is necessary, might prevent further policy violations in the past and has been recommended by Bank investigators. April 20, 2010 - <strong>Letter to Bank staff</strong></td>
<td></td>
</tr>
<tr>
<td>How is it that after all internal investigations concerning the Pangue project and the Ralco project and the WB Group’s efforts to overcome the mistakes and weaknesses of WB involvement in these projects a company, with a manner that was consistent with the application of relevant World Bank policies. The Bank applies its policies to projects receiving Bank support (including through Carbon Finance operations). The Bank does not extend this requirement to all the other activities of a company or country that is partnering with the Bank.</td>
<td></td>
</tr>
</tbody>
</table>
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

indirect support of the World Bank, proceeds to repeat similar mistakes in the same river and, at the same time, on a project in another part of the same basin, alleges that they are respecting environmental due diligence?

This is what we think is most serious and should be dealt with by severing all relations with the company and, of course, avoid any support for the Angostura and/or other hydro projects of Colbún.

April 21, 2010 – **Request to Inspection Panel**

In this and former letters (November 9, 2009, December 10, 2009) we believe we have presented the basic, and we believe valid arguments, for your respective offices to investigate and recommend severing business relations with Colbún and/or other related companies, because of what we believe is an illegal and unethical involvement in a major and destructive hydro project on the Biobío river [the Angostura Project], despite national and international commitments of the Chilean government and commitments and recommendations of the WB Group.

[…] we would like to conclude this brief letter with two recent incidents that we believe speak by themselves regarding URGENT need for the IFC (and Endesa, and Colbún and the Chilean government) to comply with the recommendations made by the CAO in their 2003 report and the internal Lessons Learned document; and for IBRD to investigate and severe relations with Colbún due to their actions in the Biobío, that are impeding WB commitments from being implemented and that are leading to persistent violations of the rights of Pehuenche and other communities.

May 24, 2010 – **Request to Inspection Panel**

The Quilleco, Laja and the proposed Angostura are hydroelectric dams in the area where we live and/or close by and in the same river basin. Furthermore, even though the Pangue and Ralco dams were directly and/or indirectly financed by
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

Response

the WB Group, through the IFC, these projects – although not within the formal scope of the Panel and the Inspection – provide the context in which the other IBRD directly or indirectly financed dams (like Quilleco and Laja) are operating and thus should be somehow taken into account, given IFC commitments and CAO recommendations regarding the Bio Bio basin as a whole. In that sense we feel that the IFC commitments and CAO recommendations to mitigate and/or avoid harm to the environment and people should be binding for the whole WB Group.

[…] there should be explicit assurances that neither carbon funds and/or any other WB Group financing will go to Colbún and/or related companies until, as part of the Bank’s appraisal and due diligence evaluation of the project and its sponsor, it is proven beyond any doubt that they are willing to operate according to WB operational policies and standards and WB obtains explicit commitments to comply with these policies and standards and recommendations in ALL their projects. […]

More important perhaps are concrete measures against Colbún and related companies for repeated violations of their social and environmental commitments that WB Group Management and the accountability mechanisms of the Group should explore to better coordinate the operations among its branches and to assure that potential WB Group clients share its, values and that former clients remain accountable even though they may have paid up their loans (as is the case with Endesa, operators of the Panguie/Ralco dams).

2.4. Affected Populations

Question on how monitoring is being conducted in the Valle del Laja

Uncertainty about whether the concerns of all

In 2007, a baseline study was conducted on the Valle del Laja community.

As explained in the May 14, 2010 response: “With respect to the Valle del Laja
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

those affected are being addressed.

April 20, 2010 – Letter to Bank staff

In any case there are two broad issues concerning these questions that we have doubts about:

- What kind of follow-up monitoring is being conducted regarding the Valle del Laja community? We understand a baseline is precisely to evaluate and monitor impacts. How is this being done? [with respect to impacts from the Quilleco Project].

- We are not certain that the concerns of all those affected are being addressed. The list of landowners contacted in Valley del Laja does not include many of those that signed the letter reproduced (twice) in the documents, one as document N 19, pages 71, 72, 73 of the Cuarto Informe Semestral. Of the 36 people signing the letter to Colbún (one name repeated) only 13 appear in the list of owners identified in Table 15 of the Informe Final, Valle del Laja Baseline.

Community, the 2007 Baseline Report was prepared according to the formal commitment made between Colbún and the World Bank, in order to obtain a better understanding of the socioeconomic situation of the community and the status of wells and irrigation systems in the area. If any issues should arise regarding wells and irrigation systems, this baseline study would be used to help diagnose the problem. In addition, we will be discussing with Colbún whether they intend to carry out additional monitoring studies.”

As explained in Section VI, there have also been several site visits to Valle del Laja. During these visits, citizens expressed concerns about decreases in well levels, which, as explained in Section VI.B, are not caused by the Quilleco Project.

Regarding whether the concerns of all those affected are being addressed, as indicated in Section VII.B, Management believes that the consultation process offered communities in both Quilleco and Tucapel adequate opportunities to express their views and concerns on the Quilleco Project, and that their concerns were addressed at different stages of the Project. As discussed in Section VI, consultations on the Project and its potential environmental and social impacts were carried out as part of the preparation of the EIA between June 1997 and December 1998. Public hearings were organized by CONAMA in Quilleco and were announced in local and regional newspapers. The Addenda of the approved EIA includes Colbún's responses to the issues raised during consultations. Colbún commissioned a hydrogeological study in response to concerns expressed by Tucapel residents about the potential impacts of the Project on groundwater levels. The findings of the study – that the Project would not affect groundwater levels, or water resources of the community of Tucapel – were communicated to the communities. Consultations continued...
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

Response

during Project preparation and supervision to enable communities to raise issues and concerns, and enabled Colbún and IBRD to respond to these concerns.

During a September 2004 mission, representatives of the Quilleco municipality conveyed their support to the Project and appreciated the job opportunities created during the construction period. When some residents of Tucapel expressed their concerns about the possible impact of Quilleco on well water levels, IBRD recommended that Colbún carry out further consultations with the community of Tucapel to address these concerns. Based on the November 2005 Environmental and Social Report commissioned by the Bank, Bank staff confirmed that as of 2005, periodic meetings between Colbún and the Tucapel community were being held.

The appraisal mission of April 2006 also met with representatives of Quilleco and Tucapel. While the members of the Quilleco community were satisfied with the Project, the representatives from Tucapel mentioned that 25 families in the Valle del Laja did not feel that their concerns had been resolved. Colbún indicated that they had sent letters responding to the concerns but had not received any response from the community. The mission recommended that Colbún make additional efforts to reach out to the community, create a committee to resolve potential disputes and commission a baseline study in Valle del Laja. Following the recommendations of the Bank mission, Colbún completed a baseline study in Valle del Laja, and wrote to the community at Valle del Laja reiterating that the Quilleco Project did not affect groundwater levels. Colbún also wrote to the community offering to meet with them, but did not receive any response. The committee to resolve disputes was not formed as no formal com-
### Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

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<tbody>
<tr>
<td>Plaints were received from the communities with respect to the specific example presented by the Requesters, the Valle del Laja Baseline Study (2007) identified 27 agricultural properties, 18 property owners and 67 persons within the study area. Table 15 of this study only includes the names of property owners and/or heads of households living in occupied dwellings within the 27 agricultural properties. The letter to Colbún, on the other hand, was signed by 36 persons who thought that they were adversely impacted by the Quilleco Project. Many of them are members of the Junta de Vecinos “Camino el Peumo/Valle del Laja,” but they are not necessarily property owners within the study area of the 2007 Baseline, which did not seek to address the issues raised in the 2005 letter, as Colbún had already responded to this letter. Thus, while there is some overlap between the property owners identified in the Baseline and the signatories of the letter, it shouldn't be expected that the people in the two groups coincide perfectly.</td>
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</table>

### 2.5. Release of information

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<thead>
<tr>
<th>Request to disclose the ERPA</th>
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<tbody>
<tr>
<td><strong>April 20, 2010 – Letter to Bank staff</strong></td>
</tr>
<tr>
<td>We still would like to have a copy of the Emission Reduction Purchase Agreement (ERPA). We understand that it cannot be disclosed without prior authorization, but it is unclear who, if any party, objected to its disclosure. We would appreciate that you formally ask the counterpart and the Netherlands for this authorization and let us know who and why they object (if so). We cannot tell you exactly what part of it we are interested in, not having had access to its content.</td>
</tr>
</tbody>
</table>

| Under the World Bank Policy on Disclosure of Information in effect at the time the ERPA was signed, the ERPA could be released only with the consent of the counterparty. While the new World Bank Policy on Access to Information that became effective on July 1, 2010 provides for the release of documents created prior to that date that were not publicly available under the former policy, such documents would only be made available after five or twenty years (depending on the type of document) and in any case would not become publicly available if they contain information provided by a member country or a third party in... |

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<tr>
<th><strong>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</strong></th>
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<td>confidence. The Bank considers ERPAs to contain such information. Consistent with the World Bank Policy of Disclosure of Information in effect at the time the ERPA was signed, pursuant to the terms of the confidentiality arrangement which binds the Bank in the context of this Carbon Finance Operation, the Bank is not contractually authorized to release the ERPA without the consent of the NCDMF or Colbún. Accordingly, at the request of the Requesters, the Bank sought the consent of NCDMF and Colbún to release the ERPA. On May 13th, the World Bank contacted both Colbún and NCDMF to request the release of the ERPA. Responses were received on May 21, 2010 from NCDMF and on May 27, 2010 from Colbún. As explained to the Requesters in the second response email, sent on June 10, 2010, “We recently received responses from the NCDMF and Colbún indicating that they could not provide authorization to disclose the ERPA because it is a legally binding document regulating a contractual relationship, which contains private commercial information.”</td>
</tr>
</tbody>
</table>

3. **Chacabuquito, Hornitos and Aconcagua** Management notes that the Requesters make no specific claims against the Chacabuquito, Hornitos or Aconcagua projects. The WB is involved in the Chacabuquito and Hornitos projects (which are Carbon Finance operations, like Quilleco). The IFC is involved in the Aconcagua project. These plants have no relationship to the projects in the Bío Bío basin. The Chacabuquito, Hornitos and Aconcagua projects are run of river facilities located on the Aconcagua River basin. This basin is located around 600 km to the north of the Bío Bío basin.
<table>
<thead>
<tr>
<th><strong>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</strong></th>
<th><strong>Response</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3.1. WB Involvement</strong></td>
<td></td>
</tr>
<tr>
<td><strong>WBG involvement with Chacabuquito, Hornitos and Aconcagua.</strong> November 10, 2009 – <strong>Letter to Inspection Panel</strong></td>
<td>In February 2002, IBRD, as Trustee for the Prototype Carbon Fund, entered into an ERPA with HGV to acquire emission reductions from the 25 MW Chacabuquito hydropower project in the Aconcagua basin. In June 2005, IBRD, as Trustee for the Netherlands Clean Development Mechanism Facility, entered into an ERPA with HGV to acquire CERs from the 55 MW Hornitos hydropower project in the Aconcagua basin. In the 1990s, the IFC supported the development of the 73 MW Aconcagua project, owned by Colbún. IFC is currently involved as an equity owner in the Aconcagua project through an ownership stake of 15 percent.</td>
</tr>
<tr>
<td>The WB, through its Carbon Facility Unit maintains commercial relations with Colbún by purchasing carbon emission reductions from the Quilleco (located in the larger Bio Bio basin), Chacabuquito and Hornitos hydroelectric projects, owned also by Guardia Vieja S.A, a subsidiary of Colbún. According to WB documents, the IFC maintains an equity share in Hidroeléctrica Aconcagua S.A. The Corporation maintains a 14-17% share in this power project controlled by Hidroeléctrica Guardia Vieja, which in turn is controlled by Colbún.</td>
<td></td>
</tr>
<tr>
<td><strong>4. Laja</strong></td>
<td><strong>Management notes that the Requesters make no specific claims against the Laja project.</strong> <strong>The World Bank is not involved in the Laja project.</strong></td>
</tr>
<tr>
<td><strong>4.1. WB Involvement</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Claim that the World Bank is considering supporting the Laja Hydroelectric Project.</strong> April 21, 2010 – <strong>Request to Inspection Panel</strong></td>
<td>Prior to April 2009, IBRD had considered buying emission reductions from the 33.7 MW Laja River hydropower project in the Bio Bio basin, which is currently under development. IBRD, as trustee for various carbon funds, signed a letter of intent on November 3, 2006, with the project entity, Alberto Matthei e Hijos, Ltda, Chile. The letter of intent confirmed the intention of IBRD, as trustee, to acquire CERs from the project, provided certain conditions were met.</td>
</tr>
<tr>
<td>We understand that the WB is even considering supporting (or maybe approved at this point) yet another project in the basin, the Laja hydro project.</td>
<td></td>
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<tr>
<td>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</td>
<td>Response</td>
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<tr>
<td>The letter of intent provided that the parties would use all reasonable efforts to conclude an ERPA within 12 months from the date of the letter of intent (the “exclusivity period”) and that, if they were unable to do so, the project entity would, in certain circumstances, reimburse IBRD, as trustee, for its preparation costs. The period ended without the parties reaching an agreement on an ERPA. In accordance with the provisions of the letter of intent, IBRD, as trustee, is pursuing the recovery of preparation costs. The IBRD has no plans to purchase carbon credits from this project.</td>
<td></td>
</tr>
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</table>

5. Pangue and Ralco

The WB is not involved in the Pangue or Ralco projects.

The IFC provided initial support to the Pangue project. It sold its interest in the Pangue project in 2002. IFC is not involved in the Ralco project.

Given the absence of WB involvement in the Pangue and Ralco projects, Management is not able to offer a definitive response to the Requesters’ claims against these projects. Some clarifications are provided below with respect to some of the Requesters’ claims where Management has relevant information to contribute.

5.1. WB Involvement

IFC involvement with Pangue

May 24, 2010 – Request to Inspection Panel

[…] the Pangue and Ralco dams were directly and/or indirectly financed by the WB Group, through the IFC […]

In the 1990s, the IFC supported the development of the 467 MW Pangue project in the Bio Bio basin owned by ENDESA. IFC sold its interest in the Pangue project in 2002.

5.2. Cumulative Impacts

December 10, 2009 – Letter to Inspection
<table>
<thead>
<tr>
<th>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</th>
<th>Response</th>
</tr>
</thead>
</table>
| **Panel**  
In 1992, when the IFC approved the loan for Pangue, the first dam build on the Bío Bío, it did so not only without a cumulative impact assessment of other dams (that were, as many claimed, later built), but also with the promise that a downstream impact study on fish populations would be conducted in the future. | **5.3. Affected Populations** |

**December 10, 2009 – Letter to Inspection Panel**

Last, but definitely not least, example is what is happening to the Pehuenche population. As with many human communities, but specially in the case of vulnerable indigenous populations, family and social relationships are intimately tied to the land and in particular to ancestral territories. In the early 90s Endesa and IFC refused to consider the Pangue relocated families as indigenous Pehuenche, despite some of their members being definitely (because of birth and parents) from this ethnic group and others, because of family bonds, cultural ties and upbringing, closely linked to them and in fact legally eligible to be considered as Pehuenche.

Up to this day these families, and others living on potentially inundated land, are denied their rights as indigenous people and are not considered as such. […] One of the persons whose ancestry and rights is denied is _______ ________, close relative of _______ ________, who visited IFC headquarters in person in 1991 (1992?) advising Bank personnel as to the Pehuenche ancestry of Pangue relocated families.

Those relocated by the second dam, that of Ralco, are likewise in a very difficult situation. Alcoholism levels are specially high and family economies mainly dependent on direct aid provided by the company, who should according
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

Response to original plans, stop such aid completely in the very near future, without having developed an independent and sustainable income.

[...] ______ ________ for example, who is still living in Ralco Lepoy (she has refused to occupy a farm near Santa Barbara because it lacks enough water) has been heavily impacted by Pague/Ralco projects. Internal family violence among close relatives of ______ that were relocated by Ralco is affecting her directly, having herself been the victim of physical abuse on several occasions these past few years.

5.4. Safety

Flooding incidents and related deaths.

November 10, 2009 – Letter to Inspection Panel

[...]One sad proof of the non existence of adequate downstream monitoring plans for the Pague and Ralco dams came with the tragic death in 2006 of nine people, all of them living in unprotected rives banks of the Bío Bío river where, after a furious storm - and no functioning emergency plans - extraordinary and rapid flooding of houses occurred in several towns from Santa Barbara to Concepcion. The issue was the subject of a congressional investigation that reached contradictory conclusions and is still undergoing judiciary investigation.

December 10, 2009 – Letter to Inspection Panel

Both in 1995 and 2002 we mentioned the lack of [Pague and Ralco’s] downstream emergency plans for floods and earthquakes and eruptions. This in fact was even confirmed by the National Emergency Coordinator that met with a couple of us and a CAO consultant some years ago.

As the Requesters note, these flooding incidents were not in areas “directly influenced by Quilleco.” The two dams mentioned by the Requesters, Pague and Ralco, are on a completely separate river (Bío Bío River) from Quilleco (Laja River) and flooding on the Bío Bío could not have been caused by a run-of-river hydropower project on the Laja River.
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

<table>
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<tr>
<th>Response</th>
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<tbody>
<tr>
<td>flooding occurred.</td>
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<tr>
<td>April 21, 2010 – <strong>Request to Inspection Panel</strong></td>
</tr>
<tr>
<td>The cases relate to two people that suffered directly [died] because of the lack of an adequate early warning system for downstream inhabitants of the Ralco/Pangue dams (Pangue began operating in late 1996, more than thirteen years ago!). These are not the only cases that have happened in the last few years. Nine people died in the 2006 floods, compounded by the opening of the Pangue floodgates. This fatal incident was informed in the 2008 letter sent to the highest management of the IFC.</td>
</tr>
<tr>
<td>May 24, 2010 – <strong>Request to Inspection Panel</strong></td>
</tr>
<tr>
<td>The recent incidents [deaths from flooding or water rise] that were mentioned in our previous presentations took place one in Santa Barbara and the other near Los Angeles, on the Bio Bio river and/or very near. This is downstream from where the Ralco and Pangue dams are and where the Angostura dam has begun to be built.</td>
</tr>
<tr>
<td>Although strictly speaking these incidents were not in areas directly influenced by Quilleco, they were in the same basin. Furthermore, in as much as we believe any dealings of the WB Group with companies that violate policies and commitments in the larger Bio Bio basin has to be avoided, there is a relationship between what happened some distance away, and the Quilleco project.</td>
</tr>
<tr>
<td><strong>6. Angostura</strong></td>
</tr>
<tr>
<td>The WBG is not involved in the Angostura project.</td>
</tr>
<tr>
<td>Given the absence of IBRD involvement in the Angostura project, Management is not able to offer a definitive response to the Requesters’ claims against this project. Some clarifications are provided below with respect to some of the Requesters’ claims where Management has relevant information to contribute.</td>
</tr>
</tbody>
</table>
### Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

### 6.1. WB Involvement

<table>
<thead>
<tr>
<th>Claim/Issues</th>
<th>Response</th>
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</thead>
</table>
| **Claim that the World Bank is considering supporting the Angostura Hydroelectric Project.**  
November 10, 2009 – **Letter to Inspection Panel**  
We understand in fact that the company [Colbún, as owner of Angostura] even expects to be paid – through the World Bank’s Carbon Facility Unit – for continuing to destroy the Bío Bío basin and its people by selling carbon reduction bonds, as it presently does with the other Colbún projects.  
December 10, 2009 – **Letter to Inspection Panel**  
We understand that Colbún (through Hidroeléctrica Guardia Vieja) might also be planning to sell carbon emission reduction bonds with the Angostura project. In this of course we believe the Bank should not be involved, not even as an intermediary as is the case presently with the Quilleco and Chacabuquito projects.  
May 24, 2010 – **Request to Inspection Panel**  
Although the information posted in the World Bank website does not presently show that the proposed Angostura is being financed or proposed to be financed by the Bank as administrator of carbon funds, our understanding is that there are plans for selling carbon reduction (…) for this project. Such understanding is based on the facts that such financing was unofficially disclosed by a Bank source and also it apparently is mentioned or referred to in a Quilleco supervisory mission report. | The Bank is not and has no plans to become involved in the Angostura project.  
With respect to the claim that Angostura is mentioned in a Bank mission report, a Back to Office Report dated August 19-27, 2008, mentioned the Angostura project and the rest of Colbún’s project portfolio in the context of general discussions of the new Carbon Finance product. |

### 6.2. Cumulative Impacts

<table>
<thead>
<tr>
<th>Claim/Issues</th>
<th>Response</th>
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<tbody>
<tr>
<td><strong>Claims regarding cumulative impacts involving Angostura as well as other projects,</strong></td>
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<td>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</td>
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<td>one of which (Pangue) received initial funding in the past from IFC.</td>
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<tr>
<td>November 10, 2009 – Letter to Inspection Panel</td>
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<tr>
<td>Angostura was originally called Huequecura and was one of six dams projected for the area, which were never the subject of a cumulative impact study (for the IFC funded Pangue dam nor for the Ralco and Angostura dams). The only such study is said to have been conducted by the IFC and has yet to be publicly released.</td>
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<tr>
<td>Endesa, owner of the Pangue/Ralco dams transferred water rights to Colbún thus effectively bypassing political, moral and legal obligations concerning the Bío Bío basin. Furthermore Colbún and Endesa are partners in a highly controversial hydroelectric project called Hidroaysen in the southernmost part of the country. [...]</td>
<td></td>
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<tr>
<td>These cultural blows would add to the environmental impact on local fish, bird and other species, already heavily impacted by the other upstream megadams.</td>
<td></td>
</tr>
<tr>
<td>December 10, 2009 – Letter to Inspection Panel</td>
<td></td>
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<tr>
<td>Regarding environmental impacts, the impact on endangered fish for example is very relevant. In fact, the company in its EIA mentions this impact as the main negative impact of the dam [Angostura] project. In 1992, when the IFC approved the loan for Pangue, the first dam build on the Bío Bío, it did so not only without a cumulative impact assessment of other dams (that were, as many claimed, later built), but also with the promise that a downstream impact study on fish populations would be conducted in the future.</td>
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<td>Despite these studies and the CAO office recommending their public release, they have not till this day been made publically available. How could CONAMA (Government Environmental Agency) evaluate and approve</td>
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</table>
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

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<tr>
<td>the project [Angostura] without having this basic information? Eula, a prestigious academic institution from Concepcion criticized the Angostura EIA for not conducting cumulative studies. This, as well as other information is available on line at <a href="http://www.e-seia.cl">www.e-seia.cl</a> (look for resolucion ambiental under expediente of Angostura, reservoir located in VIII Region). April 20, 2010 – Letter to Bank staff An example of the shortcomings of this new Colbún project [Angostura] has to do with one of the commitments made by Colbún regarding the Quilleco project, that is to conduct “Research and scientific publications on endangered fish species of the Laja River in the area of influence of the Quilleco project”. […] In the case of Colbún’s Angostura project, which is at the heart of our concerns, EULA, who has conducted a number of studies for Colbún (some of which you have sent us) considers that the lack of cumulative impact studies and the importance of the Huequecura river (where the Angostura project is to be located) for fish species, seriously undermines the scientific integrity of the EIA conducted by Colbún for their Angostura project. How is it that EULA, probably the most knowledgeable academic institution regarding the Bio Bio basin, is so critical concerning Colbún’s analysis of fish populations in the Huequecura river and the impact of this project in the river basin as a whole? […] Because of its importance, at the end of this letter we are inserting a couple of pages that relate to this important topic. It is extracted from a document sent by EULA to the regional environmental authorities (CONAMA) concerning Colbún’s EIA for the Angostura project. Following is a translation of the first lines of the excerpt. The rest is in the original Spanish.</td>
</tr>
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</table>
### Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

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<th>Response</th>
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<tbody>
<tr>
<td>“The assessment on the impacts on the water environment of the Angostura Hydroelectric Dam Project is inadequate because of the following: It is not based on an adequate environmental baseline due to the fact that it lacks enough scientific basis […].”</td>
</tr>
</tbody>
</table>

### 6.3. Other Impacts on the Environment

**November 10, 2009 – Letter to Inspection Panel**

Central, and inseparable elements of this ceremonial compound, are certainly the two magnificent rivers, the Bio Bio and the Huequecura, that meet each other in an extended area, with stoned river canyons and multiple natural pools, that provide free and healthy entertainment and which is the most popular summer recreation spot for people from Santa Barbara, a nearby town of 6,000.

### 6.4. Affected Populations

**December 10, 2009 – Letter to Inspection Panel**

For Colbún, there is no Pehuenche land being affected by their Angostura project, which might be technically correct, but blatantly misleading and disrespectful of the families and their rights under Bank policies and national and international legislation. […]

But Angostura will only make this worse, not only for those directly affected, but for all
### Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

<table>
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<tbody>
<tr>
<td>Pehuenche. [...] Furthermore ______ has actively sought to prevent the implementation of the Angostura project because of its impacts not only on other Pehuenche and sacred sites located in the area, but also because she was one of the four women that resisted the Ralco project for many years and that in the end reached an agreement with the Chilean government and the OAS that said in one of its parts that no more hydro projects would be implemented in their territory. During the environmental process this was disregarded, despite explicit petitions to the government and the OAS.</td>
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### 6.5. Resettlement

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<tr>
<th>November 10, 2009- Letter to Inspection Panel</th>
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<tr>
<td>[Angostura will] result in the forced relocation, ¡for A SECOND TIME! of some five families now residing in the Los Nostros sector, that were among the original nine families that were forcefully relocated for the Pangue project in the mid 90s.</td>
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### 6.6. Cultural Property

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<th>November 10, 2009 – Letter to Inspection Panel</th>
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<tr>
<td>[Angostura] would directly and indirectly affect a very old Mapuche Pehuenche religious-cultural-political complex, made up of an extended compound where at least four possible “kuel” sites have been identified. These have been recognized by preliminary government studies. Used as sacred ceremonial and funerary sites, beginning some seven to eight hundred years ago, “kueles” are Mapuche pyramid like structures that have only recently been recognized by mainstream scientists.</td>
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</table>
**Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.**

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<tr>
<td>The potentially affected area also includes sacred dance sites used for “guillatunes” and important, territory demarking and observation posts such as the Calvario Hill, that according to Pehuenche oral accounts, also includes a “kuel”. The sector is also home to the El Piulo bridge, a narrow bridge crossing a deep rock canyon very near to where the dam wall is proposed. That place was the last seen by several political prisoners from Mulchen, Quilaco and Santa Barbara, who were executed at the site following the 1973 military coup. This site should be protected and kept accessible to all, at all times, as was expressed in a petition bearing some sixty signatures that was handed to the Intendente in December 2006.</td>
</tr>
</tbody>
</table>

**6.7. Release of Information**

| Claim that the IFC/IBRD/Inspection Panel/CAO office should release all documents related to the Bío Bío region. |
| November 10, 2009 – Letter to Inspection Panel |
| Further damming would take place despite the withholding of crucial information concerning the downstream environmental impacts of the existing dams and the lack of publically available emergency contingency plans for volcanic and/or seismic emergencies. [...] |
| In our December 2008 letter we asked for the sharing of information with local and national environmental authorities that reviewed the Angostura Project EIA. We understand this was not the case. We reiterate that we understand that the IBRD, IFC, the Inspection Panel and/or the CAO office all have information whose public and prompt release is still vital for the livelihood of the community and the environment in the Bío Bío region. Urgent consideration should be given to the release and translation of these reports, including the |
| The World Bank does not have any specific documentation relating to the Angostura project, which has never been a part of the Bank’s portfolio. The specific documents listed subsequently are IFC documents. |
### Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

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<tr>
<td>preliminary cumulative impact study performed by the IFC, environmental monitoring plans and emergency plans made available by the company, etc. Efforts should also be made to translate and release the Lessons Learned document of the IFC (as was initially promised) and the older Hair and Downing reports. It is a pity that such information has been denied till this day and effectively hindered local communities and governments from having access to all necessary information relating to an extremely rich and fragile natural and human environment.</td>
</tr>
</tbody>
</table>

### 6.8. Need for WB Action

| Claim that World Bank should force Colbún to comply with World Bank standards as a general business practice on all projects, in particular Angostura. |
| November 10, 2009 - Letter to Inspection Panel |
| As a result of the controversy surrounding the construction of the first two of a series of dams planned for the Bio Bio river (Pangue and Ralco dams), the WB Group’s involvement has been the object of enormous public concern, and numerous and far reaching internal investigations which we understand have also led to new administrative policies and controls. Thus our dismay and our appeal for you to take urgent action concerning the imminent construction of yet another dam on the Bio Bio river [the Angostura Project], home of the Mapuche Pehuenche indigenous group and one of the country’s richest ecosystems, by part of Colbún, a company that we understand presently has business dealings, as client, partner, or other relationships, with institutions of the WB Group. [..] |

As mentioned under Item 2.3 above, the Bank applies its policies to projects receiving Bank support. The Bank does not extend this requirement to all the activities of a company or country that is partnering with the Bank.
Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.

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| Colbún on the other hand is we understand presently also a client and partner of the WB Group (directly and/or through affiliated companies). As such Bank management should by every means possible force Colbún and/or its affiliated companies to comply with WB environmental and social standards, and immediately cancel their plans for further irresponsible damming of the Bio Bio. 

At the least appropriate personnel within IBRD and IFC should review Colbún’s environmental assessments and their handling of the Pangue relocated families, other affected Pehuenche and downstream inhabitants to make sure they comply with environmental and social policies and WB Group commitments.

This should be mandated regardless of the existence or not of direct investments in the project. [...] 

The findings and recommendations of the WB investigations that have taken place in 1995-1996 (Downing Report), 1997-1998 (Hair Report), 1999-2000 and 2002-2003 (CAO Office investigations), 2004 (Anderson Pangue:Lessons Learned Report) make a point not only on the extremely valuable ecological and cultural resources of the area, and on the shortcomings of the EIAs conducted, but also on the continuing responsibility of the WB Group not only in developments in the area, but also in assuring that it does business with companies that have a proven commitment with its environmental and social policies. “...Senior management should be satisfied that sponsors, in particular those in whom IFC invests equity, share IFC’s values.” read one of the recommendations of the CAO 2003 Report, which also added that “in response to this complaint, IFC should as it moves forward with other investments with ENDESA and its subsidiaries, ensure that the problems that the CAO suggests have plagued this project and its relationship with ENDESA, are nor repeated”. This is exactly the opposite of what Colbún’s |
Chile

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<th>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</th>
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<tbody>
<tr>
<td>practices in the area have been. [...] Last, but certainly not least, the implementation of the Angostura project would weaken the policies and the institutions of the WB, by in fact having a WB Group partner and client disregard lessons learned and recommendations specifically detailed by WB Group’s own investigations and/or others made on its behalf. [...] This Purchase of Certified Carbon Emissions Reductions by the Netherlands Clean Development mechanism facility from Hidroelectrica Guardia Vieja S.A means, among other things, that starting in June 2008 and for the next three years, until 2011, the WB would be extending a check for one million dollars, on behalf of the Dutch facility, to a company that is supposedly saving our atmosphere from harmful emissions, but that is at the same time - according to recent and reliable testimony - responsible for disregarding WB Group commitments in the area, and very far from, if not in the opposite direction of WB Group values, a condition that is viewed as mandatory for present and potential partners. [...] Colbún should be forced to comply with WB Policies, specially regarding a geographical location such as the Bío Bío, where past WB Group practices were subject to such an intense scrutiny and where efforts continue to this day to remedy past weaknesses and mistakes. The IBRD by validating Colbún’s supposedly environmentally friendly practices appears not only helping to raise money for the greening” of Colbún, but is actually being a partner with a company that according to credible testimony and firsthand accounts, is acting in opposite directions, disregarding legal and political commitments made by the WB and also by the Chilean state, that in an OAS sponsored agreement promised that no further hydroelectric development would take place in the indigenous lands of Upper Bío Bío, something now openly defied by the Angostura.</td>
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<tr>
<td>Claim/Issues from the Request for Inspection, the letter complementing the Request of Inspection and previous letters sent by the Requesters to the IP and to WBG management.</td>
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<td>project and that has been communicated to the Interamerican body OAS. [...] There is clearly an ongoing, global responsibility, by part of the IFC and other members of the WB Group, for what happens with the watershed, particularly hydroelectric development on its course, and its impact on the environments and local communities, among them the Mapuche-Pehuenche population communities and individuals.</td>
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ANNEX 2: CARBON FINANCE OPERATIONS DUE DILIGENCE

1. The due diligence processes for any Carbon Finance Operation has two stages: concept stage review and preparation stage.

2. Concept Stage Review. When reviewing a project for inclusion in its portfolio, IBRD’s Carbon Finance unit (ENVCF) carries out the following: a Project Idea Note (PIN) Review which includes i) a review of the PIN, ii) a financial analysis of the project and iii) a review by ENVCF’s Policy and Methodology Team (PMT). Following such review, ENVCF prepares a PIN Confirmation Memorandum and sends it to the relevant Region along with the Approved PIN.

3. The Confirmation Memorandum initiates the Region’s involvement in the Carbon Finance (CF) operation. Regional clearance of the PIN (including confirmation of consistency with sector and country strategies) and agreement to include the CF Operation in the Work Program Agreement between ENVCF and the Region is normally provided by the Country Director (with endorsement by the concerned Sector Manager and identification of a Task Team Leader) who also informs ENVCF of such acceptance.

4. Preparation Stage. ENVCF negotiates and ENV Director signs a Letter of Intent (LoI), cleared by LEGCF, with the Project Entity (PE). The Region carries out a due diligence/safeguards/other assessments. This invariably involves preparation of the Integrated Safeguards Data Sheet (ISDS) and concept stage Project Information Document (PID) for the CF Operation after which a safeguards review is conducted.

5. The due diligence is completed from the Regional side with the preparation of either a Project Appraisal Document (PAD) or Carbon Finance Assessment Memorandum (CFAM, usually for stand-alone CF transactions) package. The final package addresses all the due diligence issues raised during the processing and preparation of the operation.

6. The PAD or CFAM sets the CF Operation within the country/sector context and summarizes six different aspects of the CF Operation: (a) economic, such as project costs and size/distribution of benefits, (b) technical, such as engineering design, (c) institutional, such as management and organization, (d) financial, such as requirements or sources of funds and the financial situation of the implementing agency, (e) safeguard issues, (f) expected main ERPA terms and conditions, and (g) any other issues for follow-up from the PIN/PCN review stage, such as Kyoto risks.
ANNEX 3. CORRESPONDENCE BETWEEN MANAGEMENT AND THE REQUESTERS

Bank staff and the Requesters have exchanged the following letters over the January-June 2010 period:

1. Bank staff received an initial letter from the Requesters on January 21, 2010. In this first letter, the Requesters asked for various pieces of information and documentation about the Quilleco Project. The letter did not mention any complaint or specific concern about the Quilleco Project.

2. Bank staff responded by email the next day (January 22, 2010), indicating that a full answer was being prepared and asking the Requesters to identify the specific environmental and social issues of concern regarding the Quilleco Project.

3. Bank staff responded fully on February 9, 2010, answering all questions, providing available requested documentation, and offering the possibility to meet in Chile to discuss the request.

4. On April 20, 2010, Bank staff received a second letter replying to the response sent on February 9. This letter thanked the Bank for the prompt reply, raised some additional questions and matters (such as requesting the release of the ERPA, and expressing concern about the impartiality of some reports about fish). Additionally, they requested the World Bank to sever all ties with Colbún, specifically by not investing in any project in which it is involved. [The Request to the Inspection Panel is dated the following day, namely April 21, 2010].

5. Once again, Bank staff immediately (i.e., the next day on April 21, 2010) informed the Requesters by email that a response was being prepared.

6. Bank staff sent a letter to the Requesters on May 14, 2010, with responses, indicating that additional information would follow. The Bank repeated its offer made in the February 9, 2010, letter to meet in Chile with the Requesters to discuss their concerns.

7. Bank staff provided further information on June 10, 2010, and continued to conduct further due diligence to respond more fully to the questions raised in the Requesters’ letter.

All correspondence is included in the following pages.
1) Request for Information, January 21, 2010

To: Palba@worldbank.org, Elombardo@worldbank.org, vsalatino@worldbank.org, Fsaez@worldbank.org, Eabbot@worldbank.org
Date: 01/21/2010 11:16 PM
Subject: Petition for disclosure of documentation

Santa Barbara, January 21, 2010
(Electronic mail-original print to be sent tomorrow)

Pedro Alba
Director
Banco Mundial
Torre Bouchard
Bouchard 547, Piso 28 & 29
C1106ABG
Buenos Aires
Argentina

We are a group of people living in different parts of the Biobío river basin of Chile. In view of our right to remain informed of WB projects and of our right to grievance in the case of policy violations in WB projects, we respectfully ask that you forward to us the documents listed below, all related to the QUILLECO HYDROPOWER PROJECT, located in the Quilleco and Tucapel counties of Chile.

According to information provided in Report No: 36367-CL (Project Appraisal document on a proposed purchase of Certified Carbon Emissions Reductions by the Netherlands Clean Development Mechanism Facility in the amount of a minimum of 2.4 million from Hidroelectrica Guardia Vieja S.A. for the Quilleco Hydropower Project), dated May 31, 2006:

*...During project appraisal in April 2006, the following additional measures were agreed upon with Colbún regarding social and environmental aspects of the Quilleco project:

- Colbún will send the quarterly reports on environmental and social audits to the Bank.
- The Bank will carry out a mission to evaluate the implementation of the environmental management plan before the end of project construction.
- Colbún will support research and scientific publications on endangered fish species of the Laja River in the area of influence of the Quilleco project.
- Colbún will expedite ongoing measures intended to address the environmental liabilities of Rucú project.
- Colbún will implement a communication and information plan with the Valle de Laja community on the environmental impacts of Quilleco project and will inform the Bank
on the results of this activity.

- Colbún will establish a baseline of the environmental situation in the Valle de Laja community.

- Colbún will support the implementation of small productive and social projects as a contribution to the economic and social development of the area.

- Whenever necessary, Colbún and COREMA will jointly analyze the possibility of establishing a three-party committee (Colbún, COREMA and Communities) as a mechanism to resolve possible conflicts with the communities regarding environmental and social aspects.

The above commitments are referred to in the ERPA signed between HCC and the World Bank...* (page 65)

Furthermore, on page 28 of the same report it is stated that "...project results will be measured within the framework established in the Emission Reductions Purchase Agreement (ERPA) between HCC and NDEMP/World Bank, including the Monitoring and Verification Protocol (MVP)."

In view of the above, we ask to please promptly deliver by electronic and/or express mail the following docs:

1. The Emission Reductions Purchase Agreement (ERPA) between HCC and NDEMP/World Bank, including the Monitoring and Verification Protocol (MVP).
2. All quarterly reports on environmental and social audits sent to the Bank.
3. Research and scientific publications supported in relations to endangered fish species.
4. Measures taken to expedite Ruccé environmental liabilities.
5. Results of the communications and information plan with the Valle de Laja community.
7. Description and results of productive and social projects that were to be supported in the area.
8. Any information regarding the functioning of a three-party committee (Colbún, COREMA and Communities) as a mechanism to resolve possible conflicts with the communities.

Thanks in advance for your help

Cc:
Elizabeth A. De Lombardo: Eloombardo@worldbank.org
Verónica Salatino, Country Officer: vsalatino@worldbank.org
Felipe Sáez, Consultant: fsaez@worldbank.org
Eduardo Abbott, Babott@worldbank.org, plallas@worldbank.org

PD:
Disculpen que escriba en inglés, que es la lengua materna de la mayoría de nosotros. Lo hago porque creo facilitará el cumplimiento del pedido. (Sorry to write in English, that for most of us is our mother tongue, but I proceed this way because I believe it will make it easier to comply with the request.)
2) **First Response Sent to Requester, January 22, 2010**

Dear [Redacted]

Thank you very much for the email you sent to Mr. Pedro Alba, the World Bank's Country Director for Argentina, Chile, Paraguay and Uruguay, yesterday evening regarding the Quilico Hydro Power Project. We are working with the Bank's technical team for this operation to compile documentation in response to your request. In the meantime, if you have any specific social, environmental or other concerns regarding the Quilico project, we would be very interested in learning about them so that our discussion can be as fruitful as possible.

Best Regards,

Franz Drees-Gross
3) Complete Response sent to Requester, February 9, 2010

Buenos Aires, February 8, 2010

Dear [Name],

I am the World Bank’s task manager for the Quilleco Hydropower project and I am writing in response to your January 21, 2010 email to Mr. Pedro Alba, World Bank Country Director for the Southern Cone, in which you request specific information and documents regarding the Quilleco Project in Chile’s Bio Bio Region. This response follows up on the email sent to you by my colleague Mr. Franz Drees-Gross on January 22, 2010.

I confirmed as well that your original letter to Pedro Alba was received in the Buenos Aires office on February 4th, 2010.

Please see below our responses for each of the points raised in your letter.

1. ERPA and Monitoring and Verification Protocol

The Monitoring and Verification Protocol (MVP) is included in Annex 4 of the Project Design Document (PDD). This document can be downloaded from the UNCCC web page at the following link: http://cdm.unfccc.int/Projects/DB/DNV-CK1185438104.23/view

The Emission Reduction Purchase Agreement (ERPA) was signed between the Sponsor (Hidroeléctrica Guardia Vieja\(^1\)) and the International Bank for Reconstruction and Development, acting as trustee of the Netherlands Clean Development Mechanism Facility, on April 27, 2006 and amended on May 31, 2006 and November 13, 2007. As you may know, ERPAs contain commercial information which project sponsors and participants in carbon funds administered by the World Bank may consider sensitive. Therefore, in accordance with Section 73 of the World Bank Policy on Disclosure of Information, we cannot disclose the ERPA without the prior authorization of the counterpart and the Netherlands. No ERPA has been made public before. Hence, we are therefore unable to provide you with a copy. If there is any specific information, however, that relates to your concerns and that you believe may be contained in the ERPA, please let us know and we will see what we can do to provide you with the information you require.

\(^1\) The Matte Group acquired control of Colbún in 2005 when the latter merged with Hidroeléctrica Cenenca and Hidroeléctrica Guardia Vieja, both subsidiaries of the Matte Group.
2. Quarterly reports on environmental and social audits sent to the Bank

During the construction phase of the Quilleco project, the Centro de Ciencias Ambientales EULA (Center of Environmental Science EULA), a division of the University of Concepción, was hired as an independent environmental auditor to track Colbún’s environmental commitments. Between January 2005 and March 2007 EULA prepared eight intermediate reports and a final report. The Final Report for this 2-year audit was sent to the Bio Bio environmental authority, Comisión Regional de Medio Ambiente (COREMA) on October 22, 2007.

Since 2008, the Centro de Ecología Aplicada (CEA, Center for Applied Ecology) has been in charge of environmental monitoring, as outlined in the Resolución de Calificación Ambiental (RCA, Resolution of Environmental Rating) 338/2000\(^2\) and 023/2001. CEA’s first report covers 2008 while the second reports on the period from January to July 2009.

The above mentioned eleven reports will be send by mail.

3. Research and scientific publications on endangered fish species of the Laja River in the area of influence of the Quilleco project.

EULA and CEA undertook several monitoring campaigns for aquatic fauna in the area of influence of the project. Additionally, during the pre-construction phase of the Quilleco Plant, EULA’s Fish Conservation and Ecology Lab carried out a program on water quality and fauna in the Laja River. Moreover, staff at EULA’s Fish Conservation and Ecology Lab have been involved in preparing several scientific publications related to fish species in the Bio Bio Region, utilizing among others, data collected from these programs, along with data collected during monitoring activities of the Rucue project.

The abovementioned publications are available at the following webpage: [http://www.eula.cl/evelyn-habit/publicaciones-cientificas.html](http://www.eula.cl/evelyn-habit/publicaciones-cientificas.html)

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\(^2\) Quilleco’s stages for approval of the RCA and dates can be visualized at the following website: [https://www.e-seia.cl/expediente/expedientesEvaluacion.php?modo=ficha&id_expediente=1782#-1](https://www.e-seia.cl/expediente/expedientesEvaluacion.php?modo=ficha&id_expediente=1782#-1)
4. Measures taken to expedite Rucúe environmental liabilities.

Colbún has taken a number of steps to address Rucue’s environmental liabilities. In order to address the issue of wells, a specific baseline study was developed in 2007 as part of the Quilleco project (see point 6 below). In addition, and following an agreement with CONAMA, civil works were completed in 2006 and well monitoring began. These interventions are summarized in the Colbún report: Trabajos Comprometidos con CONAMA en parcelas sector Canteras attached to this email.

5. Results of the communication and information plan with the Valle de Laja community

Throughout the project assessment phase, community communication and consultations were a key part of the overall process. During the preparation of the Environmental Impact Assessment Colbún invited the community to participate in several workshops and meetings, as required by Chilean Law (Law 19.300 and Supreme Decree 95). Local authorities, community groups, and unions from Quilleco participated. The mayors of Quilleco and Tucapel, in particular, played important roles. In addition, from October through December 1998, detailed information about the project scope and possible social impacts were available to all interested parties through "Open House" fora.

Furthermore, in May 2005, Colbún S.A. sent a letter to representatives of Tucapel addressing social and environmental concerns raised on behalf of the community. A follow up letter was sent by Colbún in 2006.

During the project construction phase, Colbún and the contractors carried out several communication and information activities with the regional authorities and the community. As part of these activities the Quilleco Plant was visited by:

- The mayor and city councilors from the Quilleco community
- Government representatives from Bio Bio
- Students from Villa Mercedes School
- Students from the engineering department of the University of Concepción
- Students from INACAP Talcahuano
- Students from the Escuela Básica de Tucapel.

In Chapter 7 of the above mentioned EULA Final Report on the Construction Phase, there is photo documentation of visits by the
community. In that same report there is a briefing of the meeting between the company and the mayors of the Antuco, Quilleco and Tucapel communities.

Now that the Quilleco plant is under operation, communities and other interested parties can contact Colbún by letter, sent to the Jefe de la Central (Director of the plant) in Quilleco. All of the received requests and the company’s responses are filed in the Sistema de Atención de Solicitudes (Requests Attention System).

During the World Bank’s June 22-24, 2009 supervision mission, the Bank also learned that Colbún has set up a new department, Gerencia de Asuntos Corporativos (Office of Corporate Affairs) to design a new community relations policy and a formal system with specific actions to address the social issues in all the communities where Colbún Plants are located.

6. Baseline of the environmental situation in the Valle de Laja community.

The Environmental Impact Assessment (EIA) for the Quilleco Project was prepared in September 1998 and amended in March 1999. Chapter 5 of the EIA has a comprehensive baseline for multiple variables. The EIA and its amendment can be downloaded from the following webpage:


In addition, in March 2007 EULA prepared a more specific socioeconomic, socio-demographic, territorial resource, wells, watersheds and irrigation systems baseline. According to the final EULA report for the construction period (June 2007), this environmental baseline study was shared by Colbún with residents of Valle de Laja. A copy of the report will be sent by mail.
7. Description and results of productive and social projects supported in the area.

Colbún has supported a number of local community initiatives including:

1. Annual improvement of the municipal summer swimming spot on the Rucue river since 1998.
2. Guided visits and educational talks on Colbun’s environmental management system;
3. Ongoing training for electrician assistants on energy-efficient electrical installations (Proyecto de Formación en competencias in Antuco’s High School);
4. Provision of a concrete perimeter fence for the Kindergarten in Villa Mercedes (Jardín Infantil de Villa Mercedes) in November 2007;
6. Fencing of a canal, and supply of library furniture and books for the Mirrihue School, at Antuco Commune
7. Implementation of a workers training plan for construction, carpentry, welding, and electronics during the construction period. A large number of workers were from the region³.
8. Hiring of local services (cafeteria, cleaning staff, security staff, civil works and forest maintenance).

Finally, and as already mentioned above, Colbún has set up a new Gerencia de Asuntos Corporativos which will systematize the company’s community relations activities and plan additional community initiatives in the Quilleco area. For more information, please contact Carlos Abogabir, Gerente de Asuntos Corporativos Colbún at the following email: cabogabir@colbun.cl.

8. Any information regarding the functioning of a three-party committee (Colbún, COREMA and Communities) as a mechanism to resolve possible conflicts with the communities regarding environment and social aspects.

During project design, a tri-partite committee comprising Colbún, COREMA and local communities was conceived of as a conflict-resolution mechanism should conflicts arise with local communities regarding

³ See chapter 5 of EULA’s Final Report on the Construction Phase (July 2007)
environmental and social aspects of the project. To date, and according to our conversations with municipal authorities during the last supervision mission, we understand that no social or environmental conflict has been registered with respect to the Quilleco plant, either during the construction phase (Jan 2005 to March 2007) or the subsequent operation phase (since April 2007). Therefore, the tri-partite committee has not been convened.

Given the size of the files, all the documents referred to in this letter and summarized in the Annex below, will be sent to you by courier at San Martin 455, Santa Bárbara, Región del Bio Bio, Chile, once you confirm that that is the most convenient address to send them to.

Should you have any specific concerns (environmental, social or otherwise) related to the Quilleco project we would be pleased to learn about them. Colbun’s point person for community concerns related to Quilleco is again Carlos Abogabir, Gerente de Asuntos Corporativos Colbún, cabogabir@colbun.cl. Please copy us on any correspondence so that we may keep abreast of any issue.

In addition, should you have additional questions once you have had a chance to look over the material in this email, we would be happy to meet with you. The Bank coordinates supervision of the Quilleco project from its offices in Buenos Aires, so we are relatively close.

Best Regards,

Lucia Spinelli
Task Manager
Quilleco Hydropower Project
lspinelli@worldbank.org
Annex – Summary of Documents to be sent by courier

<table>
<thead>
<tr>
<th>Document Title</th>
<th>Referred in section</th>
<th>Number of documents</th>
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<tr>
<td>8 EULA Intermediate reports on supervision of Quilleco Construction Phase</td>
<td>2</td>
<td>8</td>
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<tr>
<td>EULA Final report on supervision of Quilleco Construction Phase</td>
<td>2</td>
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<td>CEA Supervision Reports</td>
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<td>Trabajos Comprometidos con CONAMA en parcelas sector Canteras</td>
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<tr>
<td>Socioeconomic, socio-demographic, territorial resource, wells, watersheds and irrigation systems baseline, EULA (March, 2007)</td>
<td>6</td>
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</tr>
</tbody>
</table>
4) Second Request for Information, email dated April 20, 2010

April 20, 2010
(Electronic version only)

Mr. Pedro Alba
Director
Banco Mundial
Torre Bouchard
Bouchard 547, Piso 28 & 29
C1106ABG
Buenos Aires
Argentina

Dear Mr. Alba:

We have received a written response and a number of documents related to the petition we made on our letter of January 21st.

CONCERNING THE QUILLECO HYDROPOWER PROJECT

First let us say that we appreciate the prompt response and the efforts to respond to our request. Nevertheless, after examining the documents, which we have proceeded to share with people from Tucapel and Quilleco, which might have other comments, we are still concerned about several issues. Here are the main concerns:

1. ERPA and Monitoring and Verification Protocol

We still would like to have a copy of the Emission Reduction Purchase Agreement (ERPA). We understand that it cannot be disclosed without prior authorization, but it is unclear who, if any party, objected to its disclosure. We would appreciate that you formally ask the counterpart and the Netherlands for this authorization and let us know who and why they object (if so).

We cannot tell you exactly what part of it we are interested in, not having had access to its content.

2. Quarterly reports on environmental and social audits sent to the Bank

All of them were sent. Questions:
   a. Would it be possible to obtain send digital versions of what was sent?
   b. Are future reports available on-line for examination?

4, 5, 6, 7, 8
Measures taken to expedite Rucie environmental liabilities/
Results of the communication and information plan with the Valle de Laja community/
Baseline of the environmental situation in the Valle de Laja Community/
Description and results of productive and social projects supported in the area/
Any information regarding the functioning of a three-party committee (Colvim, COREMA and Communities) as a mechanism to resolve possible conflicts

Exhaustive answers were given concerning these questions. Nevertheless those directly concerned would have to analyze the answers and material sent. For this purpose we have contacted people residing in those specific areas.
In any case there are two broad issues concerning these questions that we have doubts about:
- What kind of follow-up monitoring is being conducted regarding the Valle del Laja community? We understand a baseline is precisely to evaluate and monitor impacts. How is this being done?
- We are not certain that the concerns of all those affected are being addressed. The list of landowners contacted in Valley del Laja does not include many of those that signed the letter reproduced (twice) in the documents, one as document N 19, pages 71, 72, 73 of the Cuarto Informe Semestral. Of the 36 people signing the letter to Colburn (one name repeated) only 13 appear in the list of owners identified in Table 15 of the Informe Final, Valle del Laja Baseline.

OUR OTHER CONCERNS

Nevertheless, what concerns us most, and answering your inquiry, relates to Colburn’s handling of Environmental Assessments and community relations concerning their largest power project in the region: the Angostura Hydroelectric Dam that has been recently approved by some authorities regardless of blatant disregard of the rights of indigenous people, of international commitments of the Chilean government and of commitments made by the World Bank Group.

We understand that these are of such serious nature as to preclude any WB Group business dealings with Colburn.

These concerns have been explained in detail to both the Inspection Panel and the CAO Office, due to both the IBRD and the IFC having business relations with Colburn.

EXAMPLE OF DISREGARD OF NEED TO ASSESS CUMMULATIVE IMPACTS OF PROJECTS

An example of the shortcomings of this new Colburn project has to do with one of the commitments made by Colburn regarding the Quilleco project, that is to conduct “Research and scientific publications on endangered fish species of the Laja River in the area of influence of the Quilleco project”

The answer given (question3) concerning this commitment is vague and we believe misleading. You mention a number of studies that have been conducted for Colburn projects and not necessarily independent scientific studies. The link you sent pertains to a scientist that has close links with Colburn, working among other projects in a scientific center located near another Colburn hydroelectric plant in the San Pedro River. Nothing illegal of course, but definitely Colburn does not appear to be conducting and/or financing independent scientific studies.

In the case of Colburn’s Angostura project, which is at the heart of our concerns, EULA, who has conducted a number of studies for Colburn (some of which you have sent us) considers that the lack of cumulative impact studies and the importance of the Huéquecura river (where the Angostura project is to be located) for fish species, seriously undermines the scientific integrity of the EIA conducted by Colburn for their Angostura project.

How is it that EULA, probably the most knowledgeable academic institution regarding the Biobio basin, is so critical concerning Colburn’s analysis of fish
populations in the Huequecura river and the impact of this project in the river basin as a whole?

How is it that after all internal investigations concerning the Pangue project and the Ralco project and the WB Group’s efforts to overcome the mistakes and weaknesses of WB involvement in these projects a company, with indirect support of the World Bank, proceeds to repeat similar mistakes in the same river and, at the same time, on a project in another part of the same basin, alleges that they are respecting environmental due diligence?

This is what we think is most serious and should be dealt with by severing all relations with the company and, of course, avoid any support for the Angostura and/or other hydro projects of Colbun.

Because of its importance, at the end of this letter we are inserting a couple of pages that relate to this important topic. It is extracted from a document sent by EULA to the regional environmental authorities (CONAMA) concerning Colbun’s EIA for the Angostura project. Following is a translation of the first lines of the excerpt. The rest is in the original spanish.

"The assessment on the impacts on the water environment of the Angostura Hydroelectric Dam Project is inadequate because of the following:

a) It is not based on an adequate environmental baseline due to the fact that it lacks enough scientific basis

b) The potential functional role of the Huequecura river in the conservation of the water biota, within the ecological context of a basin in a spatial scale and in a temporary scenario of climate change, and taking into account the intervention of the system by the Pangue/Ralco complex."

Thanks again for your response. We hope you can provide us with the documentation you have not sent us and a response to our concerns.

Sincerely,

Cc: Lucia Spinelli, Task Manager, Quilleco Hydropower Project.
lspinelli@worldbank.org, Meg Taylor, CAO Office mtaylor@ifc.org, Eduardo Abbott Inspection Panel, eabbott@worldbank.org, Serge Selwan Inspection Panel sselman@worldbank.org
4) Evaluación de impactos y eliminación del continuo fluvial Río Huequecura – Río Biobío

La evaluación de impactos sobre el medio acuático del Proyecto Central Hidroeléctrica Angostura", es inadecuada por lo siguiente:

a) **No se sustenta en una adecuada línea de base** ambiental ya que esta carece del suficiente soporte científico.

b) No consideraron el potencial **rol funcional del río Huequecura** en la conservación de la biota acuática, en un contexto ecosistémico a escala espacial de cuenca y en un escenario temporal de cambio climático, teniendo en consideración la intervención del sistema por el complejo Pangue-Ralco.

Uno de los principales impactos bióticos en los sistemas lóticos, derivados de la construcción de centrales hidroeléctricas, es la interrupción del libre desplazamiento de organismos, en particular de los peces. La fragmentación impuesta por represas elimina la conectividad entre hábitats, generando un desequilibrio en la dinámica de metapoblaciones de la fauna de peces. La mayor parte de las especies de peces que habitan en sistemas fluviales que son parte de una red hidrográfica como el Biobío y su tributario el río Huequecura, establecen una dinámica metapoblacional, es decir funcionan como grupos de poblaciones locales que se conectan entre sí temporalmente por procesos de emigración e inmigración. Esto es, un sistema complejo de flujos de individuos entre sistemas fluviales (y dentro de ellos) que pueden ser uni- o bidireccionales, dependiendo de la capacidad natatoria de cada especie y de las características propias del sistema. En otros términos, la dinámica espacial y temporal de las comunidades de peces en sistemas con redes hidrográficas complejas es también altamente compleja y variable en el tiempo. Los flujos migratorios, o desplazamientos locales activos (contra la corriente) o pasivos (a favor de la corriente), implican la mantención de un sistema
en que cada población local puede servir de fuente o receptor de nuevos individuos, aportando a la mantención de la variabilidad genética total de la especie en una cuenca hidrográfica. Por ende, tal dinámica permite la persistencia de poblaciones que, aun cuando actúen temporalmente como locales (desconectadas entre ríos), requieren de la mantención de tales flujos naturales de individuos a lo largo del tiempo.

Considerando lo anterior, la línea de base de fauna acuática y específicamente de peces del EIA no representa la alta complejidad del sistema, tanto en su dimensión espacial como temporal, ni en su diversidad íctica. Ello se debe principalmente a una serie de insuficiencias a nivel de definición de áreas de influencia, diseño de muestreo, falta de valoración de los ecosistemas afectados en particular del río Huequecura, definición de barreras ecológicas y áreas de valor ambiental. Sin embargo, una observación mayor y transversal al estudio de línea de base se refiere a la pobre e inadecuada definición de áreas de influencia. Si se considera que las poblaciones de peces de una cuenca hidrográfica funcionan básicamente como metapoblaciones, es claro que la desconexión de tramos de ríos puede tener repercusiones mucho más allá del área de influencia definida para el componente de fauna acuática. Por otra parte, en este estudio existe una clara contradicción entre lo que se establece como área de influencia y la ubicación de las estaciones de muestreo. Un ejemplo claro de ello es la definición de sólo un punto en el área de influencia para el río Huequecura.

La ictiofauna del río Biobío tiene un alto valor de conservación definido por varios aspectos: (a) es la más diversa del territorio chileno en cuanto a riqueza de especies, (b) alberga a especies con alto grado de endemismo, (c) las especies poseen atributos primitivos en cuanto a su biología, características morfológicas, etc., (d) habitan en uno de los ecosistemas fluviales considerado un hotspot de biodiversidad del planeta. En el área de estudio se registra la presencia de la especie de bagre Diplomyctes nahuelbutaensis, la cual naturalmente establece poblaciones de bajo número de individuos en los ecosistemas fluviales. Sin embargo, en la línea de base, letra g) del punto S.4.3.5.5 se señala a “D. nahuelbutaensis y P. irwini constituyen especies comparativamente abundantes en el área de estudio”. El género Diplomyctes per se es de relevancia mundial. Este grupo corresponde a la Familia Diplomyidae, la cual estaba representada en Chile, hasta ahora, por el género Diplomyctes y las especies D. chilensis, D. nahuelbutaensis y D. composensis. La relevancia mundial de esta familia de peces es que corresponde a una de las familias de bagres más primitiva de todos los existentes en el mundo, por lo cual puede ser reconocida como un “fósil viviente”. Por ende, el hallazgo de altas abundancias de esta especie en el área debe ser detalladamente estudiada, sin embargo, no se presentan estudios básicos para establecer la dinámica y estructura de esta población. Algunas de las preguntas fundamentales que surgen son las siguientes: ¿existe flujo genérico entre las poblaciones del río Biobío y Huequecura y qué significado tendría?, ¿dónde se reproducen y qué hábitats utilizan?

De acuerdo a la información que se dispone, ello apunta que el río Huequecura posee un rol funcional relevante para la conservación de la biota acuática de la cuenca hidrográfica del río Biobío, el cual no
fue adecuadamente evaluado en el ESIA. Hasta hace poco tiempo la cuenca del Biobío era considerada entre las 250 más grandes del mundo en la cual, no existían cambios significativos (todavía estos efectos están en desarrollo, ya que son de largo plazo) en el ecosistema acuático debido a la fragmentación del cauce con obras hidráulicas. Hoy día esta fragmentación se está incrementando de manera importante, y prácticamente todos los ríos de zonas montañosas del Biobío están quedando fragmentados, ya sean por embalses (e.g. Ralco, Pangué), zonas sometidas a caudales ecológicos (e.g. centrales Quilleco, Rucué, Mampii, Puchén) o simplemente secas (curso superior del río Laja). En esta cuenca, el único río de relevancia que va quedando como corredor biológico fluvial para la mantenición de la continuidad Cordillera Andina – Golfo de Arauco, corresponde al río Huequequera. Es muy probable que ese corredor sea ocupado entre otras especies, por el pez en peligro de extinción Diplopteryx nebueltensis, para sus desplazamientos hacia y desde el río Laja. Los otros tres grandes ríos o zonas de la cuenca que antiguamente mantenían la continuidad Cordillera Andina – Golfo de Arauco, ya han sido severamente fragmentados. Estos ríos son los siguientes: a) Curso superior del río Biobío (centrales Ralco y Pangué), b) Curso superior del río Duquequén (centrales Mampii y Puchén), c) Curso completo del río Laja (centrales Abancay, Antuco, El Toro, Rucué, Quilleco y Laja (en construcción)). En un contexto de cambio climático, la conservación de la conectividad del río Huequequera con el río Biobío sería de gran importancia, cuando las condiciones hidrológicas comiencen a poner en riesgo la viabilidad poblacional de las especies de peces presentes en la cuenca del río Biobío.

5) First Response to April 20, 2010 Request for Information, April 21, 2010

Dear [Redacted]

Thank you for your email below. We will discuss the various points you raise with our technical staff and contact you again with more information.

Please note that since your previous email correspondence, Chile has been grouped with a new set of countries within the IBRD’s Latin America Region. Operations for Chile are now followed by the Peru, Bolivia, Chile, Ecuador and Venezuela Country Management Unit (CMU) headed by Mr. Felipe Jaramillo (country director, copied above). At a more operational level, operations in Chile’s energy sector are under the responsibility of Mr. Michel Kerf (sector leader for sustainable development, also copied above). Ms. Lucia Spinelli remains the task team leader for the Quilleco Carbon Finance operation. Please note that Mr. Pedro Alba (former country director for the southern cone) and myself (sector leader for sustainable development in Argentina, Paraguay and Uruguay) no longer cover Chile.

Best Regards,

Franz Drees-Gross
Second Response to April 20, 2010 Request for Information, May 14, 2010

Buenos Aires, May 14, 2010

Dear [Redacted],

I am writing in response to your April 21, 2010 email to Mr. Pedro Alba, in which you request further information about the Quilleco Project in Chile’s Bio Bio Region and express your concern about the Angostura project. This response follows up on the email my colleague Mr. Franz Drees-Gross sent on April 21, 2010.

First, we are happy to hear that you found the information previously sent to you useful. With respect to your additional questions, please find a preliminary set of responses to the concerns raised.

Following your request, we are seeking formal authorization from both Colbun and the Netherlands to release the ERPA. We will inform you of the progress.

Additionally, we are sending you the digital versions of the eight quarterly reports prepared during the supervision of the construction phase. Due to their large size, they are being sent in six emails which will immediately follow this response. To obtain future reports on the operation phase, we encourage you to contact Colbún directly, through Mr. Carlos Abogabir, Gerente de Asuntos Corporativos Colbún, cabogabir@colbun.cl. Colbún sends all reports to CONAMA, the National Environmental Commission, as stated in the RCA (Resolución de Calificación Ambiental), although it appears that CONAMA is not publishing them online in the SEIA system (Sistema de Evaluación de Impacto Ambiental).

We are also pleased that you found the responses to questions 4 through 8 from your January 21, 2010 email valuable and that the information is currently being analyzed by those concerned. We are very interested in hearing any feedback you receive.

With respect to the Valle de Laja Community, the 2007 Baseline Report was prepared according to the formal commitment made between Colbun and the World Bank, in order to obtain a better understanding of the socioeconomic situation of the community and the status of wells and irrigation systems in the area. If any issues should arise regarding wells and irrigation systems, this baseline study would be used to help diagnose the problem. In addition, we will be discussing with Colbun whether they intend to carry out additional monitoring studies.
As mentioned above, a further response will follow once we have updated information regarding the ERPA and the potential monitoring studies.

Finally, with regards to your main concern, the Angostura project, we would like to inform you that neither the World Bank nor the IFC are involved in the project.

On a more administrative note, in order to better handle your requests, in the future please feel free to address your letters directly to me so that I can more efficiently provide a response.

Once more, we would be happy to meet with you should you have additional questions regarding the Quilleco Project. I am based in Buenos Aires, so we are relatively close.

Best Regards,

[Signature]

Lucia Spinelli
Task Manager
Quilleco Hydropower Project
lspinelli@worldbank.org

Annex – Summary of Documents to be emailed following this response.

<table>
<thead>
<tr>
<th>Document Title</th>
<th>Number of documents</th>
</tr>
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<tr>
<td>8 EULA intermediate reports on supervision of Quilleco Construction Phase</td>
<td>8</td>
</tr>
<tr>
<td>EULA Final report on supervision of Quilleco Construction Phase</td>
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Dear [name redacted],

I am writing to follow up on my previous response dated May 14, 2010. On that occasion we informed you that, as requested, we were seeking authorization to disclose the ERPA from the Netherlands Clean Development Facility (NCDMF), represented by the Netherland’s Ministry of Housing, Spatial Planning and the Environment, and Colbún.

We recently received responses from the NCDMF and Colbún indicating that they could not provide authorization to disclose the ERPA because it is a legally binding document regulating a contractual relationship, which contains private commercial information.

Best Regards,

[Signature]

Lucia Spinelli
Task Manager
Quilleco Hydropower Project
lspinelli@worldbank.org
### ANNEX 4. LIST OF DOCUMENTS MENTIONED IN THE RESPONSE AND AVAILABLE FOR FURTHER CONSULTATION

<table>
<thead>
<tr>
<th>Type of Document</th>
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<th>Author</th>
<th>Date</th>
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<tr>
<td>Environmental/Social</td>
<td>Environmental Impact Assessment</td>
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<td>Environmental/Social</td>
<td>Environmental and Social Reports</td>
<td>Mauro Fadda and Pia Hevia, environmetal and social consultants</td>
<td>November 2004, November 2005</td>
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<td>Documents</td>
<td>Eight Quarterly Environmental Construction phase supervision Reports</td>
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<td>March 2005-Dec 2006</td>
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<td>Internal WB document</td>
<td>SAT-QAT – Environmental and Social Comments on PCN, ISDS, EIA</td>
<td>World Bank</td>
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<td>Socio-Economic Baseline for Valle del Laja Report</td>
<td>EULA</td>
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<td>CDM document</td>
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<td>DET NORSKE VERITAS (DNV)</td>
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<td>CEA</td>
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<td>World Bank</td>
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<td>Second Amendment to the ERPA</td>
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<td>November 2007</td>
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<td>Minimum Ecological Flow Report</td>
<td>Informe Tecnico – Central Hidroeléctrica Quilleco, Servicio de Aforos Ríos Laja &amp; Rucúe, Informe de Resultados de Mediciones y Datos de Terreno</td>
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MAP 1 BIO BIO RIVER BASIN

MAP 2 HYDROPOWER PLANTS IN THE BIO BIO REGION
MAP 3 ACONCAGUA BASIN