



CDM Executive Board  
UNFCCC Secretariat  
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Germany

January 6, 2012

**Subject: Unsolicited letter regarding the registration of the Bujagali Hydropower Project**

Dear Mr. Hession,

We are writing to express our serious concerns over the registration of Project 4217: Bujagali Hydropower Project. We understand that the deadline for requesting review was 29 December 2011. Through a miscommunication we were not able to submit our letter in time. However, we trust that you will take our concerns seriously and initiate a review as soon as possible.

Registration was requested following a validation report by ERM Certification and Verification Services. Our concerns relate to the additionality of the project, the false claims of the Project Design Document (PDD), the project's environmental impacts, and its failure to deliver benefits to displaced and affected communities.

**Additionality**

To understand the largely fictional nature of this application to the CDM, one needs only to read the first line of the PDD: "The Bujagali Hydropower Project is a *proposed* hydropower..." It is not *proposed*. Construction started in mid-2007, and the plant is now complete (only the commissioning of the turbines remains). The project is expected to start producing power in February 2012. There is no mention anywhere in the extensive on-line and hard copy literature about Bujagali that it will not be completed if it does not get approved for the CDM. This basic truth is nowhere mentioned in the PDD. Bujagali Dam is going to be completed regardless of whether or not it is able to receive income from selling CDM offsets. It is non-additional and should not be validated as meeting the CDM's requirements.

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

Bujagali was one of the most contentious World Bank projects of the 1990s and early 2000s.<sup>1</sup> The World Bank, the Government of Uganda, and the developers (first AES, and then Bujagali Energy Limited) repeatedly claimed during these years that the project was the **best, least-cost option** for increasing

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<sup>1</sup> <http://www.internationalrivers.org/en/node/344>

electricity generation in Uganda, and in fact would lead to a drop in electricity tariffs. The World Bank: “The (Bujagali) Project's main objective is to provide least-cost power generation capacity that will eliminate power shortages at the time of its commissioning.”<sup>2</sup>The African Development Bank: “The Bujagali hydro-power plant was selected in the Uganda Hydropower Master Plan as the least cost project.”<sup>3</sup> The EIB: “The Bujagali Hydroelectric Project underwent economic analysis by an international consulting firm including investigation of alternative options for the development of power generation in Uganda. The study indicates that the Project is the least-cost option.”<sup>4</sup>None of the various economic and financial reviews of the project states that CDM income was necessary for project viability or for attracting investors.

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

### **Other Concerns**

The PDD also claims that “anticipated CER revenues contribute significantly to mitigating” risks such as lower demand growth, low hydrology and capital cost escalation.” Yet according to the EFES: “the expected economic return of the Bujagali project is high and very robust to adverse outturns” (p.139) in the key parameters, including lower demand growth, low hydrology and cost escalation.

The PDD recognizes that the EFES identifies Bujagali as the least-cost power supply option for Uganda. Yet its authors attempt to deal with the problem this poses for their argument by saying that being least-cost “does not necessarily attract private investors.” While this may be true, it is also true that Bujagali did attract a private investor, with the help of \$360 million in loans and guarantees from the World Bank and more from other international public sector funders.

### **Environmental and Social Impacts**

The Bujagali Dam has drowned a treasured waterfall— a spectacular series of cascading rapids that Ugandans consider a national treasure —and submerged a place with great cultural and spiritual importance, especially for the Busoga people. The project has also directly affected the livelihoods of about 6,800 people, impacted fisheries, and submerged highly productive agricultural land and islands of high biodiversity. More people are being displaced by the transmission line to the project.

The dam’s impact on the health of Lake Victoria, which supports millions of people and extensive biodiversity, is an ongoing and unresolved concern. The lake suffered a dramatic drop in its water level in recent years, in large part because two existing dams released more water than would naturally have flowed out<sup>5</sup>. As a result, the lake level dropped to record lows in recent years, causing energy shortages and economic disruption (nearly all of Uganda's electricity comes from the two existing dams). In 2008, the African Development Bank’s Compliance Review and Mediation Unit (CRMU) found that the project's contract creates incentives to maintain constant flows from Lake Victoria even during droughts, bringing greater risk that Bujagali could contribute to an ongoing drop in the lake's levels.<sup>6</sup>Two key questions have not been addressed by project studies: Can Bujagali operate economically during times of

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<sup>2</sup> <http://tinyurl.com/d5cdroz>

<sup>3</sup> <http://www.afdb.org/en/projects-and-operations/project-portfolio/project/p-ug-fa0-002/>

<sup>4</sup> <http://www.eib.org/projects/news/bujagali-hydroelectric-project-uganda.htm>

<sup>5</sup> <http://www.internationalrivers.org/en/node/1056>

<sup>6</sup> <http://www.internationalrivers.org/node/3138>

low water without such over-releases from Lake Victoria? And what needs to be done to resolve the social and environmental impacts from the existing dams' excessive water releases from Lake Victoria? In addition, an analysis by International Rivers in 2007<sup>7</sup> shows that the project fails to fully comply with most of the strategic priorities outlined in the WCD report.

In conclusion, we respectfully ask that the CDM Executive Board contacts a thorough review of the Bujagali Hydropower Project before issuing CERs, on the grounds that it is not additional, its PDD contains misleading information, and its unaddressed environmental and social problems show that it has not complied with WCD criteria as required for large hydropower projects in the EU Emissions Trading Scheme.

Sincerely,

Frank Muramuzi, Executive Director, National Association of Professional Environmentalists

Tobias Schmitz, Team Leader, Both ENDS

Robert N. Kugonza, Coordinator, Africa Rivers Network

Lori Pottinger, Africa Campaigner, International Rivers

Eva Filzmoser, Programme Director, CDM Watch

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<sup>7</sup> <http://www.internationalrivers.org/en/node/630>