

OFFICE MEMORANDUM

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INSPECTION PANEL

DATE: August 20, 2010

TO: Roberto Lenton, Chairman, Inspection Panel, IPN

FROM: Sri Mulyani Indrawati, MDI



EXTENSION: 88109

SUBJECT: **Request for Inspection of the Chile: Quilleco Hydropower Project (Trust Fund No. TF056272-CL) and Laja Hydroelectric Project – Addendum to the July 20, 2010 Management Response**

As you will recall, Management filed a response to the Request for Inspection (RQ10/05) of the Chile: Quilleco Hydropower Project and Laja Hydroelectric Project on July 20, 2010. Following the Panel's visit to the project site, the Panel had informal consultations with Bank staff. Based on these consultations, Management has prepared an Addendum to the Response of July 20, 2010 which is attached herewith.

Attachment.

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

1. Management would like to supplement its Management Response, dated July 20, 2010, with the following additional information and proposed actions.

2. As noted in Management's Response at paragraph 74, the Valle del Laja community expressed concerns to the Bank team during the June 2010 supervision regarding diminished availability of well and other water sources (although this aspect is not stated as a claim in the submissions from the Requesters). In discussing those concerns with the Bank team, local residents observed that the water availability issue emerged after the Rucue project began operations, prior to construction of the Quilleco project. The EIA process for the Quilleco project had indicated that no adverse impact was anticipated (see paragraphs 62-63 and 84-86 of the Management Response). Management understands from discussions with the Inspection Panel that the concerns regarding water availability have crystallized around the potential impact of the Quilleco plant, which extends the diversion of water from the Rucue plant located upstream for an additional 8 km downstream (see paragraphs 40 and 42 of the Management Response). Members of the Laja community have expressed concerns to the Inspection Panel that they believe the Quilleco project is adversely affecting water availability which in turn is affecting their agricultural and livestock activities.

3. *Proposed Additional Actions.* Given this information, Management proposes the following additional actions:

- i. To analyze as a first step the impact of the Quilleco diversion on the local hydrology and geohydrology, and, as a second step, the consequences, if any, on the availability of water to the agricultural and livestock activities of the local population living in the project area. It is anticipated that the primary focus of this review will be to examine existing information (data and baseline studies) that might clarify possible cause-effect relationships. This review will be completed within 3 to 4 months.
- ii. On the basis of the results of the analysis, to explore within a subsequent 2-month timeframe potential follow-up actions.

In addition, the Bank team will continue to work with Colbun to enhance its outreach to the local population living in the project area to strengthen the ability of all stakeholders in properly identifying, understanding and addressing the impacts of the Quilleco plant.

4. Management would keep the Inspection Panel abreast of the developments resulting from the proposed actions. At the end of the above six-month period, Management would report back to the Board on the results of these actions and the need for potential additional steps, if any.