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**Final Report
Environmental Compliance Review
El Cerro de Oro Hydroelectric Project
San Juan Bautista Tuxtepec, Oaxaca, México
CONDUIT CAPITAL PARTNERS, LLC**

**URS CORPORATION MEXICO,
S. de R. L. de C. V.
September 2009**



September 29th, 2009

MR. MARC FRISHMAN
CONDUIT CAPITAL PARTNERS, LLC
488 Madison Avenue
New York, NY 10022
USA

Ref: Final Report
Environmental Compliance Review
El Cerro de Oro Hydroelectric Project
San Juan Bautista Tuxtepec, Oaxaca, México
CONDUIT CAPITAL PARTNERS, LLC

Dear Mr. Frishman:

URS Corporation Mexico (URS) is pleased to submit this Final Environmental Compliance Report to Conduit Capital Partners (CCP) for the Cerro de Oro Hydroelectric Project (Project) located in the municipality of San Juan Bautista Tuxtepec in the state of Oaxaca, Mexico.

This document presents the review and analysis of the information provided to URS by the Project investor, COMEXHIDRO, S.A. de C.V. and the Project owner, Electricidad de Oriente, S. de R.L. de C.V. The document also presents information received during interviews with Project representatives and observations conducted during a Project site visit on February 19th, 2009. The Environmental Compliance Review assesses compliance with the World Bank guidelines, the Equator Principles, International Finance Corporation (IFC) Performance Standards and the Overseas Private Investment Corporation (OPIC) guidelines. Considering that this Project will be using an existing dam, the World Commission on Dams criteria does not apply and has not been considered during this analysis.

URS is pleased to continue providing our services to CCP. Should you have any comments or questions regarding this report, please do not hesitate to contact us.

Sincerely,

URS CORPORATION MEXICO,
S. DE R. L. DE C. V.

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**FINAL REPORT
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OAXACA, MÉXICO
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TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY.....	I
1.0 INTRODUCTION.....	1
1.1 SCOPE OF WORK PERFORMED.....	1
1.2 STATEMENT OF LIMITATIONS	1
2.0 PROJECT DESCRIPTION AND PROJECT REVIEW	3
2.1 PROJECT DESCRIPTION	3
2.2 PROJECT DOCUMENTATION REVIEW.....	4
2.3 SITE VISIT.....	5
2.4 INTERVIEWS.....	5
3.0 ENVIRONMENTAL REGULATIONS.....	7
3.1 MEXICAN ENVIRONMENTAL REGULATIONS	7
3.1.1 <i>Mexican Environmental Impact Assessment</i>	7
3.1.2 <i>National Water Commission</i>	8
3.1.3 <i>Energy Regulatory Commission</i>	8
3.1.4 <i>Municipal Land Use and Construction Permits</i>	8
3.2 WORLD BANK GUIDELINES AND THE EQUATOR PRINCIPLES	9
3.2.1 <i>World Bank Requirements</i>	9
3.2.2 <i>The Equator Principles</i>	9
3.3 INTERNATIONAL FINANCE CORPORATION PERFORMANCE STANDARDS	10
3.4 ENVIRONMENTAL, HEALTH AND SAFETY GUIDELINES	10
3.4.1 <i>General EHS Guidelines</i>	10
3.4.2 <i>Electric Transmission and Distribution Industry-Specific EHS Guidelines</i>	11
3.5 OVERSEAS PRIVATE INVESTMENT CORPORATION GUIDELINES	12
4.0 ENVIRONMENTAL COMPLIANCE REVIEW	14
4.1 MEXICAN REGULATIONS AND STANDARD	14
4.1.1 <i>Environmental Impact Assessment</i>	14
4.1.2 <i>National Water Commission Permits</i>	18
4.1.3 <i>Energy Regulatory Commission Permits</i>	19
4.1.4 <i>Municipal Land Use and Construction Permits</i>	19
4.1.5 <i>Other Permits</i>	19
4.2 WORLD BANK GUIDELINES AND THE EQUATOR PRINCIPLES	20
4.3 INTERNATIONAL FINANCE CORPORATION PERFORMANCE STANDARDS	27
4.4 ENVIRONMENTAL, HEALTH AND SAFETY GUIDELINES	32
4.4.1 <i>General EHS Guidelines</i>	32

4.4.2	<i>Electric Transmission and Distribution Industry-Specific EHS Guidelines</i>	37
4.5	OVERSEAS PRIVATE INVESTMENT CORPORATION GUIDELINES	41
5.0	CONCLUSIONS AND RECOMMENDATIONS	47

TABLES

TABLE 1	ICNIRP EXPOSURE LIMITS FOR GENERAL PUBLIC EXPOSURE TO ELECTRIC AND MAGNETIC FIELDS.....	39
TABLE 2	ALTERNATING CURRENT – MINIMUM WORKING DISTANCES FOR TRAINED EMPLOYEES.....	40
TABLE 3	ICNIRP EXPOSURE LIMITS FOR OCCUPATIONAL EXPOSURE TO ELECTRIC AND MAGNETIC FIELDS	40

FIGURES

- FIGURE 1. PROJECT LOCATION
- FIGURE 2. LOCATION OF PROJECT WORKS
- FIGURE 3. PROJECT WORK DETAILS

APPENDICES

- APPENDIX A SITE PHOTOGRAPHS
- APPENDIX B RELEVANT CORRESPONDENCE
- APPENDIX C IFC PERFORMANCE STANDARDS CHECKLIST
- APPENDIX D EIS EXECUTIVE SUMMARY (SPANISH)
- APPENDIX E REQUEST TO DGIRA OF PROJECT MODIFICATIONS
- APPENDIX F DGIRA AUTHORIZATION FOR PROJECT MODIFICATIONS
- APPENDIX G NOTIFICATIONS OF MEETINGS AND MEETING MINUTES

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OAXACA, MEXICO
CONDUIT CAPITAL PARTNERS, LLC**

EXECUTIVE SUMMARY

URS Corporation Mexico (URS) was retained by Conduit Capital Partners (CCP) to perform an environmental compliance review of the Cerro de Oro Hydroelectric Project (hereinafter “the Project”) in relation to applicable Mexican environmental regulations and standards, current Equator Principles, World Bank guidelines, International Finance Corporation (IFC) Performance Standards and Overseas Private Investment Corporation (OPIC) guidelines. The investor for this Project is COMEXHIDRO, S.A. de C.V. and Electricidad de Oriente, S. de R.L. de C.V. is the Project owner.

This Environmental Compliance Review was based on the review and analysis of the information provided to URS by the Project investor and Project owner, and the information received during interviews with Project representatives and observations conducted by URS personnel during a Project site visit on February 19th, 2009.

URS finds that the Project is in compliance with these regulations, standards and guidelines at this stage of the Project. URS offers the following summary of the Project and recommendations, so that the Project remains in compliance with the above-mentioned regulations, standards and guidelines:

Mexican Standards and Regulations

The Project developed an Environmental Impact Statement (EIS) (*Manifestación de Impacto Ambiental, MIA*) in accordance with applicable Mexican regulations, which was submitted to the Secretary of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales, SEMARNAT*) on October 22nd, 2007. The EIS was reviewed by the appropriate Mexican authorities and an approval was issued on July 9th, 2008. The Project owner has met the required Terms and Conditions that are included as part of the EIS Authorization.

The environmental, water resources and cultural resources impacts of this project have been appropriately addressed in Chapters 4, 5 and 6 of the EIS.

The Project owner has obtained the following required permits:

- Environmental Impact Authorization;
- Community of San Rafael Right-of-Way (ROW) and Change in Land Use Authorization;
- Community of Santa Ursula ROW and Change in Land Use Authorization;
- Community of Los Reyes ROW and Change in Land Use Authorization;
- Community of Sebastopol ROW and Change in Land Use Authorization;
- Municipality of San Juan Bautista Tuxtepec Certification of No Interference with the Municipal Urban Development Plan;
- Municipality of San Juan Bautista Tuxtepec Construction and Land Use Permits;
- Federal Electricity Commission (Comisión Federal de Electricidad, CFE) Interconnection Point Authorization;
- National Water Commission (Comisión Nacional del Agua, CONAGUA) Construction Permit preliminary approval; and
- National Defense Secretary (Secretaría de la Defensa Nacional, SEDENA) Explosives Permit.

As is the intention of the Project owner, the Project owner should continue with the Permit and ROW Authorization processes. URS also recommends that the Project owner obtain the following permissions prior to and/or upon initiation of the construction period:

- Transportation and Communications Secretary (Secretaría de Comunicaciones y Transportes, SCT) ROW Authorization (prior to the initiation of the transmission line construction);
- CFE ROW Authorization (prior to the initiation of the transmission line construction);
- Registration as a hazardous waste generator;
- Contract hazardous waste transport and management services; and
- Permits for the disposal of domestic solid wastes and sewage.

The Project owner should also proceed with preparing the Semi-Annual Administrative Report detailing the advancement in the obtainable permits and related legal matters, such as compliance with the Terms and Conditions of the EIS Authorization. The Project investor representatives reported that they plan to prepare and submit this report in March of 2009.

World Bank Guidelines and the Equator Principles

URS finds that the Project is in compliance with the World Bank guidelines and the Equator Principles during this stage of the Project. All documents required by the Equator Principles have been developed.

International Finance Corporation Performance Standards

URS finds that the Project is in compliance with the IFC Performance Standards during this phase of the Project. URS recommends the development of the following plans prior to the start of the construction phase:

1. The IFC Performance Standard 2 requires the development of an Occupational Health and Safety Plan for construction workers, which should include emergency plans, among other requirements defined in the Performance Standard and the General and Industry-Specific Environmental, Health and Safety (EHS) Guidelines (considered below).
2. Performance Standard 4 requires the development of a Community Health, Safety and Security Plan that would provide procedures for hazardous materials safety, operation standards and emergency preparedness and response, among other requirements.
3. Performance Standard 6 requires the management of Biodiversity Conservation and Sustainable Natural Resources. Environmental programs have been developed to ensure the sustainable management of natural resources at the Project site, however, as the Project site is found within an Important Bird Conservation Area (*Áreas de Importancia para la Conservación de las Aves*, AICA), URS recommends that the Project owner consider the Avian and Bat Collision criteria established in the Industry-Specific EHS Guidelines under Terrestrial Habitat Alteration (see Sections 4.3 and 4.4.2).

General and Industry-Specific Environmental, Health and Safety Guidelines

URS finds that the Project is in compliance with the General and Industry-Specific EHS Guidelines at this Project stage. The Project owner and investors have established measures and standards in the EIS and related documents which appropriately address these guidelines. However, URS recommends that the Project owner and investors address the following guidelines in order to continue to be in compliance with these standards:

- The Occupational Health and Safety Plan required by the IFC and OPIC should consider the General and Industry-Specific Occupational Health and Safety Guidelines.
- The Community Health and Safety Plan required by IFC and OPIC should consider the General and Industry-Specific Community Health and Safety Guidelines.
- Consider the Avian and Bat Collision criteria established in the Terrestrial Habitat Alteration section of the Industry-Specific EHS Guidelines to address avian biodiversity concerns in the Cerro de Oro AICA.
- Address Electric and Magnetic Fields (EMF) guidelines in regards to both occupational and community health and safety in the corresponding health and safety plans.

Overseas Private Investment Company Guidelines

Based upon consideration of the OPIC guidelines and review of the Cerro de Oro EIS and related documents, URS considers that the Project is a Category B Project. However, OPIC will designate the final classification of the Project based on their internal audit process.

URS has reviewed OPIC's Categorically Excluded Criteria and does not consider that the Project is a categorically excluded project. URS also reviewed the OPIC Dam Standards and considers that the Project EIS and related documents and public consultation efforts satisfy these guidelines. URS recommends that an Occupational Health and Safety Plan and Community Health and Safety Plan are prepared prior to the initiation of construction activities to satisfy OPIC's Dam Safety requirements and the IFC standards requirements, which are also required by OPIC.

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1.0 INTRODUCTION

1.1 Scope of Work Performed

URS Corporation (URS) was retained by Conduit Capital Partners, LLC (CCP) to perform an Environmental Compliance Review of a proposed hydroelectric project and an associated electrical transmission line to be located near the city of Tuxtepec, in the state of Oaxaca, Mexico. URS reviewed this Project relative to the World Bank guidelines, Equator Principles, International Finance Corporation (IFC) Performance Standards on Social & Environmental Sustainability as presented by the IFC on April 30th, 2006, Overseas Private Investment Corporation (OPIC) guidelines and the Mexican environmental regulations.

This review covers environmental issues relative to overall social and environmental impact assessment, with particular emphasis on social/environmental impacts, water resources, and cultural resources impacts. The Project has completed the Mexican environmental review process, which included the submittal of an Environmental Impact Statement (EIS) (*Manifestación de Impacto Ambiental, EIS*) and review by Mexican environmental authorities. The Mexican authorities have completed their review and issued a conditional approval of the Project. The Project owner has prepared and submitted the Environmental Quality Monitoring Program required by the Condition of the EIS Authorization, which is currently undergoing review by the Mexican authorities.

1.2 Statement of Limitations

URS completed the Environmental Compliance Review in accordance with the scope of work described in URS' proposal No. 09001A signed on January 12th, 2009.

The Environmental Compliance Review is a limited and non-exhaustive assessment that is intended to evaluate whether readily available information indicates that the project activities are in compliance with guidelines, standards and criteria listed above.

URS has exercised due and customary care in the performance of the Environmental Compliance Review, but has not independently verified information provided by others. Therefore, URS assumes no liability for any loss resulting from errors or omissions arising from the use of inaccurate/incomplete information or misrepresentations made by others. This report has been prepared at the request of CCP, and because site conditions can change over time, the use of this report by unauthorized third parties without express written permission of URS shall be at their own risk. Third parties should conduct their own investigation and not rely upon the contents of this report.

It is important to recognize that even the most comprehensive scope of services may fail to detect environmental issues at a particular site. Therefore, URS cannot act as insurers and cannot “certify” that the Project activities do not generate environmental contamination, and no expressed or implied representation or warranty is included in our reports, except that our services were performed within the limits prescribed by CCP as described above and with the customary thoroughness and competence of our profession.

URS has prepared this report in accordance with generally accepted consulting practices and for the intended purposes. This report may not be relied upon by any other party without the explicit written agreement of URS. No other warranty, expressed or implied, is made as to the professional advice included in this report.

The conclusions contained in this report are based upon information provided by third parties and the assumption that all relevant information has been provided by those whom it has been requested.

2.0 PROJECT DESCRIPTION AND PROJECT REVIEW

2.1 Project Description

The Project is located in the Municipality of San Juan Bautista Tuxtepec in the north central portion of the state of Oaxaca in southern Mexico. The Project will be located downstream of the right bank of the Cerro de Oro Dam on the Santo Domingo River. This proposed hydroelectric dam is interconnected with the Miguel Alemán Dam, located on the Tonto River, and the two dams act as a single dam. The two dams were originally constructed to control floods, but the Federal Electricity Commission (*Comisión Federal de Electricidad*, CFE) later built a hydroelectric plant in the Miguel Alemán Dam, called Temascal. The town of Tuxtepec is located approximately 17 kilometers (km) south of the Cerro de Oro dam. Construction of the Cerro de Oro dam began in 1973, and it became operational in May 1989. The dam has performed satisfactorily since its construction.

As the Cerro de Oro dam is already in place, this proposed project will consist of the installation of the following:

- Water intake and conduction tunnel;
- Powerhouse;
- Voltage elevation substation;
- Tailrace channel; and
- 10.5 km of 115 kilovolt (kV) electrical transmission lines.

The Project will be capable of generating about 10.8 megawatts of electrical power. The new transmission line will run in a northeasterly direction for about 10.5 km and tie into the existing CFE Benito Juárez substation near the community of Sebastopol.

Figure 1 shows the location of the project area, Cerro de Oro dam, permanent Project infrastructure and the associated electrical transmission line. Figures 2 and 3 provide some details of the Project design.

The main hydrographic feature in the area is the Papaloapan River basin, which includes the Santo Domingo and Tonto Rivers and the Cerro de Oro dam itself. The prevailing climate in the region is hot and humid, with an annual average temperature of 25 degrees Celsius. The climate is affected by tropical hurricanes, which frequently increase the precipitation during the summer and fall months. The average rainfall is about 195 mm per month, with the rainy season from June to September.

The main soil types in the Project area are Luvisol chromic and Vertisol pellic, fine-textured soils composed of rocky clays. In the Santa Ursula and Cerro de Oro area, the main soil types include Feozem luvic and Luvisol ortic, fine-textured soils composed principally of limestone.

The main vegetation found in the Project site includes grasses, herbs and patches of secondary vegetation. There are no vegetative species listed as protected under Mexican regulations (Mexican Official Standard NOM-059-SEMARNAT-2001) in the Project area.

Agriculture and grazing areas are found in the outskirts of the Project area and along the transmission line corridor. Since the habitat found within the Project area is in a disturbed condition, no wildlife species listed as protected under Mexican regulations (Mexican Official Standard NOM-059-SEMARNAT-2001) were found during site surveys. Species that are hunted in the region and keystone species were not found either.

2.2 Project Documentation Review

URS visited the Project investor's offices on January 15th, 2009 and the following information was provided:

- The Project EIS;
- Additional Information for the EIS, requested by the authorities;
- Environmental Impact Authorization;
- Project Modifications Document and SEMARNAT's resolution on these Project modifications;
- Payment receipt for the submittal of Project modifications to SEMARNAT;
- Environmental Quality Monitoring Program, including the Reforestation and Soil Conservation Programs;
- Community of San Rafael Right-of-Way (ROW) and Change in Land Use Authorization;
- Community of Santa Ursula ROW and Change in Land Use Authorization;
- Community of Los Reyes ROW and Change in Land Use Authorization;
- Community of Sebastopol ROW and Change in Land Use Authorization;
- Notification of Project Meeting to the Community of Los Reyes and Meeting Minutes;
- Notification of Project Meeting to the Community of San Rafael and Meeting Minutes;
- Notification of Project Meeting to the Community of Santa Ursula and Meeting Minutes;
- Notification of Project Meeting to the Community of Sebastopol and Meeting Minutes;
- Municipality of San Juan Bautista Tuxtepec Certification of No Interference with the Municipal Urban Development Plan;
- Municipality of San Juan Bautista Tuxtepec Construction and Land Use Permits;
- CFE Interconnection Point Authorization;

- National Water Commission (Comisión Nacional del Agua, CONAGUA) Construction Permit preliminary approval; and
- National Defense Secretary (Secretaría de la Defensa Nacional, SEDENA) Explosives Permit.

2.3 Site Visit

On February 19th, 2009, URS professionals Joe Kuebler from the Austin, Texas office and Kristin Marsh from the Mexico City office performed a site visit at the Project site accompanied by the following representatives:

- Marc Frishman and Michelle Haigh, Conduit Capital Partners, LLC;
- Diane Brown and Peter Greenwood, OPIC; and
- Luis de la Mora, COMEXHIDRO.

During this field trip, URS visited the following proposed Project sites:

- The existing Cerro de Oro dam and spillway;
- The geological exploration galleries;
- Proposed powerhouse and substation locations;
- Proposed locations for excavated materials (at the foot of the dam in the Federal Zone, in the old Santo Domingo river bed and the old clay pit used during dam construction);
- The Arroyo Sal route and proposed dredging areas;
- Proposed bridge location;
- Equipment and machinery transportation routes;
- The transmission line route; and
- CFE Sebastopol substation.

The relevant observations noted during the site visit at the above-listed Project sites are included in Section 4.0. A copy of selected site photographs of the Project site is provided in Appendix A.

2.4 Interviews

On February 20th, 2009, professionals Joe Kuebler from the Austin, Texas office and Kristin Marsh and Abdul Muñiz from the Mexico City office held interviews with the third party independent biologists responsible for the EIS preparation.

URS professionals were accompanied by the following representatives:

- Diane Brown and Peter Greenwood, OPIC;
- Salomon Camhaji Samra and Mauricio Justus, COMEXHIDRO; and
- Independent Biologists Cristina Jocabeth and Armando Amaro.

During this meeting, URS and OPIC clarified any doubts regarding the preparation of the EIS and related documents, execution of the vegetation, wildlife and cultural surveys, CONAGUA dam safety procedures and the COMEXHIDRO and Project owners company organization. The relevant details of these interviews are included in Section 4.0 of this document.

Additional information was provided by COMEXHIDRO on August 6th, 2009 to update and supplement the information provided in this report.

3.0 ENVIRONMENTAL REGULATIONS

3.1 Mexican Environmental Regulations

3.1.1 Mexican Environmental Impact Assessment

The General Law for Ecological Equilibrium and Environmental Protection (*Ley General del Equilibrio Ecológico y Protección al Ambiente*, LGEEPA) was published on January 28th, 1988, and came into effect in March of that same year. The LGEEPA is the legal framework for the preservation and appropriate use of natural resources and environmental protection in Mexico. LGEEPA and its associated regulations require that environmental impact resolutions (*resolutivo en material de Impacto Ambiental, or RIA*) be obtained from the General Direction of Environmental Impact and Risk (*Dirección General de Impacto y Riesgo Ambiental, DGIRA*), within the Secretary of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales, SEMARNAT*) prior to carrying out any activity that may have an adverse effect on the environment. In order to obtain a RIA, the SEMARNAT requires the preparation of an EIS. Based upon the EIS analysis and any additional information that the SEMARNAT may request, and with the technical and scientific support of the National Ecology Institute (*Instituto Nacional de Ecología, INE*), SEMARNAT is entitled to grant or deny the RIA. Projects must satisfy specific requirements in relation to the project type in order to obtain a RIA.

According to Article 28, Section XIII and Article 5, Section K of the LGEEPA regarding Environmental Impacts, the Project is considered within Federal Jurisdiction.

An EIS describes the Project, provides a description of the physical, biological and social baseline environment and addresses the impacts resulting from construction and operation of the Project for the following topics:

- Climate;
- Geology and Geomorphology;
- Soils;
- Superficial and Subterranean Hydrology;
- Terrestrial Vegetation;
- Aquatic and Terrestrial Wildlife;
- Demography;
- Housing;
- Health and Social Security;
- Quality of Life;
- Education;
- Poverty Index;

- Dominant Social Organizations;
- Productivity;
- Sociocultural factors; and
- Land Use.

Once the applicant prepares the EIS, the document is signed and submitted to SEMARNAT. Then a review process starts and approval may take as long as 10 months. Delays in the approval process normally occur when the information is deficient or inconsistent. According to Mexican regulations, if the EIS is well documented, the review process should not exceed 6 months.

3.1.2 National Water Commission

The National Water Law (*Ley de Aguas Nacionales, LAN*), published on December 1st, 1992, is the legal framework for exploitation, distribution, control and use of national waters and the preservation of water quality and quantity.

The LAN and its associated regulation establish the requirements to obtain the concession for national water use. According to Article 20, Title IV of the LAN, the Project should obtain the concession for the exploitation and use of national superficial water.

The authority empowered to issue a concession is CONAGUA, formerly CNA.

3.1.3 Energy Regulatory Commission

The Public Service Law of Electric Energy (*Ley del Servicio Público de Energía Eléctrica, LSPEE*), published on December 22nd, 1972, is the legal framework to generate, conduct, transform, distribute and supply electric energy.

The LSPEE regulation and standards establish the requirements and conditions for the self-supply, co-generation and independent production of electric energy. According to the LSPEE, when a project generates electric energy for self-supply, a permit is required. The authority empowered to issue this permit is the Energy Regulatory Commission (*Comisión Reguladora de Energía, CRE*).

3.1.4 Municipal Land Use and Construction Permits

The Project is located in the Municipality of San Juan Bautista Tuxtepec in the State of Oaxaca. According to the Urban Development Law for the State of Oaxaca and the Municipal Urban Development Plan, a land use and construction permit should be obtained prior to the Project start-up.

3.2 World Bank Guidelines and the Equator Principles

3.2.1 World Bank Requirements

The World Bank's main activity is to "help developing countries fight poverty and establish economic growth that is stable, sustainable and equitable." The World Bank "provides financial, advisory and training services to its clients and has established policies and procedures that help ensure its operations (*and projects financed by the Bank*) are economically, financially, socially, and environmentally sound."¹

According to this, projects financed by banks adopting the Equator Principles must follow World Bank policies and procedures to ensure quality; fairness and that affected people have a voice.

3.2.2 The Equator Principles

The Equator Principles provide the Project with a baseline and framework to implement internal environmental and social procedures and standards to ensure that projects are developed in a manner that is socially responsible and reflect healthy environmental management practices.

The Financial Institutions adopting Equator Principles only provide loans to projects that comply with Principles 1 to 10 listed below:

- Principle 1: Review and Categorization.
- Principle 2: Social and Environmental Assessment.
- Principle 3: Applicable Social and Environmental Standards.
- Principle 4: Action Plan and Management System.
- Principle 5: Consultation and Disclosure.
- Principle 6: Grievance Mechanism.
- Principle 7: Independent Review.
- Principle 8: Covenants.
- Principle 9: Independent Monitoring and Reporting.
- Principle 10: Equator Principles Financial Institutions Reporting.

As part of the requirements of the Equator Principle 3 Applicable Social and Environmental Standards, URS describes below the applicable IFC Performance Standards and the World Bank General and Industry-Specific Environmental, Health and Safety (EHS) Guidelines.

¹ <http://web.worldbank.org>

3.3 International Finance Corporation Performance Standards

An important component of positive development outcomes is the social and environmental sustainability of projects, which IFC expects to achieve by applying a comprehensive set of social and environmental performance standards. The Performance Standards may also be applied by other financial institutions electing to apply them to projects in emerging markets.

Together, the eight Performance Standards establish standards that the Project owner and investors are expected to meet throughout the life of an investment by IFC or other relevant financial institution. The following Performance Standards were reviewed to identify their applicability to the Project:

- Performance Standard 1: Social and Environmental Assessment and Management Systems;
- Performance Standard 2: Labor and Working Conditions;
- Performance Standard 3: Pollution Prevention and Abatement;
- Performance Standard 4: Community Health, Safety and Security;
- Performance Standard 5: Land Acquisition and Involuntary Resettlement;
- Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management;
- Performance Standard 7: Indigenous People; and
- Performance Standard 8: Cultural Heritage.

3.4 Environmental, Health and Safety Guidelines

The IFC and World Bank Group EHS Guidelines were updated and released on April 30th, 2007. These guidelines have been designed to be used with the relevant Industry-Sector EHS Guidelines to provide guidance on EHS issues in specific industry sectors.

3.4.1 General EHS Guidelines

The General EHS Guidelines include levels and measures for the following:

Environment

- Air Emissions and Ambient Air Quality.
- Energy Conservation (does not apply to this Project).
- Wastewater and Ambient Water Quality.
- Water Conservation.
- Hazardous Materials Management.
- Waste Management.

- Noise.
- Contaminated Land (does not apply to this Project).

Occupational Health and Safety

- General Facility Design and Operation.
- Communication and Training.
- Physical Hazards.
- Chemical Hazards.
- Biological Hazards.
- Radiological Hazards.
- Personal Protective Equipment (PPE).
- Special Hazard Environments.
- Monitoring.

Community Health and Safety

- Water Quality and Availability.
- Structural Safety of Project Infrastructure.
- Life and Fire Safety (L&FS).
- Traffic Safety.
- Transport of Hazardous Materials.
- Disease Prevention.
- Emergency Preparedness and Response.

Construction and Decommissioning (does not apply to the Project at this stage)

- Environment.
- Occupational Health and Safety.
- Community Health and Safety.

When the host country regulations differ from the levels and measures presented in the EHS Guidelines, projects are required to follow whichever is more stringent.

3.4.2 Electric Transmission and Distribution Industry-Specific EHS Guidelines

In the case of the Project, the Electric Power Transmission and Distribution Industry-Specific EHS Guidelines are applicable. These guidelines are required to be followed when there is power transmission between a generation facility and a substation located within an electricity grid and distribution of electricity from a substation. These guidelines include the following topics:

- Environmental
 - Terrestrial Habitat Alteration;
 - Aquatic Habitat Alteration;
 - Electric and Magnetic Fields; and
 - Hazardous Materials.

- Occupational Health and Safety
 - Live Power Lines;
 - Working at Height on Poles and Structures;
 - Electric and Magnetic Fields; and
 - Exposure to Chemicals.

- Occupational Health and Safety
 - Electrocutation;
 - Electromagnetic Interference;
 - Visual Amenity; and
 - Noise and Ozone.

- Performance Indicators and Monitoring

3.5 Overseas Private Investment Corporation Guidelines

The OPIC guidelines closely follow the World Bank guidelines, Equator Principles and IFC Performance Standards, focusing on the environment, workers rights, human rights and economy. In case of dam projects, OPIC also requires compliance with the World Commission on Dams (WCD) criteria.

As part of OPIC’s project review process, the projects are categorized according to the level of environmental impacts. Category A projects, considered to have “significant adverse environmental impacts that are sensitive, diverse or unprecedented”, require that a project environmental document (e.g. EIS) is prepared in English and reviewed by OPIC. This document is posted on the OPIC website and is made publicly available on request for a designated comment period of 60 days prior to any final OPIC commitment to a project. Concurrent to the public notification process, OPIC conducts an internal assessment of the project based on the environmental document and other available information, including comments from the public. OPIC also requires independent project audits and monitors the project to insure compliance with contract conditions provided in the OPIC loan agreement or insurance contract.

Category B projects, which have fewer environmental impacts of a lesser magnitude, require assessments, but the information submitted need not be in an environment assessment form. Category C projects have little to no impacts, and are generally not subject to environmental assessment.

Depending upon OPIC's evaluation of the Project, OPIC may require additional follow-up activities, such as Environmental Management and Monitoring Plans, Emergency Notification and Response Plans, third-party audits and self-monitoring reports, among others.

Based upon the review of the OPIC guidelines, the Cerro de Oro EIS and related documents, URS considers that the Project is a Category B Project. However, OPIC will designate the final classification of the Project based on their internal audit process.

4.0 ENVIRONMENTAL COMPLIANCE REVIEW

4.1 Mexican Regulations and Standard

Section 4.1 indicates the main Mexican governmental authorities and their requirements in relation to the Project. The SEMARNAT is the main environmental authority that has required an EIS for this Project in order to measure the level of impact the Project will have on the physical, biological and social environments.

Apart from the SEMARNAT, the Project must also request permits from the CONAGUA, the CRE, the SEDENA and municipal authorities where the Project will be located, among others. The status of these permits is detailed below in Sub-sections 4.1.1 through 4.1.5:

4.1.1 Environmental Impact Assessment

The Project EIS was submitted on October 22nd, 2007 to the SEMARNAT by the Project owner, Electricidad de Oriente, S. de R.L. de C.V. The EIS was made available for public consultation at the DGIRA offices of the SEMARNAT and on the SEMARNAT website. The EIS did not receive any public comments or solicitations.

The EIS Authorization was issued through the document S.G.P.A./DGIRA.DG.2060.08 on July 9th, 2008. A copy of the EIS Authorization is provided in Appendix B. The EIS Authorization contains the Project background and description, the legal framework, general characteristics, and 15 Terms and 1 Condition, which the Project owner is in the process of addressing.

The EIS Authorization is summarized as follows:

Considering the interaction between the Project works and activities and the environment where the site will be located, DGIRA has determined that the Project will not generate significant or relevant environmental impacts, considering that the natural characteristics of the selected Project site have already suffered alteration and degradation due to past anthropogenic activities, such as agricultural activities and the construction of the Miguel Alemán Hurtado Cerro de Oro dam and considering that the design and characteristics of the infrastructure of the current Project will not affect the ecosystem function since the Project will respect the current hydrological flow and will not consume water volumes. The Project will not cause a decrease in water volume extracted by the Cerro de Oro dam and will discharge all waters into La Sal arroyo. Furthermore, the characteristics of the Santo Domingo River will not be altered and it will continue to flow in the same way as it has up to the current date.

In accordance with the above, the DGIRA concludes that the impacts generated by the Project can be mitigated and/or compensated and that the Project will not provoke an ecological imbalance in the proposed area. The DGIRA considers the Project to be environmentally feasible, on the condition that the Project complies with the proposed mitigation measures, the Terms and Conditions in the EIS Authorization document, and the additional restrictions established by the corresponding administrations.

Terms

1. Establishes the Project's technical characteristics, location and area on which the Resolution is based;
2. The resolution is valid for a period of three years for the construction starting the day after receiving the Resolution and 20 years for operation after the conclusion of the construction phase. An extension can be requested 30 days prior to the end of the period with a report from the legal representative, which demonstrates compliance with the Terms and Conditions;
3. The promoter must comply with Article 50 of the Environmental Impact Regulation, which allows the DGIRA to ask for additional information within 20 working days of the EIS submittal. In case the Promoter wants to desist from the development of the project, they must notify DGIRA. If so, DGIRA can determine the measures that need to be adopted to avoid negative alterations to the environment;
4. If the Project is modified, the Promoter must describe the changes to the Project, including all the potential environmental impacts along with the mitigation measures so that DGIRA can determine if the changes may modify the evaluation previously conducted. The Promoter may not undertake any activities different from the original authorization;
5. The EIS resolution refers only to environmental aspects and is not considered a permit to initiate construction or as a legal document to validate the property or land use. It is the Promoter's responsibility to obtain the corresponding land use and construction permits, as well the change in forest land use permit;
6. The Promoter must conduct activities in accordance with the information presented in the EIS, in the additional information submitted to the SEMARNAT, drawings, the applicable Mexican Official Standards, laws and regulations, as well as the requirements included in these Terms and Conditions;
7. The Promoter must apply for all the applicable permits from the municipal, state and federal authorities;
8. The Promoter must submit a Semi-Annual Administrative Report detailing compliance with the Terms and Conditions in the EIS Authorization, which should be submitted to the SEMARNAT and the Delegation of Federal Attorney for Environmental Protection (Procuraduría Federal de Protección al Ambiente, PROFEPA) in Oaxaca. The report should include percent of advancement in the compliance process, description of the activities authorized, constructed and that are in process of completion, including drawings, graphics, maps, etc., which depict these activities;

9. The Promoter must notify the SEMARNAT of the Project start date and the Project completion date within 15 days of the respective dates;
10. The Promoter must notify the authority of any change in the name of the Promoter or owner of the Project;
11. The Promoter is the party responsible for assuring compliance with the preventive, control and mitigation measures and is legally responsible for any illegal environmental act regulated by the Delegation of PROFEPA in Oaxaca;
12. The Promoter must maintain copies of the EIS Authorization at the Project site;
13. Non-compliance with the Terms and Conditions or any modification made to the Project without notifying the authority will result in the nullification of the EIS Authorization;
14. The SEMARNAT, through the PROFEPA, will validate compliance with the Terms and Conditions of the EIS Authorization; and
15. DGIRA will notify any interested parties of the contents of the EIS Authorization.

Condition 1

- The Promoter must comply with all the preventive, control and mitigation measures and the significance criteria for the impact evaluation included in the EIS, as well as the Terms and Conditions of the EIS Authorization;
- An Environmental Quality Monitoring Program must be prepared and should include all of the preventive, control and mitigation measures, program for monitoring the environmental indicators, schedule for implementation, methodology, corrective and preventive measures, action mechanisms and direct and indirect costs;
- The Environmental Quality Monitoring Program should include a Reforestation and Soils Conservation and/or Erosion Control Program;
 - a) The Reforestation Program requires an area three times the size of the Project affected area be reforested. The Program should describe the techniques to be used, an analysis to measure the survival rate of the species used, emergency measures should mortality rise above 20%, identification of the reforestation sites and estimation of direct and indirect costs.
 - b) The Soil Conservation and/or Erosion Control Program should be based upon an Erosion Risk Analysis for the entire Project area. The Program should indicate the areas where erosion control will be used, indicating the current state of erosion, substantiated techniques to be used and an estimation of direct and indirect costs.
- The Environmental Quality Monitoring Program, including the Reforestation and Soil Conservation and/or Erosion Control Program, should be prepared and submitted to DGIRA within three months of the issuance of the EIS Authorization; and

- A Semi-annual Detailed Technical Report must be submitted to DGIRA and the Delegation of PROFEPA in Oaxaca detailing the status of the application of the preventive, control and mitigation measures and their effectiveness in mitigating environmental impacts. This report should provide graphical, scientific and technical arguments in support of the conclusions.

The EIS Authorization states that no cultural resources impacts associated with the Project were identified, as no archaeological or culturally important sites are reported in the area, nor were any such sites discovered during the field surveys. Article 42 of the Regulation of Federal Law of Monuments and Archaeological, Artistic and Historic Zones (*Ley Federal Sobre Monumentos y Zonas Arqueológicas, Artísticas e Históricas*, LFMZA) establishes that in case that the Project is located in an archeological area or monument, a permit will be required by the Promoter. In the case of the Project, no permit is required as it is not located close to or in an archeological area.

The Project owner has prepared the Environmental Quality Monitoring Program, which includes the Reforestation and Soil Conservation Plans stipulated in Condition 1a and 1b. Both of these documents were submitted to the DGIRA on October 13th, 2008 and are currently being reviewed by DGIRA and the Delegation of PROFEPA in Oaxaca.

The Project owner plans to prepare and submit the Semi-annual Administrative Report documenting their progress with meeting the Terms and Conditions of the EIS Authorization in March of 2009. Once the construction phase starts, the Project owner should develop the Semi-annual Detailed Technical Report documenting compliance with the Environmental Quality Monitoring Program.

On August 18, 2009, the Project owner (through document no. EOR/020/2009 dated August 11th, 2009) submitted to SEMARNAT modifications to the authorized Project and requested the authorization of such changes (see Appendix E), which included the following:

- Relocation of the power house (relocated to a distance of 20 m towards east, from 17°19'50" of north latitude and 96°15'19" of west longitude to 17°19'50" of north latitude and 96°15'18" of west longitude) but keeping the works arrangement;
- Increase on the pressurized pipeline length (from 40 m to 55.5 m) and displacement of approximately 5° towards east;
- Reduction on the length of the discharge drainage channel from 55.3 m to 53.31 m, as well as reduction on the width footing of such channel from 17 m to 12 m;
- Elimination of the gabion dam on the La Sal river;
- Rehabilitation and fitting out of the oxbow in the La Sal river to minimize the impacts on the joint of the La Sal river with the Santo Domingo river;
- Installation of a bridge over the La Sal river to allow the crosswalk of Los Reyes inhabitants to their parcels and to avoid a potential interference with the Project operation;

- Modification to the initially authorized transmission line path from 10.5 km to 13.8 km, number of inflection points from 2 to 28, and number of towers required from 22 to 30 towers; and
- Increase of the Project total surface from 268,624 m² to 297,306 m² and increase on the forest impact surface from 16,306.25 m² to 31,075 m².

On September 4, 2009, through document no. SGPA/DGIRA/DG/5754/09, DGIRA authorized the above modifications to the Project as they will not increase or modify the Project environmental impacts initially evaluated and authorized, thus not affecting the functional integrity and carrying capacity of the ecosystem (see Appendix F). In this authorization, DGIRA also established that the Project owner must comply with the Terms and Conditions indicated in the EIS Authorization document no. S.G.P.A./DGIRA.DG.2060.08 dated July 9th, 2008.

4.1.2 National Water Commission Permits

On July 21st, 2008, the Project owner requested the CONAGUA Construction Permit for a hydroelectric project of 10.8 MW capacity at the Cerro de Oro dam. The CONAGUA Construction Permit requires a thorough technical review of the Project engineering and design by the CONAGUA Technical Consult Department. CONAGUA has submitted a response to this request on September 11th, 2008, giving preliminary approval of the Project (see Appendix B). The Project owner and investors have a meeting scheduled with the CONAGUA in the near future in order to address any pending questions or concerns from CONAGUA in an effort to conclude this permit process. Upon the initiation of construction activities, CONAGUA representatives will be present at the site to monitor dam behavior and to supervise the construction activities.

The Cerro de Oro dam has an existing CONAGUA Water Concession Permit, which states the amount of water which can be passed through the dam on a yearly basis. However, the hydroelectric power plant design will require some changes to the permit stipulations; therefore a new CONAGUA Water Concession Permit will be needed. However, the Project owner cannot request the CONAGUA Water Concession Permit until the Construction Permit has been authorized.

Similarly, the Cerro de Oro dam and corresponding facilities are already considered to be within the Federal Zone and a CONAGUA Federal Land Concession permit exists for the current dam. However, as the new hydroelectric power plant design will require changes in and adjacent to the Federal Zone, a new Federal Land Concession permit is needed. This permit cannot be solicited until the CONAGUA Construction and Water Concession permits are authorized.

The Project investor stated that these permits will be requested once the necessary paperwork has been authorized and received.

4.1.3 Energy Regulatory Commission Permits

The permit to self-supply electric energy to the Project cannot be requested until the CONAGUA permits listed above are authorized and obtained.

The Project investor plans to apply for this permit once the necessary paperwork is authorized and obtained.

4.1.4 Municipal Land Use and Construction Permits

The official document DDU/223/08 dated May 28th, 2008 issued by the Municipality of San Juan Bautista Tuxtepec, allows the Project owner to perform construction works, soil-moving and soil disposal activities and authorizes land use for the following Project activities (see Appendix B):

- Conduction tunnel;
- Hydroelectric facility;
- Dredging of the Arroyo Sal canal;
- Electric substation; and
- 10.5 km of transmission line and corresponding structures.

The document does not specify a period to start and complete these activities and does not have an expiration date.

4.1.5 Other Permits

Other required permissions that will be necessary prior to the start and/or upon initiation of the Project construction phase include the registration as a hazardous waste generator, contraction of hazardous waste transport and management services and permits for the disposal of domestic solid wastes and sewage.

An Explosives Permit from the SEDENA, has been issued to the construction company, Construcciones Zugusa, S.A. de C.V. allowing for the purchase and use of explosives during a one-year period (January 1st, 2009 – December 31st, 2009). This permit requires that the construction company keep detailed logbooks of the purchase and use of the explosives during the permit period. The construction company is also required to submit a monthly report to SEDENA detailing the explosives activities in the previous month (see Appendix B).

4.2 World Bank Guidelines and the Equator Principles

URS evaluated the Project characteristics, activities and programs conducted by the Project investor and the Project owner for the Project based on the requirements of the World Bank guidelines and the Equator Principles. URS considers that these activities are in compliance with the applicable principles. The following summary describes some of the most relevant elements applicable to the current Project phase.

Principle 1: Project Review and Categorization

The EIS prepared by the Project owner includes an evaluation of the environmental and social impacts resulting from Project development. The EIS Authorization issued on July 9th, 2008 concluded that none of the impacts identified in the EIS are considered significantly adverse and the majority of the impacts will be reduced or eliminated through the application of the preventive and mitigation measures.

Regarding the social impacts, the Project ROW will not directly affect any community since no involuntary resettlements are expected to occur. People from the municipalities indirectly affected will actually be benefited by the Project development due to the economic growth associated with the construction and operation of the facility and due to the social compensation provided by the Project owner.

URS reviewed the above mentioned documents, performed a site visit and found that the Project has few adverse social or environmental impacts, which are generally site-specific, largely reversible and readily addressed through mitigation measures. Therefore, the opinion of URS is that the Project is a **Category B** project.

Principle 2: Social and Environmental Assessment

Principle 2 recognizes that for each project assessed as being either Category A or Category B, the borrower must conduct a Social and Environmental Assessment to address, as appropriate and to the financial institution's satisfaction, the relevant social and environmental impacts and risks of the proposed project. The Assessment should also propose mitigation and management measures that are relevant and appropriate to the nature and scale of the proposed project.

The Cerro de Oro Hydroelectric Project EIS included an Environmental and Socioeconomic impact assessment analyzing the following topics:

- Environmental and social baseline assessment;
- Legal requirements applicable to the Project;
- Environmental and social impact assessment; and
- Preventive and mitigation measures.

The Project was authorized by DGIRA by means of the EIS Authorization issued on July 9th, 2008 and is valid for 3 years for its construction phase, and 20 years for operation phase. The construction is scheduled to begin in March of 2009.

The EIS Authorization issued by DGIRA includes 15 Terms and 1 Condition, which complement the mitigation measures established in the EIS. A description of the requirements stated in the EIS Authorization is presented in Section 4.1.1. This Condition stipulates that the mitigable impacts must be monitored through the implementation of the Environmental Quality Monitoring Program. This Program has been prepared and was submitted to DGIRA and PROFEPA of Oaxaca on October 13th, 2008. The Program is currently undergoing review by the Mexican authorities.

Modifications to the original Project design have been made since the EIS was approved. These changes mainly include modifications to the transmission line route, power house location and to the discharge canal. The Project owner has recently finished geotechnical exploration activities in order to determine the new location of the power house. According to the Project owner, a report documenting these changes will be submitted to the DGIRA in mid- to late-August 2009 as is required by the EIS Authorization issued in March 2009. According to the Project owner, these changes will actually reduce the magnitude of impacts predicted in the EIS; therefore the Project owner and URS do not expect any issues to develop from these changes.

URS considers that this Principle has been adequately addressed.

Principle 3: Applicable Social and Environmental Standards

Principle 3 states that for projects located in non-OECD² countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the Assessment will refer to the then applicable IFC Performance Standards and the then applicable General and Industry-Specific EHS Guidelines. The Assessment will be developed to the participating financial institution's satisfaction of the project's overall compliance with, or justified deviation from, the respective Performance Standards and EHS Guidelines.

Mexico has been a member of the OECD since 1994 and according to World Bank Development Indicators Database is designated as Upper Middle Income; therefore compliance assessments of the eight Performance Standards and the EHS Guidelines are presented in Section 4.3 and Section 4.4, respectively.

² Organization for Economic Cooperation and Development (OECD)

Principle 4: Action Plan and Management System

Principles 4 states that for all Category A and Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the borrower prepare an Action Plan that addresses the relevant findings and draws on the conclusions of the Assessment. The Action Plan will describe and prioritize the actions needed to implement mitigation measures, corrective actions and monitoring measures necessary to manage the impacts and risks identified in the Assessment. Borrowers will build on, maintain or establish a Social and Environmental Management System that addresses the management of these impacts, risks and corrective actions required to comply with applicable host country social and environmental laws and regulations, and requirements of the applicable Performance Standards and EHS Guidelines, as defined in the Action Plan.

This Program should also be consistent with IFC Performance Standard 1 and incorporate the following topics:

1. Social and Environmental Assessment;
2. Management Program;
3. Organizational capacity;
4. Training;
5. Community engagement;
6. Monitoring; and
7. Reporting.

The Program must include a procedure to assess the efficiency of the activities conducted, as well as indicators of the environmental performance.

A Social and Environmental Assessment was included in the EIS. This assessment included a description of the physical, biological and social environment and analysis of the impacts on the environment resulting from the Project. The following topics were examined in the EIS:

- Climate;
- Geology and Geomorphology;
- Soils;
- Superficial and Subterranean Hydrology;
- Terrestrial Vegetation;
- Aquatic and Terrestrial Wildlife;
- Demography;
- Housing;
- Health and Social Security;

- Quality of Life;
- Education;
- Poverty Index;
- Dominant Social Organizations;
- Productivity;
- Sociocultural factors; and
- Land Use.

The Environmental Quality Monitoring Program developed and submitted to the DGIRA on October 13th, 2008 as required by Condition 1 of the EIS Authorization is also consistent with the objectives of the Action Plan and Management System. This Program is described in detail in Section 4.1.1 and includes the following components:

1. Environmental Quality Monitoring Program;
2. Reforestation Program;
3. Soil Conservation and/or Soil Erosion Program; and
4. Mitigation and prevention measures stated in the EIS.

The results obtained from the monitoring program must be submitted to DGIRA semi-annually as part of the Semi-annual Detailed Technical Report.

As part of the Program, discussions will be held with construction workers to inform them of the environmental policies, especially the prohibition of hunting and gathering of wildlife and plant species at the Project site. Signs will be located throughout the Project site stating the prohibition of these activities. Project site supervisors and management will be in charge of insuring the implementation of the environmental programs and mitigation measures. Self-monitoring of the environmental programs and mitigation measures will be conducted by Cristina Jocabeth and Armando Amaro, the independent environmental contractors that prepared the EIS, and the Environmental Quality Monitoring Program. These independent auditors will record any activities that are not in compliance with the environmental programs or mitigation measures and will prepare corrective actions. These corrective actions will be submitted to the site supervisors, who will be responsible for their implementation. Information gathered during these audits will also be included in the Semi-annual Detailed Technical Report for DGIRA.

In addition, the Project has maintained an aggressive community engagement program, which is described in detail under Principle 5.

URS considers that the actions described above adequately address this Principle.

Principle 5: Consultation and Disclosure

Principle 5 recognizes that for all projects, the government, developers, borrowers, or third party experts have consulted with project-affected communities in a structured and culturally appropriate manner. For projects with significant adverse impacts on affected communities, the process will ensure their free, prior and informed consultation and facilitate their informed participation as a means to establish, to the satisfaction of the financial institution, whether a project has adequately incorporated affected communities concerns.

In order to accomplish this, the Assessment documentation and Action Plan, or non-technical summaries thereof, will be made available to the public by the borrower for a reasonable minimum period in the relevant local language and in a culturally appropriate manner. The borrower will document the consultation process and results, including any actions agreed upon resulting from the consultation. For projects with adverse social or environmental impacts, disclosure should occur early in the Assessment process and in any event before the project construction commences, and on an ongoing basis.

The EIS Authorization reported that the DGIRA did not receive any public inquiry requests, complaints, or comments related to the Project by any member of the society, government agency or non-governmental organization during the 60-day public comment period. Nevertheless, the Project owner and investors have disclosed the Project activities through meetings with the affected communities, attending the communities' concerns and needs as well as presenting Project plans and drawings to familiarize community members with the areas to be directly affected by Project development. According to the Project owner, negotiation meetings were held with four different communities (ejidos), including Los Reyes, Santa Ursula, San Rafael and Sebastopol. Several meetings were held where the Project owner provided the Project description and clearly defined what properties would be needed to build the Project. According the Project owner, agreements have been signed by the representatives and community members of all four of these communities.

The Project owner held meetings with the communities of Los Reyes, San Rafael, Santa Ursula, and Sebastopol on the following days:

- On December 9, 2007 with the Community of Santa Ursula;
- On February 12, 2009 with the Community of Los Reyes;
- On April 26, 2009 with the Community of Sebastopol;
- On June 27, 2009 with the Community of San Rafael;

Items discussed, which were all approved by the representatives of the communities, during the abovementioned meetings included definition of ROWs for the construction of the *L.T. Cerro de Oro-Subestación Benito Juárez* transmission line and execution of complimentary Project works, such as construction of access roads and bridges; protection of water collection means; sewer system repairs; among others. Appendix G presents the Notifications of Meeting submitted to the Santa Ursula, Los Reyes, Sebastopol and San Rafael communities and the corresponding Meeting Minutes.

The Project owner has also established a Project office near the site where concerned citizens can access Project information and state their complaints or concerns regarding the Project.

An Executive Summary of the EIS and the copy of the EIS Authorization will be sent to the Municipality of Tuxtepec in the local language, which can be consulted by interested community members (Appendix D).

Thus, URS considers that Principle 5 has been adequately addressed.

Principle 6: Grievance Mechanism

Principle 6 recognizes that for all projects it is necessary to ensure that consultation, disclosure and community engagement continues throughout construction and operation of the project. The borrower will, scaled to the risks and adverse impacts of the project, establish a grievance mechanism as part of the management system. This will allow the borrower to receive and facilitate resolution of concerns and grievances about the project's social and environmental performance raised by individuals or groups from the project-affected communities. The borrower will inform the affected communities about the mechanism in the course of its community engagement process and ensure that the mechanism addresses concerns promptly and transparently, in a culturally appropriate manner, and is readily accessible to all segments of the affected communities.

The Project owner and investors have been in direct communication with affected communities in order to disclose the Project activities. Doubts and concerns from community members have been properly and timely attended by the Project owner and investors at community meetings and at the Project site office; therefore no grievances have been recorded.

Principle 7: Independent Review

Principle 7 states that an independent social or environmental expert not directly associated with the borrower will review the Assessment, Action Plan and consultation process documentation in order to assist the financial institution's due diligence and assess Equator Principles compliance.

The EIS, the EIS Authorization and the Action Plan have been reviewed by URS as an independent expert. However pending information, such as the authorization of the Environmental Quality Monitoring Program, must be reviewed in the future.

To date, URS finds no significant issues of concern relative to the Project.

Principle 8: Covenants

Principle 8 recognizes that an important strength of the Equator Principles is the incorporation of covenants linked to compliance. For Category A and B projects, the borrower will incorporate the following covenants in financing documentation:

- a) To comply with all relevant host country social and environmental laws, regulations, and permits in all material respects;
- b) To comply with the Action Plan (where applicable) during the construction and operation of the project in all material respects;
- c) To provide periodic reports in a format agreed upon with the financial institution (with the frequency of these reports proportionate to the severity of impacts, or as required by law, but not less than annually), prepared by in-house staff or third party experts, that i) document compliance with the Action Plan (where applicable), and ii) provide representation or compliance with relevant local, state and host country social and environmental laws, regulations and permits; and
- d) To decommission the facilities after operation lifetime, where applicable and appropriate, in accordance with an agreed decommissioning plan.

Where a borrower is not in compliance with its social and environmental covenants, the financial institution will work with the borrower to bring it back into compliance to the extent feasible, and, if the borrower fails to re-establish compliance within an agreed grace period, the financial institution reserves the right to exercise remedies, as it considers appropriate.

No information was provided to URS on the incorporation of any covenants, however, URS has examined covenants a) and b) listed above and finds that the Project is in compliance with these requirements. In addition, this report serves as a periodic assessment of compliance with the Action Plan and host country laws as required in covenant c). CCP agreed to the format of this report.

Principle 9: Independent Monitoring and Reporting

Principle 9 recognizes that to ensure ongoing monitoring and reporting over the life of the loan, the financial institution will, for all Category A projects, and as appropriate, for Category B projects, require the appointment of an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information that would be shared with the financial institution.

This Environmental Compliance Review report serves as the execution of the first monitoring and reporting of the Project conducted by an independent environmental expert (URS Corporation Mexico). The scope of work for this report has been approved by CCP.

Principle 10: Equator Principle Financial Institution Reporting

Principle 10 recognizes that each financial institution adopting these Principles commits to report publicly, at least annually, about its Equator Principles implementation processes and experience taking into account appropriate confidentially considerations.

This Principle applies to the lending institution, thus the Project owner does not have any action item to perform.

4.3 International Finance Corporation Performance Standards

URS has reviewed the most current IFC Performance Standards (issued April 30th, 2006) to assess compliance (see Appendix B). URS considers that these activities are in compliance with the applicable standards. The following is a summary of the IFC Performance Standards checklist provided in Appendix C. As the construction phase of the Project has not begun, many of the issues are Not Applicable.

Performance Standard 1: Social and Environmental Assessment and Management System

The Environmental Quality Monitoring Program has been prepared in compliance with Condition 1 of the EIS Authorization and was submitted to the DGIRA and Delegation of PROFEPA in Oaxaca on October 13th, 2008. The Environmental Quality Monitoring Program includes the selection and analysis of the environmental indicators, application and analysis of the EIS preventive and mitigation measures, including estimated costs, action mechanisms and application time periods. The Program also includes Reforestation and Soil Conservation Plans.

Performance Standard 2: Labor and Working Conditions

The Project owner, Project investor and the subcontracted construction companies are all subject to the Mexican Federal Labor Law (*Ley Federal del Trabajo*), which stipulates the following:

- Prohibits discrimination on the basis of race, sex, age, religion, politics or social condition.
- Prohibits child labor for minors under the age of 14 (also included as a preventive measure in EIS).
- Prohibits inhuman treatment of workers.
- Prohibits extraordinary hours of work for minors under the age of 16.
- Prohibits 3rd shifts in industrial setting or work after 10:00 PM for minors under the age of 16.

- Minors between 14 and 16 years of age need permission to work from a parent or legally designated guardian.
- Persons older than 16 years of age may offer their services freely with limitation based on the Federal Labor Law.
- Prohibits salary below the established minimum salary.
- In case that an employee is fired, the employer must provide 6 months of salary for the first year and 20 days for each of the following years that service was rendered. If the employee worked for the company for less than one year, the employer must provide the salary for half of the time that services were rendered.
- In case of physical or mental incapacity of an employee, or the inability of the employee to perform work-related activities resulting from a non-professional risk, the employee has the right to receive one month of salary and 12 days of salary for each year of service rendered.
- Working conditions established by a company must comply with those established in the Federal Labor Law (Title 3), which establishes labor hours, obligatory holidays, vacation days, minimum salary, protective standards, salary privileges and benefits (e.g. medical care).
- Agricultural, industrial, mining and any other types of work are obligated to provide workers with comfortable and hygienic housing.

The Federal Work Inspection Department has the right to inspect employers at any time to confirm that the employer is complying with all the applicable conditions established in the Federal Labor Law. The Federal Work Inspection Department also has the right to reprimand, suspend or close.

This Performance Standard also requires the development of an Occupational Health and Safety Plan that should consider the General and Industry-Specific Occupational Health and Safety Guidelines discussed in Sections 4.4.1 and 4.4.2. The subcontracted construction companies will be responsible for the development of these plans, which should be developed prior to the initiation of construction activities.

Performance Standard 3: Pollution Prevention and Abatement

Preventive and mitigation measures have been established in the EIS and are reinforced by the Environmental Quality Monitoring Program required by Condition 1. This Program includes a monitoring and reporting system for the environmental programs (Reforestation and Soil Conservation Programs) and the preventive and mitigation measures established during the construction and operation phases.

Performance Standard 4: Community Health, Safety and Security

The subcontracted constructor is responsible for preparing the Community Health, Safety and Security Plan. Currently, the Project owner and investors are in the bid process with the construction companies. Upon selection of the construction company, the Project owner and investors will require that the subcontractor prepare this plan. This plan should be prepared before the start of construction activities and should consider the requirements established in the General and Industry-Specific Community Health and Safety Guidelines discussed in Sections 4.4.1 and 4.4.2.

Performance Standard 5: Land Acquisition and Involuntary Resettlement

Project investor representatives reported that the Project lies almost entirely on federal and community lands. The Project owner and investors are in the process of concluding the land acquisition process for the federal lands; however the process for private and community lands has been finalized.

The land acquisition process for community lands was concluded in February 2009. The Project owner and investors have received the signed Landowner's Resolution for the communities of Los Reyes, Santa Ursula, Sebastopol and San Rafael, and have compensated the landowners for the land acquisition. The Project owner is currently in the process of submitting the land acquisitions before the National Agrarian Record (*Registro Agrario Nacional*) to formalize the regularization of the land tenure issuing the corresponding certificates and titles.

Negotiations have been concluded with the private landowners along the length of the transmission line and the corresponding compensation payments have been made. The Project owner is in the process of registering the land acquisitions at the private property registry (*Registro Público de la Propiedad, RPP*).

Besides monetary compensation of community and private landowners, the Project owner will also provide the following compensation to the affected communities:

- \$100,000 pesos to the community of San Rafael to be used for the benefit of the community.
- \$100,000 pesos to the community of Santa Ursula for a new roof for their meeting hall.
- A new water system and the associated equipment will be provided to the communities of Santa Ursula and Los Reyes.
- Build a wall to protect the water catchment, so that the existing water well is not affected during the construction of the Arroyo Sal canal.
- Reparation of an access road from the rock bank to the right bank of the Arroyo Sal.
- Reparation of the culvert on the access road from the dam curtain to the urban zone of the community Los Reyes.

- Construction of a vehicular bridge on the road between Los Reyes and Santa Ursula.
- Construction of a bridge over the Arroyo Sal with a carrying capacity of 2 tons to transport harvests.
- Maintenance of the access roads that the company constructs during operation of the hydroelectric center.

The Project owner and investors also provided financial assistance to the communities of Los Reyes and Santa Ursula during the separation process of the two communities in order for the communities to obtain the corresponding legal Parcel Certificates.

The modification to the transmission line route will require the crossing of a public road and will use the existing CFE ROW; therefore, the Project owner must solicit ROW Authorizations from both the SCT and CFE. The Project owner plans to apply for these permits within the next two years, as the transmission line will not be constructed before that time.

In addition, as required by SEMARNAT, the Project owner has solicited approval from the Municipality of San Juan Bautista Tuxtepec for a Certification of No Interference with the Municipal Urban Development Plan. The Municipality of San Juan Bautista Tuxtepec has an Urban Development Plan and has provided certification that the Project will not interfere with this plan.

The Project ROW has not directly affected any community, as no involuntary resettlements have occurred. People from the municipalities indirectly affected will actually be benefited by the Project development as the economy will be benefited by increased job opportunities and an increase in income to the local areas.

Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management

As reported in the EIS, no wildlife or vegetative species listed as protected under Mexican regulations or in the Convention on International Trade in Endangered Species (CITES) list were found at the Project site during field studies, nor is the Project site found within a Naturally Protected Area (*Área Natural Protegida, ANP*). However, the Project site is found within and adjacent to Important Bird Conservation Areas established by the Mexican Section of the International Advisory for the Preservation of Birds (*Sección Mexicana del Consejo Internacional para la preservación de las aves, CIPAMEX*), National Commission for the Understanding and Use of Biodiversity (*Comisión Nacional para el Conocimiento y Uso de la Biodiversidad, CONABIO*), BirdLife International and North American Environmental Cooperation (*Cooperación Ambiental de Norteamérica, CCA*).

The Project site is found within the Cerro de Oro AICA, sharing boundaries with the Temascal Dam AICA and the Sierra Norte AICA. The Cerro de Oro and Sierra Norte AICA's are classified as Category 1, G-1 areas, meaning that these sites have numerous significant species that have been identified as threatened, endangered and vulnerable or declining in number. The G-1 classification indicates that the sites have globally threatened or endangered species according to the BirdLife International book.

The Cerro de Oro AICA covers an area of 67,546 km². This area has a large diversity of birds, the majority of which inhabit rainforests, and includes examples of endemic, threatened and endangered species. Species of importance include *Hylorchilus sumichrasti*, *Aramides cajanea*, *Crax rubra*, *Puslatrix perspicillata* and *Leucoptermis albicollis*.

The Sierra Norte AICA covers an area of 1,423,558 km², a portion of which overlaps with the Cerro de Oro and the Temascal Dam AICA's. This extensive area covers mountainous zones and deep canyons, including the Cajones, Soyolapan and Santo Domingo rivers. The region is covered with very conserved and varied vegetation, including tropical forests, pine-oak forests and mesophyll forests. At least 66 endemic bird species and species listed as threatened, according to the IUCN Red List and CIPAMEX, are found within the area.

The Temascal Dam AICA is classified as a Category 4, G-4a area, meaning that the site is characterized by the presence of large groups of individuals, species that are characterized as vulnerable due to their large numbers at key sites during reproduction or migration. The G-4a classification indicates that this area contains more than 1% of the world population of an aquatic species, in accordance with the Ramsar Convention on Wetlands. The Temascal Dam AICA covers an area of 48,086 km².

None of the AICA's has a management plan.

In the EIS, a preventive measure has been established along the transmission line ROW requiring a group of 5 to 10 people to proceed before the site preparation machinery to scare fauna out of the Project area in order to avoid wildlife mortality. Furthermore, an Environmental Quality Monitoring Program, including a Reforestation Plan and Soil Conservation and/or Erosion Control Plan, has been developed to ensure that the Project activities do not impact local biodiversity and to effectively manage the natural resources found at the Project site.

In order to avoid adverse impacts to bird species found within the Cerro de Oro and bordering AICA's, URS recommends that the Project owner consider the Industry-Specific EHS Guidelines for Electric Power Transmission and Distribution in respects to Terrestrial Habitat Alteration and Avian and Bat Collisions (see Section 4.4.2) before the initiation of construction activities (with particular emphasis on the transmission line construction and operation activities).

Performance Standard 7: Indigenous People

Approximately 17% of the population of the Municipality of San Juan Bautista Tuxtepec is indigenous, of which 45% speak Chinanteco and 13% speak Chinanteco de Ojitlán. As reported under Performance Standard 5, all community and private landowners have been monetarily compensated for the land acquisition and further compensation will be provided for the benefit of these communities. Furthermore, the local communities will be benefited by the increased opportunity of employment and increased income to the local economy during the construction and operation of the Project.

Performance Standard 8: Cultural Heritage

As stated in the EIS, a literature review of archeological and culturally important sites was conducted and archaeological surveys were conducted during the Plant and Wildlife Characterization Studies. No artifacts, archeological sites, etc. important to maintaining cultural heritage were found at the Project sites or along the Project ROW.

4.4 Environmental, Health and Safety Guidelines

URS has reviewed the most current General and Industry-Specific EHS Guidelines (issued April 30th, 2007) to assess compliance. The following summary describes some of the most relevant elements applicable to the current Project phase.

4.4.1 General EHS Guidelines

Environmental Guidelines

1. Air Emissions and Ambient Air Quality

The EIS did not identify point sources of air emissions for any of the different Project phases. Fugitive sources were identified during the site preparation and construction phase in the form of particulate matter and gases generated by the excavation of soils and the use of machinery and equipment. Mitigation measures have been established to reduce air emissions resulting from these activities and include:

- Regular maintenance of machinery, equipment and vehicles;
- Vehicle verification program for vehicles, if found necessary;
- Regular water suppression for control of particulate matter along unpaved roads; and
- Posted and enforced speed limits.

The Project is also required to comply with Mexican standards for air emissions, which include maximum permissible limits for contaminants similar to or stricter than the General EHS guidelines.

2. Wastewater and Ambient Water Quality

The EIS does not identify any discharges into surface waters or water contaminant sources. The water that runs through the dam and hydroelectric center will be discharged back into the river and will not be contaminated by the process. Domestic sewage generated during construction and operation activities will be stored in septic tanks, which will be inspected annually to insure its impermeability. The companies contracted to service the septic tanks are prohibited from discharging sewage into surface waters. No industrial discharges are associated with the Project and wells will be neither drilled, nor superficial water extracted during construction or operation activities.

3. Water Conservation

Minimal quantities of water have been identified for use in the EIS. No water wells will be drilled for this project and superficial water will not be extracted. No water for industrial processes will be necessary during the construction or operation of the Project. Drinking water for workers will be brought from the local town in 5 gallon containers during both the construction and operation phases.

4. Hazardous Materials Management

As is reported in the EIS, hazardous materials that will be used during the site preparation and construction phase include oils, solvents, combustibles and lubricants for machinery and equipment preventive maintenance activities. Best management practices and mitigation measures established in the EIS require the storage of such materials in sealed containers in designated areas with impermeable floors and secondary contention. Hazardous wastes generated on-site, including used oil, filters, materials containing solvents, hazardous material containers, combustibles and lubricants will be temporarily stored on-site for a maximum of 6 months in accordance with the Mexican regulations. First-aid, fire extinguishers and other emergency supplies will be provided in the temporary hazardous waste storage area in case of an emergency.

Hazardous wastes will be collected, transported and stored by subcontracted authorized companies.

The Project must comply with the Mexican General Law for the Prevention and Integrated Management of Wastes (*Ley General para la Prevención y Gestión Integral de Residuos*) and associated standards, which specifies hazardous waste storage time limits, transportation methods, storage methods, containment and storage characteristics, among others, which are consistent with the requirements of the EHS Guidelines.

5. Waste Management

The EIS describes the non-hazardous waste management system. The Project will generate inorganic, organic and recyclable waste. The inorganic and recyclable waste will be stored in drums located strategically throughout the Project site (offices, storage area, maintenance areas and on the work fronts). Waste products that will likely be generated include plastic packaging, paper, cardboard, plastic bottles, glass and aluminum. A separate drum will be located at these sites for organic waste. The non-recyclable waste will be disposed of on a weekly basis by the Municipality of Tuxtepec Basic Services Department (*Dirección de Servicios Básicos*). The Project owner will apply for the necessary permits for this service upon initiation of construction activities.

Recyclable materials that will be generated during the Project construction activities include paper, cardboard, containers and drums, pipes and scrap metal. These materials will be stored in temporary storage areas. Transport of these materials is dependent on the quantity necessary to sell. The EIS states that generally 6 months are needed to accumulate enough recyclable material to sell and transport from the Project site.

6. Noise

Only mobile sources of noise have been identified in the EIS that will be generated during the site preparation and construction phases. Noise emissions will be generated by machinery, equipment and vehicles. The EIS estimates that on average, noise emissions will range between 90 and 105 dB. Mitigation measures are presented to reduce these impacts and include the following:

- Use of silencers on equipment, machinery and vehicles according to Mexican regulations.
- Regular maintenance of equipment, machinery and vehicles.

During the operation phase, the powerhouse could be identified as a noise point source; however, as the powerhouse building will be constructed of thick cement, the EIS does not anticipate vibrations or noise generation beyond the levels determined in the Mexican regulations.

The Project is required to comply with the maximum permissible noise levels and noise monitoring procedures established by the Mexican regulations, which are consistent with the General EHS guidelines.

In addition to complying with the General and Industry-Specific EHS Guidelines (discussed in Section 4.4.2), Environmental Monitoring Programs should be implemented to address the activities that could have a significant impact on the environment during Project activities.

Occupational Health and Safety Guidelines

1. General Facility Design and Operation

This guideline requires adequate conditions for workers in the work area and worker camps. The following guidelines apply to this Project and should be addressed in the Health and Safety Plan:

- Development of Standard Operating Procedures (SOPs) for Project shut-down in case of severe weather or emergencies;
- Evacuation Plan;
- Adequate space provided in the work area for workers to safely execute activities;
- Provide adequate water supply to workers;
- Provide clean eating areas;
- Provide sufficient lighting in working areas;
- Provide adequate lavatories and showers;
- Provide safe passageways for pedestrians and vehicles;
- Provide qualified First Aid at all times; and
- Provide air supply in confined areas, especially during the tunnel excavation.

The Project is required to comply with Mexican regulations that stipulate work area conditions, safe use of machinery and equipment, noise safety and fire prevention. In addition, the EIS has established mitigation measures that require that Personal Protective Equipment (PPE), such as ear plugs, hard hats, steel-toed boots, gloves, etc., be provided to the workers. The mitigation measures also indicate that 2 First Aid kits and permanent vehicle service will be provided at all work fronts in case of an emergency.

2. Communication and Training

This guideline requires that provisions be made to provide Health and Safety training to all employees, visitor orientation training, proper area signage and equipment and hazards labeling (e.g. Material Safety Data Sheets (MSDS)).

The subcontracted construction companies will be responsible for preparing the workers Health and Safety Plan, providing safety training and proper signage and labeling at the Project site during the construction activities.

3. Physical, Biological and Radiological Hazards, Special Hazard Environments and Personal Protection Equipment

Mexican regulations require training and the implementation of safety standards for the use of machinery and equipment and require the monitoring of noise exposure to construction workers.

Industrial vehicle drivers are certified through special licenses in Mexico and receive special training.

The Health and Safety Plan prepared by the subcontracted construction companies should consider biological hazards in the area, such as snakes and insect bites and sun/heat exposures. Personal hygiene standards should also be specified in the Health and Safety Plan in an effort to avoid the spread of disease. Radiological hazards have not been identified in the Project area.

The Health and Safety Plan should examine activity-specific safety procedures, especially high-risk activities, such as the use of explosives and work in confined spaces.

The mitigation measures established in the EIS require that proper PPE is provided to workers during construction activities, including eye protection, ear plugs and activity-specific PPE for welding/hot work and working at heights. The mitigation measures also require the availability of two First-Aid kits and permanent transport services for emergencies at all work fronts.

In addition to complying with the General and Industry-Specific EHS Guidelines (discussed in Section 4.4.2), Occupational Health and Safety Monitoring should be implemented by accredited professionals and records of occupational accidents, diseases, dangerous occurrences and accidents should be maintained.

Community Health and Safety Guidelines

The subcontracted construction companies are responsible for preparing a Community Health and Safety Plan that should consider the following:

- Structural Safety of Project (e.g. restricting access to construction area);
- Life and Fire Safety (e.g. providing fire extinguishers on-site, evacuation plan);
- Traffic Safety (e.g. providing traffic control);
- Transport of Hazardous Materials;
- Disease Protection (i.e. medical surveillance of workers, providing proper treatment of illnesses, etc.); and
- Emergency and Preparedness and Response Plan: this plan should include an organization of emergency areas, roles and responsibilities, communication systems, communication notification, identification of emergency resources and procedures and training for workers.

As part of the Water Quality and Availability criteria, the Project must ensure the protection of the drinking water source of the affected communities. As part of the Project compensation activities, the Project will provide a new water system to the communities of Los Reyes and Santa Ursula and a mitigation measure has been established to protect the communities' water supply during the dredging of the Arroyo Sal.

The Project owner will not be responsible for the transport of hazardous materials, but rather plans to subcontract these services with an authorized hazardous materials transporter.

During construction activities, CONAGUA technical personnel will actively be supervising all activities and will be monitoring the dam behavior through the monitoring equipment that was installed when the original dam was built (seismographs, inclinometers, etc.) to insure the dam's integrity. Upon completion of the dam, CONAGUA will continue to be responsible for inspecting and monitoring the dam.

Mitigation measures have been included in the EIS to insure Community Health and Safety and include:

- a) Provide an advanced warning to community members 3 days in advance of the day scheduled to bring in machinery and equipment.
- b) Post signs and have personnel watching to insure that community members are not injured and do not allow livestock to cross during movement of machinery and equipment.
- c) Construction workers and machinery are prohibited to enter or cross adjacent properties without the permission from the landowners.

Construction and Decommissioning Guidelines

These guidelines do not apply to this stage of the Project and therefore have not been analyzed.

4.4.2 Electric Transmission and Distribution Industry-Specific EHS Guidelines

Environmental Guidelines

1. Terrestrial Habitat Alteration

These guidelines refer to the alteration of habitat resulting from construction and maintenance of the transmission line ROW, forest fires and avian and bat collisions.

The 115 kV transmission line will require approximately 22 towers for a distance of approximately 10.5 km, with a 25 m wide ROW. In total, the ROW will affect 262,552 m², of which only 1,408 m² will be affected permanently. No original vegetation is found in the Project area, the majority being secondary vegetation or areas of grazing and/or agriculture.

During site preparation, only those trees and shrubs whose height could interfere with the transmission lines will be removed by mechanical and manual methods. Herbicides and burning are strictly prohibited in the EIS mitigation measures for all site preparation, construction and operation activities. No access or maintenance roads will be constructed or maintained. A Reforestation Plan is in place which calls for the reforestation of three times as many trees as are removed during site preparation activities.

Forest fires are not considered to be an issue in this area as the Project is located in a humid climate and any burning is strictly prohibited in the mitigation measures proposed in the EIS.

Various avian and bat species were found along the transmission line route during the Plant and Wildlife Characterization Studies and the Project site is found within and bordering AICAs established by CIPAMEX, CONABIO, BirdLife International and CCA. These sites are classified according to the presence of endangered and threatened bird species, and in the case of the bordering Temascal Dam AICA, due to the presence of large groups of vulnerable aquatic bird species during migration or reproductive periods. These sites are not considered as critical habitats, important flyways or migration corridors. The EIS examines impacts to wildlife species and habitat and considers impacts resulting from the site preparation and construction to be temporary and punctual. The EIS did not identify impacts on wildlife species during the operation stage, however, avian and bat collisions were not considered. Considering that sensitive species that are found within the region surrounding the Project area and that the area has been classified as important for the conservation of these species, URS recommends that the Project owner and investors consider the implementation of the following components in the transmission line design in order to reduce potential impacts to local avian and bat populations:

- Maintain 1.5 m space between energized components and grounded hardware, or cover all energized parts and hardware.
- Retrofit existing transmission or distribution systems by installing elevated perches, installing jumper loops, placing obstructive perch deterrents (e.g. insulated “V’s”), changing the location of conductors and/or using raptor hoods.
- Install visibility enhancement objects, such as marker balls, bird deterrents or diverters.

The EIS and the DGIRA EIS Authorization consider the impacts to habitat resulting from the Project to be non-significant and that the majority of the impacts can be minimized or eliminated through the implementation of the Environmental Programs and mitigation measures.

2. Aquatic Habitat Alteration

The transmission line ROW will not impact any aquatic or marine habitats.

3. Electric and Magnetic Fields

The majority of the transmission line ROW crosses over agricultural and grazing lands. There are approximately 6 residential houses with a total of approximately 30 inhabitants found within the transmission line ROW. Before tying into the Benito Juarez CFE Substation, the transmission line will utilize the existing CFE ROW and will cross through the industrial zone of Sebastopol; therefore, the transmission line avoids and/or minimizes public exposure to Electric and Magnetic Fields (EMF) along the entire the ROW. However, since EMF has not been examined in the EIS, URS recommends that the Project owner and investor evaluate the potential exposure to the public against the International Commission on Non-Ionizing Radiation Protection (ICNIRP) guidelines to confirm that the EMF levels are below the recommended exposure limits (Table 1).

Table 1 ICNIRP Exposure Limits for General Public Exposure to Electric and Magnetic Fields

Frequency	Electric Field (V/m)	Magnetic Field (μ T)
50 Hz	5,000	100
60 Hz	4,150	83

Notes: Hz – hertz; V/m – volts per minute; μ T – microteslas

Should EMF levels be confirmed to be at or above the recommended levels, engineering techniques should be considered to reduce the EMF produced by power lines, substations, or transformers, such as:

- Shielding with specific metal alloys;
- Burying transmission lines;
- Increasing height of transmission towers; and
- Modifications to size, spacing and configuration of conductors.

4. Hazardous Wastes

Refer to the Hazardous Waste Management Section in Section 4.4.1.

Occupational Health and Safety Guidelines

1. Live Power Lines and Working at Height on Poles and Structures

The Health and Safety Plan for the transmission line construction will be provided by the company contracted to build the lines. As the transmission line construction will not begin for at least 2 years, the Health and Safety Plan which will include specific safety guidelines for working with live wires has not been developed. This plan will be required from the subcontractor before construction on the transmission lines begins. Once construction has been completed, the transmission lines become part of the CFE distribution system and will be maintained by CFE, therefore, these guidelines only apply to the construction phase of the Project.

2. Electric and Magnetic Fields

The Health and Safety Plan for the transmission line construction should also include an analysis of the EMF exposure limits to workers, as utility workers typically have a higher exposure to EMF than the general public due to working in close proximity to electric power lines. The Health and Safety Plan should establish EMF training courses for workers, identification of exposure levels, establish safety zones and design action plans to address potential confirmed exposure levels above the recommended limits established by the ICNIRP and the Institute of Electrical and Electronics Engineers (IEEE) (Tables 2 and 3).

Table 2 Alternating Current – Minimum Working Distances for Trained Employees

Voltage Range (phase to phase – kilovolts)	Minimum Working and Clear Hot Stick Distance (meters)
72.6 to 121	1.01

Table 3 ICNIRP Exposure Limits for Occupational Exposure to Electric and Magnetic Fields

Frequency	Electric Field (V/m)	Magnetic Field (μ T)
50 Hz	10,000	500
60 Hz	8,300	415

Notes: Hz – hertz; V/m – volts per minutes; μ T – microteslas

3. Exposure to Chemicals

According to the EIS, the Project owner does not anticipate that workers will be exposed to any chemicals during the construction of the transmission lines, except for chemicals used for machinery and equipment maintenance described under Hazardous Wastes Management in Section 4.4.1. However, although poly-chlorinated biphenyls (PCBs) have been banned for the production of all electrical equipment, it is possible that the existing transformers along the existing CFE ROW contain PCBs if they were built before 1979. Guidelines for handling PCBs should be established in the Health and Safety document according the General EHS Guidelines described above.

Community Health and Safety Guidelines

1. Electrocution

In order to avoid electrocution as a result of direct contact with high-voltage electricity or from contact with tools, vehicles, ladders, or other devices that are in contact with high-voltage electricity, the following recommended techniques should be included in the Community Health and Safety Plan and implemented during construction and operation:

- Use of signs, barriers (e.g. locks on doors, use of gates, use of steel posts surrounding transmission towers, particularly in urban areas), and education/public outreach to prevent public contact with potentially dangerous equipment; and
- Grounding conducting objects (e.g. fences or other metallic structures) installed near power lines to prevent shock.

2. Electromagnetic Interference

Due to the low-voltage of the transmission lines and low-density of residential homes along the ROW, significant impacts resulting from electromagnetic interference are not anticipated.

3. Visual Amenity

As is discussed above, the Project owner and investors have conducted an aggressive public outreach program and have thoroughly informed the affected communities and landowners of the various Project components. Nearly the entire transmission line ROW will pass through agricultural areas; only 6 residential homes are found within the ROW. Furthermore, no access roads will be built under the power lines and minimal trees and shrubs will be removed. The EIS predicts a negative impact during the site preparation, but considers the impact to be temporary and reversible as low-lying vegetation removed during the site preparation and construction will be allowed to re-vegetate upon completion.

4. Noise and Ozone

The transmission lines to be built as part of the Project are relatively low-voltage lines (115 kV) and are not expected to produce significant amounts of noise or ozone. Furthermore, as the transmission line ROW passes through uninhabited areas for the majority of its trajectory, any noise produced is not expected to create problems for nearby residents.

5. Aircraft Navigation Safety

The Project area is not located near an airport or known flight paths, therefore aircraft collision impacts are not expected.

4.5 Overseas Private Investment Corporation Guidelines

According to the OPIC Dam Standards, a large dam that significantly and irreversibly causes any of the following impacts is categorically excluded from financial support:

- a) Conversion or Degradation of Critical Forest Areas or Related Natural Habitats;
- b) Commercial Manufacturing of Ozone-Depleting Substances or Production or Use of Persistent Organic Pollutants;
- c) Projects that Require the Resettlement of 5,000 or More Persons;
- d) Projects in or Impacting World Heritage Sites;
- e) Projects in or Impacting United Nations List of National Parks and Protected Areas; and
- f) Extraction or Infrastructure Projects in or Impacting Protected Areas as defined by the IUCN Management Objectives.

And dams that:

- g) Disrupt Natural Ecosystems;
- h) Alter Natural Hydrology;
- i) Inundate Large Land Areas;
- j) Impact Biodiversity;
- k) Displace Inhabitants; and
- l) Impact on Local Inhabitants' Livelihoods.

According to the URS review of the EIS, URS finds that the Project does not significantly or irreversibly cause any of the above-listed impacts.

OPIC defines a Category B project as a project that is likely to have adverse environmental impacts, of which the majority are reversible, site-specific and have readily-designed mitigation measures. According to the Cerro de Oro EIS and Authorization, the Project will not generate significant or relevant environmental impacts and ecosystem function impacts are not anticipated as the current design of the infrastructure respects the current hydrological flow and will not consume water volumes. Based on this information, URS considers that the Project is an OPIC Category B project; however, the final classification will be designated by OPIC based upon their internal audit of the Project.

For those projects eligible for further consideration, OPIC analyzes the following topics during the environmental assessment process. The following is a summary of the topics analyzed by OPIC and how the Project EIS addresses these topics.

1. Hydrological and Limnological Impacts. OPIC considers impacts to include impacts due to impoundments, effects on stream flows, groundwater, surface water quality, potential for increased floods and potential for alteration of sediment deposition patterns.

- a. The EIS does not anticipate any changes in the normal flow of the dam. CONAGUA approved an ecological water flow of 35 m³/s for the dam when it was constructed and the Project will continue to respect this flow rate.
 - b. Cofferdams and trenches will be established during the construction of the power house to prevent excavated materials from reaching the Arroyo Sal.
 - c. A Soil Conservation Program has been prepared and submitted to the SEMARNAT to address erosion and soil loss issues.
 - d. A dike will be placed immediately after the Santo Domingo River and Arroyo Sal confluence to prevent the channel from drying up and to keep it flooded with moving water, so as to not allow the water to become stagnant and to maintain the riparian vegetation.
 - e. The Arroyo Sal will be dredged utilizing slopes at 1.5:1 at a velocity below 0.8 m/s. Upon completion of the dredging, native vegetation will be allowed to grow along the banks.
 - f. The vent canal will require a deep excavation with possible erosion risks. In order to mitigate this impact, the canal basin will be covered in concrete and the banks will be covered in concrete and geotextile mats.
 - g. Contamination resulting from small machine leaks, loose materials, etc. will be mitigated by the continual maintenance of machinery and equipment at designated sites.
 - h. The Project is expected to modify total suspended and dissolved solids (TSS and TDS) concentrations in the river. Should an increase in TSS and TDS be detected outside of the cofferdams, a monitoring program will be implemented to detect whether the parameters considered in the Water Quality Criteria for the Protection of Aquatic Life are beyond the established limits and additional mitigation measures will be implemented to address the issue.
2. Catchment Area Impacts. These include impacts to the terrestrial environment surrounding impoundments, such as induced seismic and geological events, impacts on terrestrial wildlife and downstream aquatic life.
- a. A continuous ecological water flow of 35 m³/s will be maintained to conserve aquatic habitat downstream.
 - b. A dike will be placed immediately after the Santo Domingo River and Arroyo Sal confluence to prevent the channel from drying up and to keep it flooded with moving water, so as to not allow the water to become stagnant and to maintain riparian vegetation.
 - c. The site preparation and construction activities will require the removal of vegetation in an area of approximately 268,624 m², of which only 6,220 m² will be permanently impacted. The majority of the vegetation to be removed is non-original vegetation found in a degraded state, due to the previous dam construction activities. A Reforestation Plan and Soil Conservation Plan has been prepared and submitted to the SEMARNAT to compensate for this loss.

- d. No fractures or faults are reported within the Project area and the area is categorized as Seismic Zone B – C, an infrequent seismic zone.
 - e. No protected plant or wildlife species were identified in the Project site during field surveys.
3. Construction Impacts. These consider the impacts resulting from the construction of the supportive power structures, worker housing, borrow areas, access roads, power transmission corridors and waste disposal units.
- a. The Project will utilize existing access roads; no new access roads will be built as part of this Project.
 - b. Existing houses located in nearby communities will be rented and used as worker's campsites.
 - c. The site preparation and construction activities will require the removal of vegetation in an area of approximately 268,624 m², of which only 6,220 m² will be permanently impacted. The majority of the vegetation in this area is secondary and is found in a degraded state.
 - d. The EIS impact analysis also evaluates indirect and secondary impacts, such as compaction of vegetation near the work sites and accidental disposal of material in the canyons. The introduction of invasive/exotic species is prohibited.
4. Air Quality and Global Climate Change Impacts. This includes the evaluation of vehicle and machinery emissions and impacts associated with deforestation and elimination of potential carbon sinks.
- a. Emissions related to vehicle/machine exhaust, evaporation of fuel tank and carburetor, crankcase, dust from the wheels, brake lining and clutch disks used during the site preparation and construction activities are assessed in the impact analysis. Emissions will be mitigated by regular maintenance of all vehicles and equipment.
 - b. Total suspended particulates emitted during the site preparation and construction activities (e.g. due to excavations, transport of materials, movement of machinery, etc.), are analyzed in the EIS. The emission of total suspended particulates will be mitigated by the use of tarps during the transport of materials, speed restrictions and water suppression of dust on construction roads.
 - c. Impacts resulting from increased noise and vibrations during the site preparation and construction activities are considered temporary and local. Vehicles and machinery will be equipped with silencers to reduce noise emissions.
5. Resettlement. This includes public consultation and disclosure procedures, community development planning, livelihood assessments, and potential for income restoration, compensation and dispute resolution mechanisms.

- a. The EIS predicts beneficial impacts on employment, local economy and public health as a result of Project development.
 - b. This Project will positively affect local communities by providing a clean form of electricity.
 - c. There are no human populations or housing located within the Project site, therefore, resettlement is not considered as part of this Project.
 - d. Several meetings have been held with community landowners and government representatives (municipal, state and federal levels).
 - e. Private landowners have been fully compensated for the land acquisitions.
 - f. \$100,000 pesos will be donated to the community of San Rafael to be used for the benefit of the community
 - g. \$100,000 pesos will be donated to the community of Santa Ursula for a new roof for their meeting hall.
 - h. A new water system and the associated equipment will be provided to the communities of Santa Ursula and Los Reyes.
 - i. A barrier will be built to protect the water catchment, so that the existing water well is not affected during the construction of the Arroyo Sal canal.
 - j. An access road from the rock bank to the right bank of the Arroyo Sal will be repaired.
 - k. The culvert on the access road from the dam curtain to the urban zone of the community Los Reyes will be repaired.
 - l. A vehicular bridge on the road between Los Reyes and Santa Ursula will be constructed.
 - m. A bridge over the Arroyo Sal with a carrying capacity of 2 tons to transport harvests will be constructed.
 - n. Maintenance will be provided on the access roads that the company constructs during operation of the hydroelectric center.
 - o. The forest material removed as part of the Project site preparation and construction activities that can be commercialized will be left to the local community.
6. Safety. Analysis of the structural stability of the dam and capacity of the spillway(s) to pass flood flows. Monitoring and/or warning devices downstream warning of evacuation procedures in the case of large dams.
- a. The existing dam is equipped with monitoring devices, such as seismographs and inclinometers, which are monitored by CONAGUA.
 - b. The CONAGUA Technical Consult Department (*Subdirección General Técnica*) has reviewed the engineering and design plans and issued their preliminary approval of the Construction Permit. CONAGUA technicians will supervise Project construction activities.
 - c. The hydroelectric facilities will be constructed according the Mexican and international engineering standards.

- d. Security Measures to be implemented during the site preparation, construction and operation periods are included in the EIS, and will be elaborated in the Occupational and Community Health and Safety Plans, including specific measures for specific work fronts. These security measures include preventive measures, such as safety barriers to protect the public and construction workers.
 - e. An Occupational Health and Safety Plan and Community Health and Safety Plan should be developed before the initiation of Project construction activities.
7. Project Acceptability. Includes evaluation of the consultation and disclosure procedures, land acquisition process, stakeholder identification and compliance with local laws and regulations.
- a. The Project is in the process of acquiring all the applicable and obtainable permits (refer to Section 4.1).
 - b. The Project owner has provided full compensation to private landowners for the land acquisition process. No resettlement is considered as part of this Project.
 - c. Meetings have been held with the affected communities.
 - d. URS considers the Project to be in compliance with the applicable local laws and regulations at this Project phase.

Based on the analysis above, URS considers that the Project EIS satisfactorily addresses the OPIC Dam Standards.

5.0 CONCLUSIONS AND RECOMMENDATIONS

URS has performed an Environmental Compliance Review of the Cerro de Oro Hydroelectric Project in relation to applicable Mexican environmental regulations and standards, current World Bank guidelines, Equator Principles, IFC Performance Standards, IFC and World Bank Group EHS Guidelines and OPIC guidelines.

URS finds that the Project is in compliance with all the above listed standards, guidelines and regulations at this Project phase. The following summarizes the observations of this review and provides URS' recommendations:

Observations:

- The Project owner has obtained the necessary Municipal Construction Permit from San Juan Bautista de Tuxtepec.
- The Project owner has obtained all four communities ROW authorizations and is in the process of registering the land acquisitions.
- The Project owner has obtained all the private landowners ROW authorizations and is in the process of registering the land acquisitions.
- The Certification of No Interference has been issued to the Project from the Municipality of San Juan Bautista Tuxtepec.
- The Project owner has obtained the CFE Interconnection Point Authorization.
- CONAGUA has issued its preliminary approval for the Construction Permit.
- The Project owner has submitted the EIS and has received the EIS Authorization from the Mexican authorities.
- An Executive Summary of the EIS and the copy of the EIS Authorization will be sent to the Municipality of Tuxtepec in the local language, which can be consulted by interested community members (Appendix D).
- The EIS Authorization includes 15 Terms and 1 Condition with which the Project owner must comply.
- The Project owner has met the requirements of Condition 1 of the EIS Authorization with the preparation of the Environmental Quality Monitoring Program, which includes Reforestation and Soil Conservation Plans.
- The Environmental Quality Monitoring Program is currently being reviewed by the Mexican authorities.
- The Project owner has received the Explosives Permit from SEDENA.
- Construction activities are scheduled to begin in March of 2009.
- The Project is considered a Category B project relative to the World Bank, IFC and OPIC Guidelines.

- With the recommendations implemented below, the Project will continue to be in compliance with all the applicable Mexican regulations and the World Bank, IFC and OPIC guidelines.

Recommendations:

URS recommends that the Project owner perform the following tasks prior to the start of the construction phase in order to remain in compliance with the EIS Authorization Terms and Conditions, Equator Principles, World Bank guidelines, the IFC Performance Standards, IFC and World Bank Group EHS Guidelines and OPIC standards.

1. As is the intention of the Project owner, continue with the Permit and CFE and SCT ROW Authorization process.
2. Request the following permits and authorizations before and/or upon initiation of the construction stage: registration as a hazardous waste generator, contraction of hazardous waste transport and management services and permits for the disposal of domestic solid wastes and sewage.
3. Prepare and submit the Semi-annual Administrative Report to DGIRA and Delegation of PROFEPA in Oaxaca (currently planned for February or March 2009).
4. Develop an Occupational Health and Safety Plan, which follows the General EHS and Industry-Specific Guidelines.
5. Prepare a Community Health, Safety and Security Plan, which follows the General EHS and Industry-Specific Guidelines and contains a dam safety component as required by OPIC.
6. Consider the EMF criteria described in the Industry-Specific EHS Guidelines.
7. Consider the Avian and Bat Collision criteria established in the Terrestrial Habitat Alteration of the Industry-Specific EHS Guidelines.

FIGURES



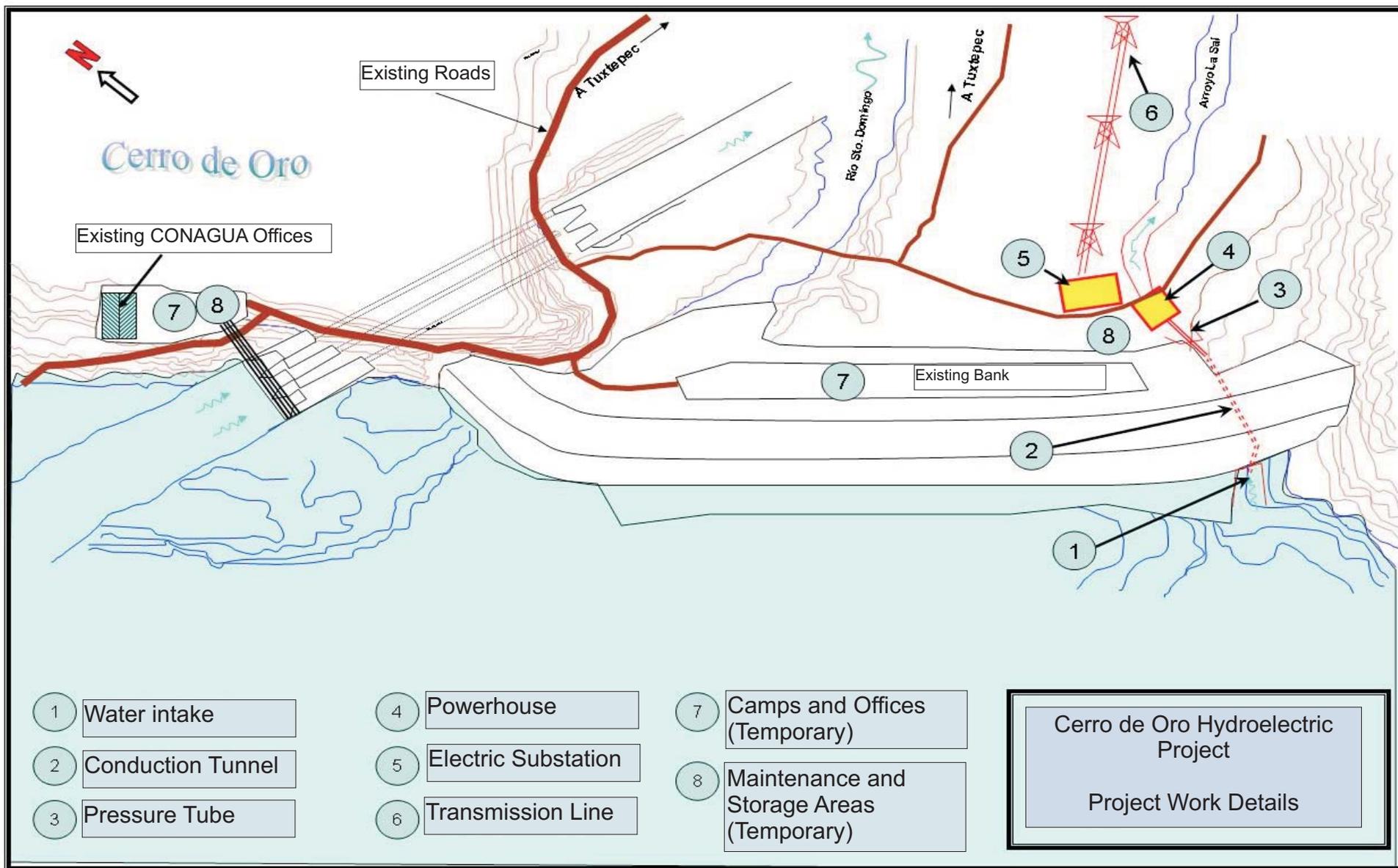


Figure provided in Cerro de Oro EIS
 Electricidad de Oriente, S. de C.V.
 Published October 22nd, 2007

PROJECT WORK DETAILS
 Draft Environmental Compliance Review
 Cerro de Oro Hydroelectric Project
 San Juan Bautista Tuxtepec
 Oaxaca, Mexico

March 2009
 40015344
 Conduit Capital Partners, LLC



Cerro de Oro Hydroelectric Project

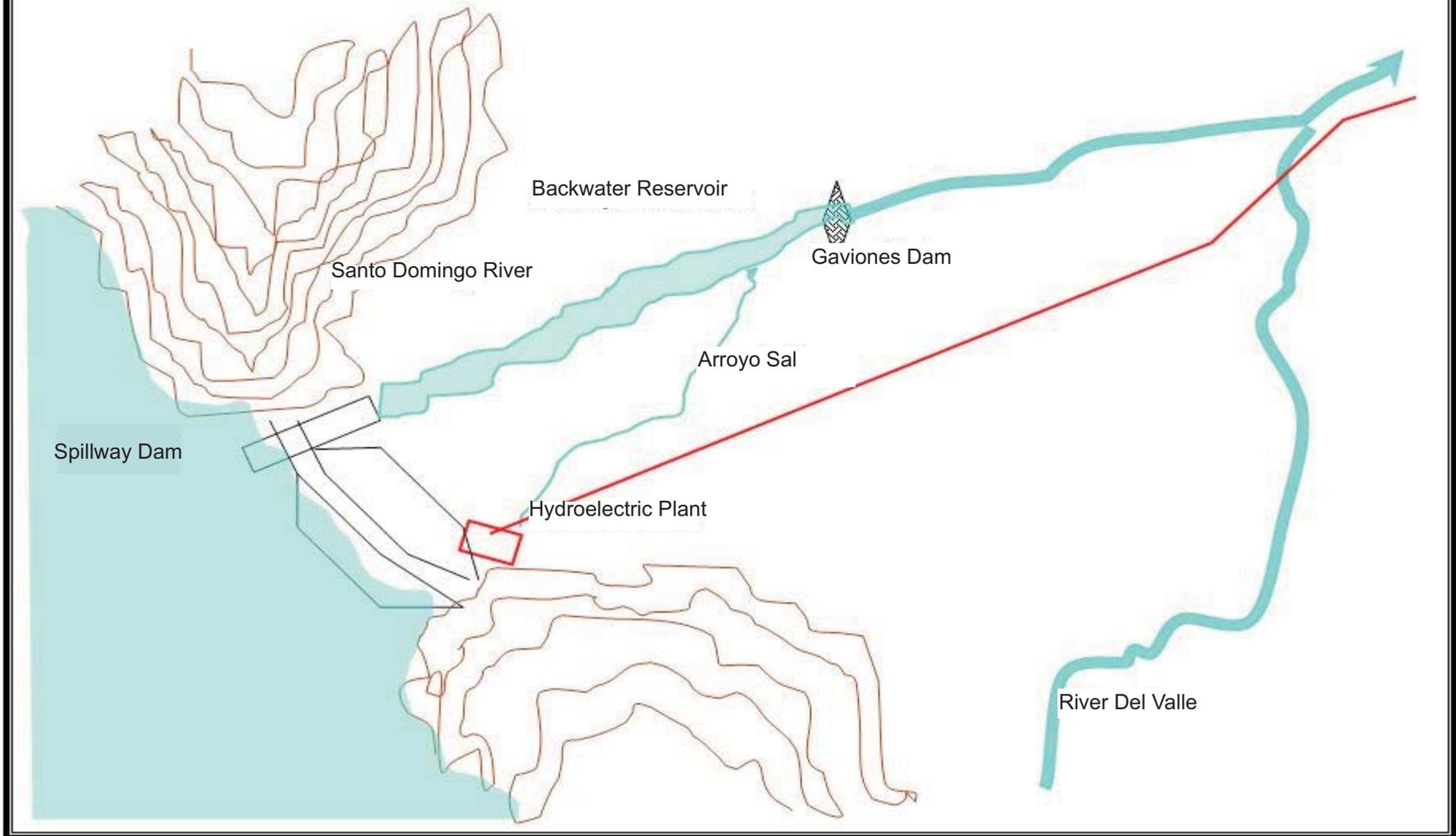


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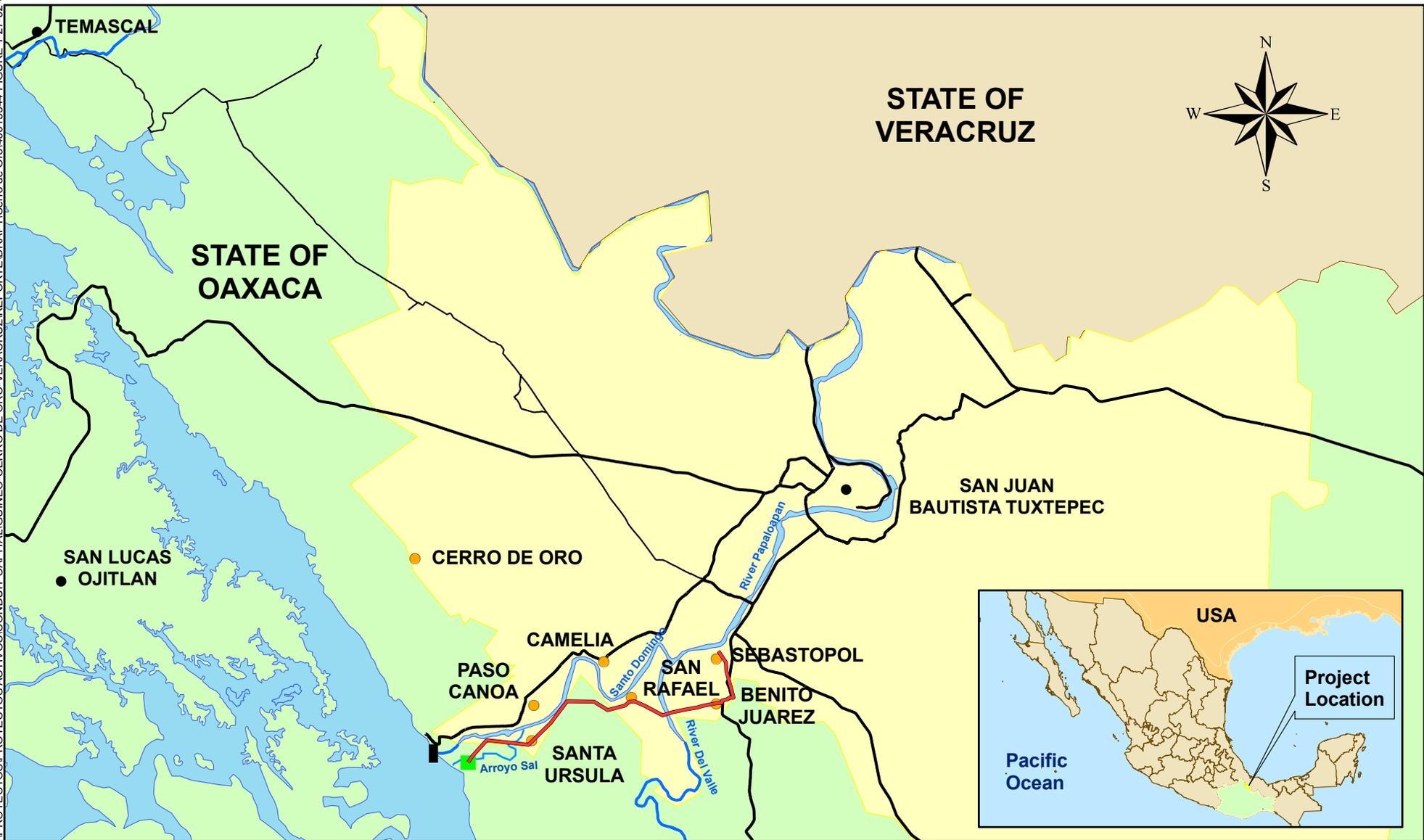
LOCATION OF PROJECT WORKS
Draft Environmental Compliance Review
Cerro de Oro Hydroelectric Project
San Juan Bautista Tuxtepec
Oaxaca, Mexico

March 2009
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Conduit Capital Partners, LLC

URS

FIGURE 2

F:\PROYECTOS\PROYECTOS ACTIVOS\CONDUIT CAPITAL\GUINEO-CERRO DE ORO-VERACRUZ\REPORTE\DRAFT\Cerro de Oro\40015344 FIGURE 1 27-02-09



Source: CONABIO, 2005

LEGEND	
 Oaxaca	 Project Infrastructure
 Other States of Mexico	 Project Transmission Line
 Municipality of Tuxtepec	 Rivers
 Bodies of Water	 Towns
 Cerro de Oro Dam	 Communities
	 Federal Highways
	 Secondary Roads

Graphical Scale: 1:200,000
 0 5 10 Kilometers
Projection:
 Universal Transverse Mercator
 Region 14
 North American Datum 83
 Spheroid: GRS80

PROJECT LOCATION
 Draft Environmental Compliance Review
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FIGURE 1