

May 12, 2006

Mr. Jan Capelle
Coordinator
Proyecto Gato
Vredelaan 23
8820 Torhout
BELGIUM

Dear Mr. Capelle:

Lao PDR: Nam Theun 2 (NT2) Hydroelectric Project

We refer to your letter dated March 16, 2006, addressed to the World Bank and the Asian Development Bank, highlighting several ongoing concerns you have, regarding environmental impacts related to construction and the effectiveness of measures to address and mitigate these impacts, with regard to information presented in NTPC's Semi-Annual Progress Report covering the period of July to December, 2005.

Our Annual Progress Report, submitted to our respective Boards, is now available to the public on our website; we invite you to read this report for a more thorough update on the project implementation, but for the purpose of this letter, we would like to respond to the specific questions you have raised. Since some of your questions are among those frequently asked, we would like to, as we have done in the past, publish this response on our website so that members of the public might also be updated on project progress to date.

Environmental Management and Construction

Turbidity and Sediment

- The Head Contractor and Construction Contractors have recently expanded their teams in response to the advice from the Lenders' Engineer (LE, formerly called the Lender's Technical Advisor, or LTA). NTPC has three national environmental inspectors and two international experts, who between them make about 100 field inspection visits per month. External monitoring and expert supervision is being undertaken on a quarterly basis by the LE.
- In general, water quality monitoring results indicate that impacts due to construction activity have been slight, but there have been considerable issues in short sections of the Nam Kathang, particularly with high turbidity well in excess of ANZECC guidelines. In the Nam Kathang downstream of the power house the turbidity has ranged between less than 100 to about 500 NTU. However, considerable improvements have been made to the sedimentation ponds recently, and revised re-vegetation plan is expected to start soon,

which are expected to reduce turbidity and improve water quality. Water quality will be continuously monitored to assess the impact and effectiveness of these measures.

Terrestrial Animals in the Construction and Inundation Zones

Since the release of NTPC's Semi-Annual report in January 2006 progress has been made in several important activities and programs. An update is provided below.

- Currently, the site work force numbers about 4,600 – of which 80 percent are Lao nationals. Despite these very large numbers of laborers, Government of Lao (GOL) has managed to strictly control the numbers of camp followers and their impacts on the local population. The local district health officials are monitoring hygiene and water quality standards in the bars and restaurants and the NTPC-GOL Public Health team are enforcing standards and educating the camp followers on good practices.
- *Wildlife Management and Protection Program.* NTPC is currently in discussion with consultants to initiate the programs for terrestrial wildlife by September this year. Aquatic wildlife survey has already begun. Within the next six months, NTPC will issue a plan to consolidate their approach to dealing with wildlife trade issues in the project area. Programs for the transitional management of wildlife and habitats on the Nakai plateau will be developed on the basis of the surveys conducted under the Wildlife Program. Terrestrial and aquatic surveys by regional experts will begin by early May 2006.
- *White-winged Duck Conservation Program.* Formulation of a program will depend on the species being recorded in wildlife surveys. The presence of white-winged duck has not been confirmed on the Plateau since 1996.
- *Elephant Management Program.* The program, being undertaken with support of the Wildlife Conservation Society (WCS), is already underway involving more than 25 field staff and a full-time international expert. Although it has progressed more slowly than expected due to technical difficulties regarding the population surveys, an initial progress report is due by June 2006, and the field work for population assessment should be completed by July 2006. Management planning will draw on this work.
- *Wildlife trade and hunting.* Wildlife trade issues have been dealt with efficiently, thus far, and where violations have occurred, action has been taken. Given the continuing improvements in transport links between the plateau and both Lak Sao, and Thakhek, and the anticipated increase in both construction and logging activity on the plateau itself, a general strategy for dealing with the issue will be devised to consolidate actions. NTPC and the Head Contractor are already working closely with relevant local groups through their work on road safety and STD awareness, support to local police, and public health initiatives with local restaurants. Relevant wildlife trade messages and actions are to be integrated into existing work. A wildlife trade action plan will be produced by end of August 2006, which will also respond to the request of the Panel of Environmental and Social Experts.

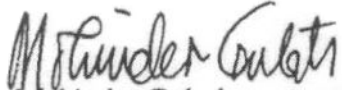
- *Fish studies for Nam Theun.* Baseline data has been collected with regard to fisheries and other aquatic products in the Nam Theun between the Nakai Dam site and the Theun Hinboun Dam. In addition, estimates of potential losses to fisheries as a result of the impacts of the NT2 project have also been made for the mainstream of the Nam Theun, its tributaries and the Theun Hinboun headpond. The findings and estimates from a consultant's study conducted in 2004 can be found on pages 68-84 in Chapter 3 of the Environmental Assessment and Management Plan, which is on NTPC's NT2 website. A fisheries monitoring program will be initiated during this dry season for these waters, and is estimated to continue through 2014 to verify or allow for corrections of these estimates.

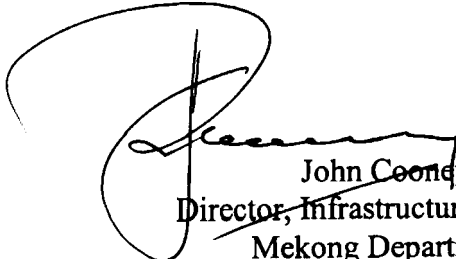
The lag in expenditure on environmental and social plans reflects the delay in finalizing some of these plans, as noted in NTPC's semi-annual progress report. Corrective actions taken to expedite finalization of these programs have yielded good results in several areas, e.g., Watershed Management program, preparation of resettlement sites, local health programs, and camp followers. Both the Head Contractor and Construction Contractor have made efforts to increase their own environmental staff capacity, and engaged experienced environmental manager.

You have requested detailed information on turbidity and sediment in the Nam Khathang as well as a copy of numerous studies. By copy of this letter, we will alert NTPC to your interest in these materials. You may wish to follow-up directly with NTPC, as these are their proprietary studies.

We thank you for bringing your concerns to our attention and wish to assure you that these issues – which have also been noted by the IFI supervision missions and monitoring agencies – are receiving our careful attention.

Sincerely,


Mohinder Gulati
Project Manager
Energy and Mining Sector Unit
East Asia and Pacific Region


John Coondy
Director, Infrastructure Division
Mekong Department
Asian Development Bank

cc: World Bank Executive Directors
Asian Development Bank Executive Directors
Dr. Somboune Manolom, General Manager, Lao State Holding Enterprise

Mr. Xaypaseuth Phomsoupha, Chief of Bureau of the Secretariat, Lao National
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Mr. Soukata Vichit, Director General, Science Technology Environment Agency

Mr. Bernard Troubillet, Nam Theun 2 Power Company Ltd.

Mr. Emmanuel Boulet, COFACE