

**Response to Request for Review
Prepared by the Project Developer, Hidrotambo S.A.**

The following is Hidrotambo S.A.'s response to the Request for Review for the CDM Project # 1298.

Further justification is required to demonstrate additionality, in particular

- (a) The investment barriers, as the letter issued by the bank is dated March 2007, while the project was conceived in 2005

Hidrotambo S.A., as well as a significant number of private companies seeking financing, has faced difficulties in obtaining a credit to complete the implementation of the San Jose del Tambo Hydroelectric Project. These difficulties are due to Ecuador's instability, both political and economic, and also to the lack of a solid banking infrastructure.

Hidrotambo, knowing that the country's banking sector cannot be relied on, started the project construction considering the Clean Development Mechanism, as a way to help realize the project, reducing potential risks, and also with the prospect of being better positioned to negotiate a bank loan.

As the attached Official Record document dated July 7th, 2005 shows (Official Record.pdf), Hidrotambo's Management was authorized to negotiate a bank loan, based on the prenegotiated conditions indicated in the attached document. As it is clearly stated, Hidrotambo considered the CDM from the very beginning and in fact, the Banco Internacional requested that the CDM be considered as a way to significantly cover the cost of the debt that Hidrotambo would be facing.

As it is also stated in the Official Record, the Banco Internacional would grant the loan starting in mid-2006, after Hidrotambo invested their own money in the project (see attached bank account statements: "Bank Statement.pdf")

The letter from the bank dated March 2007 represents the point in time when Hidrotambo officially requested the credit to the bank, very much in line with what it is explained above. The bank response was that included in the letter and constitutes a very important barrier that the project developer still has to overcome.

In addition, Hidrotambo had expected that the project would be registered by the time the credit was officially requested, as a way to increase the bank's confidence in granting it, due to more appealing economic conditions relating to the project.

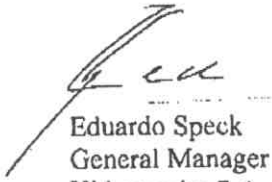
- (b) Validation of the Institutional Barriers

As explained in the PDD, this barrier relates to the long timeframes that small-scale hydroelectric projects face when applying for permits. As indicated in the attached documents (Conelec Approval.pdf, Emelrios Approval & History.pdf, Conelec

Resubmission.pdf), Hidrotambo applied for an interconnection permit in 2004. Hidrotambo's original intention was to start the project construction after the permit had been granted. However, when Hidrotambo saw itself dealing with this very long-lasting process, the company decided to start the project implementation, hoping that the CDM and the project registration would contribute towards obtaining the required permit.

As shown in the attached documents, the permit materialized in 2006, almost two years after it was originally requested. Therefore, these documents show that the institutional barrier is a real one.

Hoping that the response above will clarify and address your questions,



Eduardo Speck
General Manager
Hidrotambo S.A.