

Environmental and Social Review Summary (ESRS) Capella Solar – El Salvador

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1. General Information of the Project and Overview of Scope of IDB Invest’s Review

The project consists in the financing of a battery energy storage system (“BESS”) with a nominal energy capacity of 3.2MW (the “Project” or the “BESS Project”) that will be installed in the existing photovoltaic (“PV”) facilities of the Capella Solar S.A. de C.V (the “Company” or “Capella”) in El Salvador.

Due to the travel restrictions imposed by the COVID-19 Pandemic, most of the Environmental and Social Due Diligence (“ESDD”) was done remotely. This process included: i) a desk review of relevant E&S information received from the Company, including an Environmental Impact Assessment (“EIA”) for the Project; ii) videoconferences with representatives of Capella and the Operation and Maintenance (“O&M”) Contractor; and iii) a site visit performed January 2021 by an E&S consultant based in El Salvador, which included interviews with Fundación Salvadoreña para la Salud y el Desarrollo Humano (“FUSAL”) and meetings with the local communities affected by the Project. This information was in addition to that produced by IDB Invest’s supervision activities of its existing investment in the Capella Solar PV Project (the “Capella Solar Plant” or the “Plant”) and its knowledge of the Company’s corporate level E&S management system.

2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with BID Invest’s Environmental and Social Sustainability Policy since it will likely generate, among other, the following impacts: i) increase of occupational health and safety (“OHS”) risks due to the construction and operation of the BESS Project; ii) life and fire safety (“L&FS”) risks during the operation of the BESS; and iii) generation of hazardous waste at the end of the batteries’ life cycle.

These impacts are deemed to be of medium intensity and can be mitigated via measures that are available and feasible to implement in the context of the proposed operation. The Performance Standards (“PS”) triggered by the Project are i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; and iv) PS4: Community Health, Safety, and Security.

3. Environmental and Social Context

The BESS will be installed within the existing Plant¹, next to an existing 2.2MW primary reserve battery system. The Project site is a highly anthropized rural area, located at more than 100 km to the Southeast of San Salvador city.

There are two communities close to the Plant: Colonia María Auxiliadora (“Colonia”) and El Sitio Santa Lucía (“El Sitio”). Neighboring land use is typical of that in the region: dominated by sugar cane fields. Most of the population residing in the direct area of influence rely on agriculture, commerce, and artisanal fishing as income sources.

The municipalities of Puerto El Triunfo and Jiquilisco, where the Plant is located, have a high average homicide rate. Within the area of influence of the Project, there is the presence of criminal groups and violence.

4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks

4.1.a E&S Assessment and Management System

As part of the original financing, the Company developed to IDB Invest’s satisfaction an Environmental and Social Management System (“ESMS”) which included a series of procedures and management plans designed to prevent or mitigate the environmental and social (“E&S”) impacts and risks identified during the construction of the Plant. The ESMS, however, needs to be updated for the plant’s operation phase and to manage E&S risks of the BESS Project.

4.1.b Policy

The Company has developed an integrated environmental, social, health and safety (“ESHS”) policy aligned with PS-1, but it is yet to communicated both internally and externally.

4.1.c Identification of Risks and Impacts

The BESS’ impacts and risks of the are clearly described in the Project’s Environmental Impact Assessment (“EIA”) that is pending approval by the Ministry of Environment and Natural Resources (“MARN”).

As part of its ESMS, the Company has a procedure to identify risks and impacts, but primarily limited to OHS risks.

¹ The Plant consists of two PV power plants (Albireo 1 and 2) with a with a nominal capacity of 50MW each. The PV plants, partially financed by IDB Invest, started operating in April 2020.

4.1.d Management Programs

The Company's ESMS procedures cover, among others, the following aspects: waste and effluent management, water management, OHS, social management, traffic management, emergency preparedness and response, and avifauna monitoring. Most of these plans need to be adapted to the operational phase of the Plant (since they were prepared for Plant's construction phase) and to include the management of E&S risks and impacts related to the BESS Project.

4.1.e Organizational Capacity and Competency

The Plant is managed by an independent O&M contractor that has a designated person to oversee its compliance with the MARN's and Lenders' E&S requirements. This person, however, is mostly concentrated in managing OHS risks, and lacks expertise in environmental and social-related aspects. At the corporate level, the Company has designated one part-time person to monitor the ESHS aspects.

4.1.f Emergency Preparedness and Response

The Company has developed an emergency preparedness and response plan ("EPRP") for the Plant's operation phase. The plan, that aims at managing risk scenarios developed according to local requirements and international best practices, considers emergencies like flooding, earthquake, volcanic activity, spills, brush fires, and personal accidents. Training for emergency preparedness and response and first aid is provided to the O&M contractor's employees.

The Company has developed a separate emergency plan specifically for the BESS Project that contains general emergency actions to be triggered should a risk materializes. However, such plan does not address the possibility of fire and explosion risk incidents (i.e., battery or cell thermal runaway) specific to BESS systems. Additionally, Capella has not yet developed a maintenance plan for its Life and Fire Safety ("L&FS") systems which includes management of change procedure for both the Plant and BESS.

4.1.g Monitoring and Review

Under the O&M contract, the operator has the obligation to produce monthly reports covering ESHS aspects of the plant's operation. The reports, however, are limited in their scope and need to be expanded to cover all ESHS aspects.

4.1.h Stakeholder Engagement

As part of the preparation of the Plant's EIA, the Company undertook a public consultation process with the Colonia and El Sitio communities. The activities carried out with local stakeholders included informative and participative meetings, interviews, and house-to-house surveys. Stakeholder Engagement during the Plant construction was aligned with PS-1 requirements.

Stakeholder engagement is currently limited as, since the Plant started operations, there is no official social liaison officer in the Company nor the O&M contractor.

4.1.i External Communication and Grievance Mechanisms

External grievances are verbally managed on site by the O&M's ESHS manager and escalated on a case-by-case basis to the Company. There is no written evidence of complaints. The external grievance procedure needs to be updated to include management guidelines, deadlines, and public information.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

4.2.a.i Human Resources Policies and Procedures

Capella has adopted and implemented a human resource policy and procedures that set out its approach to managing workers consistent with the requirements of PS2 and the national law.

4.2.a.ii Working Conditions and Terms of Employment

Capella has 19 employees, all of which are contractor staff. The workforce required during the peak of the Project's construction is expected of 40 people.

The Capella working schedule consists of 44 hours per week for daytime work from Monday to Friday. Outside this schedule overtime is paid according to the local regulations.

4.2.a.iii Workers' Organizations

Even though Salvadorian labor laws protect workers' right to form or join trade unions, participate in collective bargaining agreements, and go on strike, currently there are no workers unions nor any association to reach collective agreements within Capella nor with its contractors.

4.2.a.iv Non-discrimination and Equal Opportunity

As stated on its ESMS Manual, Capella is a company that provides equal opportunities to all its employees, regardless of their gender, race, national origin, language, religion, disability, or health condition.

4.2.a.v Retrenchment

The Company does not have any plans to reduce its workforce in the future.

4.2.a.vi Grievance Mechanism

Internal complains are verbally managed on site by the O&M contractor and reported on a case-by-case basis to the Company. The grievance mechanism procedure needs to be updated to i) separate it from the external grievance mechanism, ii) establish guidelines for registering, analyzing,

categorizing, investigating, choosing alternative solutions, and indicating the deadline for responses; iii) allow anonymous complaints, iv) stipulate that there will be no reprisals for complainants and v) guarantee the confidentiality of the complainant.

4.2.b Protecting the Workforce

The ESDD process did not identify the existence of child labor or forced labor.

4.2.c Occupational Health and Safety

Capella's OHS Management Program evaluates occupational risks for each activity carried out during the plant's operation, providing preventive measures to avoid accidents. The OHS Management Program needs to be updated to consider risks specific to the BESS's operation and maintenance. Personal Protective Equipment (PPE) is provided to workers in the different working areas according to the activities they carry out. Before they begin to work, workers receive daily 5 min talks about health, safety, and COVID risks related to the task they are going to perform. No incidents nor accidents have been reported since the end of the plant's construction phase.

Civil works needed for the BESS installation are simple. They basically consist of flattening the area to be intervened and casting over concrete slabs to lodge the equipment that will be installed. The construction company in charge of these tasks will develop an OHS plan for the civil works and assembly following applicable Salvadorian legislation.

4.2.d Supply Chain

Commercial lithium-ion batteries, such as those that will comprise the BESS Project, rely on cathodes containing cobalt, a rare metal mined by countries where children have been found working. The ion-lithium batteries of Capella's BESS will be purchased from a supplier that uses blockchain technology through collaboration with global companies to prevent the use of minerals that have the possibility of human rights abuses, such as child labor, in the cobalt production process.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

4.3.a.i Greenhouse Gases

The construction of the BESS will generate emissions of gases such as NO_x, SO_x, and CO_x associated with the use of vehicles and machinery required during the construction phase. Greenhouse gas emissions are expected to be for a short period and will be non-material.

4.3.a.ii Water Consumption

Capella uses well water for the panel cleaning. The water permit issued by the National Administration of Aqueducts and Sewers ("ANDA") authorizes the extraction of a flow rate of 0.38

liters per second (“l/s”) for 8 hours a day, equivalent to 328,320 l/month from a well located at the Plant site. The battery cooling system uses demineralized water purchased from a third party, which is added at the time of battery installation and recirculated in a closed-circuit during battery operation. The Company will update its Water Management Plan to contemplate the BESS water requirements.

4.3.b Pollution Prevention

During the BESS construction, the Company will generate particulate matter (PM₁₀ and PM_{2.5}), vibrations, and sediments. These are expected to be non-material and for a short period. As part of its environmental permits, Capella must guarantee that the noise level is within certain limits, aligned with those suggested by the World Health Organization. Yearly, the Company measures and documents noise levels near the Plant’s limits and sensible points such as dwellings and schools located at the Colonia community.

4.3.b.i Wastes

Capella generates wastewater from three septic tanks that must be cleaned at least once per year by a company with environmental permits for the transport and/or treatment of wastewater.

Domestic solid waste generated by the Company is stored and labeled at the Project site before being collected by the municipality of Jiquilisco twice a week. Recyclable waste (cardboard and paper) is usually donated.

Capella currently manages small quantities of hazardous waste (oiled soils, rags with grease and oil, and contaminated containers) which are stored and then managed by Geocycle, a hazardous waste management company, authorized by the MARN.

Damaged PV panels are stored in the plant, on pallets, and covered with plastic. The Company needs to update its Waste Management Plan to include procedures for storage and final disposal of waste panels and batteries (from the BESS).

4.3.b.ii Hazardous Materials Management

Capella handles hazardous materials (fuels and oils, transformer oil) in minimal quantities.

4.3.b.iii Pesticide Use and Management

The Company occasionally uses herbicides in the Plant. Capella is in the process of developing an integrated vegetation and pest management plan for this effect.

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

The Life and fire safety (L&FS) systems in the Plant have been designed to comply with current local Salvadorian regulations and international best practices². The local fire authorities have assessed and approved the Plant, including the associated substation and server shed buildings. The Company maintains close contact with the local fire department that has issued the respective fire permits.

The L&FS systems (extinguisher's, brush-fire backpack systems, portable water tanks, fire detection and suppression, etc.) appear to be well maintained and in good operational conditions. However, the Company needs to improve the reliability of the L&FS systems by adding a BESS emergency shutdown.

4.4.b Security Personnel

The Plant site is be fenced and patrolled by an armed security force subcontracted by the O&M contractor. To address the security risks, Capella developed and implemented a Security Management Plan ("SMP") generally aligned with PS-4 requirements. However, security contracts do not include the obligation for the private security provider to comply with The Voluntary Principles on Security and Human Rights³ and to ensure that security personnel is trained in accordance with such principles.

No security incidents have been reported during the construction nor the operation of the Plant.

4.5 Land Acquisition and Involuntary Resettlement

The BESS Project does not require any land acquisition, nor will it involve involuntary resettlement, as it will be developed within the premises of the existing Plant.

4.6 Biodiversity Conservation and Natural Habitats

Even though the Plant is located approximately two kilometers inland from the Jiquilisco Bay, which is recognized as an Important Bird Area ("IBA"), a Ramsar Site, and a Biosphere Reserve, the BESS will be built in a highly modified area where there are no species requiring special care.

As part of the original Plant, Capella developed a Bird Monitoring Program ("BMP"), which contains details of sampling methods, sampling efforts, and survey seasons defined according to the endangered and protected species that are in the region. Such program considers monthly monitoring activities undertaken bird specialists at several point of the Plant, covering all seasons. Surveys conducted so far have not identified any bird mortality within the Plant's area. The Company will continue its periodic monitoring of the avifauna in the area until April 2022.

² Such as the National Fire Protection Association standards

³ <https://www.voluntaryprinciples.org/the-principles/>

4.7 Indigenous Communities

The Project will not affect any indigenous peoples.

4.8 Cultural Heritage

There is no apparent indication of any archaeological remains or findings at the Project site. Still, as part of the construction of the Plant, Capella developed chance find procedure which will be applied for the construction of the BESS.