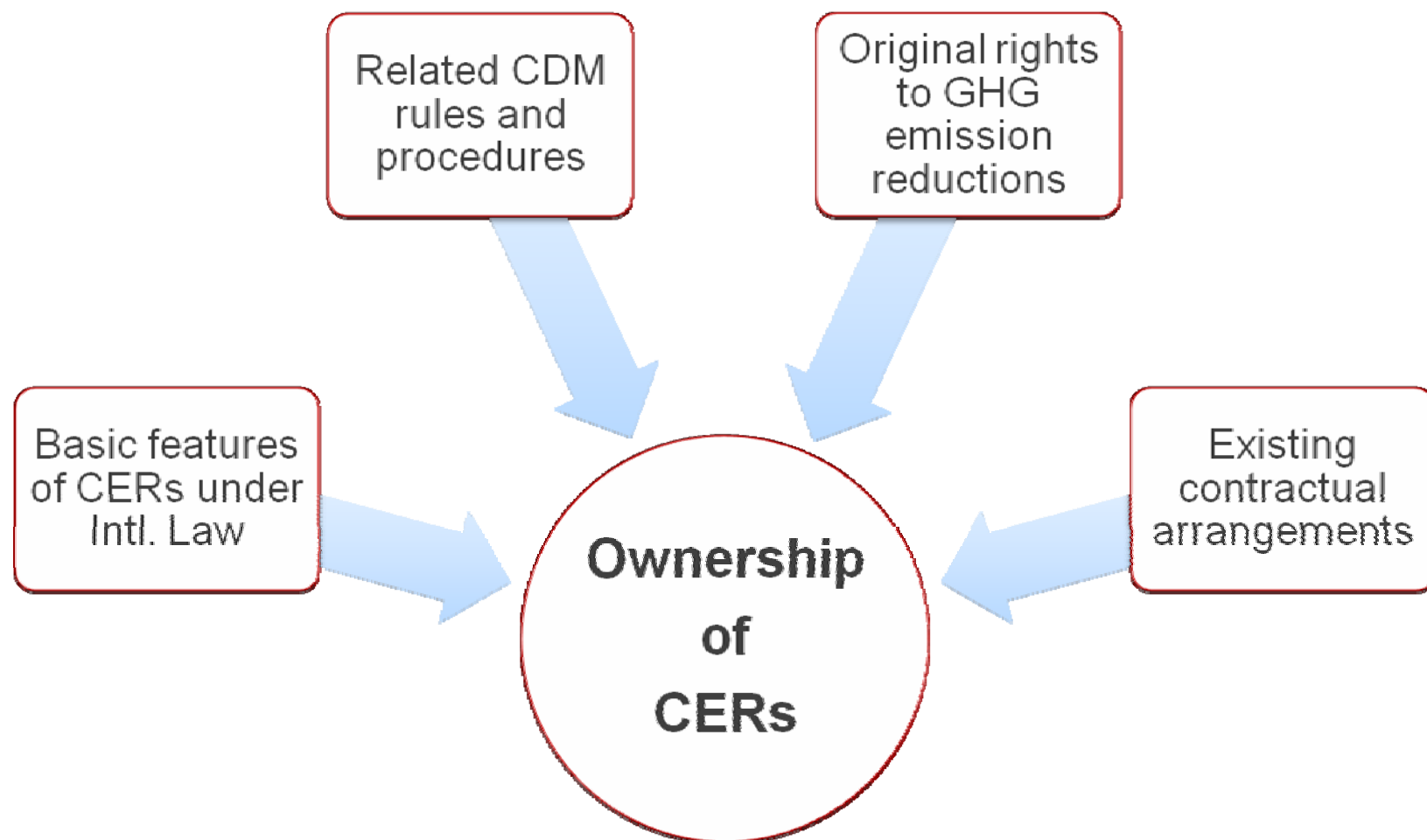


Structuring of CDM Projects

National Workshop on CDM
Paramaribo, 6 March 2009

Thiago Chagas

Ownership of CERs



Ownership of CERs



- Rights to GHG Reductions:
 - GHG Reductions are generated through a defined project activity which is the result of a certain investment undertaken;
 - In the absence of any law to the contrary, it is normally understood that the owner of the project is also the person entitled to the rights arising from the GHG reductions generated by such project;
 - Some jurisdictions may impose a charge on or impose the sharing of the benefits accruing from the GHG Reductions.

Ownership of CERs



- Basic features of a CER:
 - A transferable electronic accounting unit representing a tonne of CO₂ equivalent that is reduced or avoided;
 - Created by international law:
 - GHG reductions are verified and certified in accordance with the CDM rules and procedures;
 - CERs are issued by an electronic registered administrator administered by the UNFCCC Secretariat;
 - The initial rights to CERs (and to other Kyoto units) rest with the states-party to the Kyoto Protocol.

Ownership of CERs



- Related CDM Rules and Procedures:
 - Private and public entities may participate in the CDM provided they are authorised by a state-party;
 - An authorization to participate in the CDM project by the a state-party also entails the authorization to receive, hold and transfer CERs;
 - Only authorised project participants are allowed to receive, hold and transfer CERs once they are issued.
 - Only focal points can decide upon the allocation of CERs among project participants.

- Contractual Arrangements
 - The rights to GHG reduction and CERs may be assigned contractually through, e.g. ERPAs, financing agreements, equipment procurement agreements.
 - GHG reduction rights normally entail:
 - *any right, interest, credit, entitlement, benefit or allowances to emit (present or future) arising from or in connection with any greenhouse gas reduction achieved by the [Project], and includes any right that may be created under any regulatory or legal regime as a result of these greenhouse gas reductions whatsoever.*

Financing Standing (buyer and seller)

- Solid balance sheet?
- Credit rated?
- Parent company or subsidiary?

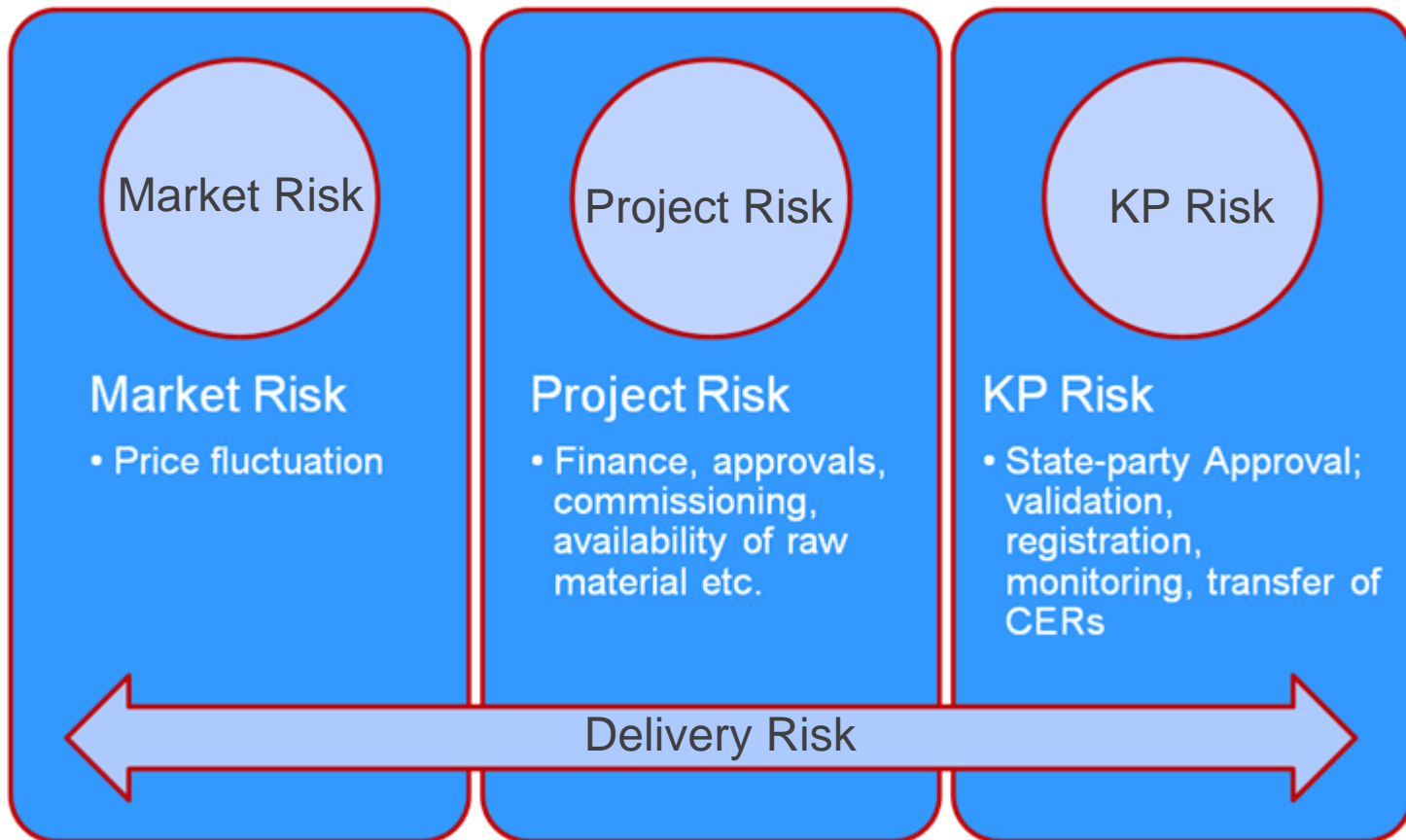
Technical Capacity (usually seller)

- Experience and track-record in project construction, implementation and operation?
- Qualified staff and/or professionals?

CDM Development Experience

- Previous experience in CDM project development?
- Main hurdles: baseline issues; monitoring issues; project

- Main risk factors:



Assign risk to the party best able to bear it

Sponsors/creditors/
seller assume most
project risks

Buyer or Seller take
Kyoto Protocol related
risks

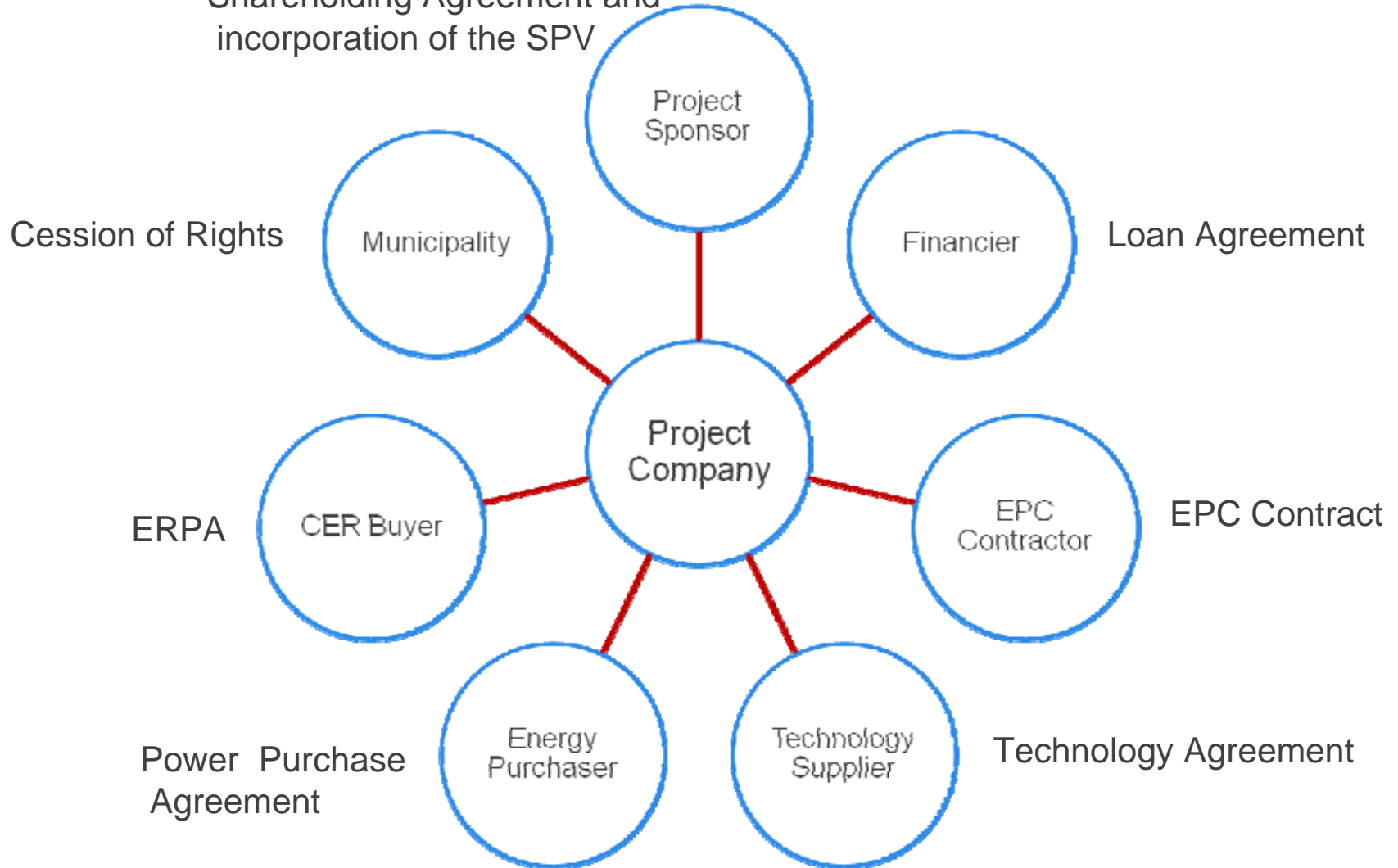
Buyer and Seller
share market related
risks

Example: Landfill Project

- Landfill Projects generating ERs through capture of methane [and electricity generation];
- Generally public projects or public/private partnerships;
- Contractually flexible as different rights and obligations get easily separated [waste, land, landfill gas, CERs...]
- Rights to exploit LFG (and thus to future CERs) often transferred from the owner of the waste or land to a third party contractor.

Example: Landfill Project

Shareholding Agreement and
incorporation of the SPV



Risk Mitigation Tools



- Project and delivery risk
 - Ensure management and operational capacity of the counterpart
 - Secure stable financing of the project
 - Ensure resource availability
 - Ensure legal compliance
 - Using conservative CER projections
 - Sell from a pool
 - Ensure the senior right to the CERs (buyer)
 - Establish reporting obligations (buyer)

- Seller payment for CER risks
 - Credit check
 - Alternative registries/delivery = issuance
 - Escrow agent

- Market/Price risk
 - Flexible pricing
 - Option contracts (put or call)

- Kyoto Risk
 - Host country agreement or letter of endorsement
 - Concluding the ERPA after project registration
 - Using approved methodologies
 - Securing the right to communicate with the EB
 - Obtaining Host Country and Annex I country approval

Thanks!

Questions:

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