

Project Mechanism

A Legal Framework for
your Project



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17 August 2003



Agenda

- What will a Project look like?
- Stages of a Project
- Additionality Requirement
- The Project Agreement
- Project Financing
- Joint Venture Arrangements
- Input /Output Agreements
- Construction Contract



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What will a Project look like?

- Example Projects
 - Wind farm
 - Waste energy
- Joint Ventures
- Project Finance



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Project Stages

1) Feasibility Study

- Information gathering
- Engage engineers/consultants
- First base financial model
- Consider possibility of credits



2) Eligibility under the Project Mechanism

- Provisional selection
- Assessment
- Project Agreement



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Project Stages

3) Negotiation of Key Contracts

- Construction and design
- Input / off-take contracts

4) Financing

- Financier will undertake own risk assessment
- Overlap with Project eligibility assessment



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Project Stages

5) Construction and Development

- Resource consents
- Building
- Ongoing troubleshooting

6) Completion and Start Up

- Compliance with Project Agreement
- Monitoring/verification of emission reductions



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Qualification for Project Mechanism

- Additionality
 - Environmental
 - Investment
- Assessment Process
 - Technical risks
 - Commercial risks



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Project Agreement

- A promissory note that defines:
 - entitlement to emission credits
 - delivery of credits
- How risk is managed will affect the Project's overall bankability

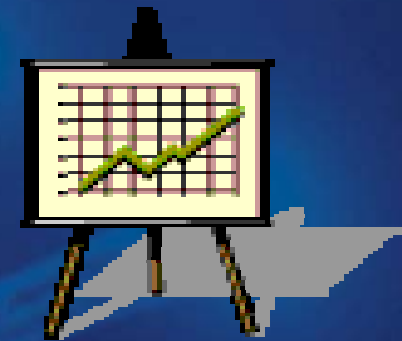


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Project Agreement – legal issues

- Deliverables for credits entitlement
- Timing of credits entitlement
- Measurement, verification and certification of emission reductions
- Condition date by which the Project must be commenced



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Project Agreement – legal issues



- Force majeure events
- Political risks
- Can security be given over the Project Agreement
- Assignability
- Investment additionality



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Project contracts

Project Financing

- Financier looks to cash flows from project asset for repayment
- Assessment of technical and commercial risks
- Carbon credit risk
 - how to value
 - hedging may be required



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Project contracts

Joint venture agreements

- Incorporated or unincorporated
- Project funding – equity / debt
- Default by joint venture party
- How will emission credits be treated?



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Project contracts

Construction

- Allocation of risk in event of design failure
- Project built as per specifications
- Interface with verification and dispute resolution process in the Project Agreement



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Project contracts

Output contracts

- Off-take contracts to sell the “product”
- Source of supply

Input contracts

- Opportunity for emissions leakage, eg transport/machinery
- Any changes to procedures may affect overall emission reductions



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Conclusion

- Project mechanism provides potential business opportunities
- Not without risk
- Managing that risk across all Project documentation will be key on the viability of a proposed Project



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