

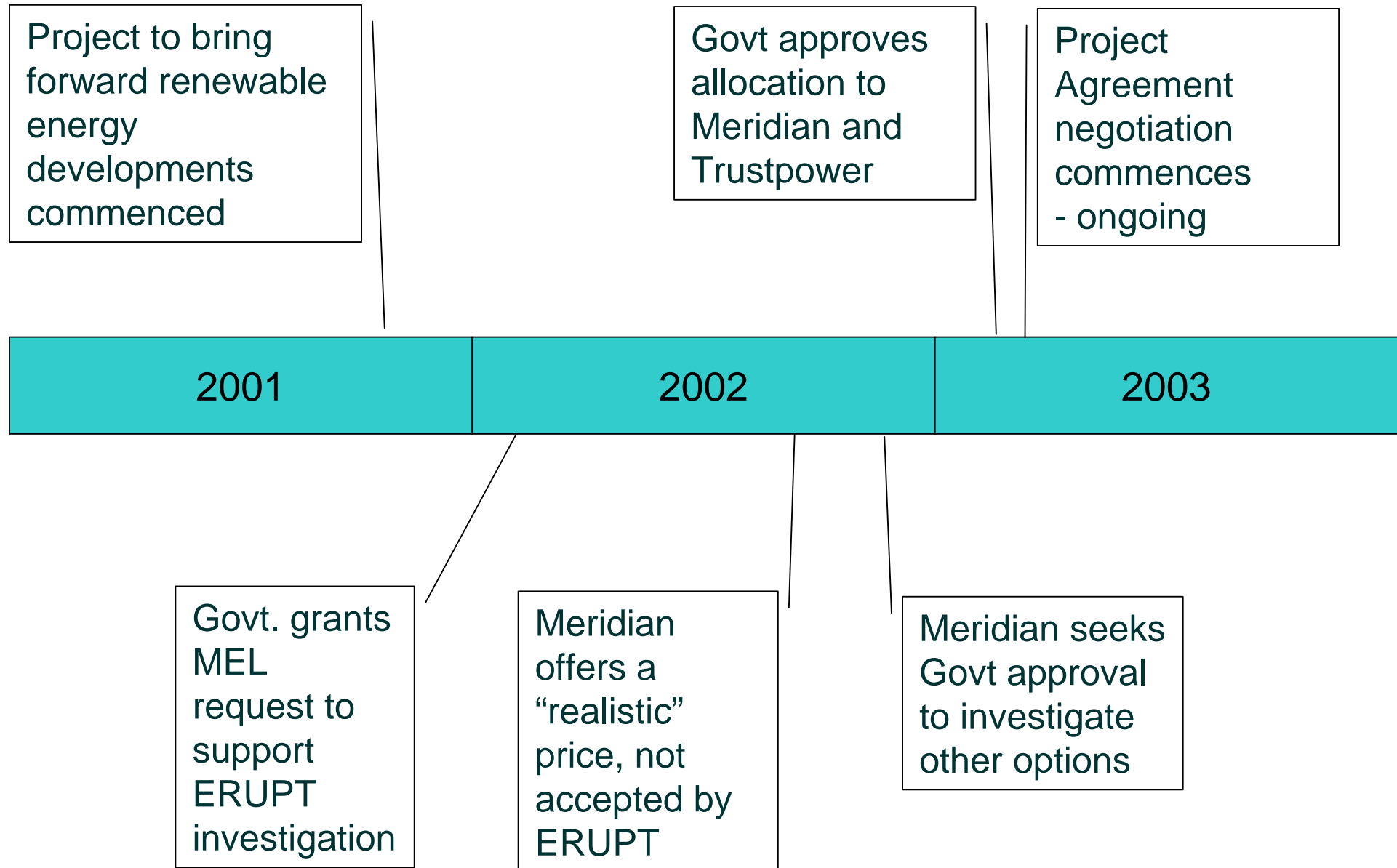
Making emission reduction projects economic

The lessons

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Our progress to date



- Additional revenue stream for marginal emission reduction projects
- Learning about a new “commodity” that could have an increasing impact on the world economy
- Myriad of opportunities for advisors, lawyers, verifiers, validators etc.
- Plenty of units available so worth the effort

TO GOVERNMENT/COUNTRY

In return for Kyoto carbon credits representing a proportion of 2008-2012 emission reductions from the project

- Get emission reductions pre-2008
- Get emission reductions during 2008-2012
- Get emission reductions post 2008-2012

TO DEVELOPERS

- Emission units for proportion of 2008-2012 emission reductions
- Potential to push emission reduction projects up the investment priority list

TO EVERYONE

- External driver to focus attention on emission reduction opportunities
 - Emissions = waste, inefficient use of resources

- Kyoto Protocol does not enter into force
- Tax treatment of income from AAUs/ERU/VERs
- Government does not fulfil international obligations required for flexibility mechanism participation
- Inappropriate emission factors
- Your forecasts are incorrect for carbon charge or credit values or number of credits required
- Will there be non-delivery costs?

Things to think about/concerns

- Terms and conditions of Project Agreement will effect unit values
- Transaction costs similar for small and large projects
- Others could sell cheap and create low expectations of value of NZ credits
- Time
 - Available to prepare for round
 - Alignment with development process
 - Potential for delays in finalising contracts
- General regulatory uncertainty

Things to consider – Developers

- Not all buyers are prepared to pay upfront i.e. pre 2008
 - Prices differ depending on payment schedules
- If no Kyoto Protocol, units will be worth MUCH less
- Transaction costs are significant - brokerage fees, legal fees, verification and validation costs
- European Market only accepts ERUs not AAUs
- Selling options
 - Do-it-yourself
 - Brokers
 - Tenders – Dutch, Swedish, PCF/World Bank
- How will bankers view Project Agreement/units?

Things to consider - Government

- Assist companies in managing/reducing transaction costs by:
 - Keeping process simple and low cost,
 - Providing information ASAP on:
 - Level of carbon charge
 - Emission factors
 - Terms and conditions of Project Agreements
 - Sell units and have \$ available (or at a minimum trial this)
- Why limit the number of units available if good emission reduction projects are available?
- One time validation of sector baselines e.g. electricity emission factor
- Allow for aggregation of small projects
- Tax treatment of all units including VERs

What can we do now?

<p>Work out \$NPV of shortfall required to push the project to development.</p> <ul style="list-style-type: none">- include all normal project risks and costs- include Project Mechanism related risks and costs	<p>EXAMPLE</p> <p>Need \$1 million</p>
<p>Take a view on emission unit prices</p> <ul style="list-style-type: none">- assess NPV value of 2008-2012 payments- Brokerage fees	<p>\$10/tCO₂</p> <p>(Just a round number- not a view!)</p>
<p>Divide them to assess the number of units you will require</p>	<p>$1,000,000 / 10 =$</p> <p>100,000 units required</p>

Keep your fingers crossed

Will your unit requirements be less than 2008-2012 emission reductions?

- About developing your project documentation/ verification/ validation
 - Advisors
 - Auditors/validators/verifiers
- About prices, demand and supply
 - Brokers
 - Free newsletters
 - e.g. www.pointcarbon.com,
 - <http://www.iisd.ca/email/climate-L.htm>,
 - Advisors
- About legal issues and costs
 - Lawyers
 - International Emission Trading Association (IETA contract)

What is this all really about?

REDUCING EMISSIONS
USING RESOURCES EFFECTIVELY
LEARNING – this is just the start....

