

Sindicatum
carbon capital

Financing with Carbon Assets

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Introduction to SCC

- SCC's aim is to be a leading climate change and clean energy company
- We have raised a fund (ISCCP) of \$280m plus \$90m of our own equity which we are using to finance and implement CDM and clean energy projects in China, SE Asia, India and the US
- We have around 150 staff including Climate Change professionals, Engineers (CMM, IFG, oil and gas

Financing with Carbon Assets

There are numerous challenges to proving that future carbon revenues are sufficiently secure to guarantee repayment

In the face of these challenges, what kinds of assets are easier to finance?

Challenges to carbon finance

➤ Post 2012 uncertainty

- We are all betting on a market post 2012 but what will it look like? High quality CERs / VERs? Host countries? HFC23 and N2O? Who are the buyers?

➤ Closing window to get money back

- This emphasizes the impact of delays in project implementation, registration and issuance
- Flying start vs consideration of CDM

➤ EB Process:

- Retrospective application of rules by EB
- Meth complications
- Increasingly stringent monitoring rules – resulting in delays / non-issuance of some CERs from existing operational projects

Challenges to Carbon Finance

- Additionality tool – which ensures that projects have no safety net

What kinds of assets are easier to finance?

In short, those that offer:

Payback pre 2012

Dual Revenue Streams

Staggered / flexible investment
profile

Payback pre 2012

With CERs

- Recover investment plus 30% in 2013 from sale of CERs (and power / gas) up to 31/12/2012

Without CERs

- Money back plus low single digit return
- Conflict with additionality? Not necessarily – can be below the WACC / IRR benchmark and still be additional
- At least you get your capital back

Dual Revenue Streams

These projects have increased likelihood of meeting payback pre 2012 criterion and offer an income stream post 2012

Renewable energy; Power generation from methane – CMM, LFG, avoided gas flaring;
Some waste heat recovery projects

- PPA / GSA give highest level of confidence (but getting these is not easy in some places)
- Additional value can be added via Gold Standard where project displace fossil fuel

Other kinds of dual revenue streams

Energy efficiency / some waste heat recovery projects / fuel switch / material substitution

- Revenues are generated in the form of cost savings
- More complex to extract value from project host, therefore more complex to finance
- Relies on the project host successfully implementing the measures, which may present them with certain risks

Single revenue streams

Pure abatement

- Highly risky as it now relies on payback by end of 2012 and could face further NGO criticism
- HFC and N₂O are largely covered; last remaining sector is VAM from coal mining

Staggered / flexible investment profile

- The time at which capital is committed can have a massive impact on the project economics / risks
- Renewable energy projects can have very high up front costs matched by long, relatively secure offtake agreements (PPAs) – low risk
- Biogas / MSW gasification / tend to have up-front investment with revenues contingent on a wide variety of parameters including levels of activity within the host company –

In conclusion: Our investment committee...

Likes:

- Landfill gas collection with flare and power generation
- CMM for power gen
- Avoided gas flaring

Is suspicious of:

- Renewable energy (hydro / wind etc)
- Pure abatement

Needs convincing (heavy due diligence) on:

- Bio-gas / waste water treatment

Hates:



Thank you for your attention

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