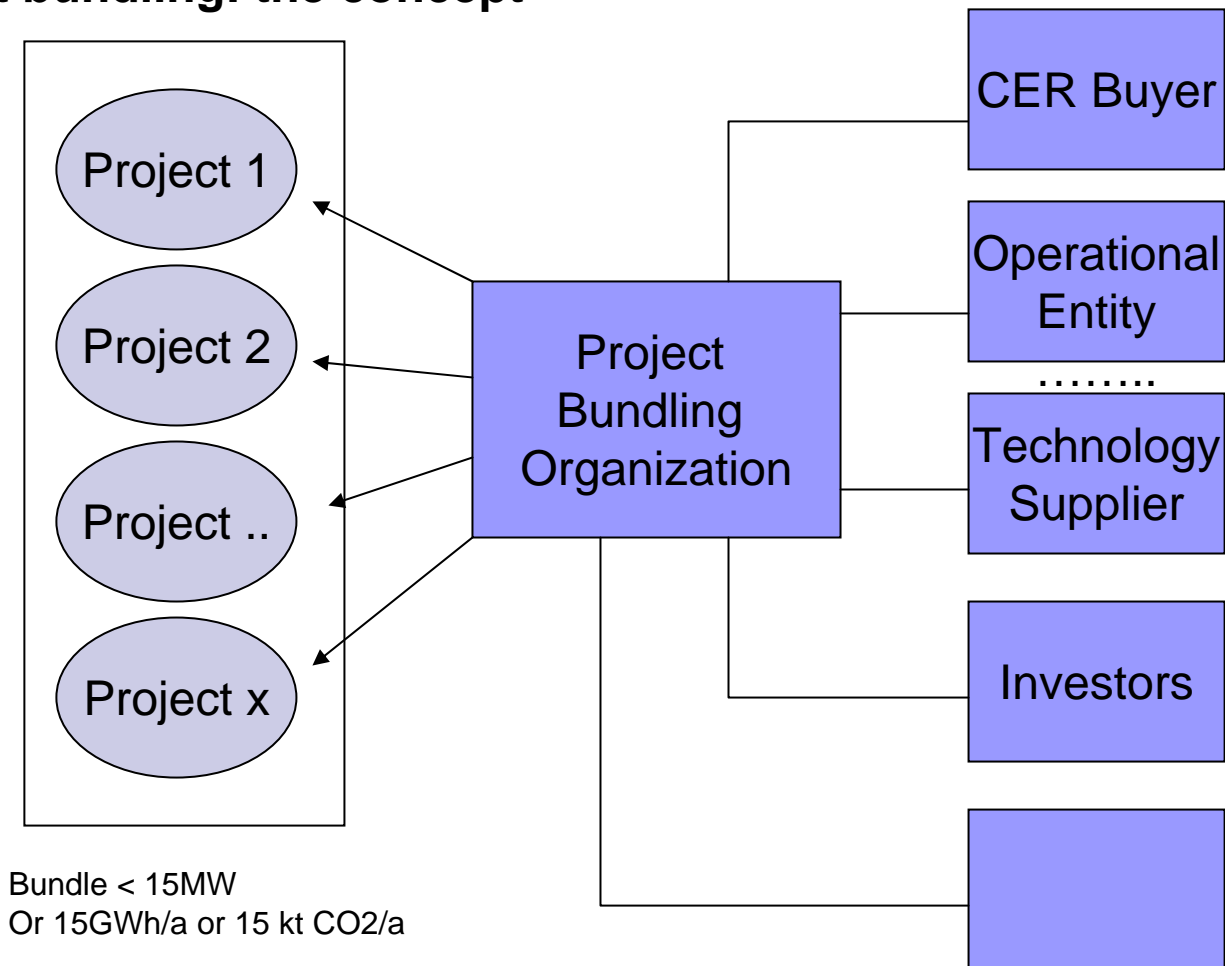


# How Can Bundling of RE Projects Be Accomplished?

UNEP ECA Conference, Rome  
Diana Smallridge  
September 29<sup>th</sup> – 30<sup>th</sup> , 2004

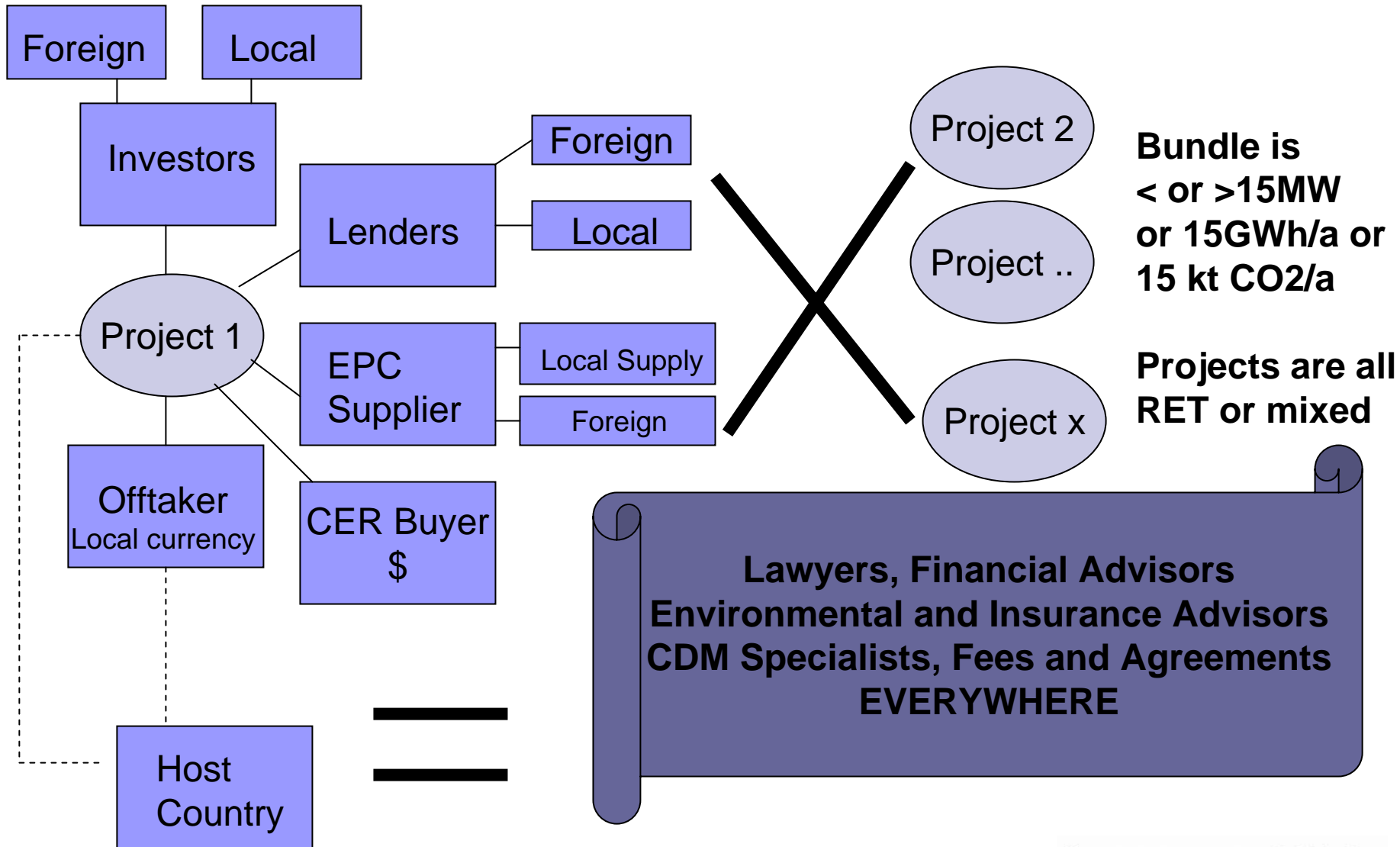
# What Is Bundling?

## Project bundling: the concept



Reproduction of a Slide presented at the 3rd UNEP ECA Workshop in London by Factor

# A More Likely Scenario ?



# Why Bundle RE Projects?

- COP 7 sees CDM as tool for sustainable development to reach larger, mainly rural population
- For Example:
  - In Central America >65% of potential CDM RE Projects are within the COP 7 definition of Small Scale and eligible for Fast Track approvals by the CDM Exec Board

## Why Bundle? (cont'd)

- COP 7 Defines Small Scale to mean RE project(s) of less than 15MW, or less than 15 GWh/a savings for energy efficiency or 15K tons CO2
- COP 7 Fast Tracking of Small Scale Project Activities means:
  - Simplified Baseline Procedures
  - Simplified Project Approval Procedures

# Why Bundle? (cont'd)

- CDM Small Scale RE Projects in the 1-5MW range have the following characteristics:
  - Each generates a small amount of CO<sub>2</sub>, therefore:
    - Less interest by CO<sub>2</sub> Carbon Credit Buyers
    - CER Verification costs higher relative to total project costs
  - Relative to the total project cost, each usually has:
    - High Up Front Project Development Costs that reduce Investors ROI
    - High Capital Costs relative to Operating Costs
  - Each has higher real and perceived project risks, relative to large scale RE Projects

# Bundling RE Projects Under CDM Fast Track

- Should Reduce Aggregate Up Front Transaction Costs for:
  - CDM Fast Track Processing and Approvals
  - CER Verification and Monitoring
  - Legal and Other Advisory Fees
  - Documentation
- Should Attract CER Purchasers
- Should Attract More Investors
- Should Reduce Risks to Lenders and ECAs

***Bundling of larger scale RE Projects outside the CDM Small Scale Fast Track or with small scale RE projects should also reduce transaction costs, attract CER purchasers, investors, lenders, and ECAs***

# Critical Factors

- Financing Structure must be kept simple:
  - Bundle similar project types when possible, for example
    - Only RE Projects, only EE Industrial Projects or EE Transportation, etc
  - Or, bundle only similar size RE Wind Energy projects together (or only geothermal or only mini hydro) which may have the same
    - Suppliers of the critical RE Technology
    - Project Sponsors and Major Investors
    - EPC and Operating Mgmt
    - Baseline and CER verification and monitoring experts
    - Standard agreements and contracts
    - Legal and Financial Advisors

# Critical Factors (cont'd)

- Financing Structure should be kept simple to mitigate risks, therefore try to bundle projects:
  - In the same region
  - Under the same Energy Plan approved by the Host Country
  - With the same creditworthy offtaker(s)
  - With the same creditworthy CER Buyer(s)
- Financing Structure should have a
  - Projects Bundling Manager
  - Single Borrower
  - Same Security, guarantees or indemnity agreements

# World Bank Carbon Finance Unit Experience With Bundling

- Currently reviewing the bundling of up to 5 mini hydros in Latin America
  - Common turbines may attract ECA interest in Co-Financing
  - Common foreign sponsors and investors for all 5 projects
  - Common Project Design Document for all 5 projects should reduce costs of this phase by 40% and future Baseline, Verification as well
  - 1 Environmental Impact Assessment for all 5 projects
  - CFU buyer of CERs on behalf of its CDCF fund
  - CFU filling role of Project Bundling Manager

# Other Advantages of Bundling RE Projects

- Spread of Operating Risk among more than one project
- Surplus revenues from earlier startup of some of the projects help fund development and up front fees of later projects
- Some up front costs such as consulting fees and even legal fees may be based on successful generation and sale of CERs
- Host Country Government support under National Energy Plans increases interest of key players
- Local Development Banks can often play a significant role, perhaps as Borrower
- Sale of CERs generates hard currency revenues in some local currency infrastructure projects

# Is There a Role for ECAs in Bundling RE Projects?

- ECAs must first be satisfied with the credit risks and export content requirements
- ECAs must be satisfied with size of exposure vs. due diligence required for small scale private sector RE Projects
- Could consider doing for RE Projects what ECAs already can do:
  - a Line of Credit to creditworthy financial intermediary that takes the on lending risks of the bundled projects
  - Mitigate risk with a creditworthy guarantor or Host Country undertakings

# Is There a Role for This UNEP ECA Working Group in Furthering the Development of RE Project Bundling?

If so, What is that Role and Next Steps?

- 15 Minute Table Discussion
- 2-3 Minutes for each table to give feedback to Larger Group
- 5 Minute Wrap Up on Conclusions from Discussions and Next Steps, if any

# Simplified Bundling Structure For RE Projects

