



G L O B A L F O R U M



**On Flaring and Venting Reduction  
and Natural Gas Utilisation**

# CDM in gas projects

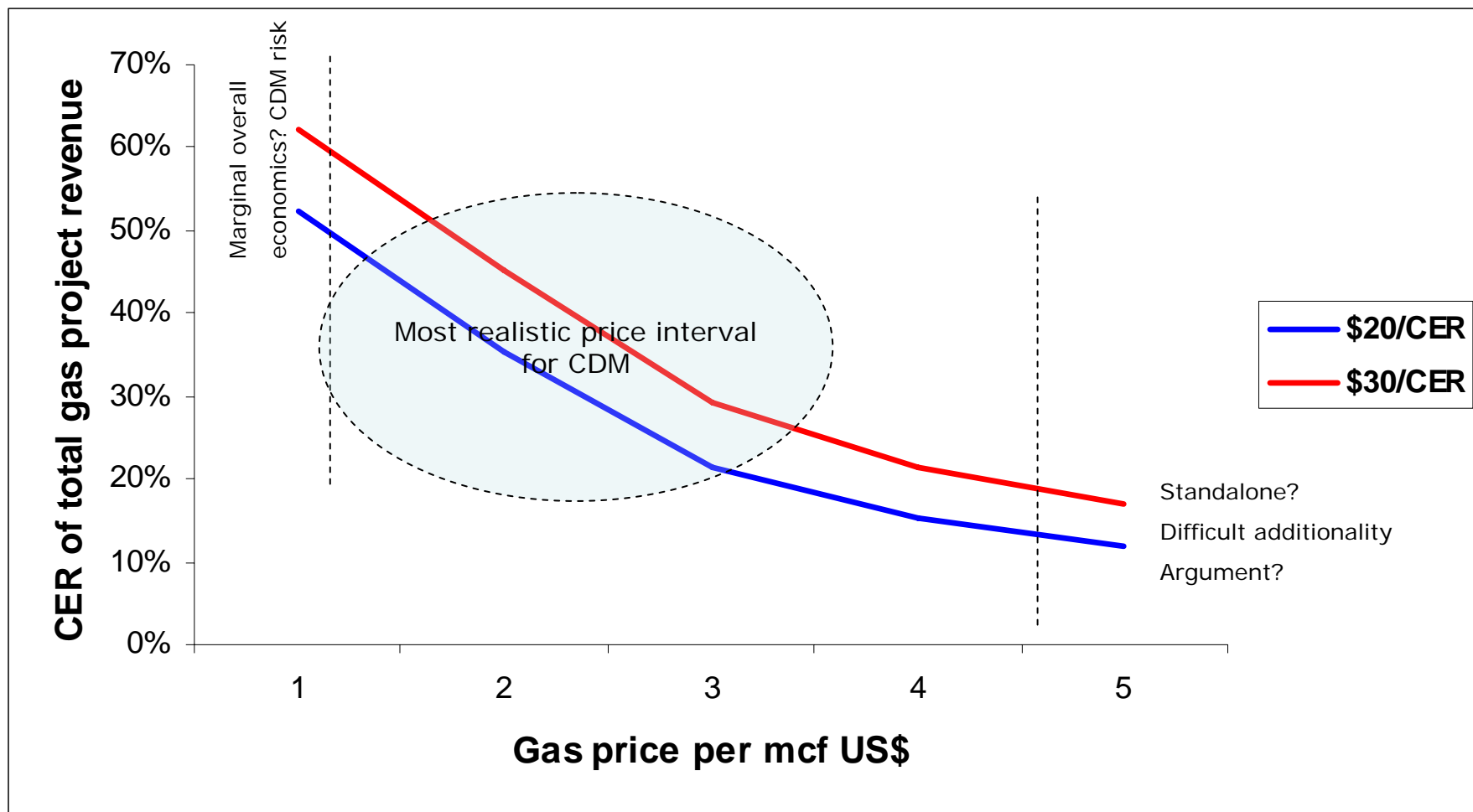
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# CDM in gas projects

- Key topics
  - Economic attractions of CDM to the project owners
  - Main challenges
  - Issues concerning oil & gas fiscal framework
  - Why haven't more projects happened?
  - What is SCC doing?

# CDM in gas projects



# CDM in gas projects

- Economic impact of gas recovery projects under CDM?
  - Enables access to hydrocarbon value otherwise wasted
  - CER revenue can represent a significant portion of available netback gas value to project
  - Successful execution can add to owner's reserves, boost production and Net Income generation
  - Provides access to new external sources of finance
  - Can also add indirect value as it improves operators' standing with host government

# CDM in gas projects

- Issues arising - financial
  - For projects using AM9, financial additionality is critical
  - Financial model to be developed at start (when Project decision is irreversible)
  - All project parameters need to be documented at start
  - How to deal with 2012 uncertainty
  - DOEs typically not industry experts, requirements can be very stringent due to uncertainty/lack of understanding
  - PDD has to be submitted within 6 months of Project start
  - Demonstration that CDM was integral part of financial investment analysis

- Issues arising - contractual

- PSC not appropriate model for sharing of CER revenues
- CDM requires greater flexibility. Operator may well not be the principal source of funding and the CDM project participants may differ from the parties in PSC
- Inherent conflict between CDM costs allocated to the PSC and recovered through sales of products and the CDM Project IRR calculation.
- In order to build a solid financial additionality case it may be preferable to exclude all costs which can be linked to the CDM project from the PSC
- Shifting costs from PSC to the CDM project has consequences for the financing party or parties. The recovery and investment return on amounts dedicated to the CDM project are not only linked to the performance of the project but also to the market price of the CERs or price agreed under an ERPA.

# CDM in gas projects

- Why are not more projects happening?
  - Gas flaring installations are often located in extremely difficult geographies with very low opportunity cost of gas
  - Ownership of gas and other contractual issues
  - Frequent lack of administrative and institutional support
  - Recent high energy prices and operator reluctance to divert resources to non core activities
  - Conservative industry, CDM is a new concept, 2012 risk
  - Some weariness among Oil Companies, there has been 'overselling' by keen CDM developers
  - CDM complexity and process bottlenecks are well documented
  - AM9 not suitable for small scale projects
  - Methodologies are rigid in their definition and application

# CDM in gas projects

- SCC – what are we doing in area of gas flaring reductions?
  - Oil and Gas is one of SCC's core industrial sectors
  - Our business model lends itself towards project development including financing solutions
  - We have one registered AM9 project so far – Tambun mini-LPG plant in Indonesia, registered January 2008
  - We are working with project owners on several other upstream and gas utilization projects that can use AM9 or derived methodologies
  - We are also involved in discussions with owners of downstream installations such as refineries and LNG terminals