



Kyoto Mechanisms Acquisition Program

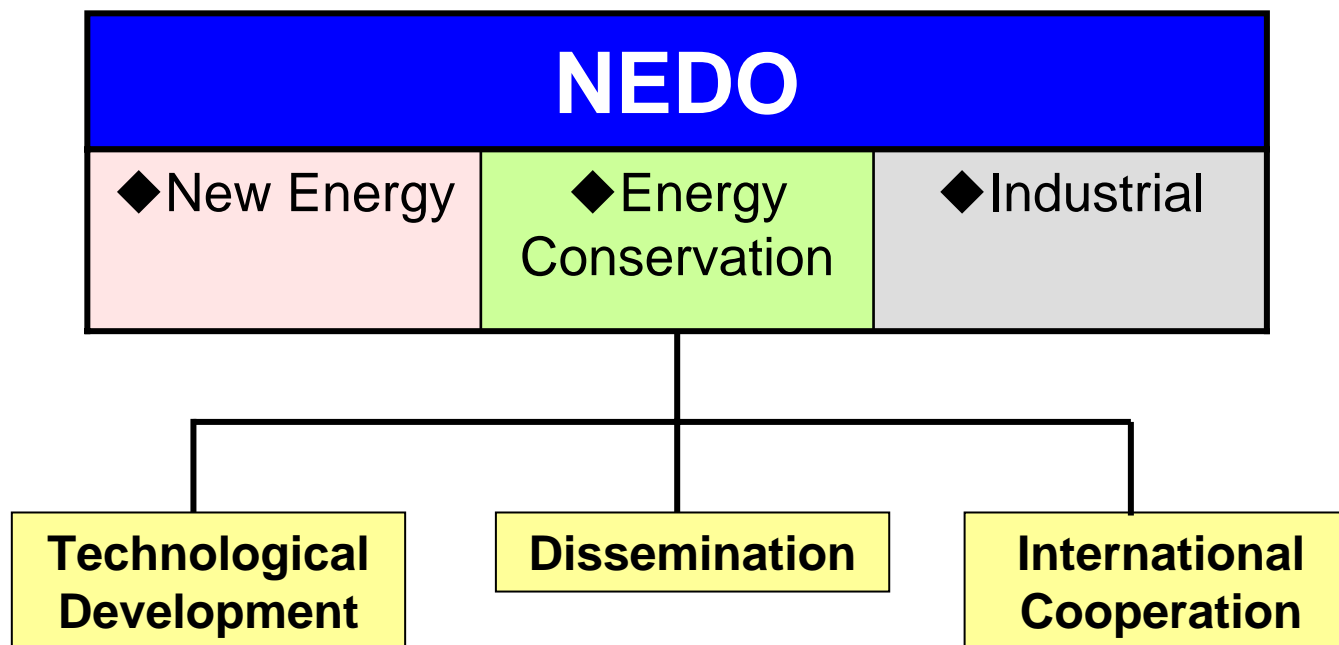
**March 6, 2008
IGES Capacity Building Workshop
for Clean Development Mechanism (CDM)
in Surat Thani, Thailand**

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What is NEDO?



NEDO is a publicly funded, independent administrative agency that plays a central role in coordinating the research, development and dissemination of Japanese new energy, energy conservation and industrial technologies.

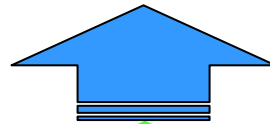


Background of NEDO JI/CDM Projects



- 1992 United Nations adopted Framework Convention on Climate Change
Rio de Janeiro Earth Summit
- 1993 NEDO Energy Conservation Model Projects began
- 1995 COP1 – pilot phase of Activities Implemented Jointly (AIJ) launched
- 1997 NEDO commenced first Demonstration Project in China
COP3 – adoption of Kyoto Protocol (Kyoto Mechanisms)
- 1998 CDM/JI FS projects began
- 2002 Japan ratified Kyoto Protocol
NEDO commenced first JI Demonstration Project, Republic of Kazakhstan
Johannesburg Summit, (WSSD)
Japan committed to contribute to CDM Capacity Building in Asia
- 2003 CDM/JI capacity building projects began
- 2005 Kyoto Protocol came into effect
- 2006 Kyoto Mechanisms Credit Acquisition Program has been launched

- Achieving the Goals of the Kyoto Protocol
- Contribution to Preventing Global Warming
- Promotion of Technology Transfers from Japan through CDM/JI Utilization



Kyoto Mechanisms Credit Acquisition Program

◎ Cost-effective Acquisition of Kyoto Mechanisms Credits

Work in cooperation with Existing Programs (Capacity Building, FS) into Kyoto Mechanisms Credit Acquisition Program

CDM/JI Capacity Building Projects

- ◎ Approval System Development in Host Countries
- ◎ Implementation Support to Private Companies

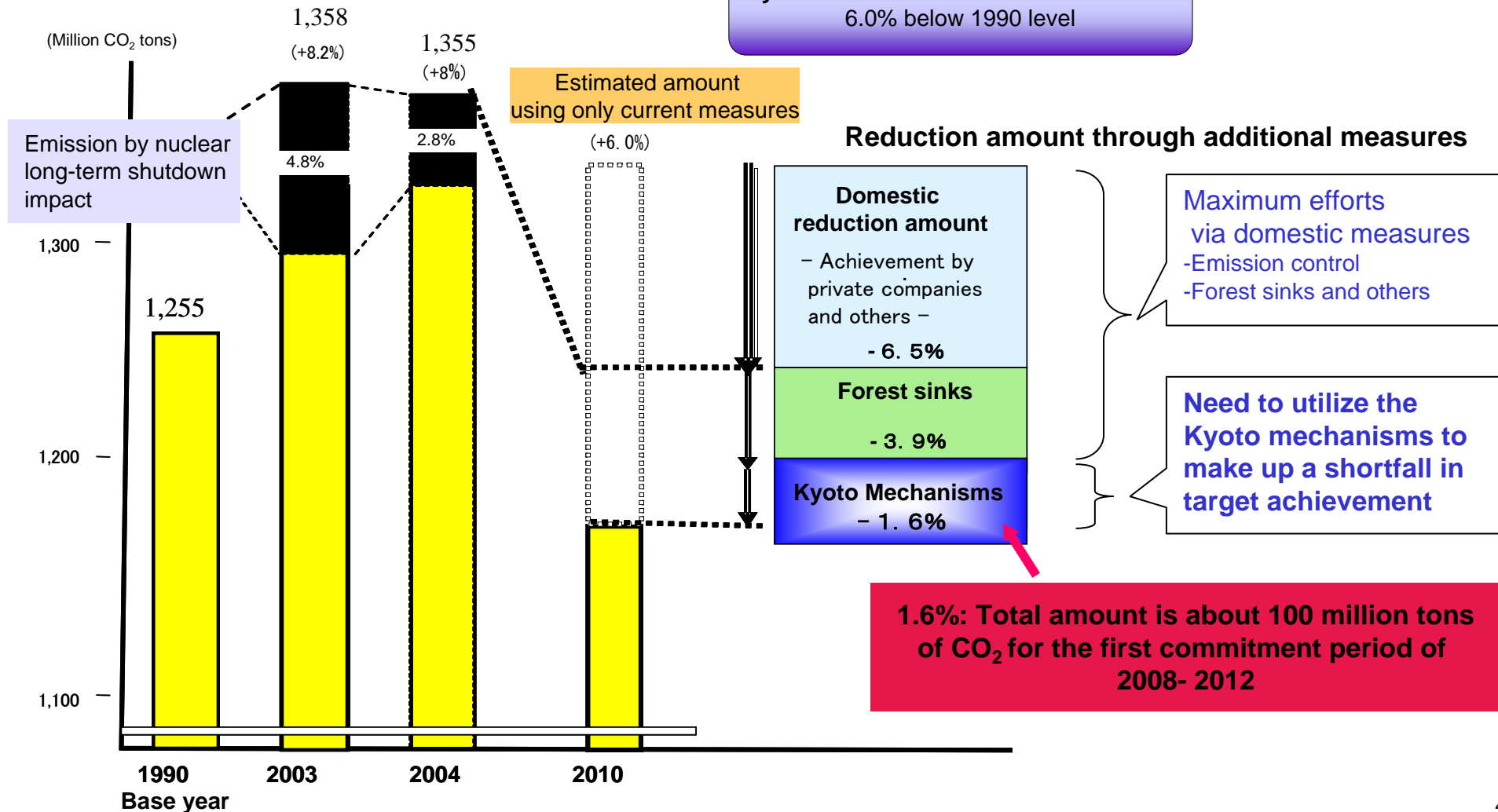
CDM/JI Feasibility Studies (FS)

- ◎ Implementation Support to Private Companies
- ◎ Acquisition of GHG Reduction Credits by the Government

The Kyoto Protocol Target Achievement Plan

The "Kyoto Protocol Target Achievement Plan" specifies policies and measures needed to achieve the 6% emission reduction target of the Kyoto Protocol and was approved by the Cabinet in April 2005.

GHG Emission Reduction Amounts



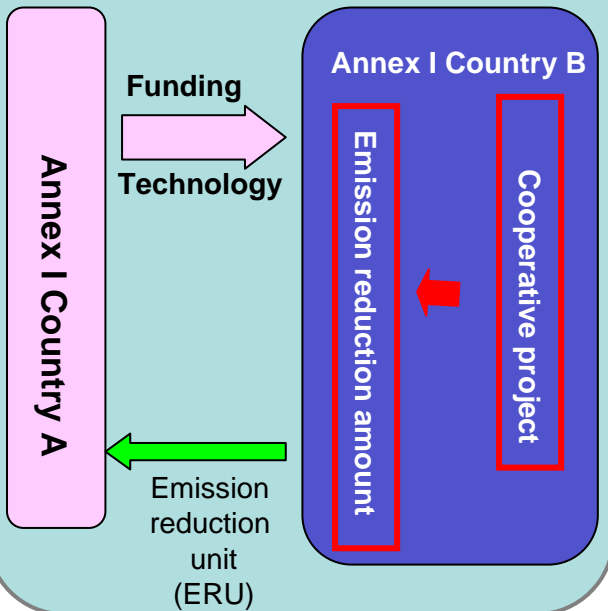
Overview of the Kyoto Mechanisms

The Kyoto Protocol defines three mechanisms to enable a country to reduce emissions in other countries. These mechanisms include Joint Implementation, the Clean Development Mechanism and Emissions Trading (including the Green Investment Scheme).

Joint Implementation (JI)

Article 6 of the Protocol

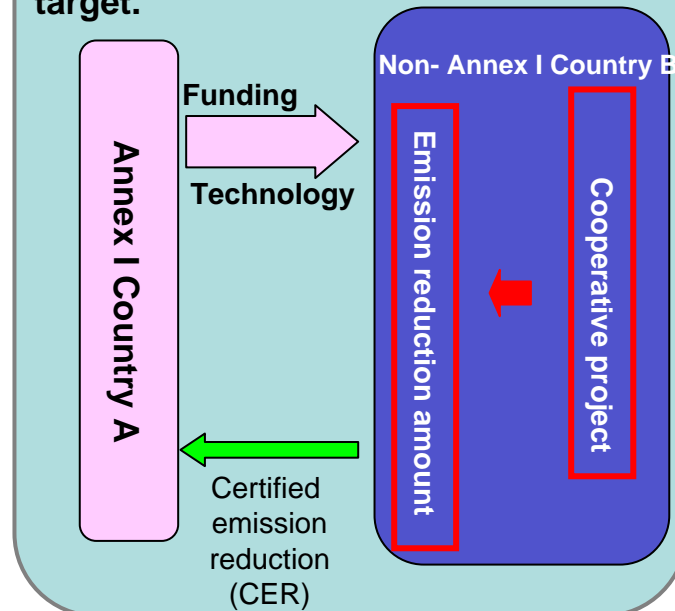
Annex I countries jointly implement a project. The country providing funding and technology can then use the resulting emission reduction units (ERUs) to achieve its emission reduction target.



Clean Development Mechanism (CDM)

Article 12 of the Protocol

Annex I country and Non-Annex I country jointly implement a project. The country providing funding and technology can then use the resulting certified emission reductions (CERs) to achieve its emission reduction target.

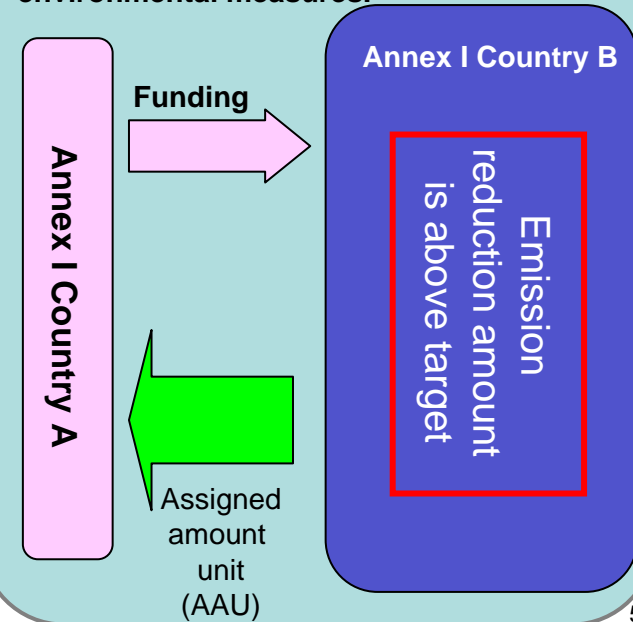


Emissions Trading (ET)

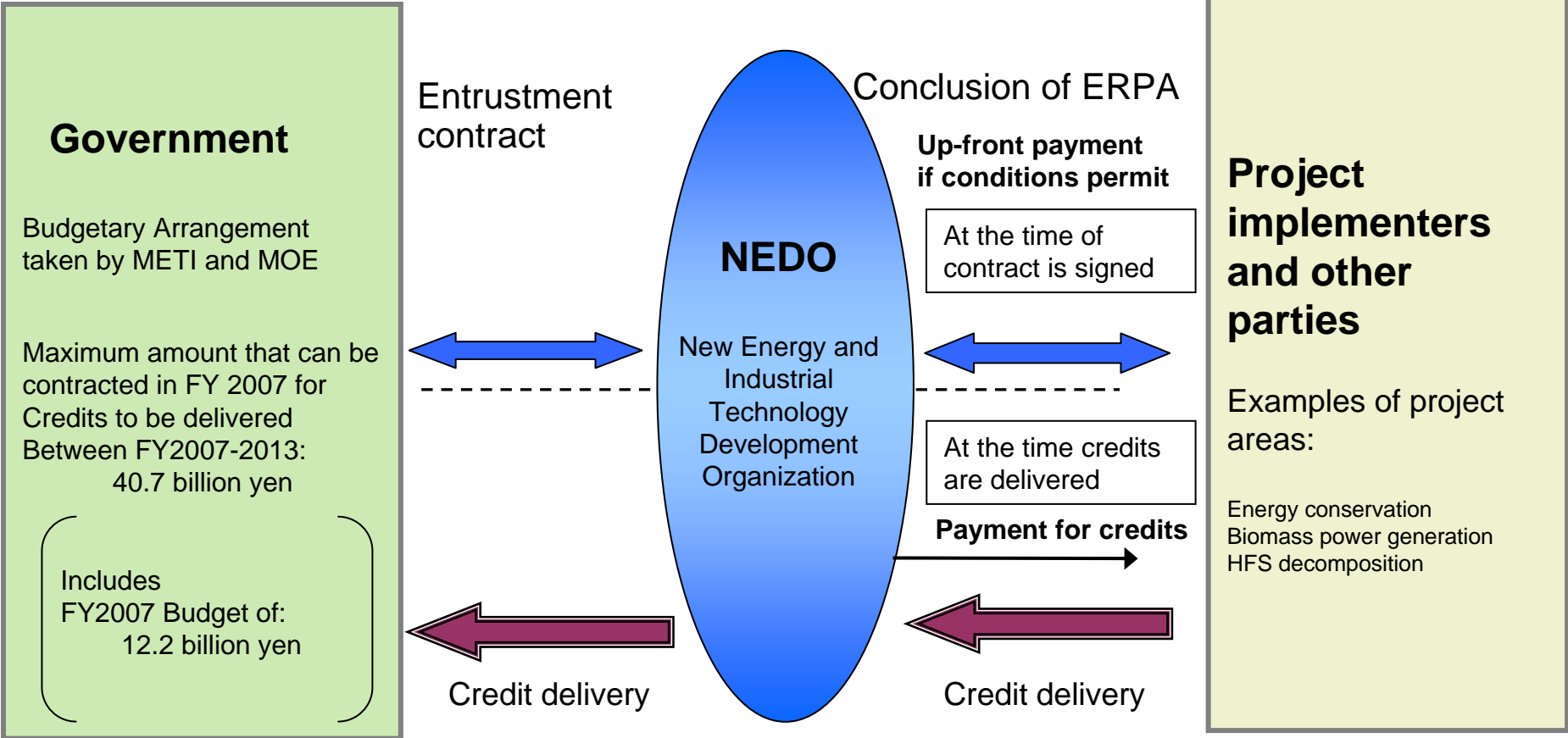
Article 17 of the Protocol

Annex I countries can acquire credits from other Annex I countries and use them to achieve its emission reduction targets.

* The Green Investment Scheme (GIS) is an emission trading scheme concerning specific environmental measures.



NEDO Implements Governmental Credit Acquisition through Active Use of the Kyoto Mechanisms



METI: Ministry of Economy, Trade and Industry
 MOE: Ministry of the Environment
 ERPA: Emission Reduction Purchase Agreement

Kyoto Mechanisms Credit Acquisition Program - Overview -

NEDO is aiming to acquire credits through the following methods:

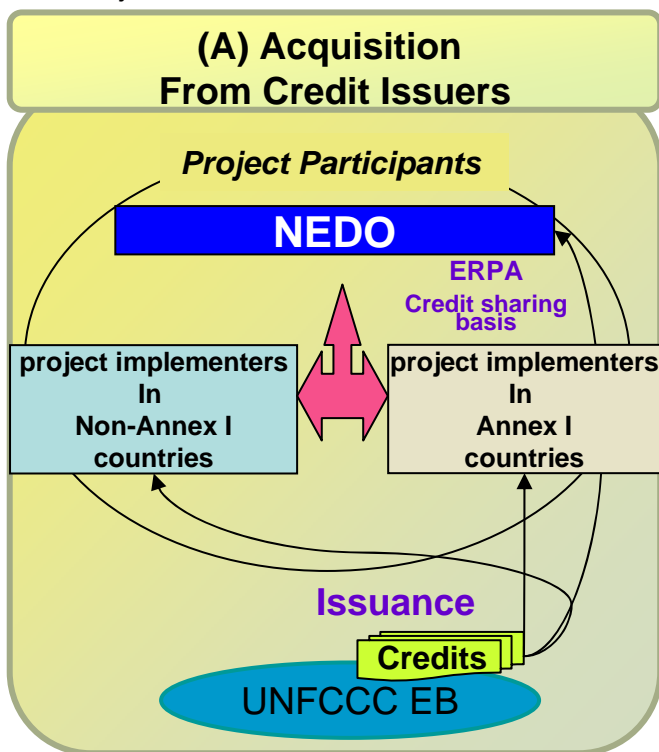
(Type A) Direct Acquisition

- NEDO acquires credits directly from credits issuers (the UN CDM Executive Board (CDM) and Annex I countries (JI and GIS)) participating in projects. NEDO signs emission reduction purchase agreements (ERPA) with other project implementers or It signs agreements like the ERPA with Annex I countries in case of GIS.

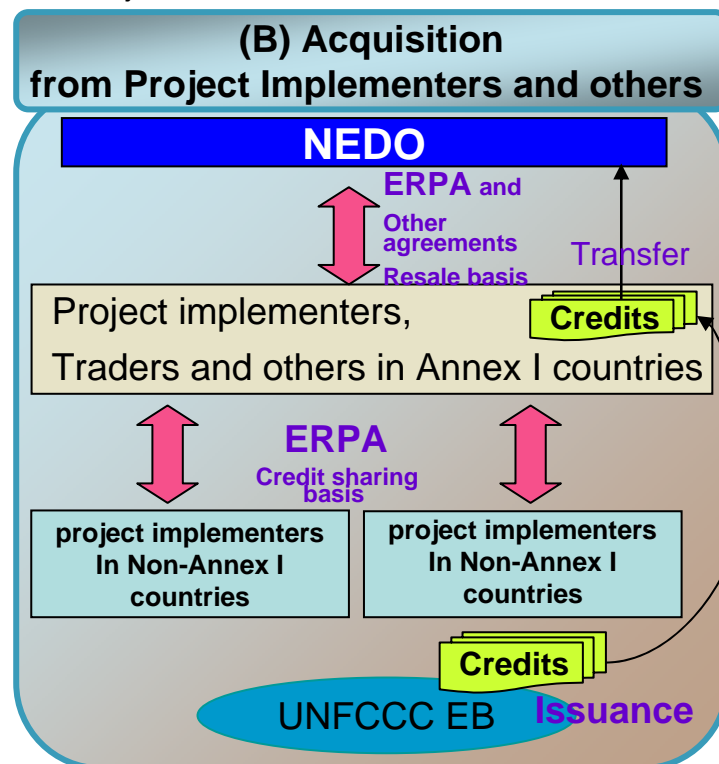
(Type B) Acquisition from Project Implementers and others

- NEDO purchases credits under ERPA from project implementers and others who have acquired or will acquire credits.

CDM Project Scenario

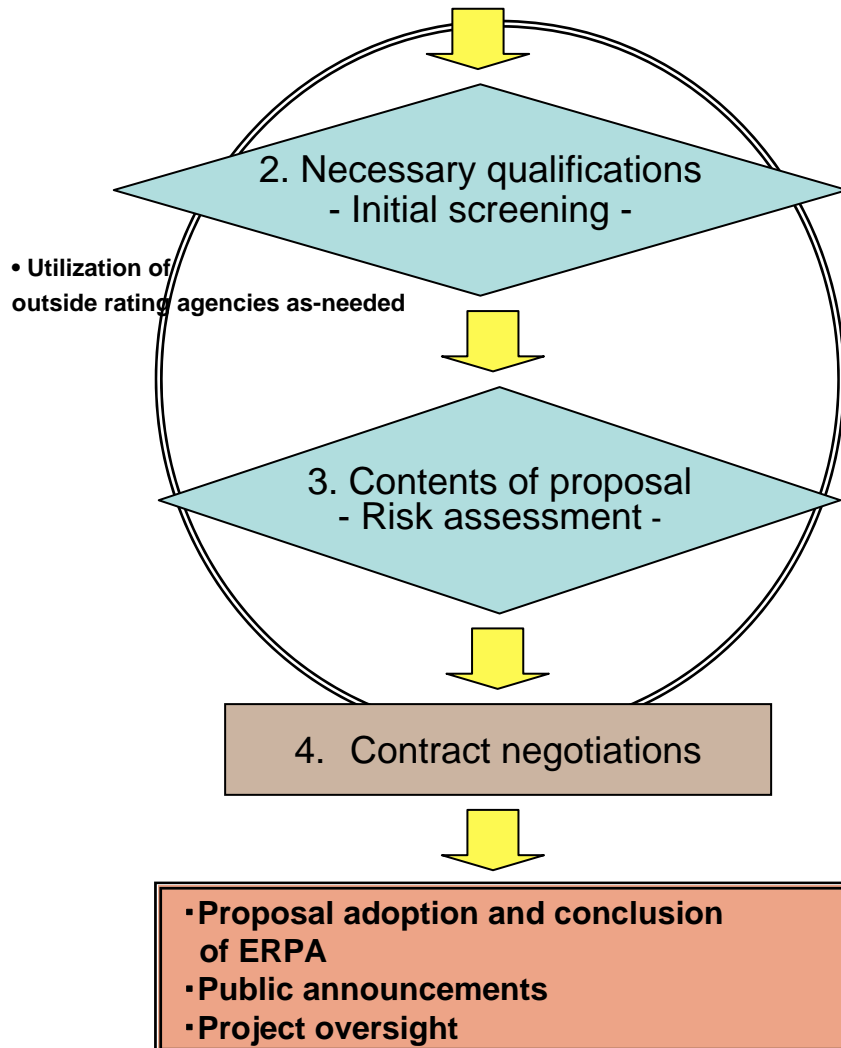


CDM Project Scenario



Kyoto Mechanisms Credit Acquisition Program Request for Proposals in FY2007

1. Request for and acceptance of proposals



1. Acceptance of proposals

Year-round acceptance of proposals.

If necessary, NEDO will endeavor to accelerate the evaluation and adoption of proposals requiring prompt action.

2. Necessary qualifications

During initial screening, NEDO checks standard criteria in documents regarding the implementation ability of the proposing party, management capacity, and the amount of credits for transfer.

3. Examination of proposal contents

With the input of external specialists, NEDO uses the following criteria to rate and select the best performing projects: 1) the rate of guarantee, 2) the rate of early credit transfer, 3) the credit worthiness and risk management system of the project developer, and 4) the price of credits.

4. Contract negotiations

Contract negotiations include credit price, transfer amount and timing of the transfer.

Up-to-date Results of Kyoto Mechanisms Credit Acquisition

| FY | Contractor | Contracted Credit Quantity (1,000t-CO ₂ e) | | Host Country | Project Name |
|---------------------------|-------------------------------------------------------------|-------------------------------------------------------|------|--------------|------------------------------------------------------------------------------------------------------------------------|
| 2006 | Marubeni Corporation (Japan) | 2,000 | 300 | India | 3MW Poultry Litter based Power generation Project (CDM) |
| | | | 900 | China | Wahei Hydroelectric Project (CDM) |
| | | | 800 | Mexico | Ecatepec – EcoMethane Landfill Gas to Energy Project (CDM) |
| | Rhodia Japan (Japan) | 1,830 | | Koria | N2O Emission Reduction in Onsan, Republic of Koria (CDM) |
| | Shangxi Xinglong Cogeneration | 1,456 | | China | Comprehensive utilization of waste coal gas for electricity generation project in Xinglong Cogeneration Co. Ltd. (CDM) |
| | Carbon Resource Management Ltd. (England) | 1,098 | | China | Shandong Yucheng Xinyuan Biomass Heat & Power (CDM) |
| | Subtotal | 6,384 | | | |
| 2007 | Marubeni Corporation (Japan) | 1,850 | 1060 | China | Chuanhua N2O Abatement Project (CDM) |
| | | | 790 | China | Yunnan Jiehua N2O Abatement Project (CDM) |
| | PT. Pura Bartama (Indonesia) | 343 | | Indonesia | Partial fuel switch from coal to biomass (CDM) |
| | <i>Other contract will be added until the end of FY2007</i> | | | | |
| | Subtotal (up to date) | 2,193 | | | |
| Total (up to date) | | 8,577 | | | |



Type A (Direct) Acquisition of CDM Credit

Key Points of Acquisition Scheme (Type A)

- ◆ Commissioned by the Japanese government
Public funds will be committed upon execution of ERPA¹ contracts.

- ◆ CDM credits (CER²) delivery shortfall
No penalties except in cases of gross negligence.

- ◆ Payment-on-delivery
Payments will be made after CERs are delivered. (Exception: partial up-front payments may be possible with reliable third-party guarantees.)

- ◆ Proposals
Interested parties should complete a Project Summary Sheet, providing a project overview, proposed price and other information, to initiate the acquisition process. (NEDO does not bid in advance.)

1. Emission Reduction Purchase Agreement

2. CER: Certified Emission Reduction

Eligible Credits and Projects

1. Credits

- Credits generated by CDM projects (CER)
 - Exceptions: CERs related to nuclear power generation and afforestation/reforestation
- CERs generated during the first commitment period of the Kyoto Protocol (2008-2012)

2. Projects

- Projects that have secured commercial financing
- Projects that take environmental impacts and effects on local residents into careful consideration

* NEDO, as a CDM project participant, acquires CERs directly from project implementers.

Review Process



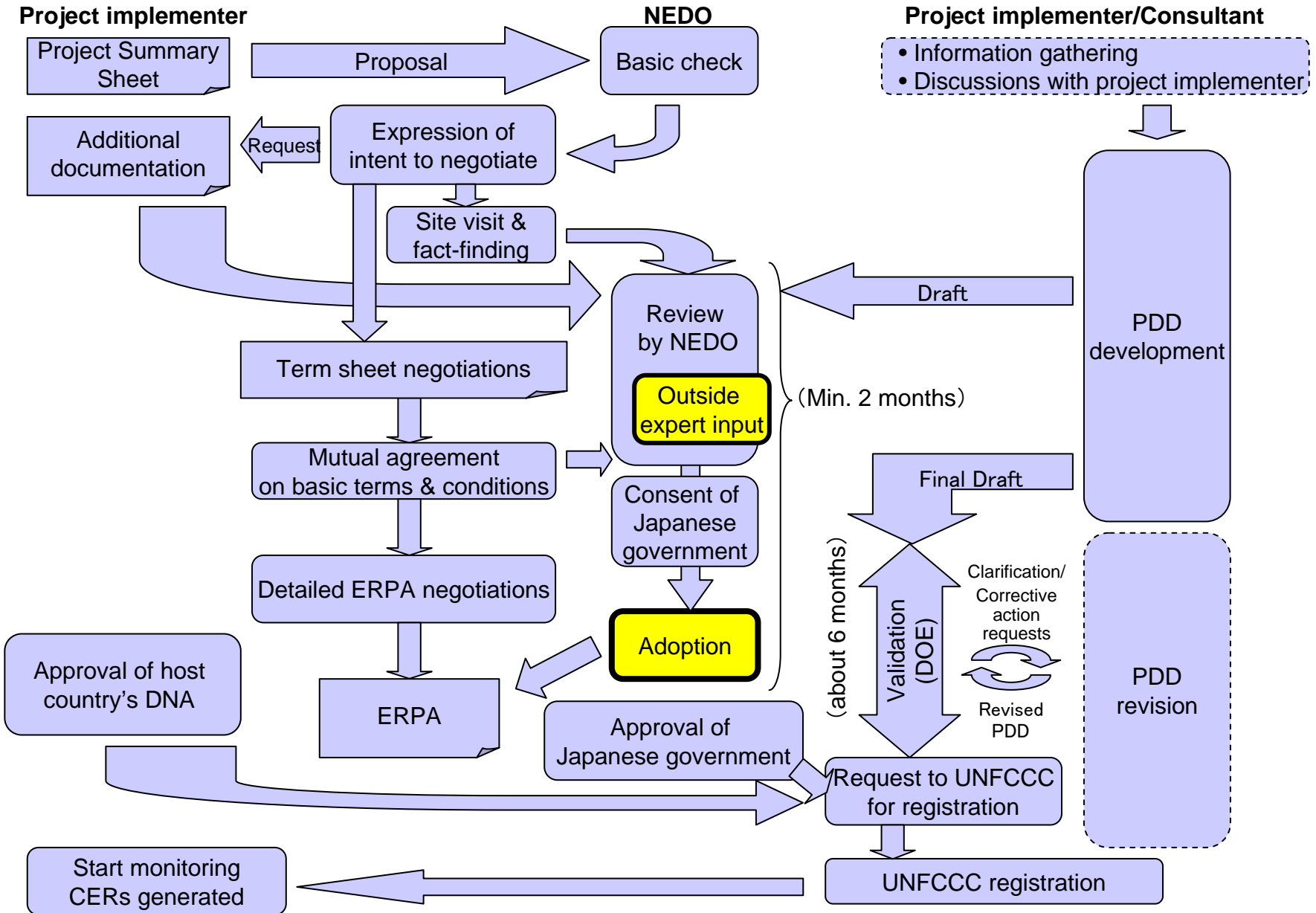
1. Steps and time frame

- Proposer (generally a project implementer) submits Project Summary Sheet
- NEDO conducts basic check by evaluating the Project Summary Sheet
- NEDO requests additional documents for review:
 - Project plan
 - Project Design Document (PDD)
 - Financial statements of project implementers and investors
 - Documents concerning financing and other information
- Simultaneously, NEDO visits the project site and starts negotiations to come to a mutual agreement on basic terms and conditions using a Term Sheet.
- Time frame: Minimum of 2 months after all additional documents have been received (includes time for outside expert input and consent of the Japanese government)

2. Primary evaluation points

- Cost effectiveness in terms of overall cost including CERs cost and other expenses
- Proposer's creditworthiness and project management capability
- Country risks
- Project risks
- Kyoto Mechanisms-specific risks
- Environmental risks and consideration for local residents

NEDO's CER Acquisition Process



Key Points of Contract Terms

1. Delivery schedule

- Quantity of CERs scheduled to be delivered in each year, unit price (fixed), delivery period, etc.
- Year(s) in which CERs will be generated and delivered

2. CER delivery shortfall

- No penalty applies if project implementer is not responsible for shortfall.
- Penalties shall apply if project implementer's willful misconduct or gross negligence (e.g. CERs delivered to third parties instead of NEDO), causes shortfall.

3. Excess CERs

- NEDO reserves the right to purchase excess CERs under the same terms provided for in ERPA contract.
- Although NEDO guarantees the purchase of contracted CERs, NEDO cannot guarantee the purchase of excess CERs. Acquisition will depend upon NEDO's ability to secure necessary public funds.

4. Payment for CERs are to be made in yen.

Project Summary Sheet (Sample)



| | | |
|----|--------------------------------------------------------------|--|
| 1 | Proposer | |
| 2 | ERPA contractor | |
| 3 | Project implementer | |
| 4 | Project participants | |
| 5 | Project name | |
| 6 | Host country | |
| 7 | Total quantity of CERs to be delivered to NEDO | |
| 8 | Proposed contract price | |
| 9 | Request for up-front payment? | |
| 10 | Third party guarantee for up-front payment? | |
| 11 | Delivery guarantee for up-front payment (%) | |
| 12 | Project period, CER period | |
| 13 | Project overview | |
| 14 | Category(ies) of project activity | |
| 15 | Industrial category | |
| 16 | Technology to be employed | |
| 17 | Methodology | |
| 18 | Project investment | |
| 19 | Project partners | |
| 20 | Roles and responsibilities among partners (If a joint offer) | |
| 21 | Funding forecast | |
| 22 | Status of discussions with DNA | |
| 23 | Status of discussions with stakeholders | |
| 24 | Investment payback period (without CER) | |
| 25 | Investment payback period (with CER) | |
| 26 | IRR (without CER) | |
| 27 | IRR (with CER) | |
| 28 | Consideration for residents and environmental impact | |
| 29 | Pending project issues/challenges | |