

August 2004

Baltic Sea Region

Testing Ground Facility

Call for JI project proposals

Project owners and developers in the Baltic Sea Region are invited to submit proposals for JI projects for consideration as possible investments by the Testing Ground Facility*

General background

In September 2003 an intergovernmental agreement, the Testing Ground Agreement, was concluded between several of the governments in the Baltic Sea Region establishing a regional Testing Ground for Joint Implementation with the aim to stimulate an early follow-up of the Kyoto Protocol and to help the countries of the Baltic Sea Region to position themselves favorably in respect of fulfilling their own commitments under the Kyoto Protocol. This followed a decision made in November 2002 by the Ministers of Energy of BASREC (Baltic Sea Region Energy Cooperation) to set up a Testing Ground.

The countries participating or expected to participate in the Testing Ground cooperation are Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia and Sweden.

As a part of the Testing Ground cooperation a new fund, the Testing Ground Facility (TGF), has been established at the end of December 2003, to provide financial assistance to concrete projects by purchasing emission reduction credits. The TGF has been set up by the governments of Denmark, Finland, Iceland, Norway and Sweden, pledging an aggregate capital of €10 million. This capital is expected to increase through additional governmental investment. Furthermore a decision has been made to invite also private investors to join the TGF.

The Nordic Environment Finance Corporation (NEFCO) has been given the task of managing the TGF. NEFCO is an international financial institution working with environment and energy projects in the potential host countries in the region.

* **This invitation does not constitute an offer to procure any emission reductions and is not part of any tender. The TGF shall not be under any obligation to respond to any proposal submitted on the basis of this invitation.**

The TGF invests in projects with a potential for delivering cost-effective ERUs (according to Article 6 of the Kyoto Protocol) and AAUs (according to Article 17 of the Kyoto Protocol) for the account of the investors, which provide good examples of JI, help to further clarify and develop the procedures and promote common understanding of the Kyoto mechanisms.

Host Countries

Priority will be given to projects located in host countries in the Baltic Sea Region Testing Ground area, currently Poland, Lithuania, Latvia, Estonia and Russia.

The TGF will seek to identify projects in the whole region but decisions on projects will be made individually on their own merits.

Investment criteria

Both private and public sector projects will be eligible. The TGF will invest in projects owned and operated by private enterprises, public utility companies, public-private partnerships and municipal, regional or governmental authorities.

Energy related projects are given priority with a focus on:

- Renewable energy (biomass, small scale hydropower, wind power and geothermal)
- Fuel switching
- Energy efficiency
- Energy conservation.

However, also other sectors such as waste (e.g. waste to energy, recapturing of methane from landfills) and projects related to reduction of other greenhouse gases (such as nitrous oxide) are eligible for financing from the TGF.

All projects are subject to standard viability criteria: economic, financial, technical, institutional and environmental feasibility. An important aspect will be to determine that all financing needed for project implementation can be arranged.

In addition, particular attention is paid to securing the eligibility of the projects under the Kyoto Protocol and their potential of providing delivery of ERUs and AAUs (including host country related preconditions). Host country approval should be secured.

Projects should be implemented in accordance with the so called Track 2 procedure meaning that they undergo assessment by a third party of the project design, including its baseline, as well as verification of the amount of emission reductions and that these are additional to any that would otherwise occur. Once host countries qualify for the simpler Track 1 procedure, it can be agreed that this will apply.

Project proponents are advised to seek guidance from the BASREC Regional Handbook on Procedures for Joint Implementation in the Baltic Sea Region, which can be downloaded from www.cbss.st/BASREC

Purchase of ERUs/AAUs

The TGF acts as buyer of ERUs/AAUs on the basis of emission reduction purchase contracts concluded with project owners. There is no preset minimum threshold limit for emission reductions but projects should be able to bear reasonable transaction costs and cost-effectiveness will be a criterion in the assessment of project proposals.

The price for the ERUs/AAUs will be agreed individually for each project. It is expected that payments will normally be made upon delivery of the ERUs/AAUs.

For emissions reductions occurring during the commitment period 2008-2012 the TGF will acquire ERUs. For early credits the TGF seeks to enter into agreements with host country authorities for delivery of a corresponding amount of AAUs.

Co-financing Arrangements

It is expected that projects in most cases, in addition to equity provided by the project owners, will require co-financing from various sources in order to be fully financed. From time to time NEFCO, following its normal project selection and evaluation criteria (which are provided at www.nefco.org), may provide co-financing. The TGF may in addition seek co-financing arrangements with other financiers, including IFIs such as the NIB, EIB and EBRD as well as commercial financiers and private investors.

Procedure

Interested parties are invited to send information on their projects to NEFCO not later than November 1, 2004 in order to participate in the first round of evaluation. Later submissions will, however, also be considered. The information should be sent to:

Testing Ground Facility
NEFCO
P.O.Box 249
FIN-00171 Helsinki
Finland

Telefax: + 358 9 630976

E-mail: info@nefco.fi

An initial information package should contain at least the information detailed in the attachment to this note. Alternatively another PIN format may be used, provided that it contains essentially the same information. If more comprehensive information is available (such as a PDD) it is recommended that this be included. Projects will be assessed i.a. on the level of their readiness for implementation.

The TGF primarily expects project owners to mobilize the resources needed for project development. In individual cases partial support may be extended by the TGF.

For additional information please contact:

Mr. Harro Pitkänen

NEFCO

tel: + 358 9 1800 340

e-mail: harro.pitkanen@nefco.fi

Request for Initial Information on Proposed Projects (Project Idea Note)

Alternatively another PIN format may be used, provided that it contains essentially the same information

General information

Project title

Location of project

Project owner(s) (incl. contact details)

Project developer (if applicable)

Project type (e.g. fuel switching, energy efficiency)

Host country

Information on relevant host country authorities

Host country approval that it considers the project to be a potential JI Project

GHG reductions

Estimate of annual greenhouse gases emissions reductions (in metric tons of CO₂-equivalent)

Technology that will be used (proven technologies will be favored)

Baseline (calculation of the emissions if the project would not have been implemented)

Motivation for choice of baseline method

Readiness of the project in respect of Track 2 procedure (including cost coverage)

Estimated total amount and period of delivery of AAUs (before 2008) and ERUs (2008-2012)

Estimated price per AAU/ERU offered

Other environmental effects

Other emissions reductions (SO₂, Nox, POPs etc.)

Need for EIA/EA and, if required, status of EIA/EA

Project information

Objectives of the project

Sector in which the project will be operating and sector policies and trends

Planned project activities (construction, operation)

Expected acquisition of equipment and potential suppliers (sourcing of supplies)

Implementation schedule (including timetable for obtaining of permits and conclusion of project agreements)

Information on project owner (including financial data based on audited accounts for last three years)

Information on project owner's experience/competence relevant for the implementation of the project

Investment and financing

Total project costs (in EUR) (itemized budget)

Financial projections (showing project's viability)

Detailed financing plan indicating amounts and sources of financing

Risks and mitigation

Summary description of risks (market, financial, economic and environment) and envisaged mitigation