



Municipalities and Clean Development Mechanism projects

Landfill sites are excellent opportunities for municipalities to develop Clean Development Mechanism (CDM) projects, but the window of opportunity for municipalities to do so is limited. What are the phases or steps in the development of a CDM project?

Before developing a CDM project, municipalities must bear in mind that streamlined and efficient CDM projects have two key characteristics. First, an essential component is that the municipality must have someone to “champion” the project by driving the process and building support and understanding of the project among councillors and officials. It is equally important for the municipality to appoint a transaction advisory team with the necessary technical, CDM, legal and financial skills and experience to work with the municipality’s project “champion”. Second, the municipality must ensure that all procedural and regulatory approvals have been identified and are being addressed. These approvals may include:

- procurement and supply chain management requirements (for example, in relation to the appointment of transaction advisors and the selection of gas extraction equipment);
- environmental approvals; and
- local and international CDM-specific approvals (assistance from advisors with hands-on CDM experience is essential).

Developing the project

The first phase involves identifying potential landfill sites for CDM projects and then carrying out feasibility

assessments of these sites. The assessment should focus on how much landfill gas a particular site generates and the quality of the gas – the more methane gas captured and the better the quality of the gas, the more potential for a successful CDM project. The assessment should also include the likely capital and operating costs of the project as well as potential income to be earned from the sale of certified emission reductions (CERs). Moreover, the assessment should include plans for the use of the gas to be extracted. The simplest option is to flare the gas, while other options include using the gas to generate electricity. Where very little data is available on a site, it may be appropriate to carry out a pilot flaring project, but this will add to the development costs of the project and may entail complying with further environmental impact assessment requirements.

If the feasibility assessment shows that a viable CDM project is possible, the municipality can proceed to the second phase. This involves determining the legal or institutional structure of the project, including whether the municipality wishes to structure the project as a public-private partnership (PPP) or to develop the project itself. There are many risks which are beyond the municipality’s control: for example, changes in the CDM market

internationally and – given that almost all buyers of CERs are foreign – exchange rate fluctuations. These risks may make the option of PPPs attractive to municipalities: under a PPP, the municipality passes substantial risk (and potentially substantial reward) to the private party in exchange for a low-risk, reasonably predictable income stream. Of course, if a municipality does follow the PPP route, it must comply with the PPP regulations published under the Municipal Finance Management Act.

Phase three involves preparing the conceptual engineering design of the site, which should be done with the assistance of engineers with experience in designing CDM projects on South African landfill sites. Phase four entails selecting a buyer for the CERs generated by the project, negotiation with the buyer and concluding an agreement for the sale of CERs. The agreement is known as an emissions reduction purchase agreement, or ERPA. An ERPA is concluded before the municipality commissions the installation of the gas extraction equipment on site and therefore before any CERs have been produced – it takes the form of a forward sale agreement. Where the CDM project has been structured as a PPP, it is the private party that will

select, negotiate and contract with the buyer. Where the municipality is developing the project itself, the selection of and negotiation with the private party must be done following a procedure which, on the one hand, complies with local government legislation and, on the other hand, is seen by potential buyers as streamlined and efficient, not cumbersome and overly bureaucratic.

Comment

CDM projects are relatively new ground in South Africa and, as such, are in the experimental stage. Municipalities are encouraged to investigate the potential for CDM projects at landfill sites and make full use of the opportunity to reap the benefits available there. Municipalities must act fast; the window of opportunity is now.



Kate Reynolds,
Director Public Law
Mallinicks Inc.

