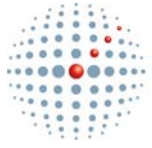


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The potential benefits to Indian industry of the PAT scheme: International finance

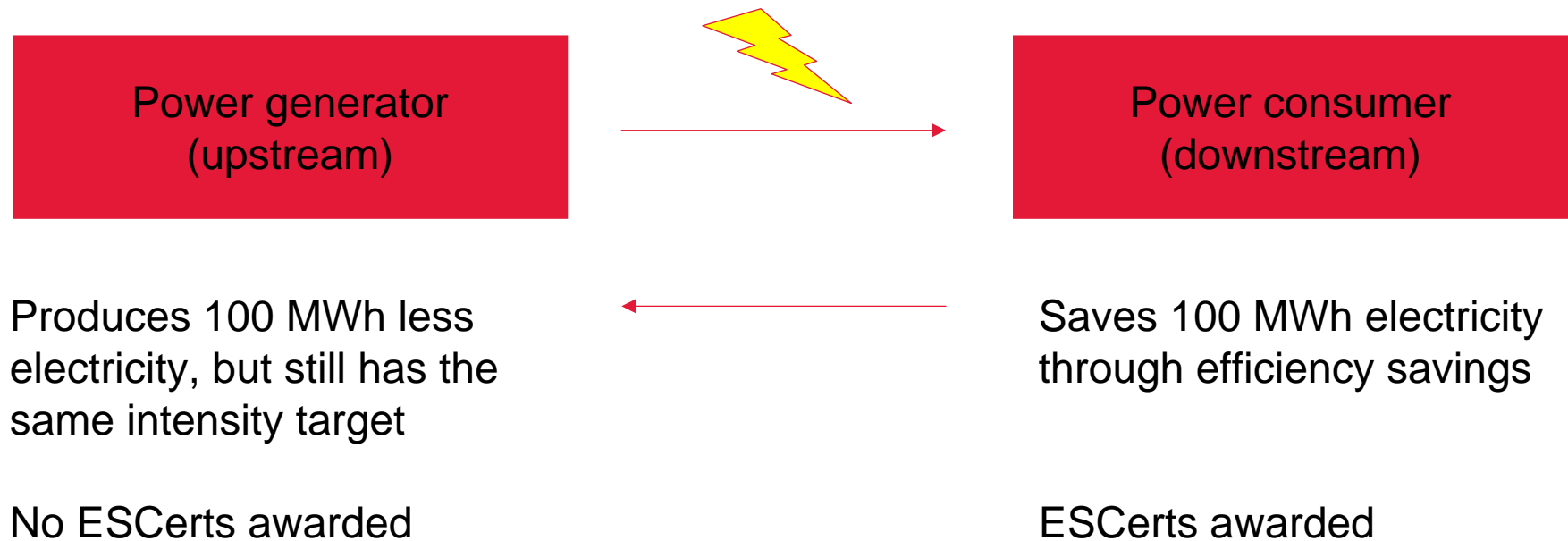
Date: 18 February 2010

Keith Regan

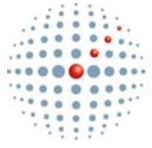


The PAT scheme is an innovative design

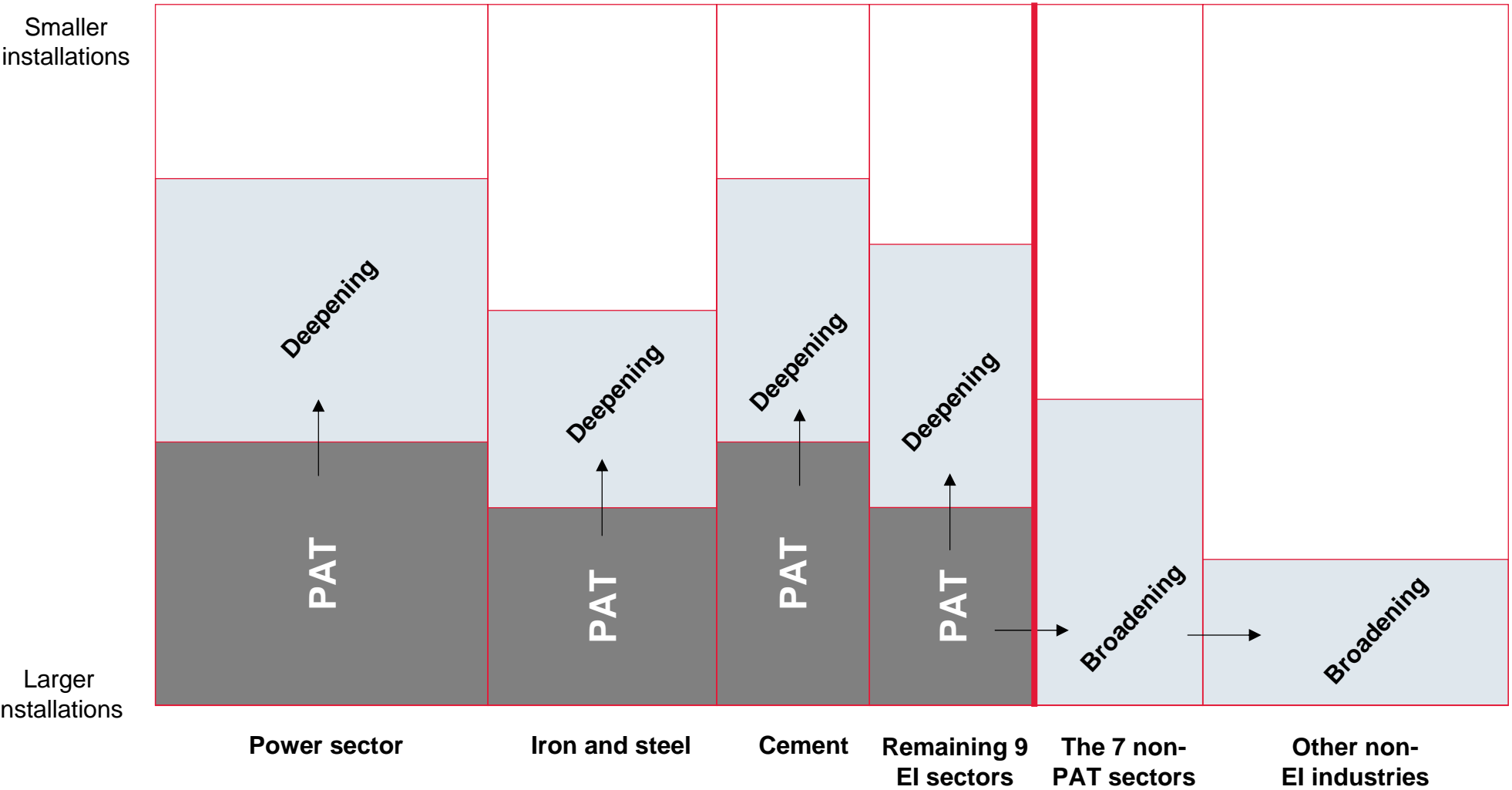
- The focus on EE enables the targeting of both production and consumption without the “double counting” issues created within the EU ETS (in the PAT scheme, reduced consumption downstream does not automatically lead to an upstream benefit for the electricity generation sector)



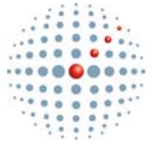
- The focus on energy efficiency allows the PAT scheme to tackle both energy production and consumption***



The scheme's "coverage" could be extended over time



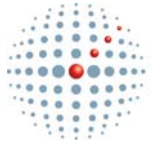
- *The PAT scheme could be extended on a Mandatory basis over time, or even on a Voluntary basis*



The Clean Development Mechanism

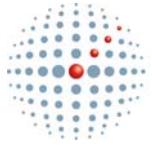
- At present, the Clean Development Mechanism allows Indian Industry to access capital for projects that:
 - That reduce carbon emissions from the baseline that would have happened; and
 - That would not have been affordable or possible without the carbon finance
- At times, the project registration process has been slow and unpredictable
- Investment levels generated through CDM have been high compared to historical “development-based” finance, but is much less than required in the longer term
- It is likely that the existing project-by-project approach will be upgraded in the future, and new “scaled-up” CDM will be introduced

- ***The PAT scheme could be part of a scaled-up CDM, either on a project-by-project basis, or on a scheme wide basis***

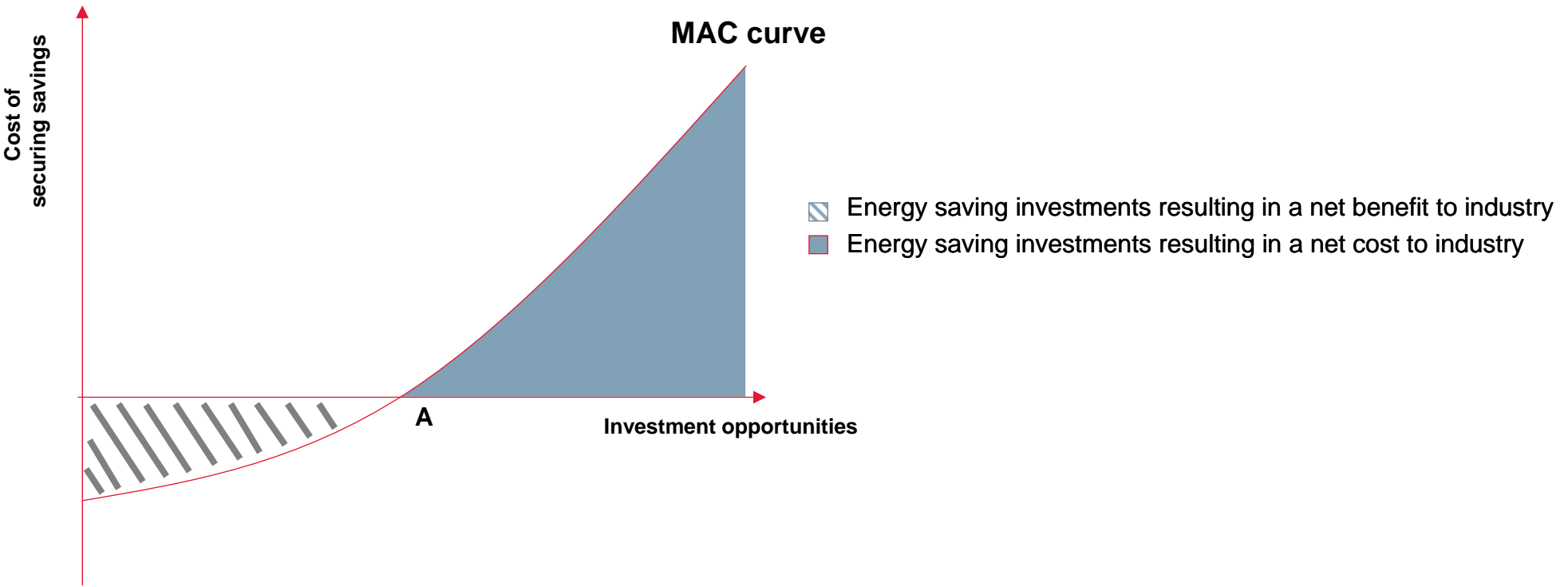


The potential availability of international finance

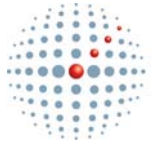
- There are advantages to Indian economy of developing the PAT scheme to enable industry to access international finance
- Not part of the existing Government of India scheme design as currently envisaged – it is more of a medium to long term option
- The PAT scheme framework is the perfect policy tool to secure international finance that will help Indian industry meet the costs of investing in energy efficiency projects



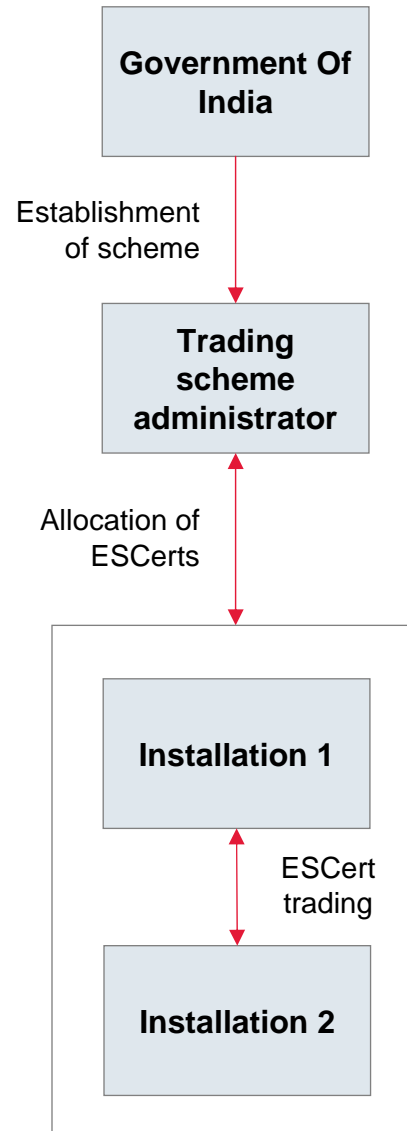
The potential availability of international finance

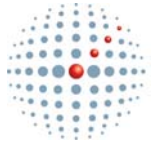


- In theory, projects with positive NPVs should already have been identified and undertaken. Historically this has not held true because of market imperfections (management awareness, capital availability)
- In the UK, it has been estimated that the area to the left of point A has been worth £1.7bn (12,000 Crore)
- When the cost of investment in energy efficiency projects outweighs the benefits of reduced energy costs (the blue block-shaded area) industry will demand PAT certificates, and the ESCert price will be positive
- For projects undertaken in the blue area to the right of point A, it may be possible to access international carbon finance

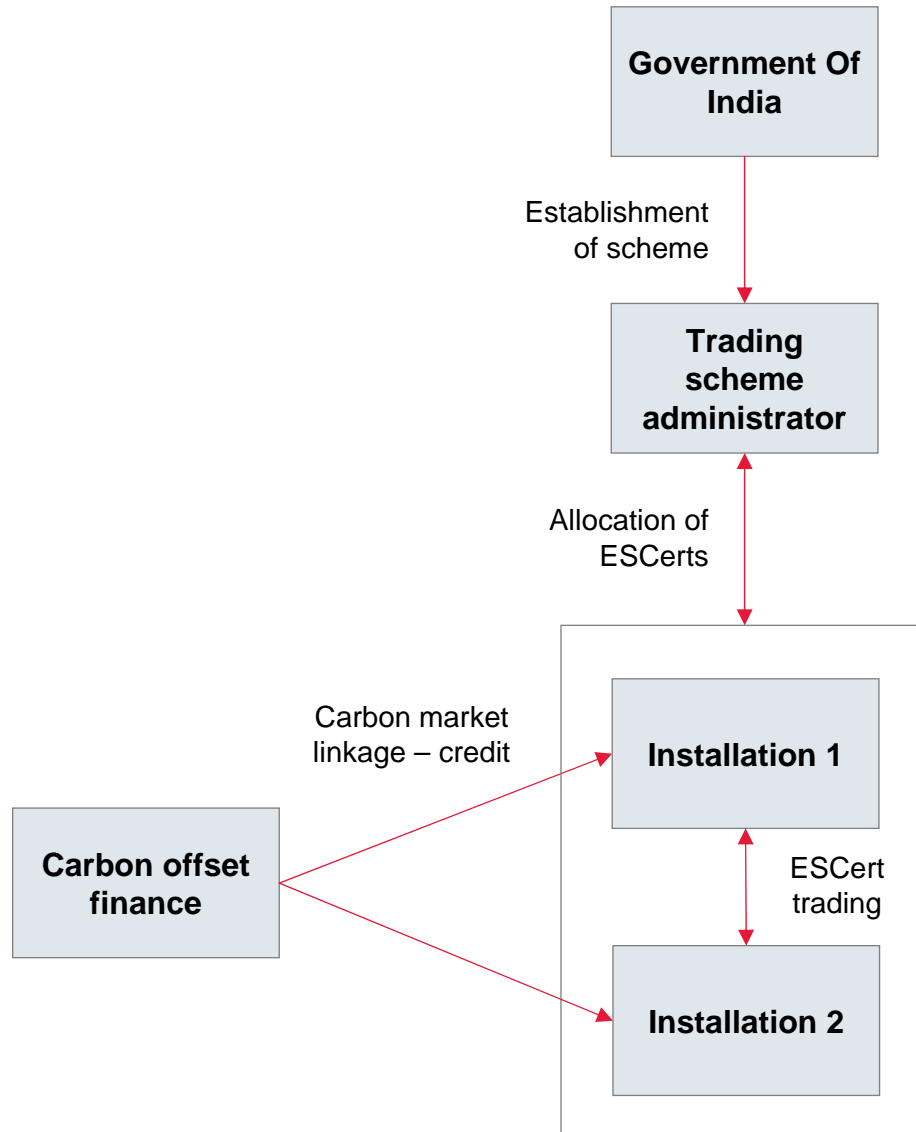


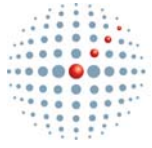
A possible structure for securing international finance



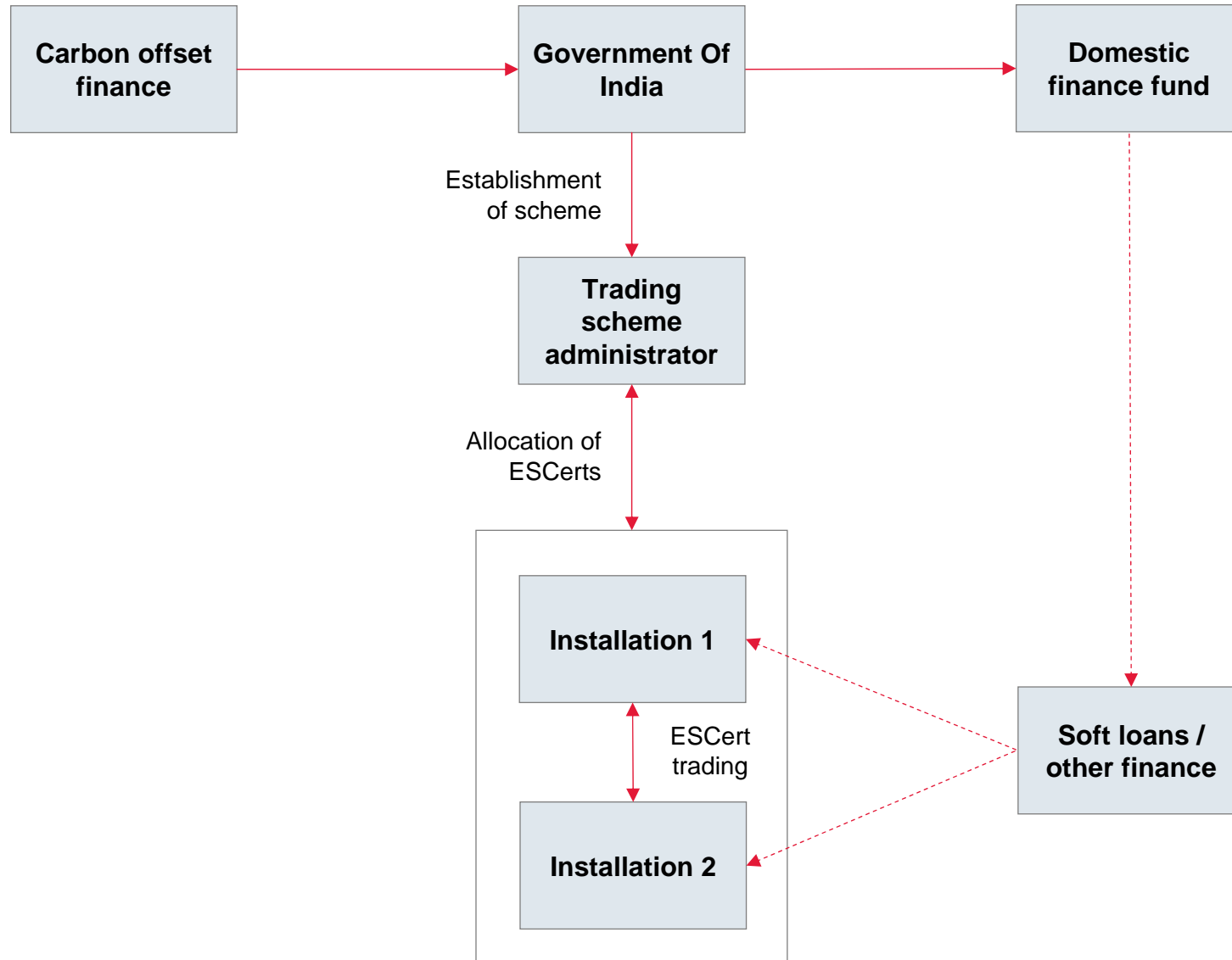


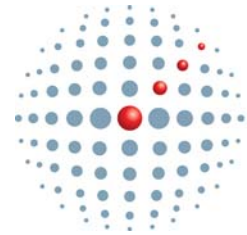
A possible structure for securing international finance: 1





A possible structure for securing international finance: 2





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