



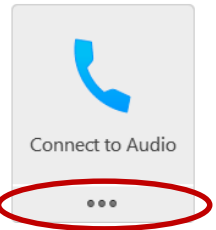
# PILOT AUCTION FACILITY

## for Methane and Climate Change Mitigation

Introduction to the PAF  
Webinar  
January 27, 2015



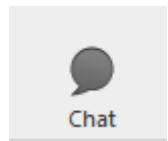
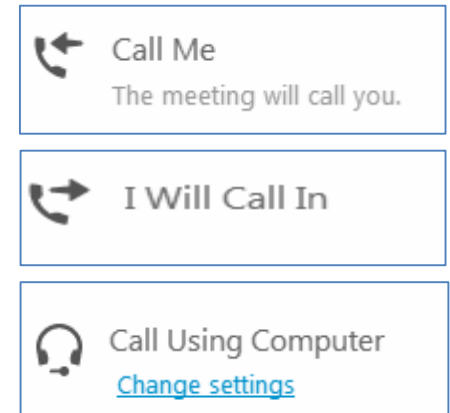
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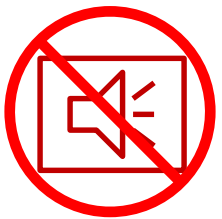
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**Microphones must stay on mute at all times**  
**Questions can only be asked via the chat panel**



# Disclaimer

THE FOLLOWING IS A SUMMARY OF THE WORLD BANK'S PROPOSED PLAN TO ISSUE PILOT AUCTION FACILITY EMISSION REDUCTIONS NOTES ("PAFERNS"). IT IS NOT AN OFFER TO SELL PAFERNS OR AN INVITATION TO OFFER TO BUY PAFERNS. THIS SUMMARY IS SEPARATE FROM, AND SHOULD NOT BE READ IN COMBINATION WITH, ANY FUTURE OFFER OR SALE OF PAFERNS, WHICH WILL BE MADE IN COMPLIANCE WITH APPLICABLE LAWS AND UNDER ENTIRELY SEPARATE LEGAL DOCUMENTATION AND OFFERING MATERIALS. THIS SUMMARY IS VERY HIGH LEVEL FOR SIMPLICITY AND LEAVES OUT MATERIAL INFORMATION AND THE LEGAL DOCUMENTATION THAT IS EXPECTED TO GOVERN THE PAFERNS. FURTHER, IT IS CURRENT ONLY AS OF THE DATE OF POSTING TO THIS WEBSITE AND IS LIKELY TO BECOME OUTDATED AS THE PAFERNS LEGAL DOCUMENTATION IS DEVELOPED. THE STRUCTURE, TIMING AND MECHANICS OF THE ACTUAL PAFERNS, IF AND WHEN THEY ARE ISSUED, ARE SUBJECT TO CHANGE. POTENTIAL INVESTORS MUST OBTAIN A COPY OF THE COMPLETE LEGAL DOCUMENTATION PURSUANT TO WHICH THE PAFERNS WILL BE ISSUED, INCLUDING THE WORLD BANK'S MAY 2008 PROSPECTUS RELATING TO ITS GLOBAL DEBT ISSUANCE FACILITY AND THE FINAL TERMS FOR ANY ISSUANCE OF PAFERNS. POTENTIAL INVESTORS SHOULD NOT RELY ON THIS SUMMARY. BEFORE MAKING ANY INVESTMENT DECISION, POTENTIAL INVESTORS MUST REVIEW THE COMPLETE LEGAL DOCUMENTATION (ONCE AVAILABLE).

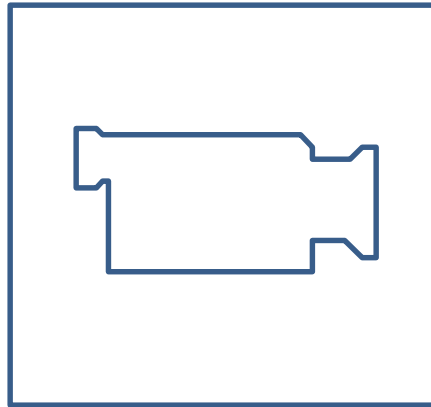


# Agenda

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# Introduction Video



[Link to video](#)



# PAF offers a price guarantee for methane projects to sell their carbon credits

- Carbon credit prices collapsed, stranding projects with no incentive to reduce emissions
- The PAF sells “put options” to guarantee projects a floor price for carbon credits (aka strike price)



- Auctioning ensures that the least-cost climate mitigation activities are selected
- Auction winners purchase the price guarantee by paying a premium



# How it works: Step-by-step

## 1. Select and contract for emission reductions:



Publicize auctions



Execute auction to determine the winning bids



Sign put option contracts with the winning bidders

## 2. Achieve emission reductions:



Put option contract in hard currency helps implementer overcome financial and other barriers

## 3. Verify & pay-for-performance:



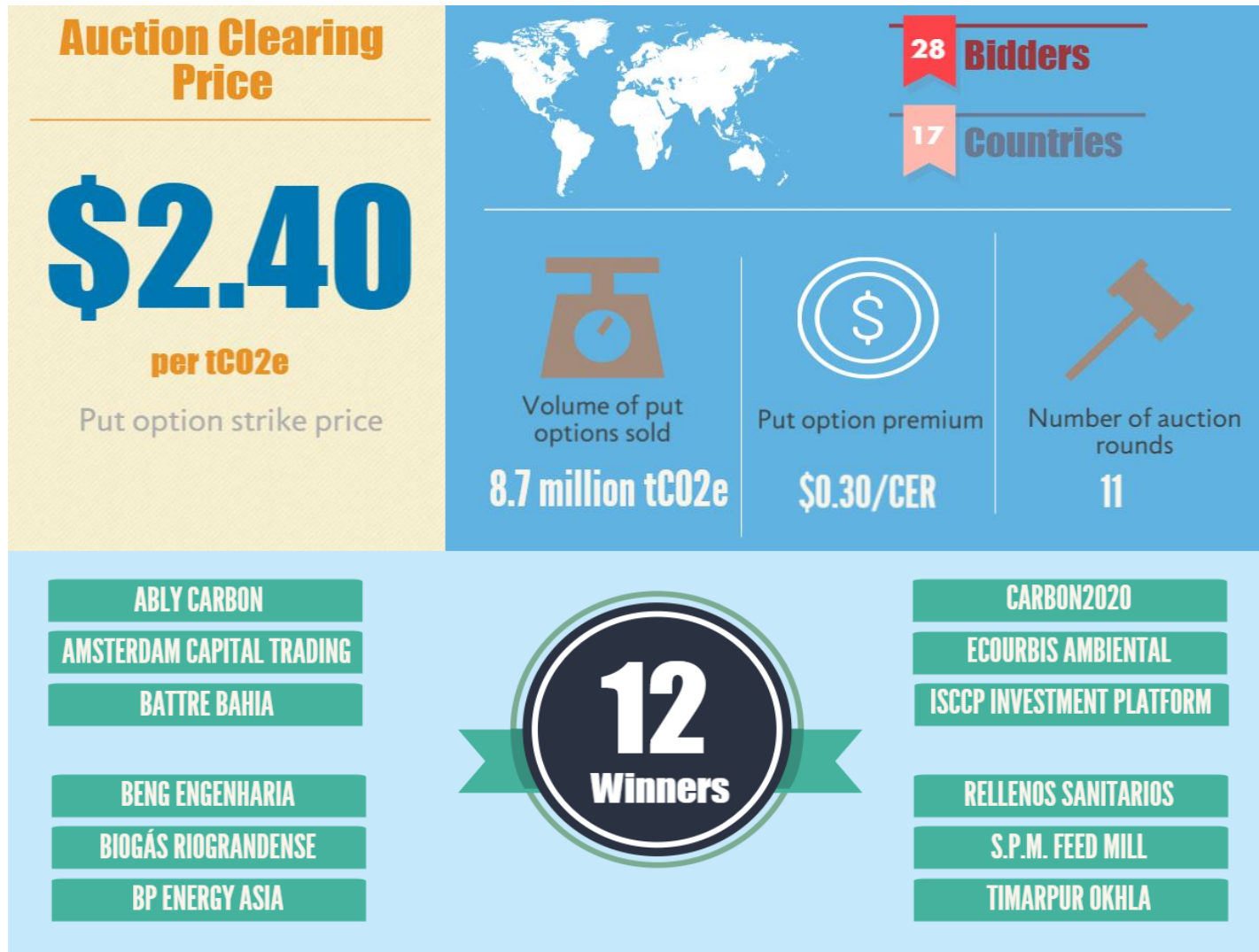
Monitor and verify emission reductions using established GHG accounting standards



Should the market price be below the put option strike price, contract holders exercise options and the PAF purchases the carbon credits



# First auction result





# Eligibility Criteria for Second Auction (1 of 3)

- All eligibility criteria will stay fixed over the life of put options issued from the second auction
- Future PAF auctions may have different criteria

## A. Eligible Emission Reductions

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- All emission reductions must be Certified Emission Reductions (CERs), Verified Carbon Standard (VCS) Verified Carbon Unit (VCU), or a Gold Standard Verified Emission Reduction (VER)
- Emission reductions must not be subject to purchase agreement contract with a third-party

## B. Eligible Methodologies

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- The list of eligible methodologies is found on the PAF website, most methodologies that correspond to solid waste, waste water and agricultural waste are eligible
- If a project uses more than one methodology to account for emission reductions, just one needs to be on the eligible list

## C. Eligible Countries

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- The list of eligible countries is found on the PAF website
- For multi-country PoAs, all countries must be on the eligible list



# Eligibility Criteria for Second Auction (2 of 3)

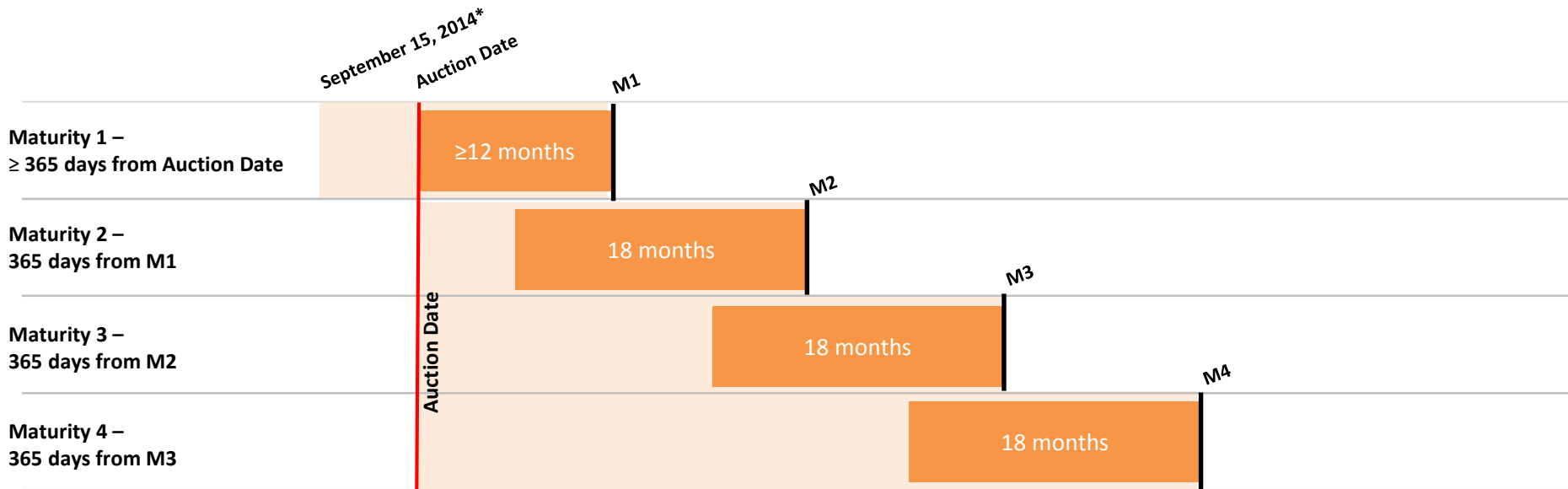
## D. Environmental, Health & Safety and Social Criteria

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- The EHS criteria for the second auction is found on the PAF website
- Emission reductions must originate from a CDM, VCS or GS project or Program of Activities that has received a positive environmental, health & safety and social (EHS) report from a CDM accredited Designated Operational Entity (DOE)
- The EHS criteria is designed as a checklist to enable the DOE to provide a binary (positive / negative) result
- The inspection report will incorporate input from the host site and project staff as well as representatives of nearby/affected communities and responsible local government agencies, as appropriate
- The cost of the EHS inspection is to be borne by the option owner




# Eligibility Criteria for Second Auction (3 of 3)



## Key

-  Accepted Issuance Dates
-  Accepted Monitoring Period Dates

 Auction Date

 Redemption Period Start

\* Announcement of the PAF on September 15, 2014

**Maturity 1 (M1) to be announced when  
the auction date is announced**



# Announcement of other Elements for Second Auction

## Other Elements

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- Each put option will require a minimum number of ERs and will be sold to auction winners for a premium determined by the auction
- Winners will be required to purchase a complete series of put options, redeemable annually for 4 years
- To become qualified to bid, firms will undergo an Integrity Due Diligence screening and pay a refundable deposit
- The auction clearing premium price and the winners will be made public on the PAF webpage
- To be announced on the PAF webpage and communicated to interested stakeholders in the coming weeks:
  - Auction date (expected auction date in Q2 2016)
  - Budget of the auction
  - Starting price in auction
  - Minimum and maximum bid amounts
  - Size of the refundable deposit, and deposit due date and instructions



# How the auction will work: Forward auction

**FOR EXAMPLE ONLY  
AUCTION RESULTS AND  
PARAMETERS WILL VARY**



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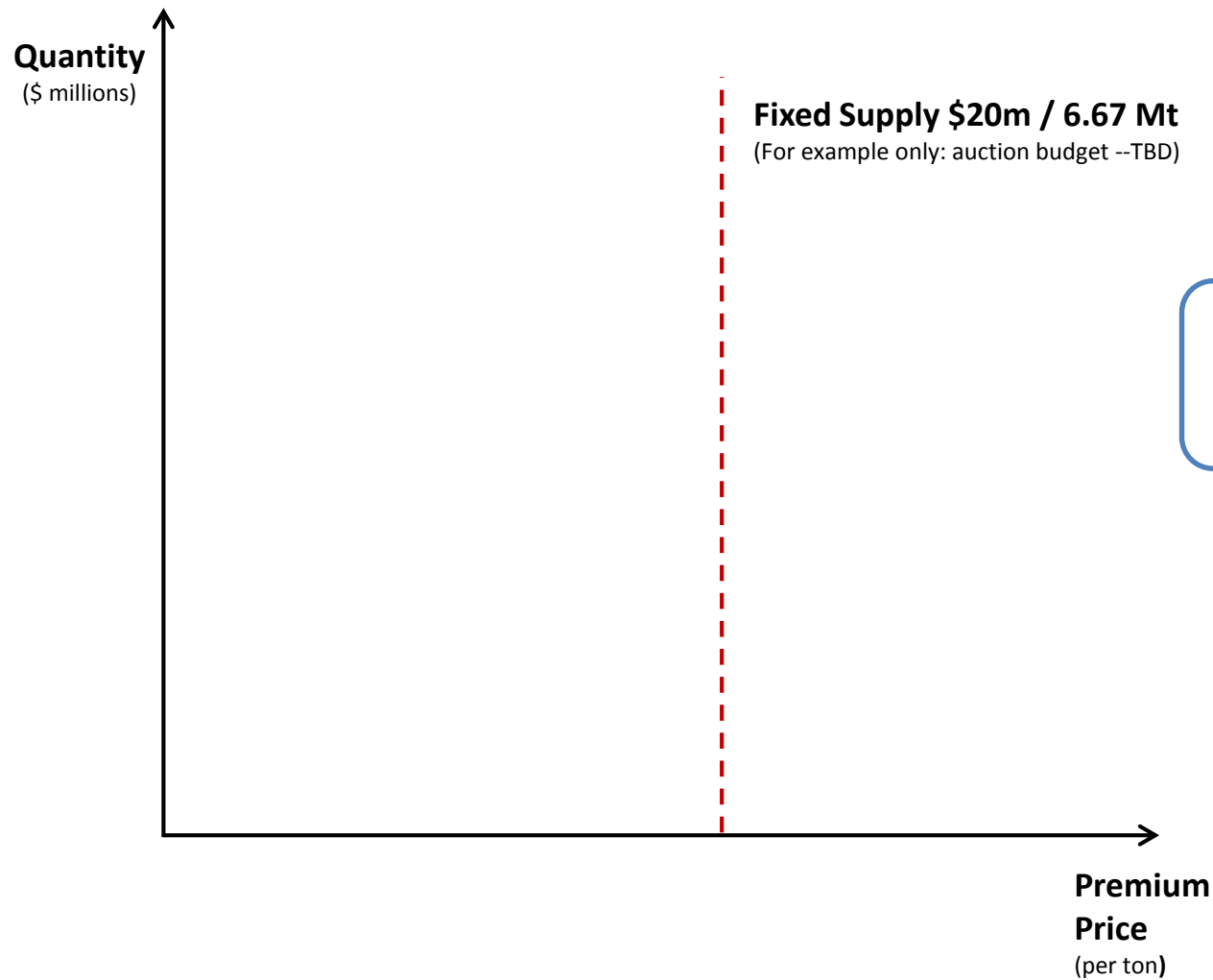
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Strike Price (or the price the PAF guarantees to purchase ERs) stays fixed over the course of the auction: (e.g., \$3.00 per ton)



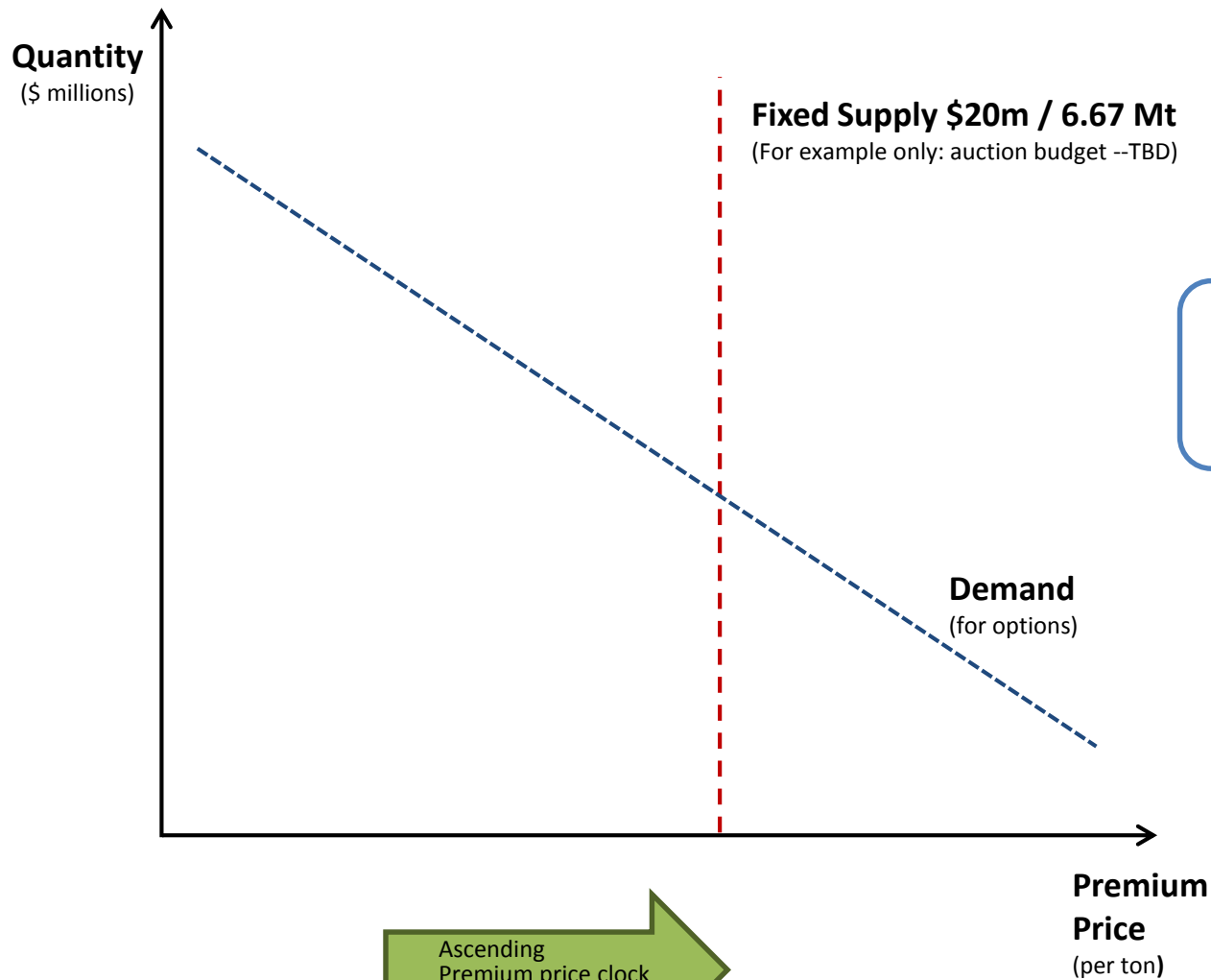
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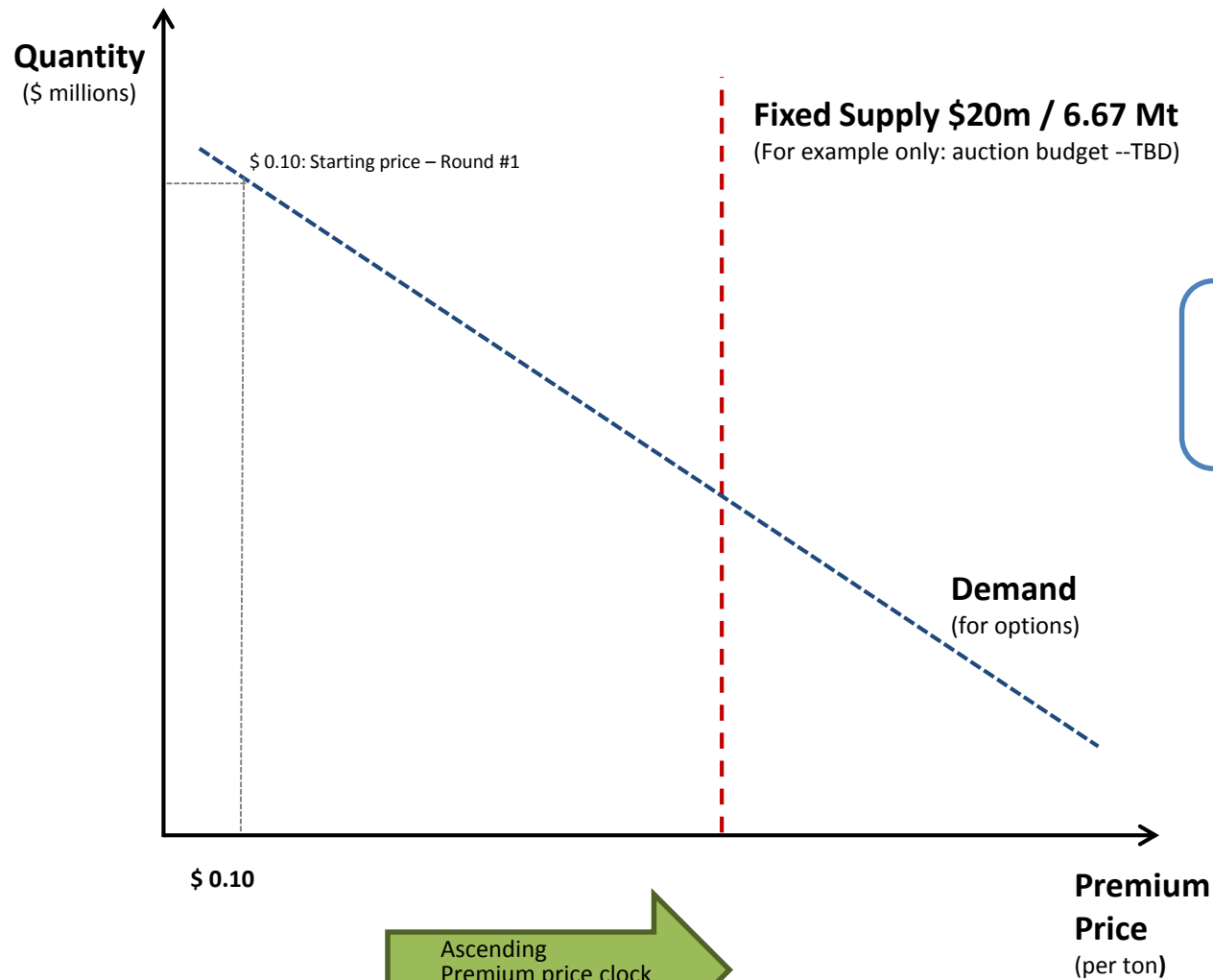
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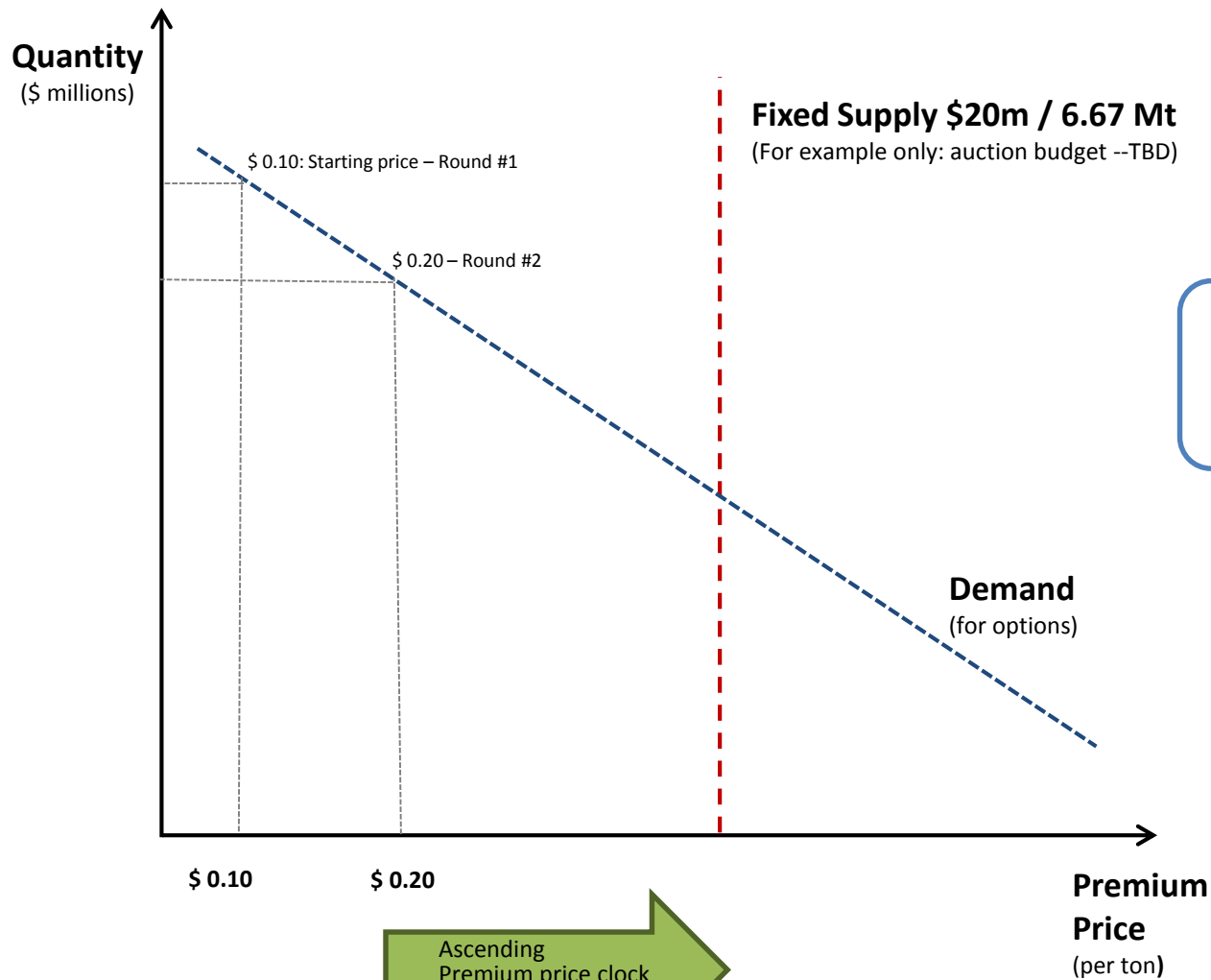


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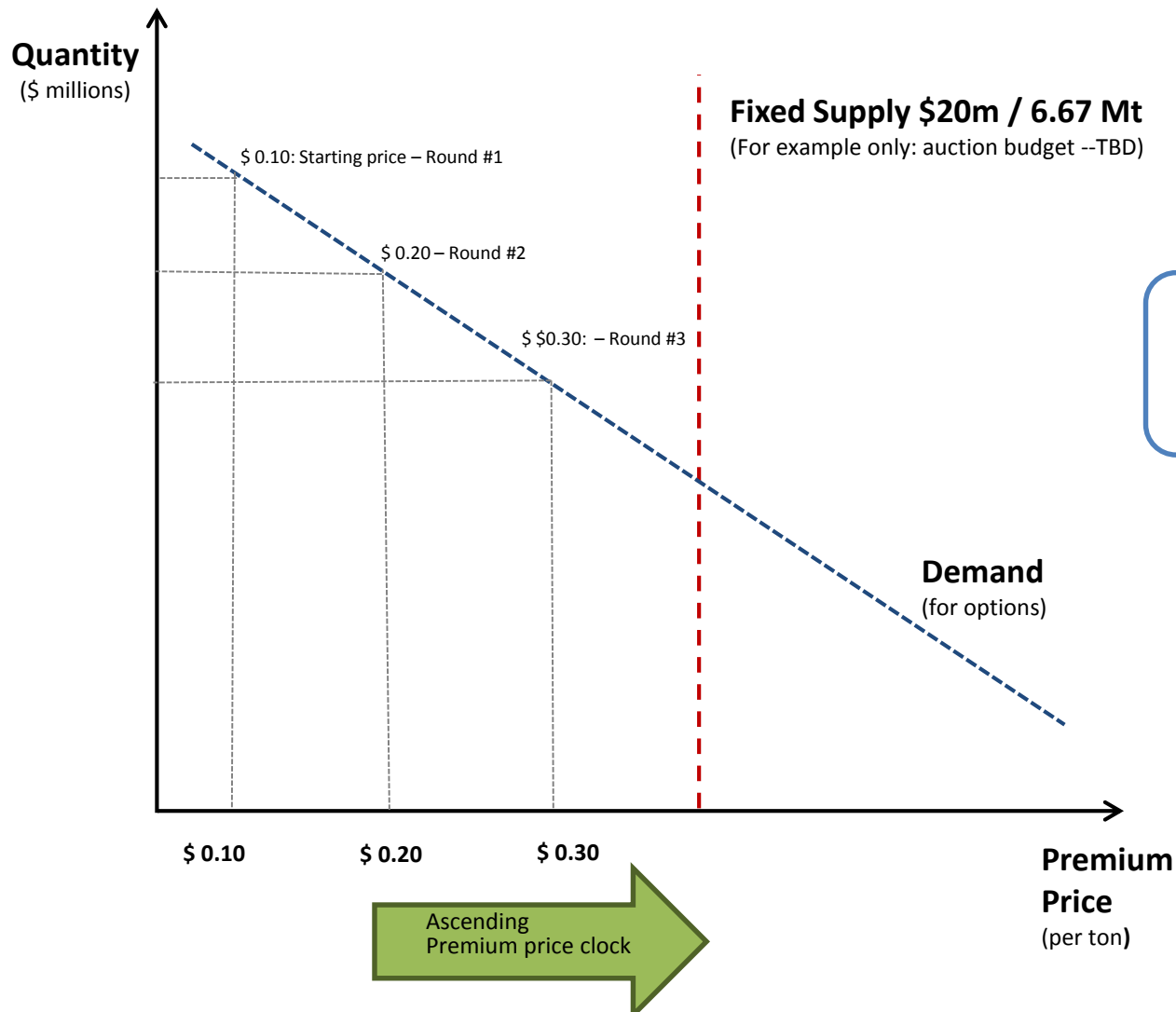
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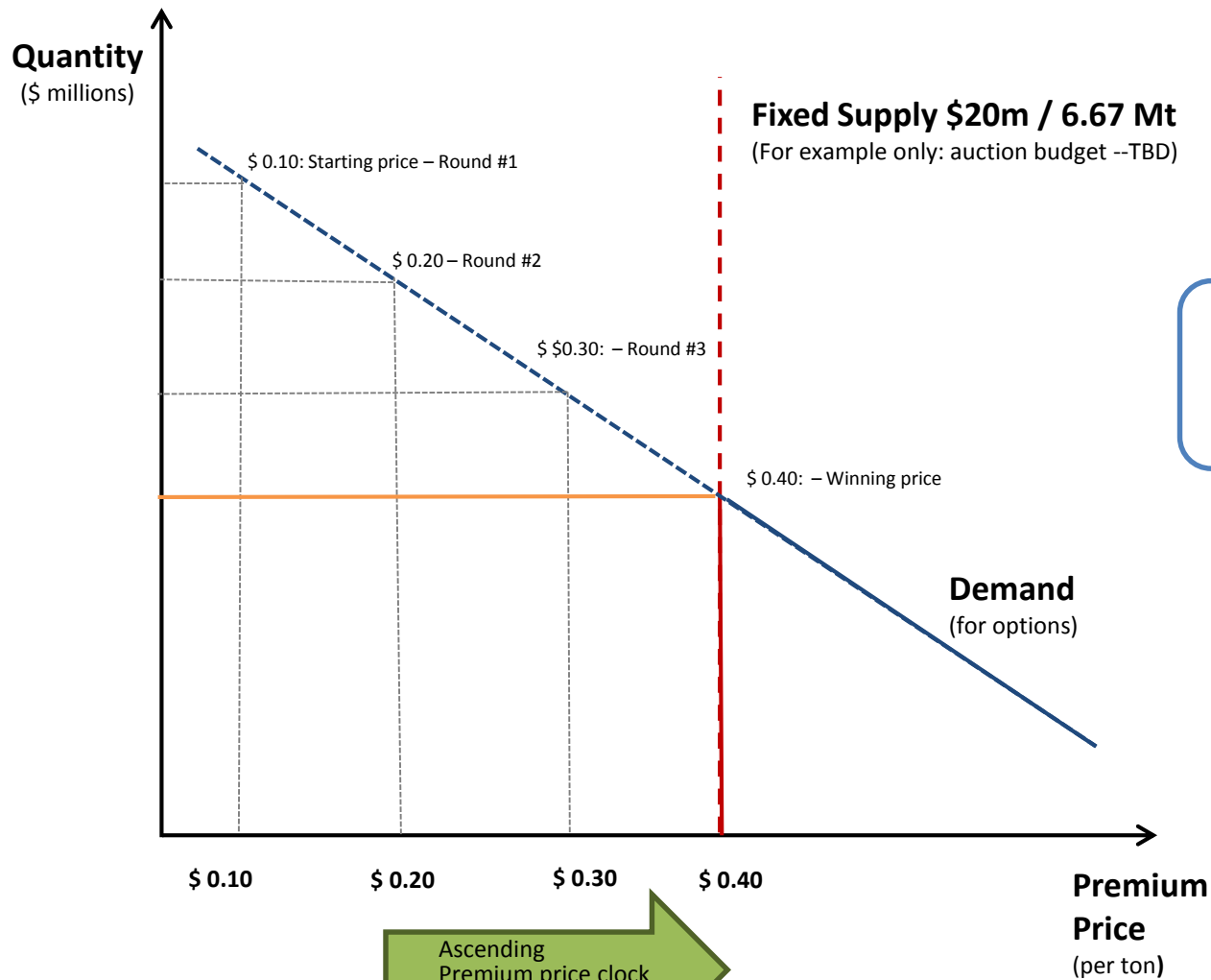
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**Strike Price (or the price the PAF guarantees to purchase ERs) stays fixed over the course of the auction: (e.g., \$3.00 per ton)**

**Example: Final Result**  
Winners purchase options for \$0.40 for the right to deliver an eligible ER for a payment of \$3.00



# Delivering the put option through a World Bank bond

## Key Terms of the Puttable Bond

- Zero Coupon
- Bond Issue Price – is the equivalent of the premium and will be determined by the auction
- Bond holder receives payment of strike price if redeems eligible ERs
- Maturities correspond to the put option redemption dates

## Process Steps

- Auction winners will purchase bonds via World Bank's Global Agent -- Citi
- Bonds will be issued to the auction winners through the traditional bond clearing systems (Clearstream or Euroclear)
- Bonds will be purchased, held and sold through a custodian bank
- World Bank will release additional information, including bond terms, ahead of the bidder registration date. A Q&A webinar will be held.
- More information on the bond can be found on [www.pilotauctionfacility.org](http://www.pilotauctionfacility.org)



# How to participate: Next steps in calendar view

March

April

May

Auction date, budget and key parameters announced

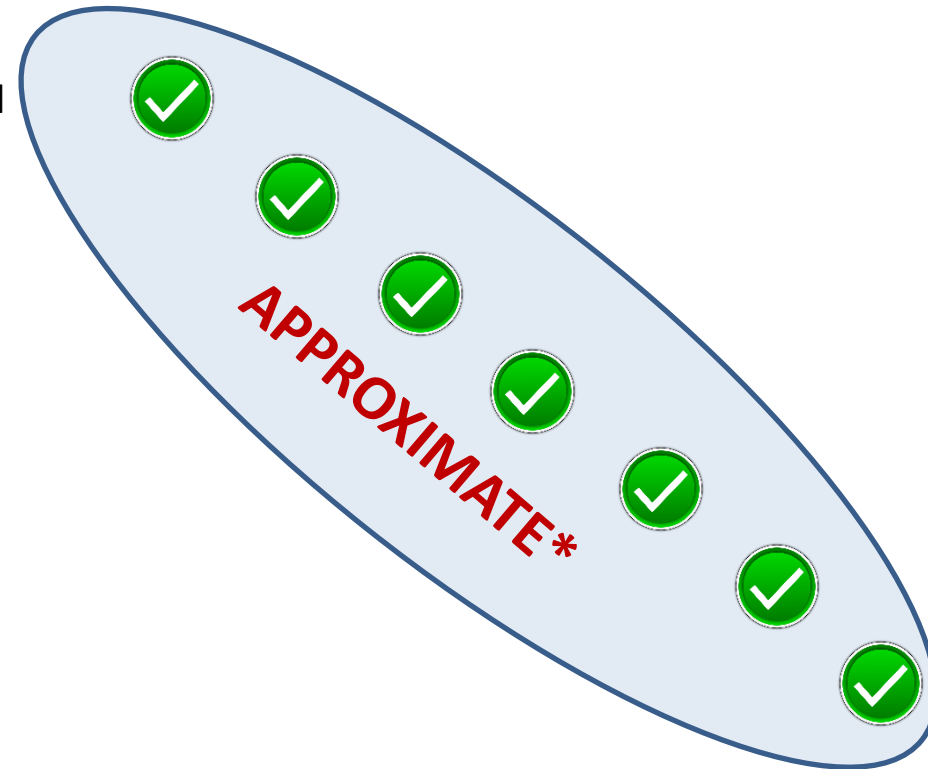
Bidder application due

Bid deposits due

Username/passwords distributed; trainings

Mock auction

**AUCTION DATE**



*\*All dates and deadlines will be announced in the coming weeks on the PAF website and via email to those all the PAF mailing list (all webinar attendees are automatically enrolled)*



## I am interested, what should I do now to prepare?

- Identify source of ERs to be issued after auction date in methane sectors of waste, waste water and agricultural waste and decide on bidding strategy (e.g., number of put options desired, lowest acceptable price)
- Review specific eligibility criteria posted on PAF website
- Prepare to pay refundable bid deposit
- If auction winner, prepare to pay premium to purchase put options
- Projects owners might be contacted by carbon aggregators and consultants interested in participating in PAF auctions
- Look for emails from PAF Secretariat and check the PAF website for deadlines – [www.pilotauctionfacility.org](http://www.pilotauctionfacility.org)



## Future in person events featuring the PAF

The PAF will host a series of events ahead of the second auction. More details, including invitations will be communicated soon via email

(All dates and locations are tentative, to be confirmed)

- London (UK), March 7, 2016
- Zurich (CH), March 9, 2016
- New Dehli (IN), March 17, 2016
- Sao Paulo (BR), March 21, 2016
- Washington (US), March 28, 2016
- Others TBD





## More Resources

- Second auction eligibility criteria including specific methodologies and countries – [Link](#)
- Second auction EHS criteria – [Link](#)
- Lessons learned from the first auction – [Link](#)
- Questions and answers from the first auction – [Link](#)
- World Bank puttable bonds – [Link](#)
- Summary of the day's bidding in the 1<sup>st</sup> auction – [Link](#)



# Thank you

For more information visit: [www.pilotauctionfacility.org](http://www.pilotauctionfacility.org)

## Contributors



Germany



Sweden



Switzerland



United States

## Vendors / Agents / Partners



# Linklaters



BNP PARIBAS

