



# **PILOT AUCTION FACILITY**

**for Methane and Climate Change Mitigation**

Second Auction Workshop  
London, March 7, 2016

# 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 FURTHER, IT IS CURRENT ONLY AS OF THE DATE OF POSTING TO THIS WEBSITE AND IS LIKELY TO BECOME OUTDATED AS THE PAFERNS LEGAL DOCUMENTATION IS DEVELOPED.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).

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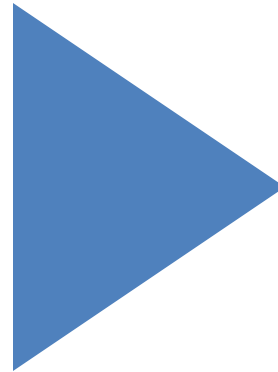
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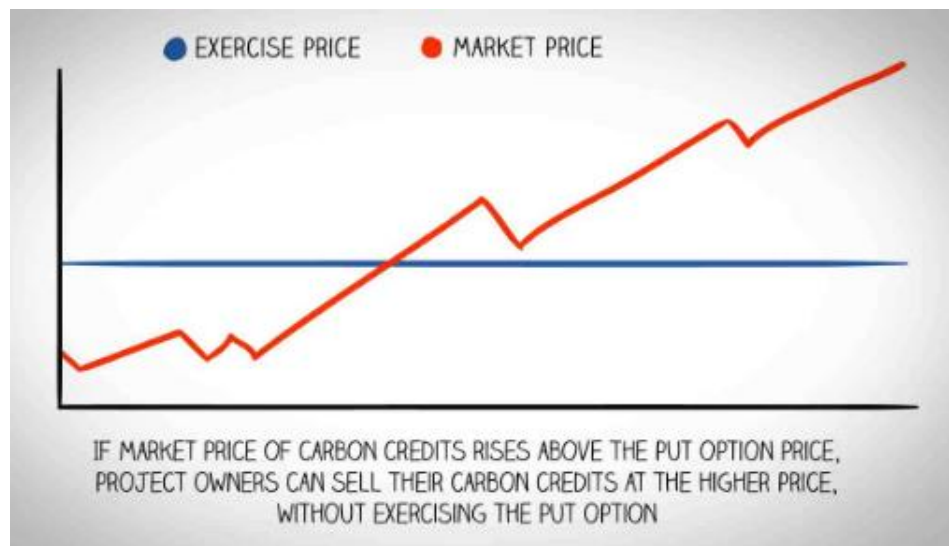
# Introduction Videos



[Watch Videos](#)

# PAF offers a price guarantee for methane emission reductions

- 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 (i.e. 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:

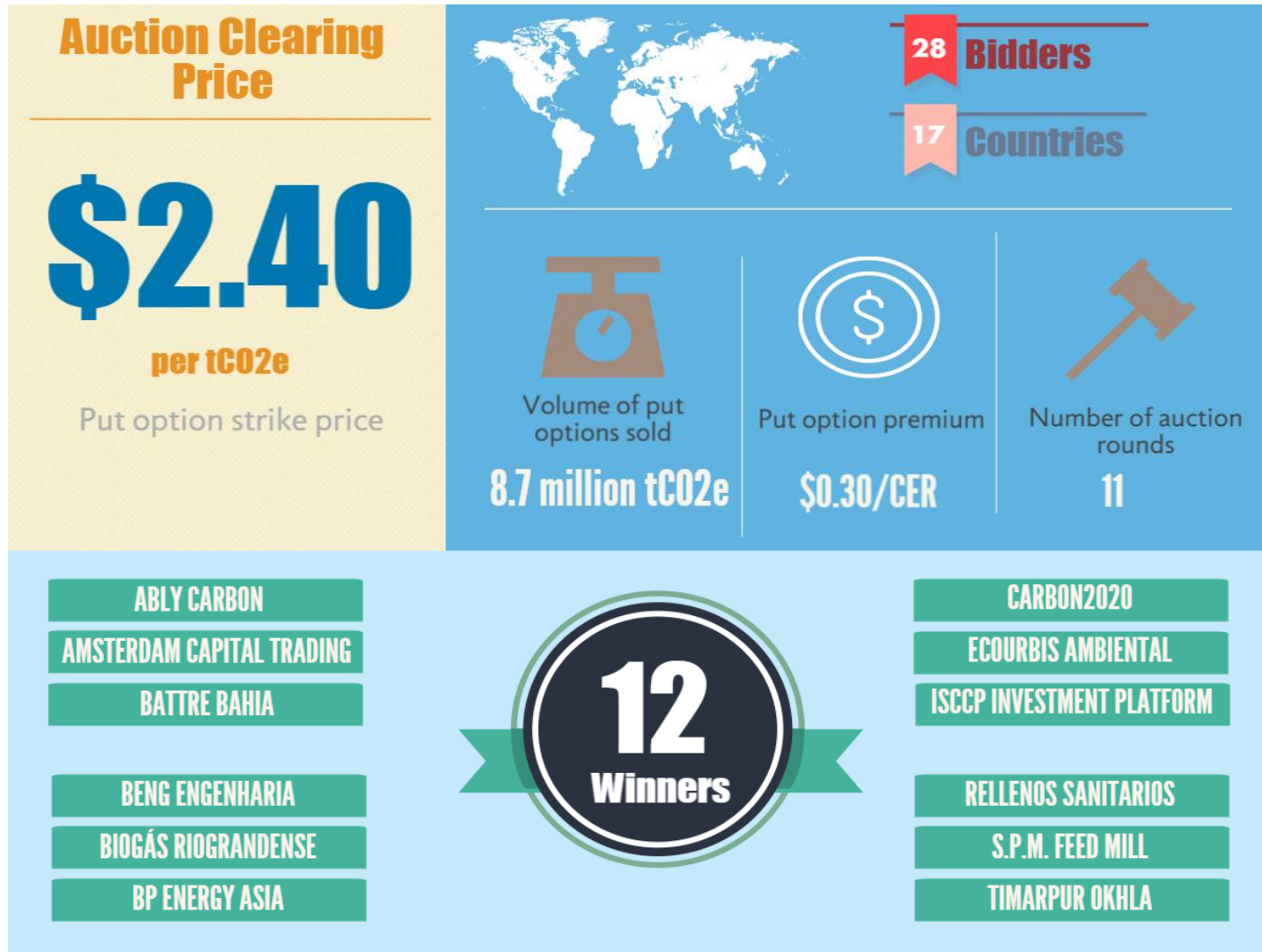


Monitor and verify emission reductions using established GHG accounting standards



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



# Second Auction Parameters and Eligibility Criteria



# Second Auction Parameters

- **Auction Format:** Forward
- **Auction Budget:** \$20m
- **Fixed Strike Price:** \$3.50/ton
- **Auction Total Supply** (budget ÷ strike): 5,714,285 tons
- **Premium Starting Price:** \$0.06/ton
- **Refundable Deposit:** \$0.06/ton
- **Minimum Bid:** 200,000 tons
- **Maximum Bid:** 2,500,000 tons

# 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

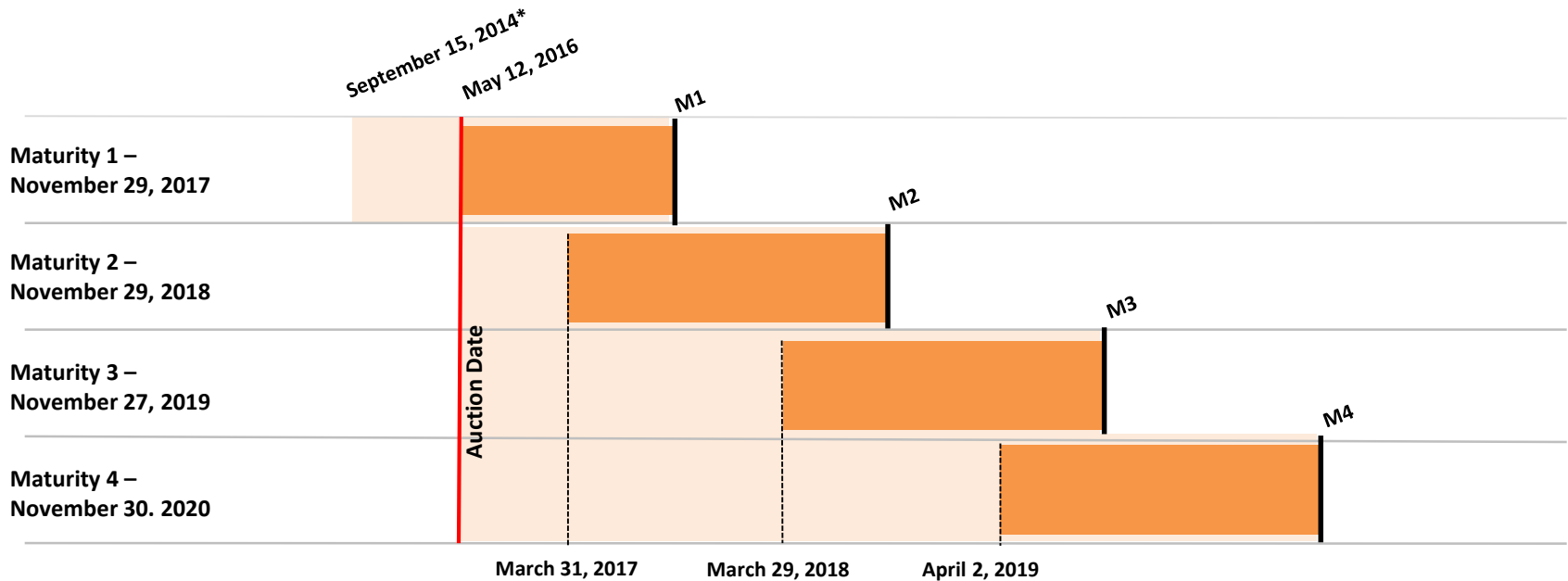
# Eligibility Criteria for Second Auction (2 of 3)

## 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 (CER) or Vintage Period (VER) Start Date
- Auction Date
- Redemption Period Start
- \* Announcement of the PAF on September 15, 2014

## Other Elements of Second Auction

- Each put option will require a minimum of 2,500 ERs and will be sold to 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
- In the auction, participants will bid on bid units:
  - 1 Bid Unit = 2,500 x 4 Maturities = 10,000 ERs
  - Minimum bid = 20 Bid Units = 200,000 ERs
  - Maximum Bid = 250 Bid Units = 2,500,00 ERs
- 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

## How the Auction Will Work: Forward Auction

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Auction Budget: \$20 million

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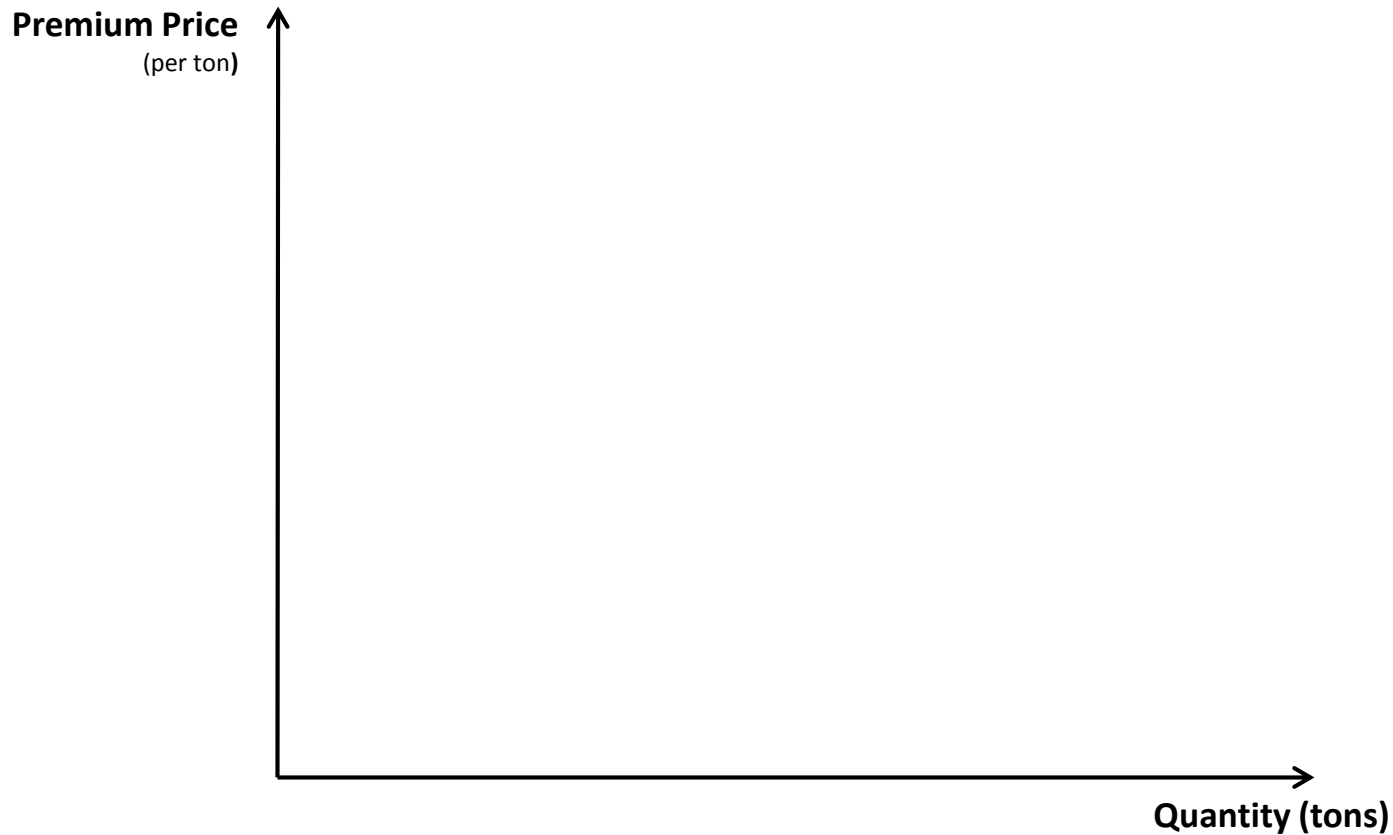


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**PREMIUM PRICES FOR PURPOSES OF THIS EXAMPLE ONLY**

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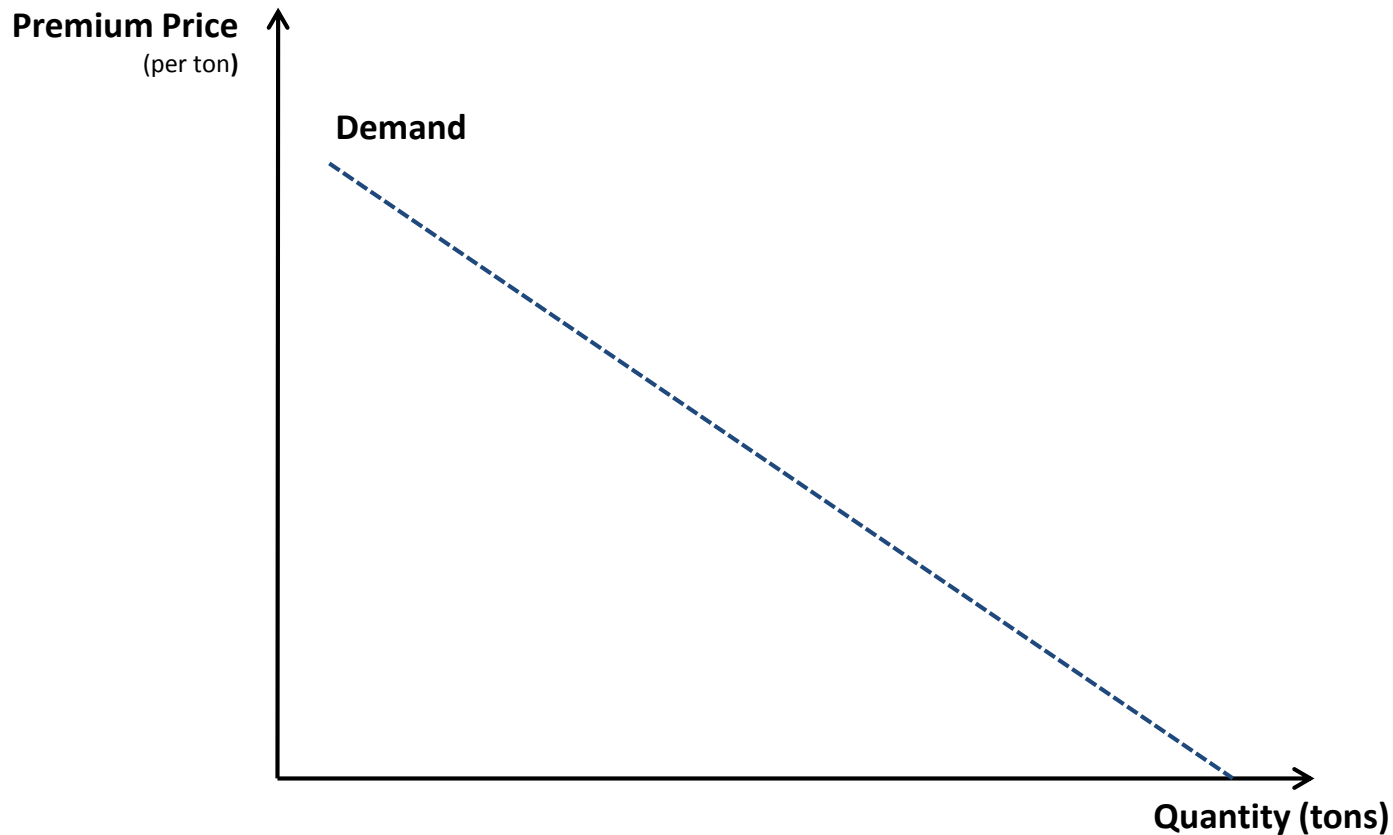


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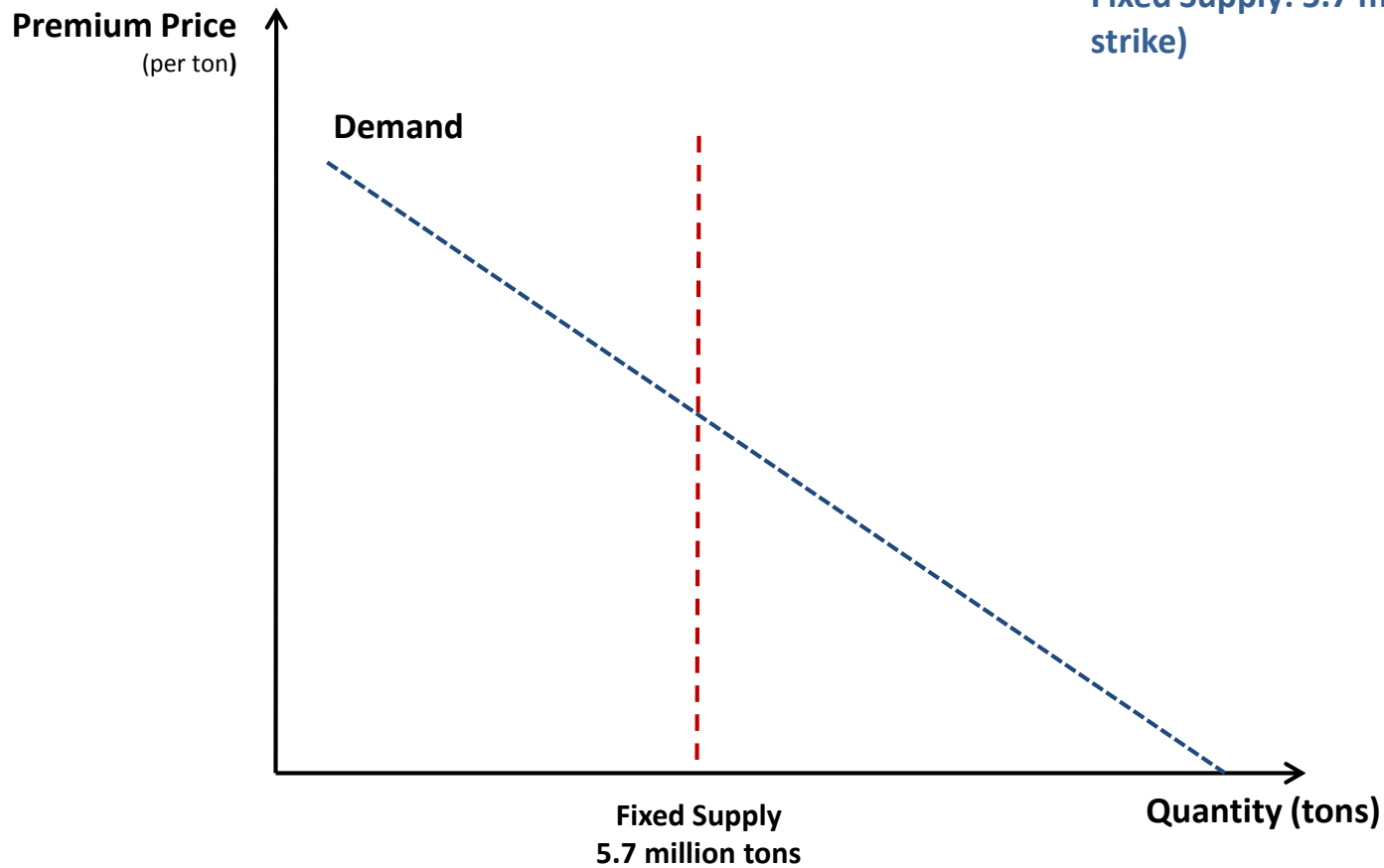
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Fixed Supply: 5.7 million tons (budget  $\div$  strike)



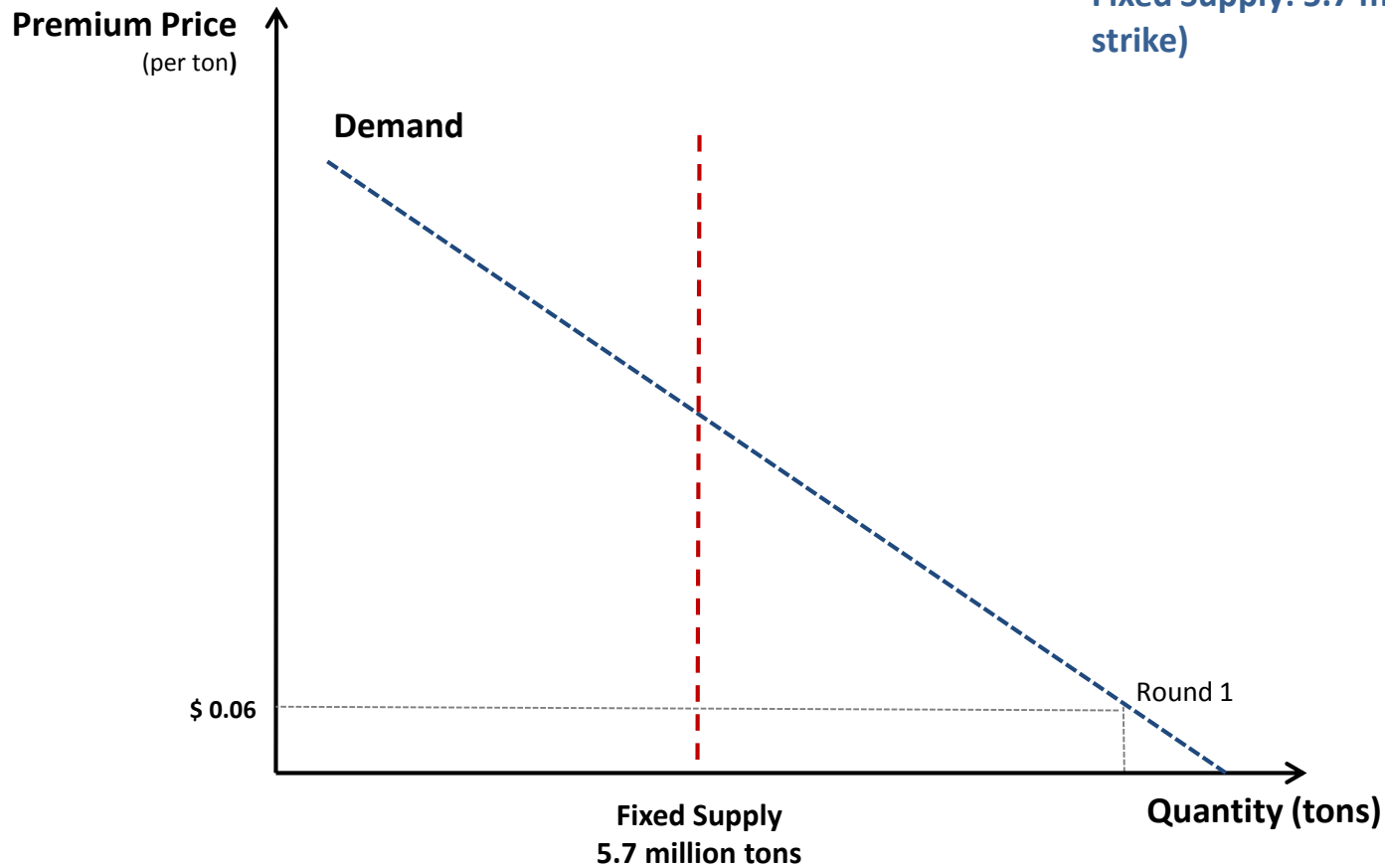
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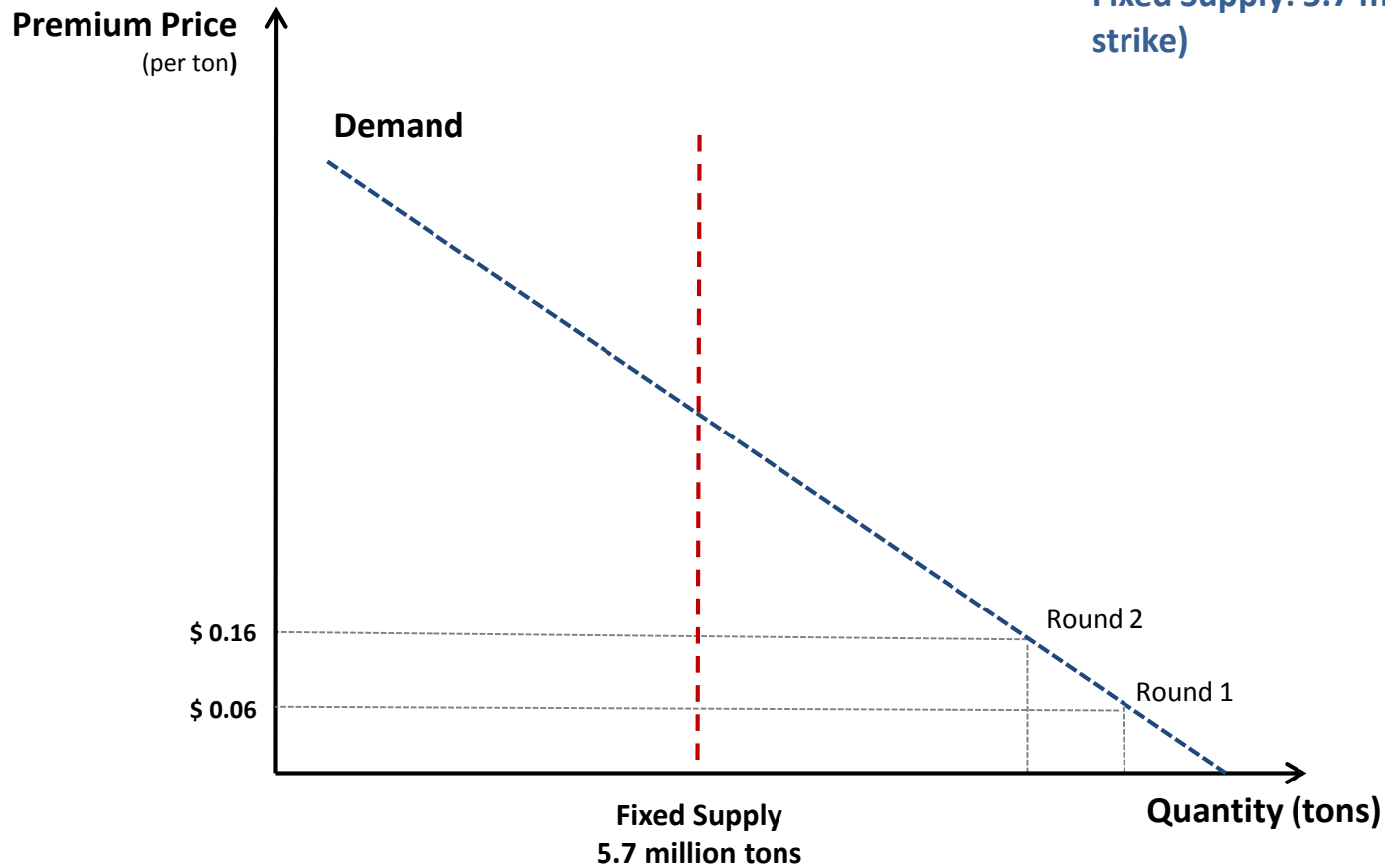
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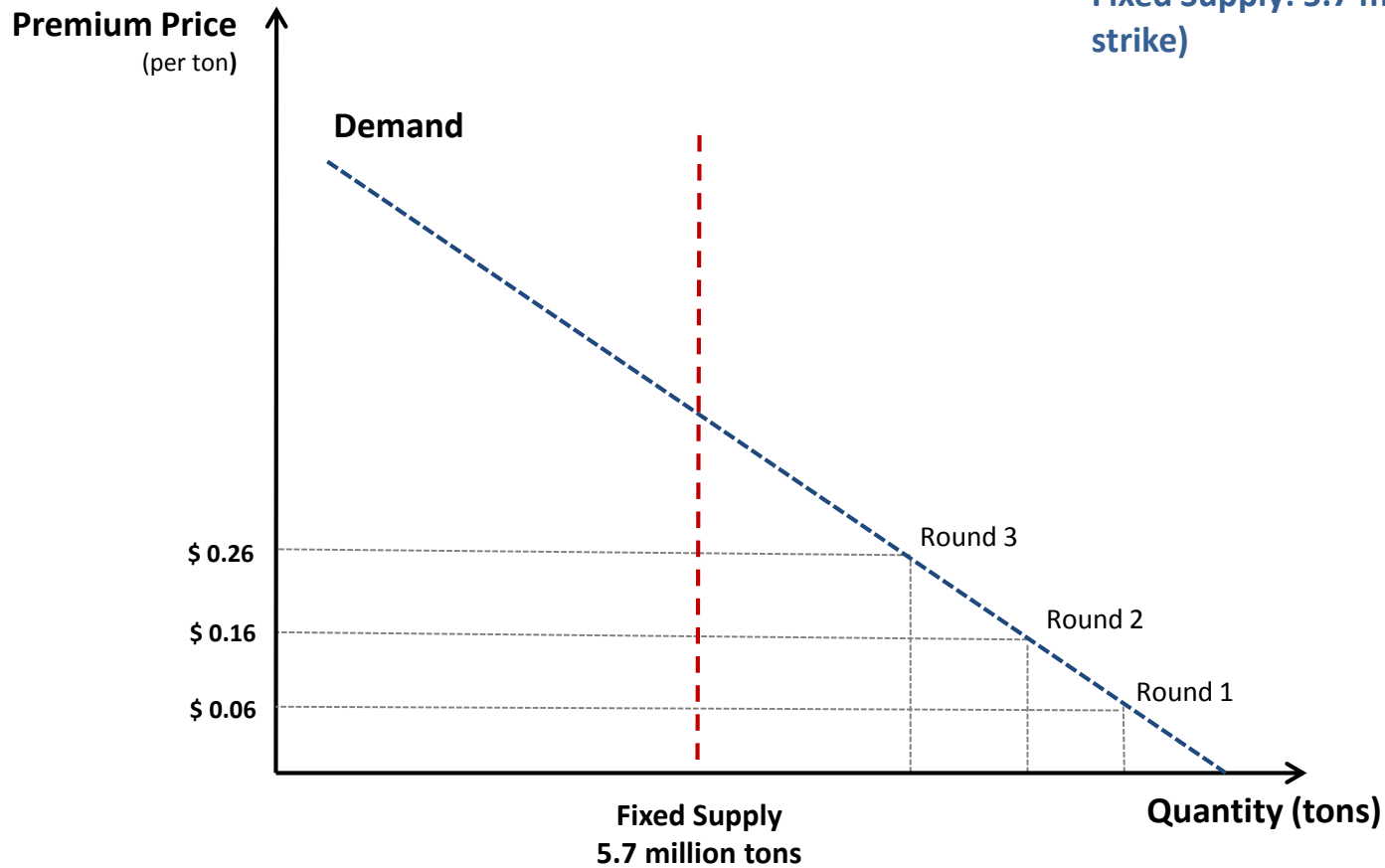
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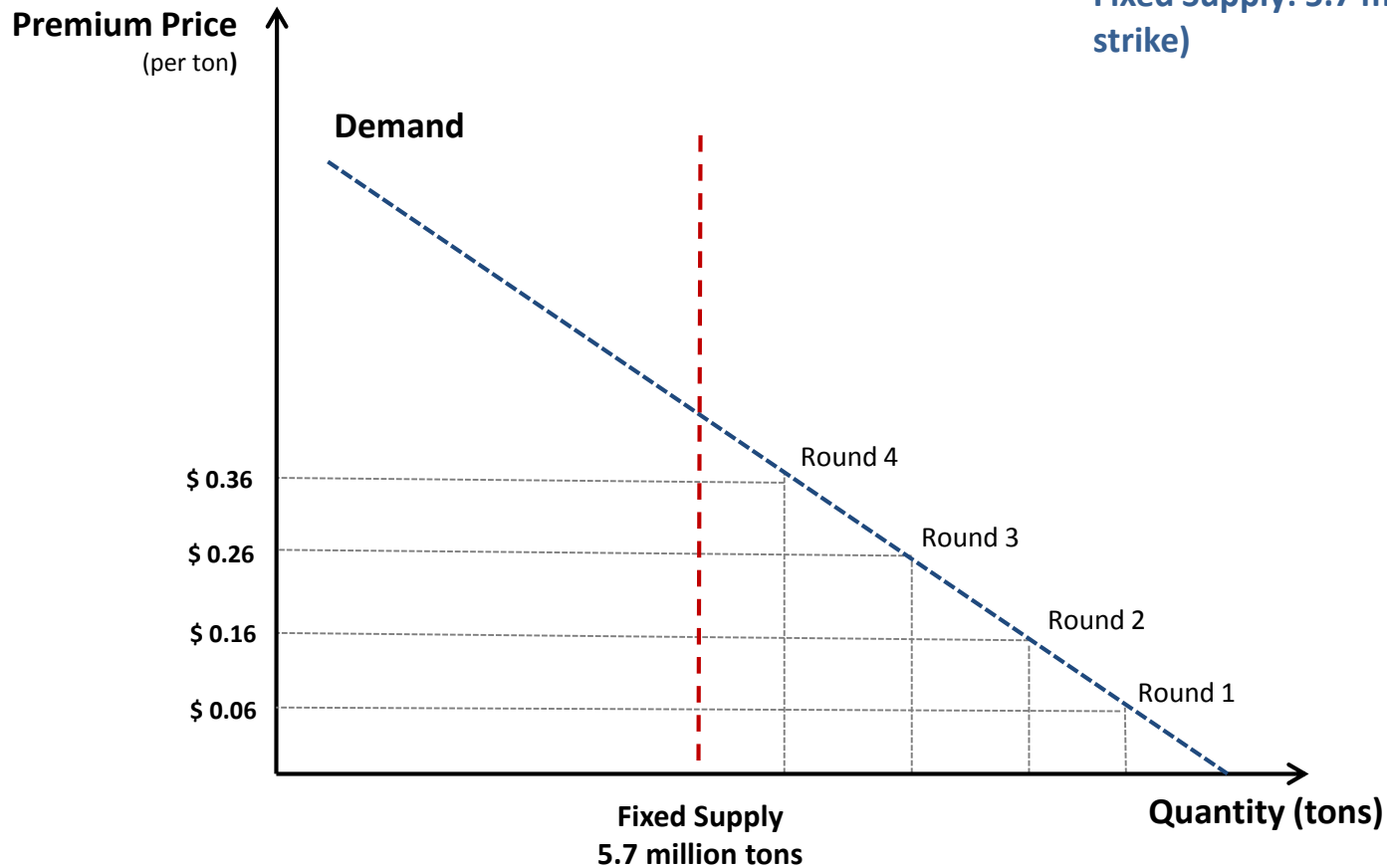
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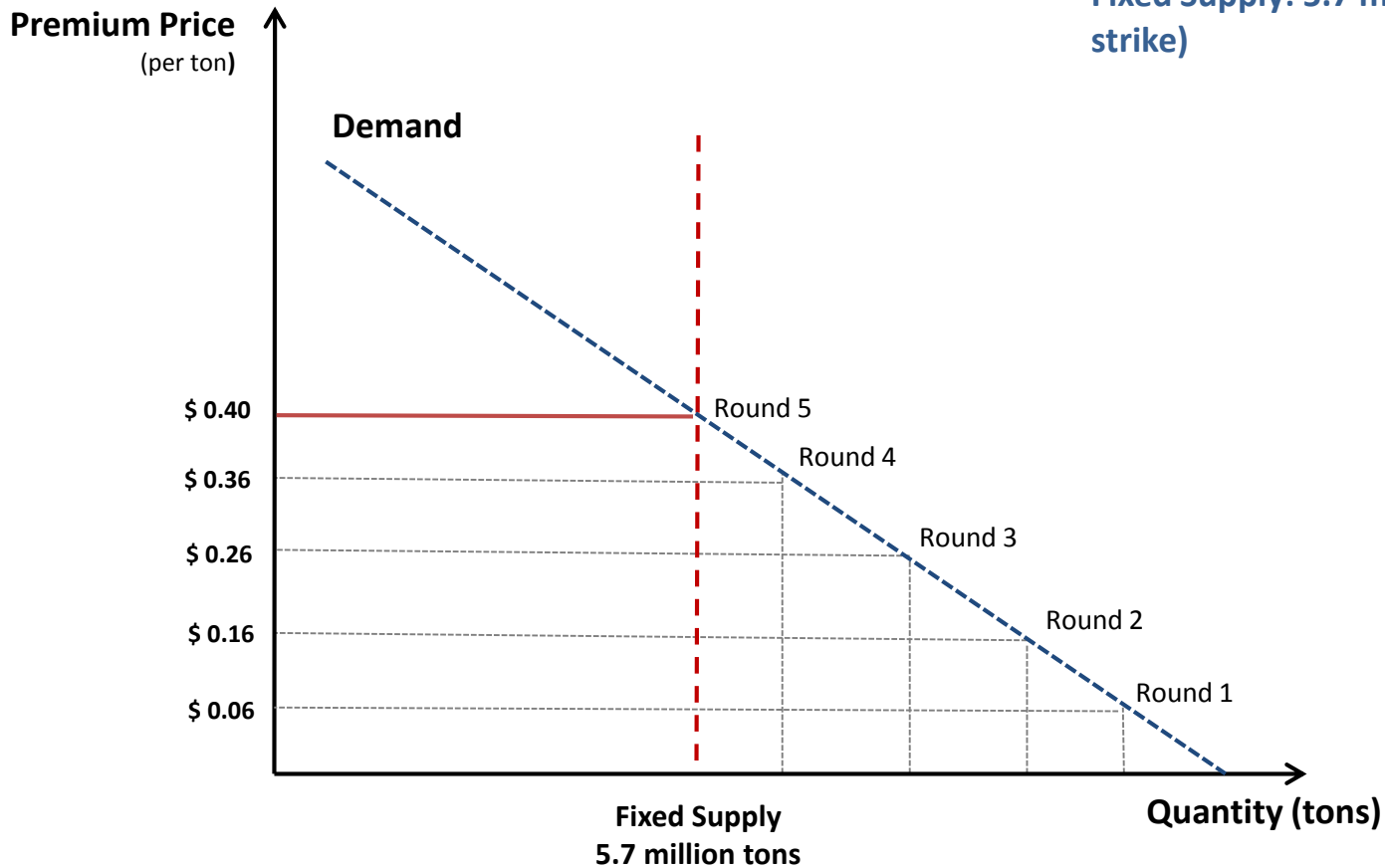
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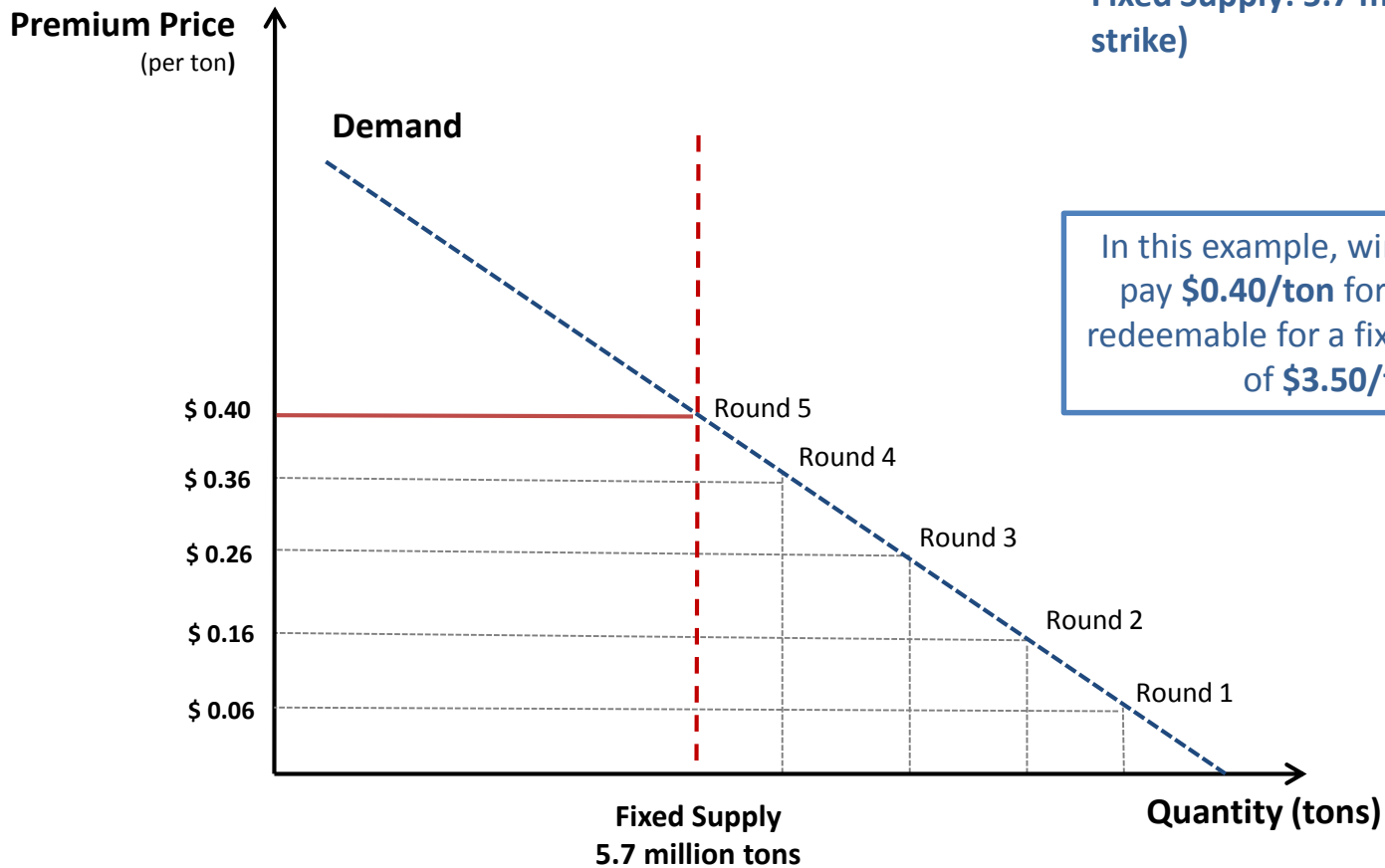
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In this example, winning bidders pay **\$0.40/ton** for put options redeemable for a fixed strike price of **\$3.50/ton**.

# Delivering the Put Option Through a World Bank Bond

# Delivering the put option through a World Bank bond

## Key Terms of the Puttable Bond

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- Pilot Auction Facility Emission Reductions Notes: **PAFERNs**
- Zero Coupon Bond
- Bond Final Redemption Amount: fixed prior to the auction at \$3.50 per ton
- Bond Issue Price (Premium): determined by the auction
- Bond holder receives payment of strike price (\$3.50/ton) for eligible emission reductions at the point of redemption
- Maturities of the Bond correspond to the put option redemption dates

## Process Steps

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- Auction winners will purchase bonds via World Bank's Global Agent – Citi
- Bonds will be delivered in the form of Definitive Registered Certificates by Citi
- Citi will keep a registry of the Noteholders
- Winners will not be required to open a custodian account
- The Preliminary Draft Final Terms of the PAFERNs have been released and can be obtained with the Bidder Application Package
- The World Bank will hold a specific webinar to answer questions about the PAFERNs

## Next Steps and How to Participate

# Second Auction Timeline

- **Bidder Application Released:** March 1, 2016
- **Bidder Application Deadline:** April 8, 2016
- **Bid Deposits Due:** April 29, 2016
- **Mock Auction:** date to be confirmed
- **Auction Date:** May 12, 2016

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

- Request the bidder application package by sending an email to [paf\\_secretariat@worldbank.org](mailto:paf_secretariat@worldbank.org) that includes the disclaimer copy-pasted from this [webpage](#)
- Review [eligibility criteria](#) and [parameters](#) posted on PAF website
- Identify source of ERs to be issued after auction date in methane sectors of waste, wastewater and agricultural waste and decide on bidding strategy (e.g., number of put options desired, highest acceptable price)
- Prepare to pay refundable bid deposit
- Look for emails from PAF Secretariat and check the PAF website for deadlines – [www.pilotauctionfacility.org](http://www.pilotauctionfacility.org)

# PAF Events and Webinars

The PAF will host a series of events ahead of the second auction. The PAF website [events page](#) provides links to register for the following events:

- **London (UK)**, March 7, 2016
- **Zurich (CH)**, March 9, 2016
- **New Dehli (IN)**, March 17, 2016
- **Bogota (CO)**, March 18, 2016
- **Sao Paulo (BR)**, March 21, 2016
- **Webinar 1**, March 23, 2016, 9:00 – 11:00 EST
- **Webinar 2**, March 23, 2016, 20:00 – 22:00 EST
- **Washington (US)**, March 28, 2016

## Additional Resources

- Second Auction Videos - [Link](#)
- Request for Bidder Application Package – [Link](#)
- Second Auction Parameters - [Link](#)
- Second Eligibility Criteria – [Link](#)
- Second auction EHS criteria – [Link](#)
- Second Auction Bidders' Q& A - [Link](#)



# Thank you

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

## Contributors



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Sweden



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United States

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# Linklaters



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