

Bidding Rules for the Pilot Auction Facility for Methane and Climate Change Mitigation

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NERA
ECONOMIC CONSULTING



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Introduction

ARTICLE I. Introduction

I.1. Background

- I.1.1. The Pilot Auction Facility for Methane and Climate Change Mitigation was developed by the International Bank for Reconstruction and Development (or IBRD) as a pay-for-performance mechanism that allocates public funds and attracts private sector investment to projects that reduce methane emissions, taking advantage of the Clean Development Mechanism (or CDM) infrastructure in place for implementation.
- I.1.2. The key objective of the PAF is to demonstrate a new, cost-effective climate finance mechanism that incentivizes private sector investment and action in climate change in developing countries by providing a guaranteed floor price on Certified Emission Reductions (or CERs). A series of auctions will be used to determine the allocation and the level of the guaranteed price.
- I.1.3. The facility's resources will only be disbursed after the CERs have been independently verified, making the PAF a 'pay-for-performance' facility. The guaranteed floor price will be embedded in the PAFERs, issued by IBRD, the terms of which are set out in the Final Terms. IBRD's obligation under the PAFERs will be funded by the PAF. Under the terms of the PAFERs, the noteholders will have the right, but not the obligation, to deliver qualifying CERs achieved by the underlying projects to the Verification Agent and in return the noteholders will receive the specified redemption value of those PAFERs successfully submitted for redemption. In the first of these series of auctions, the redemption value is determined through the auction.
- I.1.4. The auction format is a multiple-round descending clock auction that is conducted through an online electronic platform referred to as the "**Auction Software**".

I.2. Documents and Sources of Information

- I.2.1. The term "**Bidder**" is used in these Bidding Rules to refer to a legal entity or person that is qualified to participate in the auction.
- I.2.2. This document contains the Bidding Rules. These Bidding Rules describe the mechanics of the auction that will be used to allocate PAFERs to Bidders. An auction under these Bidding Rules shall constitute a PAF Auction as defined in the Participation Agreement.
- I.2.3. The main source of information is on the PAF website: <http://www.pilotauctionfacility.org>, where public documents are made available to Bidders and other stakeholders.
- I.2.4. Before submitting an application to participate in the auction, an interested party should also review the following documents so as to ensure that it understands the conditions under which the auction will be conducted:

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- the document entitled “Pilot Auction Facility for Methane and Climate Change Mitigation Bidder Application Package (June 1, 2015)” (the “**Bidder Application Package**”);
- the IDD Questionnaire; and
- the Participation Agreement together with the schedules attached thereto, including these Bidding Rules, the Final Terms and the Auction Software Terms of Use.

I.2.5. To participate in the auction, an applicant must satisfy the conditions for qualification, which include submitting the IDD Questionnaire, submitting an executed Participation Agreement (with schedule 1 (*Bidder Information*) completed), providing a Bid Deposit and responding to requests for information from the Evaluation Team. Details of the application process are set out in the Bidder Application Package. Following review of the information submitted, the Evaluation Team, in its absolute discretion, may qualify an applicant as a Bidder that is eligible to participate in the auction.

I.3. General

I.3.1. Capitalized terms not defined in this document are defined in the Participation Agreement or in the Final Terms of the PAFERNS.

I.3.2. The provisions set out in Article I.1 (*Background*), Article I.2 (*Documents and Sources of Information*), Article II.1 (*Product*) and Article III.1 (*Overview*) are provided for information purposes only and, save for the definitions included therein, shall not be legally binding on Bidders. The glossary of terms (the “**Glossary**”) in Article IV (*Glossary of Terms*) is a non-binding guide to the meaning of terms used in these Bidding Rules.

I.3.3. All other provisions of these Bidding Rules are legally binding on the Bidders.

ARTICLE II. Product, Bidding, Auction Parameters and Bid Deposit

II.1. Product

- II.1.1. A CER is issued by the Kyoto Protocol's CDM to projects that reduce emissions of greenhouse gases in developing countries. The number of CERs achieved corresponds to the reduction in carbon emissions below a baseline that represents business as usual.
- II.1.2. Bidders participate in the auction to purchase PAFERNS at the Issue Price for each PAFERN. On their Maturity Date, the PAFERNS give holders the right, but not the obligation, to deliver Qualifying CERs to the PAF in return for receiving a specified redemption value for the PAFERN, called the Final Redemption Amount. The auction does not establish the Issue Price, which in this auction is pre-specified at the price set out in Article II.3 (*Auction Parameters*). Instead, the auction establishes the Auction-Clearing Payment for a Bid Unit (each as defined below). The Auction-Clearing Payment is a multiple of the Final Redemption Amount, which locks in a floor price for CERs for holders of the PAFERN, but does not limit holders from selling their CERs on the open market if they can get a better price.
- II.1.3. The PAFERNS are tradable. The holder of each PAFERN may sell it to another entity at its own discretion.
- II.1.4. A CER Lot for the purposes of the PAFERNS consists of the number of CERs as set out in Article II.3 (*Auction Parameters*), in respect of which each CER is from the same Monitoring Period and CDM Project or CDM POA. A CER Lot must be delivered by a given Maturity Date to redeem each PAFERN. A series of five PAFERNS with consecutive annual Maturity Dates constitutes a "**Bid Unit**".
- II.1.5. Each Successful Bidder will be required to pay the Issue Price, which in this auction is pre-specified at the value set out in Article II.3 (*Auction Parameters*), for each PAFERN included in the Bid Units won at the auction.

II.2. Bidding

- II.2.1. A "**Bid**" placed in any round is an offer by the Bidder to purchase an integer number of Bid Units at the Bid Unit Price, being the sum of the number of Bid Units Selected and Withdrawn in that round, where, if the auction ends in that round, the Final Redemption Amount for each PAFERN subject to the Bid is equal to one fifth of the Auction-Clearing Payment and where the Auction-Clearing Payment is (i) no more than the Going Payment of the prior round (provided that for round 1, this will be deemed to be the Going Payment for round 1), (ii) no less than the Going Payment announced by the Auction Manager for that round for each Bid Unit Selected by the Bidder; and (iii) (other than in round 1) no less than the Exit Payment for that round specified in accordance with these Bidding Rules for each Bid Unit that the Bidder Withdraws.
- II.2.2. A Bidder "**Selects**" a number of Bid Units in a round of the auction if the Bid placed in the Auction Software by or on behalf of the Bidder specifies that number of Bid Units as the

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number of Bid Units that it is willing to purchase at the Going Payment of that round and “**Selected**” shall be construed accordingly.

- II.2.3. A Bidder may not Select fewer Bid Units than the “**Minimum Bid**”, which is set out in Article II.3 (*Auction Parameters*), unless the Bidder makes a Zero Selection, and thus the number of Bid Units for which a Bidder can be a provisionally successful Bidder cannot be less than the Minimum Bid. A Bidder may not Select more Bid Units than the “**Maximum Bid**”, which is set out in Article II.3 (*Auction Parameters*), and thus the number of Bid Units for which a Bidder can be a provisionally successful Bidder cannot exceed the Maximum Bid. If IBRD considers, in its absolute discretion, that two or more Bidders are affiliated with each other, it may require one or more of those Bidders to bid less than the Maximum Bid in the first round of the auction.
- II.2.4. A Bidder’s “**Eligibility**” in a round is the maximum number of Bid Units which a Bidder may Select in that round of the auction.
- II.2.5. A Bidder “**Withdraws**” a number of Bid Units from the auction if the number of Bid Units it Selects in a round is less than the number of Bid Units it Selected in the prior round and an Exit Payment for those Bid Units is specified in the Auction Software by or on behalf of the Bidder and “**Withdrawn**” shall be construed accordingly.

II.3. Auction Parameters

- II.3.1. The parameters in the following table have been announced prior to the auction.

Table II-1. Announced Auction Parameters.

Auction Date	July 15, 2015
Budget	U.S.\$25 million
Bid Unit	Five PAFERs with consecutive annual Maturity Dates (equivalent to 10,000 CERs).
Bid Unit Price	U.S.\$3,000 per Bid Unit
CER Lot size	2,000 CERs
Decrement	Between 5% and 12.5% of the prior Going Payment
Going Payment in round 1	U.S.\$80,000 per Bid Unit (equivalent to a Final Redemption Amount of U.S.\$16,000 per PAFERN or U.S.\$8 per CER)
Issue Price value	U.S.\$600 per PAFERN (equivalent to U.S.\$0.30 per CER)
Maximum Bid	200 Bid Units (equivalent to 2,000,000 CERs)
Maximum Bid Deposit	20% of the Issue Price for each PAFERN that is subject to a Maximum Bid, namely U.S.\$120,000
Minimum Bid	10 Bid Units (equivalent to 100,000 CERs)

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Minimum Bid Deposit	20% of the Issue Price for each PAFERN that is subject to a Minimum Bid, namely U.S.\$6,000
Number of Bid Units Available in round 1	312 Bid Units

- II.3.2. In advance of the auction, IBRD may provide further non-binding guidance with respect to the process for determining the Decrements. At least 24 hours prior to the auction, Bidders will be provided with a non-binding schedule setting out the proposed timing of rounds.

II.4. Bid Deposit

- II.4.1. The “**Minimum Bid Deposit**” is set out in Article II.3 (*Auction Parameters*). The “**Maximum Bid Deposit**” is set out in Article II.3 (*Auction Parameters*). Each applicant must pay a Bid Deposit to the Escrow Agent that is no less than the Minimum Bid Deposit. An applicant that pays a Bid Deposit to the Escrow Agent that exceeds the Maximum Bid Deposit will, if it qualifies to participate as a Bidder in the auction, be considered to have submitted a Bid Deposit equal to the Maximum Bid Deposit for purposes of calculating the Bidder’s Initial Eligibility.
- II.4.2. A Bidder’s “**Initial Eligibility**” is its Eligibility in round 1 of the auction. A Bidder’s Initial Eligibility is equal to the Bid Deposit paid by that Bidder divided by U.S.\$600, which is the Bid Deposit required per Bid Unit, rounded down to the nearest integer.

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ARTICLE III. Bidding Rules

III.1. Overview

- III.1.1. As stated above, the auction format is a multiple-round descending clock auction that is conducted through an online electronic platform referred to as the Auction Software.
- III.1.2. The auction shall begin on the date which is set out in Article II.3 (*Auction Parameters*), or such later date as IBRD (in its absolute discretion) may notify to the Bidders (the “**Auction Date**”).
- III.1.3. For the purposes of the auction, a “**Payment**” is the total payment a Bidder would receive for delivering a CER Lot on the Maturity Date of each PAFERN within that Bid Unit. A Payment is denominated in U.S.\$ per Bid Unit and will be a multiple of U.S.\$100.
- III.1.4. A clock auction proceeds in a series of rounds. In a round, each Bidder states the number of Bid Units that it wants to purchase at the stated Issue Price per PAFERN on the basis of the Payment announced by the Auction Manager for that round (the “**Going Payment**”). The Issue Price is not determined through the auction and rather is pre-specified at the value set out in Article II.3 (*Auction Parameters*). The “**Bid Unit Price**” is five times the value of the Issue Price, as set out in Article II.3 (*Auction Parameters*).
- III.1.5. If, in a round, the number of Bid Units that Bidders together Select exceeds the number of Bid Units available in that round, the Auction Manager announces a new reduced Going Payment for the next round and the Auction Manager communicates this new Going Payment to Bidders before the next Bidding Phase opens. The auction continues and the Going Payment reduces down round by round until the number of Bid Units that Bidders Select equals or falls short of the number of Bid Units available. When this happens, the Final Redemption Amount for the PAFERNS and the identity of provisionally successful Bidders will be established based on the Bids made by Bidders in this final round, as set out further in these Bidding Rules.
- III.1.6. The “**Auction-Clearing Payment**” is the Payment that will be used for the purposes of determining the Final Redemption Amount of the PAFERNS that are to be issued to Successful Bidders and is determined in accordance with these Bidding Rules.
- III.1.7. If the results of the auction are certified by IBRD in accordance with Article III.4.5, a binding obligation exists between IBRD and each Successful Bidder, for the sale and purchase of PAFERNS in accordance with and subject to the conditions set out in the Participation Agreement.
- III.1.8. The “**Budget**” is the maximum potential value of the sum of the Final Redemption Amounts of the PAFERNS offered to be sold in the auction and is denominated in U.S. dollars. The Budget for the auction is set out in Article II.3 (*Auction Parameters*). The number of Bid Units available for a given Payment is calculated by dividing the Budget by the proposed Payment and rounding down to the nearest integer. The number of Bid Units available in round 1 is set out in Article II.3 (*Auction Parameters*).

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- III.1.9. The “**Excess Demand**” is the difference between the number of Bid Units that Bidders together Select in a round and the number of Bid Units available in that round at the Going Payment for the round. If Excess Demand is strictly positive in a round, the auction proceeds to a further round.
- III.1.10. Each round of the auction is divided into three phases: a Bidding Phase, a Calculating Phase, and a Reporting Phase.
- III.1.11. In the “**Bidding Phase**” of a round, Bidders may place Bids. In the “**Calculating Phase**” of a round, Bidders may no longer place Bids and Bidders do not yet have access to information regarding the immediately preceding Bidding Phase. In the “**Reporting Phase**” of a round, Bidders have access to information regarding the immediately preceding Bidding Phase. Further, in the Reporting Phase, if the auction continues to the next round, Bidders are informed of the Going Payment for the next round; otherwise, Bidders are informed of the Auction-Clearing Payment.

III.2. Round 1 of the Auction

- III.2.1. The Going Payment for round 1 of the auction is set out in Article II.3 (*Auction Parameters*).
- III.2.2. During the Bidding Phase, Bidders may place Bids. A Bidder cannot Select a number of Bid Units greater than its Initial Eligibility, which is determined by its Bid Deposit. A Bidder may Select a number of Bid Units equal to or fewer than its Initial Eligibility, provided that:
- the Bidder must Select a number of Bid Units equal to or greater than the Minimum Bid (a “**Non-Zero Selection**”); or
 - the Bidder must Select zero Bid Units (a “**Zero Selection**”). If the Bidder makes a Zero Selection, it will not be able to place any further Bids in subsequent rounds and it cannot be a Successful Bidder.
- III.2.3. During the Calculating Phase, the Auction Manager will use the Auction Software to tabulate the results of the Bidding Phase and to determine whether the auction will proceed to round 2 on the following basis:
- If the number of Bid Units that all Bidders together Selected exceeds the number of Bid Units available, the auction will proceed to round 2;
 - Otherwise, the auction ends. The Auction-Clearing Payment is the Going Payment for round 1 of the auction. Each Bidder that makes a Non-Zero Selection will be a provisionally successful Bidder.
- III.2.4. During the Reporting Phase, the Auction Manager will inform all Bidders through the Auction Software of the results of the Bidding Phase.
- If the auction proceeds to round 2, the Auction Manager will announce to all Bidders the Going Payment for round 2 and a range of Excess Demand for round 1. The Going Payment for round 2 will be lower than the Going Payment for round 1. The range of Excess Demand will include the actual Excess Demand in round 1. Furthermore, the

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Auction Manager will inform each Bidder individually of its Eligibility for round 2, which will be equal to the number of Bid Units that the Bidder Selected in round 1.

- If the auction ends, the Auction Manager will announce this fact to all Bidders, together with the Auction-Clearing Payment. Furthermore, the Auction Manager will inform each Bidder individually of the number of Bid Units for which it is a provisionally successful Bidder.

III.3. Round 2 and Subsequent Rounds

III.3.1. In accordance with Article III.2.4 (in respect of round 1) and Article III.3.5 (in respect of each subsequent round), the Going Payment for round 2 and subsequent rounds shall be announced by the Auction Manager through the Auction Software in the Reporting Phase of the previous round.

III.3.2. During the Bidding Phase, Bidders may place Bids. A Bidder cannot Select a number of Bid Units greater than its Eligibility. A Bidder may Select a number of Bid Units equal to or fewer than its Eligibility, provided that:

- the Bidder must make a Non-Zero Selection or a Zero Selection. If the Bidder makes a Zero Selection, it will not be able to place any further Bids in subsequent rounds and, unless the auction ends in the round in which it makes such a Selection, it cannot be a Successful Bidder; and
- if the Bidder Selects fewer Bid Units than its Eligibility (including where it makes a Zero Selection), it shall be deemed to Withdraw Bid Units from the auction (where the number of Withdrawn Bid Units equals the difference between the number of Bid Units Selected in the prior round and the number of Bid Units Selected in the current round). A single Exit Payment for the Bid Units that it is Withdrawing must be specified. An **“Exit Payment”** is the lowest Payment for which the Bidder is willing to purchase the Withdrawn Bid Units at the Bid Unit Price. An Exit Payment must be less than or equal to the Going Payment in the prior round and must be greater than the Going Payment in the current round. An Exit Payment specified must be a multiple of U.S.\$100 and any Exit Payment specified that does not meet this requirement will be rounded up to the nearest U.S.\$100 multiple.

III.3.3. The Eligibility of a Bidder in round 3 or in any subsequent round will be the Eligibility of the Bidder in the prior round less the number of Bid Units that the Bidder has Withdrawn in the prior round. Thus, a Bidder that Withdraws Bid Units from the auction loses the ability to place a Bid with respect to these Bid Units for the remainder of the auction.

III.3.4. During the Calculating Phase, the Auction Manager will use the Auction Software to tabulate the results of the just concluded Bidding Phase and to determine whether the auction will proceed to the next round.

- If the number of Bid Units that all Bidders together Selected exceeds the number of Bid Units available, the auction will proceed to the next round;

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- Otherwise, the auction ends. The Auction-Clearing Payment and the provisionally successful Bidders are determined in accordance with Article III.4.
- III.3.5. During the Reporting Phase, the Auction Manager will inform Bidders through the Auction Software of the results of the just concluded Bidding Phase.
- If the auction proceeds to the next round, the Auction Manager will announce to Bidders the Going Payment for the next round and a range of Excess Demand for the current round. The range of Excess Demand will include the actual Excess Demand in the current round. Furthermore, the Auction Manager will inform each Bidder individually of its Eligibility for the next round.
 - If the auction ends, the Auction Manager will announce this fact to Bidders, together with the Auction-Clearing Payment. Furthermore, the Auction Manager will inform each Bidder individually of the number of Bid Units for which it is provisionally successful.

III.4. End of Auction

- III.4.1. The auction ends in the Reporting Phase of the first round in which the number of Bid Units that Bidders together Select at the Going Payment equals to or falls short of the number of Bid Units available. This is the “**Final Round**”.
- III.4.2. If the number of Bid Units that Bidders together Select at the Going Payment of the Final Round exactly equals the number of Bid Units available at that Going Payment, the Auction-Clearing Payment will be the Going Payment of the Final Round. A Bidder that has made a Non-Zero Selection in the Final Round is a provisionally successful Bidder for the number of Bid Units that it Selected in the Final Round.
- III.4.3. If the number of Bid Units that Bidders together Select at the Going Payment of the Final Round is less than the number of Bid Units available at that Going Payment, the Auction Manager will rank all Exit Payments from lowest to highest.
- For each Exit Payment specified by or on behalf of a Bidder ranked from lowest to highest, the Auction Manager will use the Auction Software to calculate the number of Bid Units available and the “**Final Demand**” at that Exit Payment. The Final Demand at a given Exit Payment is the sum of: (i) the number of Bid Units that Bidders together Selected in the Final Round; (ii) the number of Bid Units Withdrawn by Bidders at that Exit Payment; and (iii) the number of Bid Units Withdrawn by Bidders at any Exit Payment lower than that Exit Payment.
 - If the Final Demand is equal to or falls short of the number of Bid Units available for at least one Exit Payment specified by or on behalf of a Bidder, then the Auction-Clearing Payment will be the highest such specified Exit Payment for which the Final Demand equals to or falls short of the number of Bid Units available.
 - A Bidder is a provisionally successful Bidder if either: (i) the Bidder made a Non-Zero Selection in the Final Round; or (ii) the Bidder made a Zero Selection for the first time in the Final Round and the Bidder specified an Exit Payment equal to or less than the Auction-Clearing Payment.

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- A Bidder is a provisionally successful Bidder for the number of Bid Units equal to the sum of: (i) the number of Bid Units it Selected in the Final Round; and: (ii) the number of Bid Units that it Withdrew at an Exit Payment equal to or less than the Auction-Clearing Payment.
- If the Final Demand exceeds the number of Bid Units available at each and every Exit Payment, then the Auction-Clearing Payment is the Going Payment of the Final Round and each Bidder that has made a Non-Zero Selection is a provisionally successful Bidder for the number of Bid Units that it Selected in the Final Round.

III.4.4. The Final Redemption Amount for the PAFERs is one fifth of the Auction-Clearing Payment. The Auction-Clearing Payment (and therefore the Final Redemption Amount for the PAFERs) shall be the same for all Successful Bidders.

III.4.5. IBRD will review the bidding, the auction results, and all materials submitted by Bidders to participate in the auction. IBRD may, in its absolute discretion:

- certify the auction results, in which case Bidders that were provisionally successful Bidders shall be Successful Bidders and a binding obligation shall exist between IBRD and each Successful Bidder for the sale and purchase of the PAFERs in accordance with and subject to the conditions set out in the Participation Agreement; or
- annul the auction results, in which case no PAFERs shall be issued.

III.5. Decrements

III.5.1. The percentage by which the Going Payment decreases from one round to the next is called a “**Decrement**”. The Decrement will be larger at the start of the auction when Excess Demand is larger than at the end of the auction when Excess Demand is smaller. The Decrement will be set in the range set out in Article II.3 (*Auction Parameters*).

III.5.2. The Auction Manager may provide to Bidders further non-binding guidance regarding the Decrements in the form of rules, formulas, or tables. Such rules, formulas, or tables will be provided as guidance only and the Decrement in any round may be set at the discretion of the Auction Manager provided, however, that the Decrement will remain within the range set out in Article II.3 (*Auction Parameters*).

III.6. Miscellaneous Provisions

III.6.1. A Bidder can modify its Bid as long as the Bidding Phase of the round is open, including by increasing or decreasing the number of Bid Units that it Selects or by making a Zero Selection, subject to these Bidding Rules. The Bid that will be treated as binding upon the Bidder by the Auction Manager is the last Bid that is submitted and verified by or on behalf of the Bidder during the Bidding Phase and processed by the Auction Software. This Bid that cannot be rescinded.

III.6.2. A range of Excess Demand provided to Bidders in the Reporting Phase of a round will include the actual Excess Demand for that round. The range of Excess Demand will include several integers and the actual Excess Demand may be any one of the integers within that range.

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- III.6.3. A Bidder may request an extension to the Bidding Phase of a round during that Bidding Phase with the effect that the Bidding Phase of the round is extended by 10 minutes for all Bidders.
- Each Bidder may request up to two extensions during the auction.
 - The Bidding Phase of a round can be extended only once by 10 minutes.
 - When a request is received from more than one Bidder, all such requests are deemed granted but all extensions run concurrently. All Bidders that requested an extension see their available number of extensions reduced.
- III.6.4. A Bidder with positive Eligibility in any round is automatically deemed to have requested an extension when, by the scheduled ending time of the Bidding Phase, the Bidder has not placed a Bid and the Bidder has not already used the two allowable extensions.
- III.6.5. If, notwithstanding any extension of the Bidding Phase pursuant to Article III.6.4, a Bidder fails to place a Bid, a “**Default Bid**” will be placed on behalf of the Bidder by the Auction Software, which shall be (i) a Zero Selection; and (ii) (other than in round 1), an Exit Payment which is the Going Payment from the prior round.
- III.6.6. The Auction Manager can call a time-out to the auction at any time during a round. It is intended that a time-out will suspend activity in the auction for a period of no more than one hour; however, the Auction Manager retains the discretion to suspend activity for a longer period if necessary. When the Auction Manager calls a time-out, it shall inform Bidders of the expected duration of the suspension.
- III.6.7. A Bidder with zero Eligibility will lose its ability to participate in the Reporting Phase of each round within three rounds.

III.7. Bidding Procedures

- III.7.1. The primary bidding method for the auction is the electronic submission of Bids through the Auction Software.
- III.7.2. The secondary bidding method for the auction is by phone. If a Bidder is experiencing technical difficulty and cannot place a Bid using the Auction Software, the Bidder may call a technical assistant who places the Bidder’s Bid using the Auction Software on the Bidder’s behalf.
- III.7.3. Proxy bidding, an option by which the Auction Software can place Bids on behalf of a Bidder on the basis of a pre-determined minimum Payment called the “**Proxy Payment**” below which the Bidder would cease to agree to place Bids for Bid Units, will be allowed. A Bidder will be considered to Select a pre-specified number of Bid Units in each round in which the Going Payment is at or above the Proxy Payment determined by the Bidder prior to the start of the Bidding Phase for round 1. In the first round in which the Going Payment is below the Proxy Payment, the Bidder is deemed to have Withdrawn all Bid Units and is deemed to have specified an Exit Payment equal to the Proxy Payment, and this is the final Bid by that Bidder. If the Bidder elects proxy bidding, a Bidder will not be able to subsequently use either the primary or the secondary bidding method to place Bids.

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- III.7.4. It is the Bidder's sole and entire responsibility to place a Bid on time whether using the primary or secondary bidding method.

Glossary of Terms

ARTICLE IV. Glossary of Terms

This Glossary is a non-binding guide to the meaning of terms used in these Bidding Rules.

Term	Article	Explanation
Auction Date	III.1.2	The Auction Date is the date on which the auction shall begin, which unless deferred by IBRD, shall be July 15, 2015.
Auction Software	I.1.4	The Auction Software is the online electronic platform used to conduct the auction.
Auction-Clearing Payment	III.1.6	The Auction-Clearing Payment is the Payment that will be used for the purposes of determining the Final Redemption Amount of the PAFERs that are to be issued to Successful Bidders and is determined in accordance with the Bidding Rules.
Bid	II.2.1	A Bid is an offer by the Bidder to purchase an integer number of Bid Units at the Bid Unit Price, being the sum of the number of Bid Units Selected and Withdrawn in that round, where, if the Auction ends in that round, the Final Redemption Amount for each PAFERN subject to the Bid is equal to one fifth of the auction-Clearing Payment.
Bid Unit	II.1.4	A Bid Unit is a series of five PAFERs with consecutive annual Maturity Dates (equivalent to 10,000 CERs).
Bid Unit Price	III.1.4	The Bid Unit price is five times the value of the Issue Price or U.S.\$3,000.
Bidder	I.2.1	A Bidder is a legal entity or person that is qualified to participate in the auction.
Bidder Application Package	I.2.4	Bidder Application Package refers to the document entitled "Pilot Auction Facility for Methane and Climate Change Mitigation Bidder Application Package (June 1, 2015)".
Bidding Phase	III.1.11	The Bidding Phase is the phase of a round during which Bidders place Bids.
Budget	III.1.8	The Budget is the maximum potential value of the sum of the Final Redemption Amounts of the PAFERs offered to be sold in the auction and is denominated in U.S. dollars. The Budget for the auction is U.S.\$25,000,000.
Calculating Phase	III.1.11	The Calculating Phase is the phase of a round during which Bidders may no longer place Bids and Bidders do not yet have access to information regarding the immediately preceding Bidding Phase.
Decrement	III.5.1	The decrement is the percentage by which the Going Payment decreases from one round to the next, which in this auction will be between 5% and 12.5% of the prior Going Payment.

Glossary of Terms

Term	Article	Explanation
Default Bid	III.6.5	A Default Bid will be placed on behalf of the Bidder by the Auction Software where a Bidder fails to place a Bid and is (i) a Zero Selection; and (ii) (other than in round 1), an Exit Payment which is the Going Payment from the prior round.
Eligibility	II.2.4	A Bidder's Eligibility in a round is the maximum number of Bid Units which a Bidder may Select in that round of the auction. A Bidder's Eligibility in round 1 is the Bidder's Initial Eligibility. A Bidder's Eligibility in round 2 is the total number of Bid Units Selected at the Going Payment in round 1. For any subsequent round, a Bidder's Eligibility in a round is the Bidder's Eligibility in the prior round minus the number of Bid Units that the Bidder Withdrew in the Bidding Phase of the prior round.
Excess Demand	III.1.9	The Excess Demand is the difference between the number of Bid Units that Bidders together Select in a round and the number of Bid Units available in that round at the Going Payment for the round.
Exit Payment	III.3.2	An Exit Payment is the lowest payment that the Bidder is willing to purchase the Withdrawn Bid Units at the Bid Unit Price.
Final Demand	III.4.3	The Final Demand at a given Exit Payment is the sum of: (i) the number of Bid Units that Bidders together Selected in the Final Round; (ii) the number of Bid Units Withdrawn by Bidders at that Exit Payment; and (iii) the number of Bid Units Withdrawn by Bidders at any Exit Payment lower than that Exit Payment.
Final Round	III.4.1	The Final Round is the first round in which the number of Bid Units that Bidders together Select equals to or falls short of the number of Bid Units available.
Going Payment	III.1.4	The Going Payment for a round is the Payment announced by the Auction for that round.
Initial Eligibility	II.4.2	A Bidder's Initial Eligibility is its Eligibility in round 1 of the auction. A Bidder's Initial Eligibility is equal to the Bid Deposit paid by that Bidder divided by U.S.\$600, which is the Bid Deposit required per Bid Unit, rounded down to the nearest integer.
Maximum Bid	II.2.3	The Maximum Bid for this auction is 200 Bid Units and is equivalent to 2,000,000 CERs. A Bidder may not Select more Bid Units than the Maximum Bid.
Maximum Bid Deposit	II.4.1	The Maximum Bid Deposit is U.S.\$120,000. An applicant that pays a Bid Deposit to the Escrow Agent that exceeds the Maximum Bid Deposit will, if it qualifies to participate as a Bidder in the auction, be considered to have submitted a Bid Deposit equal to the Maximum Bid Deposit for purposes of calculating the Bidder's Initial Eligibility.
Minimum Bid	II.2.3	The Minimum Bid is 10 Bid Units and is equivalent to 10,000 CERs. A Bidder may not Select fewer Bid Units than the Minimum Bid unless it makes a Zero Selection.

Glossary of Terms

Term	Article	Explanation
Minimum Bid Deposit	II.4.1	Each applicant must pay a Bid Deposit to the Escrow Agent that is no less than the Minimum Bid Deposit of U.S.\$6,000.
Non-Zero Selection	III.2.2	A Non-Zero Selection is a Selection of a number of Bid Units equal to or greater than the Minimum Bid.
Payment	III.1.3	The total payment a Bidder would receive for delivering a CER Lot on the Maturity Date of each PAFERN with that Bid Unit. A Payment is denominated in U.S.\$ and will be a multiple of U.S.\$100.
Proxy Payment	III.7.3	Proxy bidding is an option by which the Auction Software can place Bids on behalf of a Bidder on the Proxy Payment. The Proxy Payment is a minimum Payment pre-determined by the Bidder prior to the Bidding Phase of round 1 of the auction and below which the Bidder would cease to agree to place Bids for Bid Units.
Reporting Phase	III.1.11	In the Reporting Phase of a round, Bidders have access to information regarding the immediately preceding Bidding Phase.
Select	II.2.2	A Bidder Selects a number of Bid Units in a round of the auction if the Bid placed in the Auction Software by or on behalf of the Bidder specifies that number of Bid Units as the number of Bid Units that it is willing to purchase at the Going Payment of that round.
Withdraw	II.2.5	A Bidder Withdraws a number of Bid Units from the auction if the number of Bid Units it Selects in a round is less than the number of Bid Units it Selected in the prior round.
Zero Selection	III.2.2	A Zero Selection is a Selection of zero Bid Units.

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