Third Auction Information Webinar
Sept. 29, 2016
Instructions for webex webinar

In order to connect to the webinar audio login with the link provided by email and then click on the three dots below the connect to audio button in the left lower corner of your screen.

Then select one of the three options:

- Have the meeting call your phone (Call me)
- Call the meeting from your phone (I will Call In)
- Connect with your computer microphone (Call Using Computer)

To ask questions, please use the chat panel by clicking on the chat icon in the upper right corner of your screen.

Microphones must stay on mute at all times.

Questions can only be asked via the chat panel.
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 FURTHER, IT IS CURRENT ONLY AS OF THE DATE OF POSTING TO THIS WEBSITE AND IS LIKELY TO BECOME OUTDATED AS THE PAFERNs LEGAL DOCUMENTATION IS DEVELOPED.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).
Origins of the PAF

- The Pilot Auction Facility (PAF) is an innovative climate finance model hosted by the World Bank to stimulate private investment in projects that reduce greenhouse gas emissions.

- Carbon credit prices collapsed, stranding projects with no incentive to reduce emissions.

- The PAF was developed after the Methane Finance Study Group, an international group of experts convened at the request of the G8, recommended the creation of a methane abatement facility that would auction put options that would guarantee a price for independently verified carbon credits.

- The PAF is backed by Contributors (United States, Germany, Sweden, Switzerland) have contributed $53 million in total resources.

- To date, the PAF has hosted two auctions (July 2015 and May 2016) allocating over $40 million in climate finance for methane emission reductions.
PAF offers a price guarantee for carbon credits

• The PAF sells “put options” that guarantee a price for carbon credits

• The put options give the owner the right, but not the obligation, to sell their carbon credits to the PAF at a predetermined price in the future (the “strike price”)
PAF uses auctions to sell put options

- The PAF holds auctions in which bidders compete to purchase put options
- The third auction will determine the “strike price,” which is the price offered to option owners in the future for eligible carbon credits
- Auction winners will purchase the put option by paying an “option premium” price
- The PAF will only pay option owners for independently verified carbon credits
- Auctioning ensures that least-cost climate mitigation activities are selected
Video: Introduction to PAF Mechanism

Watch Videos
Third Auction

• The third auction focuses on mitigation of nitrous oxide (N2O), produced by industrial nitric acid and caprolactam plants (not adipic acid)

• N2O is a highly potent greenhouse gas with a global warming potential approximately 300 times that of CO2

• To be eligible for payment, the carbon credits must meet a set of eligibility criteria:

1. Certification standards
2. Mitigation activities (methodologies)
3. Countries
4. Generation and issuance period
5. Environmental, Health and Safety Criteria
## Third Auction: Eligibility Criteria (1 of 4)

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

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All carbon credits must be Clean Development Mechanism (CDM) Certified Emission Reductions (CERs) or a Verified Carbon Standard (VCS) Verified Carbon Unit (VCU)</td>
<td>The list of eligible methodologies is found on the PAF website, most methodologies that correspond to the abatement of N2O from nitric acid are eligible</td>
</tr>
<tr>
<td>Carbon credits must not be subject to purchase agreement contract with a third-party</td>
<td>Methodologies related to adipic acid are excluded</td>
</tr>
<tr>
<td></td>
<td>If a project uses more than one methodology to account for carbon credits, all need to be on the eligible list</td>
</tr>
</tbody>
</table>
Third Auction: Eligibility Criteria (2 of 4)

3. Eligible Countries

• The list of eligible countries is found on the PAF website

• For a multi-country Program of Activities, all countries must be on the eligible list

4. Generation and issuance period

• Winners will receive a **Bermuda-style** put option, which must be exercised by the final maturity date, but may be exercised at any of three earlier optional delivery dates

• No restrictions on the quantity of ERs that may be redeemed at each delivery date

• After the maturity date, all of the put options expire

<table>
<thead>
<tr>
<th>Optional Delivery</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 29, 2017</td>
<td>Nov. 30, 2020</td>
</tr>
<tr>
<td>Nov. 29, 2018</td>
<td>Nov. 27, 2019</td>
</tr>
<tr>
<td>Nov. 27, 2019</td>
<td>Nov. 30, 2020</td>
</tr>
</tbody>
</table>
5. Environmental, Heath & Safety and Social Criteria

- The EHS criteria for the third auction is found on the PAF website.

- Carbon credits must originate from a CDM or VCS 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 put option owner.
### Third Auction: Eligibility Criteria (4 of 4)

- The PAF will issue put options specific to two segments
- Bidders will be able to bid in both segments

#### A. New Segment

- Price guarantee allocated can only be redeemed with emission reductions from new abatement projects that purchase abatement equipment for the first time after the auction date.

- Emission reductions must be sourced from a new abatement project that has not purchased abatement technology before the auction date, meaning that the date on which the project first purchases a secondary or tertiary catalyst or abatement equipment at the existing host site must be at the earliest on the auction date.

#### B. Open Segment

- Put options may be redeemed with any eligible carbon credits. N2O abatement projects can be existing at the time of the auction or result from investments post-auction.

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Slide updated upon release of Bidder Application Package – October 26, 2016
### Announcement of other Elements for Third Auction

#### Other Elements

- The auction budget is expected to be a total of $12m across both auctions *(TBC)*

- To receive payment from the PAF, the option owner must deliver for each put option 2,500 eligible homogeneous emission reductions ("ERs") from the same project, vintage, or monitoring period, which will be sold to auction winners for the option premium price of $750 (i.e., $0.30 per ER) *(TBC)*

- Bidders must post a refundable deposit of $0.06 per ER that they wish to redeem (i.e., for each 2,500 ER Lot $150 must be deposited prior to the auction) *(TBC)*

- To become qualified to bid, auction applicants will undergo an Integrity Due Diligence screening

- The auction clearing price and the winners will be made public on the PAF website

- To be announced in the coming weeks:
  - Auction date (expected auction date January 2017)
  - Starting price in both segments
  - Minimum and maximum bid amounts for each segment
  - Confirmation of the size of the refundable deposit, and deposit due date and instructions
Both segments will be descending clock auctions

- Microphones must remain on mute

- Price (per ton)
- Quantity ($ millions)
- Fixed Supply (auction budget)
- Aggregate Demand (for options)

- $7: Starting price – Round #1
- $6: Round #2
- $5: Round #3
- $4.50: Round #4
- $4: Winning Price – Round #5

FOR EXAMPLE ONLY
AUCTION RESULTS WILL VARY

$6 million*
## Delivering the put option through a World Bank bond

<table>
<thead>
<tr>
<th>Key Terms of puttable bond</th>
<th>Process Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pilot Auction Facility Emission Reductions Notes: <strong>PAFERNs</strong></td>
<td>Auction winners will purchase bonds via World Bank’s Global Agent – Citi</td>
</tr>
<tr>
<td>Zero Coupon Bond</td>
<td>Bonds will be delivered in the form of Definitive Registered Certificates by Citi</td>
</tr>
<tr>
<td>Bond Final Redemption Amount: determined by auction</td>
<td>Citi will keep a registry of the Noteholders</td>
</tr>
<tr>
<td>Bond Issue Price (Premium): $0.30 per ton</td>
<td>Winners will not be required to open a custodian account</td>
</tr>
<tr>
<td>Bond holder receives payment of strike price for eligible carbon credits at the point of redemption</td>
<td>The World Bank will hold a specific webinar to answer questions about the PAFERNs, after the application package has been made public</td>
</tr>
<tr>
<td>Maturity of the Bond corresponds to final put option redemption date</td>
<td></td>
</tr>
</tbody>
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**WORLD BANK GROUP**

*Climate Change*

Microphones must remain on mute

**PILOT AUCTION FACILITY**

*For Methane and Climate Change Mitigation*
# How to Participate: Next Steps & Dates

<table>
<thead>
<tr>
<th>Step</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility criteria announced</td>
<td>September 21, 2016</td>
</tr>
<tr>
<td>Application package released/auction date announced</td>
<td>October 26, 2016</td>
</tr>
<tr>
<td>Bidder application due</td>
<td>Monday, November 28, 2016</td>
</tr>
<tr>
<td>Bid deposits due</td>
<td>January 3, 2017</td>
</tr>
<tr>
<td>Username/passwords distributed; trainings</td>
<td>First week of January</td>
</tr>
<tr>
<td>Mock auction</td>
<td>First week of January</td>
</tr>
</tbody>
</table>

**AUCTION DATE**

Tuesday, January 10, 2017
I am interested, what should I do now to prepare?

- Identify source of carbon credits to be issued after auction date and decide on bidding strategy (e.g., number of put options desired, lowest acceptable strike price)
- Review specific eligibility criteria posted on PAF website
- Prepare to pay refundable bid deposit
- If auction winner, prepare to pay option premium price to purchase put options
- Projects owners might be contacted by carbon aggregators and consultants that are interested in participating in PAF auctions
- Look for emails from PAF Secretariat and check the PAF website for deadlines – www.pilotauctionfacility.org
Future in person events featuring the PAF

- The PAF will host a series of events ahead of the third auction.
- Invitations have been communicated via email

<table>
<thead>
<tr>
<th>Location</th>
<th>Date</th>
<th>Time*</th>
<th>Time zone</th>
<th>Venue</th>
<th>Address</th>
<th>Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Webinar 1</td>
<td>Thursday, September 29</td>
<td>09:00 – 10:30</td>
<td>EDT</td>
<td>Webex Online</td>
<td></td>
<td>Register</td>
</tr>
<tr>
<td>Berlin</td>
<td>Thursday, October 13</td>
<td>12:30 – 15:30</td>
<td>CET</td>
<td>Scandic Hotel Potsdamer Platz</td>
<td>Stremannstraße 128 – 130 10117 Berlin</td>
<td>Register</td>
</tr>
<tr>
<td>London</td>
<td>Friday, October 14</td>
<td>08:00 – 10:00</td>
<td>GMT</td>
<td>Novotel Greenwich</td>
<td>73-185 Greenwich High Rd, London SE10 8JA</td>
<td>Register</td>
</tr>
<tr>
<td>Zurich</td>
<td>Tuesday, October 18</td>
<td>09:30 – 11:30</td>
<td>CET</td>
<td>Climate Cent Foundation</td>
<td>Freiestrasse 167 8032 Zurich</td>
<td>Register</td>
</tr>
<tr>
<td>Webinar 2</td>
<td>Tuesday, October 25</td>
<td>09:00 – 10:30</td>
<td>EDT</td>
<td>Webex Online</td>
<td></td>
<td>Register</td>
</tr>
<tr>
<td>Webinar 3 (In Spanish)</td>
<td>Tuesday, October 25</td>
<td>15:00 – 16:30</td>
<td>EDT</td>
<td>Webex Online</td>
<td></td>
<td>Register</td>
</tr>
</tbody>
</table>
More Resources

• Third auction eligibility criteria including specific methodologies and countries – Link

• Third auction EHS criteria – Link

• Questions and answers – Link

• First auction results – Link / Second auction results – Link

• Lessons learned from the first auction – Link

• World Bank puttable bonds: First auction – Link / Second auction – Link

• Summary of the day’s bidding in the 1st auction – Link
Thank you

For more information visit: www.pilotauctionfacility.org

Contributors

Germany  Sweden  Switzerland  United States

PAF Vendors / Agents / Partners

Citi  Climate & Clean Air Coalition  Linklaters

NERA Economic Consulting  BNP Paribas  Kommunal Kredit

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