



# **PILOT AUCTION FACILITY**

## **for Methane and Climate Change Mitigation**

VC with Pakistan Ministry of Climate Change  
March 17, 2015

# Outline

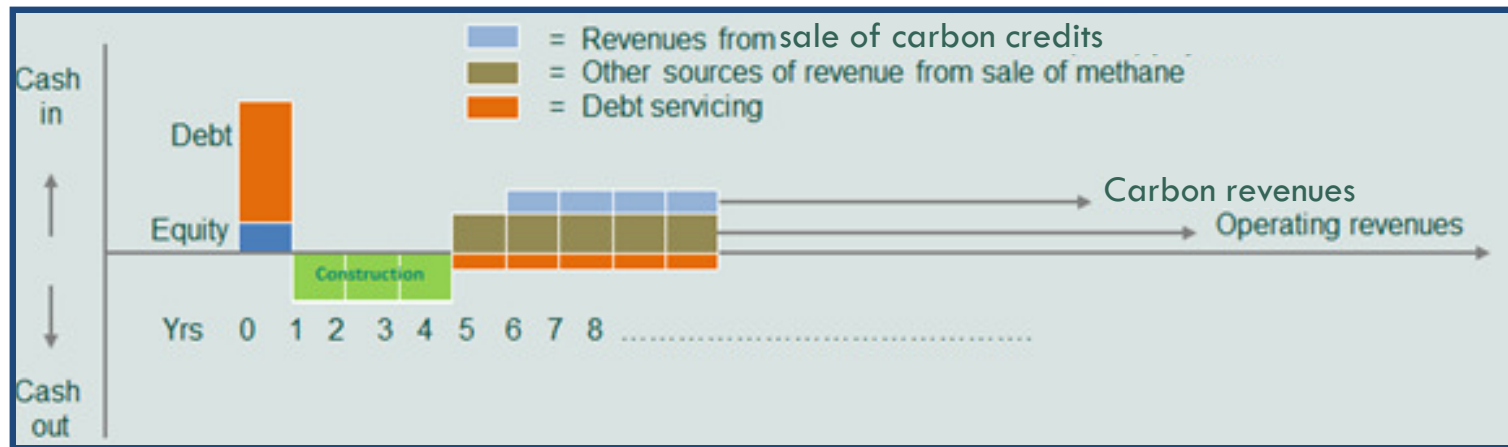
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## Objectives and Scope

- Pilots an innovative climate finance mechanism that uses auctions to maximize impact of funds
- Provides incentive for private sector investment in projects that reduce greenhouse gas emissions
- Disburses resources against independently verified emission reductions
- Initially targets methane
- \$100m target capitalization – learning a key objective for scaling-up or replication for use with other pollutants or other results



## What are emission reduction credits?



- Carbon offset standards provide methodologies to estimate the “baseline” emissions (emissions in the absence of the project) and calculate the reductions generated (a.k.a., carbon credits)
- 3<sup>rd</sup> party auditors verify that the project has operated as planned
- Incremental revenue helps overcome financial and non-financial barriers
- The Clean Development Mechanism is the most widely used standard

# Initial target: Methane mitigation projects

## Sample Supported Projects

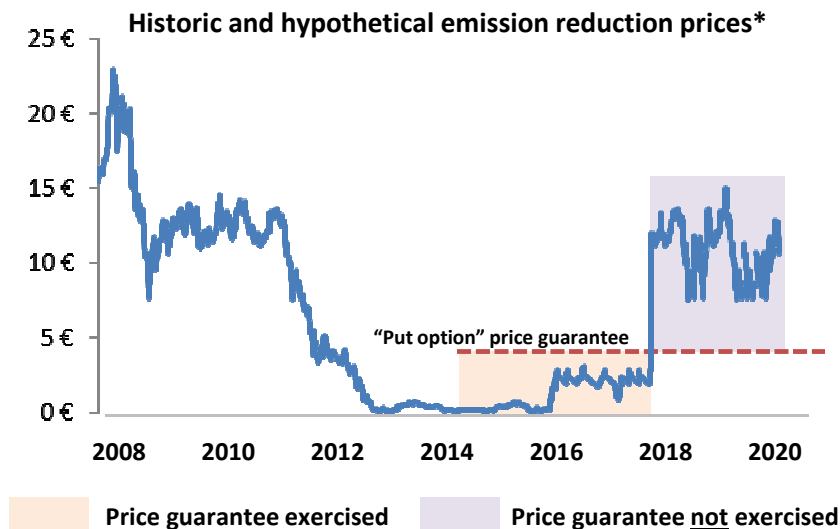


## Why Methane

- Methane is a highly potent greenhouse gas, 25 times that of carbon dioxide (CO<sub>2</sub>)
- Concerted action in methane sectors alone could lessen warming by 0.3 °C by 2050
- Methane aids in the formation of urban "smog" that is toxic to plants and crops and damaging to lungs, causing asthma and even heart attacks
- Captured methane can be burned for cooking or electricity generation
- ~1,200 CDM projects, capable of reducing ~850 Mt CO<sub>2</sub>e until 2020, were identified as stranded – the initial target of the PAF

## The PAF will offer a price guarantee by using the financial equivalent of a put option


- Market prices collapsed, stranding projects with no incentive to reduce emissions
- The PAF will pilot using “put options” to guarantee a floor price
- Put options give the right, but not the obligation to sell at the guarantee price



- The auction result sets the guarantee price level
- Auctioning ensures that the least-cost climate mitigation activities are selected
- Auction winners purchase the price guarantee (pay put 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

# Project selection criteria

The PAF uses a list of transparent eligibility criteria for emission reductions

## Sectors

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- The first auction will target methane
- Final list of sectors announced soon
- Waste, waste water and agricultural waste likely eligible
- Other (including non-methane) sectors in future auctions

## Countries

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- Most CDM countries will be eligible in the 1st auction
- Country-specific future auctions possible

## Emission reductions

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- First auction will likely accept only CDM credits – thus projects will have to be CDM registered
- Credits must be “fresh”, issued post auction
- Future auctions may be open to other standards

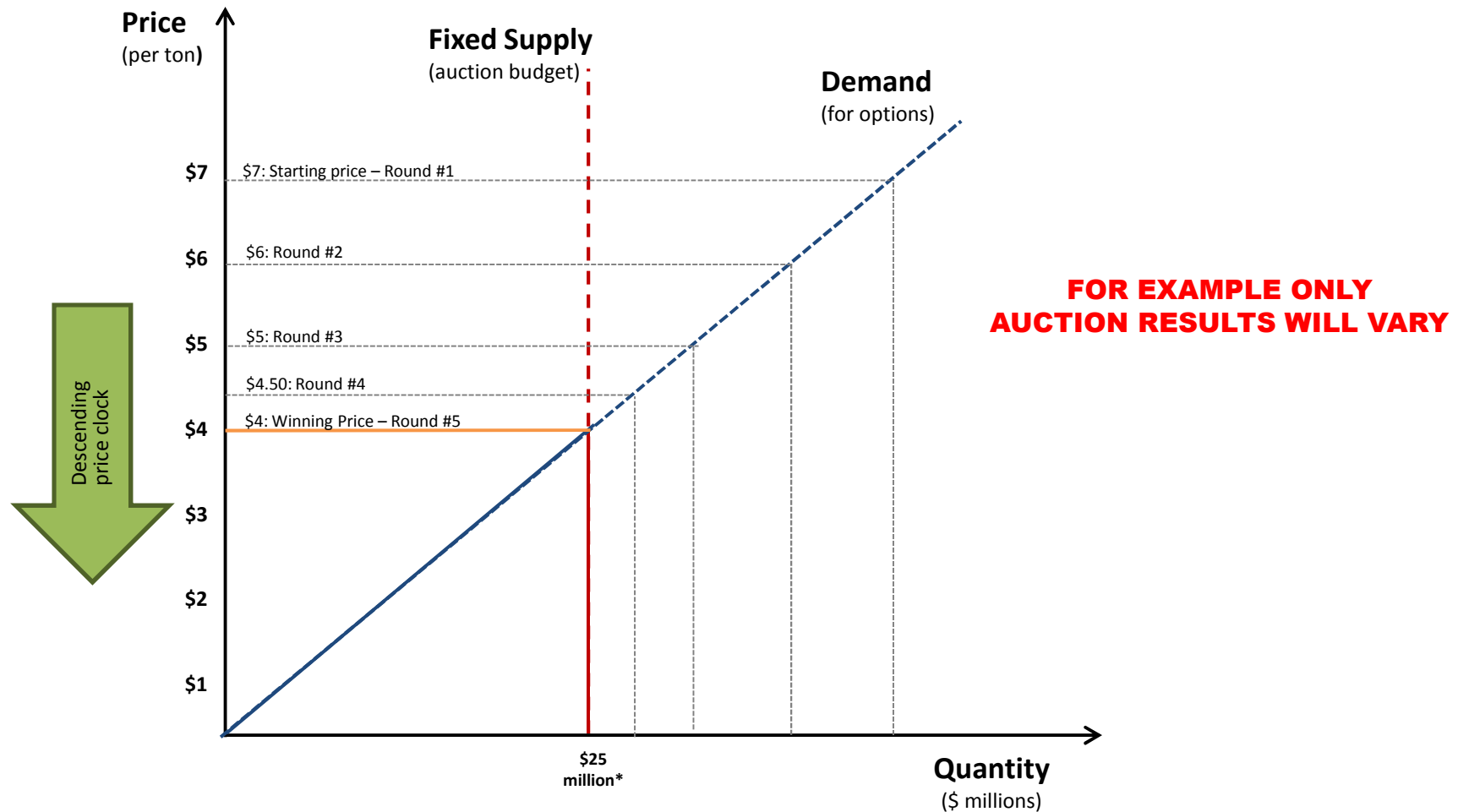
## Environmental, Health & Safety

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- To review environmental, health and safety risks of the project an audit against key performance criteria will be required just prior to put option redemption
- Audit to be performed by a CDM DOE (could be the same that performs CDM verification)
- The cost of the EHS inspection is to be borne by the option owner
- The EHS audit will be required with each put option redemption (i.e., annually)
- The EHS criteria are being worded so as to be readily answered, in order to achieve a pass or fail result.



# How the auction will work: descending clock auction



\* Auction budget will actually increase as bid decrements tick lower (b/c more options get sold). In this example the initial \$25m budget will generate ~\$3.5m in premium back into the auction. The use of premiums to increase the size of the auction will happen in real time in the online platform.

# Thank you

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



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## Pilot Auction Facility for Methane and Climate Change Mitigation

The PAF is an innovative pay-for-performance instrument that will use auctions to maximize the use of limited public resources for climate change mitigation while leveraging private sector financing.

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**The Pilot Auction Facility** is a model developed by the World Bank Group to stimulate investment in projects that reduce greenhouse gas emissions. [Read More](#)  
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**How it works:** The PAF's results-based payment mechanism will set a floor price for future carbon credits. [Read more >>](#)



**Brochure:** The facility will begin with projects that reduce methane, including from livestock waste. [Read more >>](#)