



PILOT AUCTION FACILITY

for Methane and Climate Change Mitigation

Carbon Expo Side Event
May 28, 2015

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 FURTHER, IT IS CURRENT ONLY AS OF THE DATE OF THIS PRESENTATION AND IS LIKELY TO BECOME OUTDATED AS THE PAFERNS LEGAL DOCUMENTATION IS DEVELOPED.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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Introduction Video



Introduction: Supporting methane mitigation

Sample Sectors



Why Methane

- Methane is a highly potent greenhouse gas, 25 times that of carbon dioxide (CO₂)
- 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 projects, capable of reducing ~850 Mt CO₂e until 2020, were identified as stranded – the initial target of the PAF



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
- \$100m target capitalization – learning a key objective for scaling-up or replication for use with other pollutants or other results



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

- The PAF will use a puttable bond to set a CER floor price w/o the obligation to sell (i.e., equivalent to a put option)
- PAFERN = World Bank PAF Emission Reductions Note (a.k.a., bond) will be an IBRD issued tradeable security
- Issue Price of PAFERN = financial equivalent of premium of the put option
- Final Redemption Amount of PAFERN = financial equivalent of strike price



- The auction result sets the Final Redemption Amount of a PAFERN
- Auctioning ensures that the least-cost climate mitigation activities are selected
- Auction winners purchase PAFERNs for their Issuance Price

Eligibility Criteria for First Auction (1 of 3)

- All eligibility criteria will stay fixed over the life of put options issued from the first auction
- First auction eligibility criteria released March 30, 2015
- Future PAF auctions may have different criteria

A. Eligible Emission Reductions

- All emission reductions must be Certified Emission Reductions (CERs)
- CERs must not be subject to purchase agreement contract with a third-party

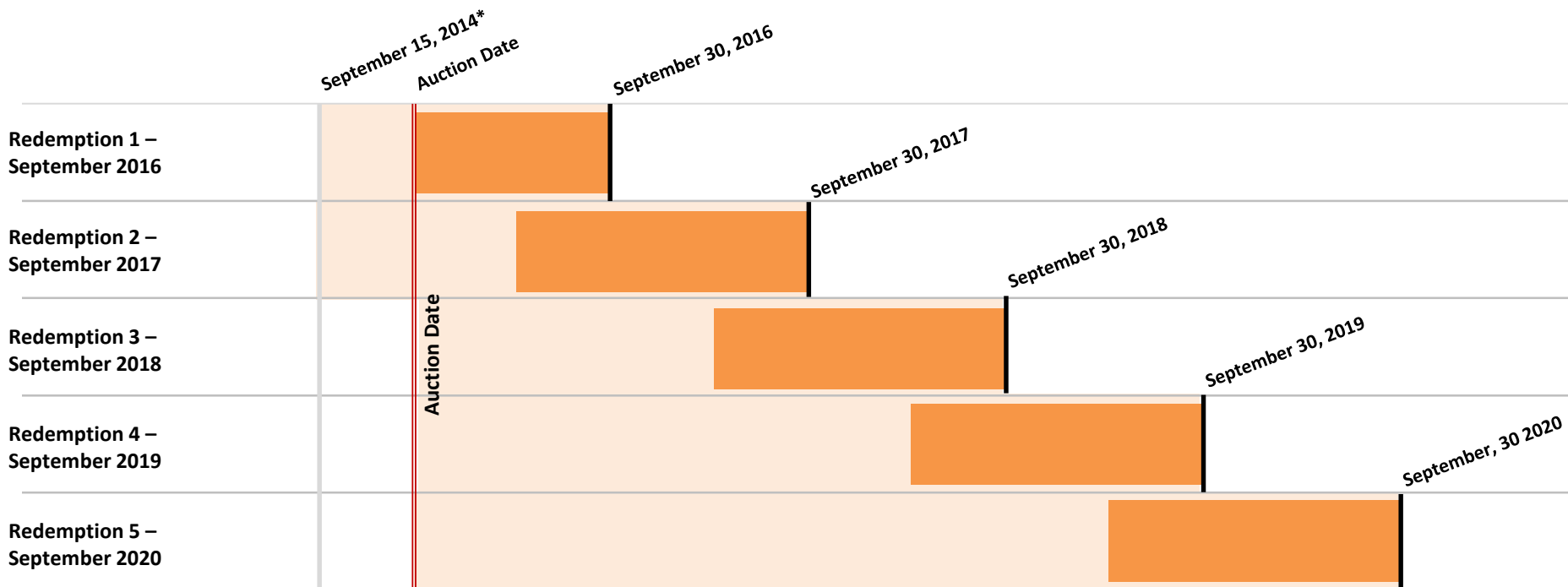
B. Eligible Methodologies

- 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

- 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 First Auction (2 of 3)



Key

-  Accepted Issuance Dates
-  Accepted Monitoring Period Dates
-  Auction Date
-  Redemption Period Start
- * Announcement of the PAF on September 15, 2014

Eligibility Criteria for First Auction (3 of 3)

Environmental, Health & Safety and Social Criteria

- The EHS criteria for the first auction is found on the PAF Website
- Emission reductions must originate from a CDM project or Program of Activities that has received a positive environmental, health & safety and social (EHS) report from an accredited Designated Operational Entity (DOE) at the time of the report which is to be dated no more than 547 days prior to the redemption date
- 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

Auction Criteria -- Confirming Eligibility

Role of the Verification Agent

- A verification agent has been hired to check the eligibility of the CERs at the time of delivery
- Verification agent will check that the CERs identified in the Redemption Notice are eligible as per the eligibility criteria (by reviewing the relevant CDM Verification Report on the UNFCCC website) and review the EHS & Integrity report (submitted together with the Redemption Notice) to confirm that it has a pass grade (First Check)
- Verification agent will confirm that the CERs transferred to its account are the same CERs reviewed (Second Check)
- These two checks will be done as desk reviews and will not include any site visit
- There is no cost for the project owner for these checks

Auction Parameters (1 of 2)

Parameters Previously Announced March 30, 2015

- The auction budget is \$25 million
- PAF will use a puttable bond that will have the same properties as a put option
 - The Issue Price = financial equivalent of premium of the put option
 - Final Redemption Amount = financial equivalent of strike price
 - Bonds called Pilot Auction Facility Emission Reductions Note (PAFERN)
- One PAFERN = 2,000 CERs with an Issue Price of \$600 (i.e., \$0.30 per CER)
- Winners purchase a complete series of 5 PAFERNs, redeemable annually for 5 years
- After completing the application firms will undergo an Integrity Due Diligence screening and pay a refundable deposit to become qualified to bid

Auction Parameters (2 of 2)

Parameters Announced Today – May 28, 2015

- Auction date will be **Wednesday, July 15**
- Bidder application deadline is **June 25, 2015**
- Bid Unit = **10,000 CERs** (i.e., 2,000 CERs x 5 Maturity Dates)
- The minimum bid will be for **100,000 CERs** (10 Bid Units)
- The maximum bid will be **2,000,000 CERs** (200 Bid Units)
- The deposit will be **20%** of the Issue Price or **\$600/Bid Unit**
- Starting price in the auction will be **\$8/CER (the equivalent of \$80,000/Bid Unit)**

NOTE: FOR INFORMATION ONLY

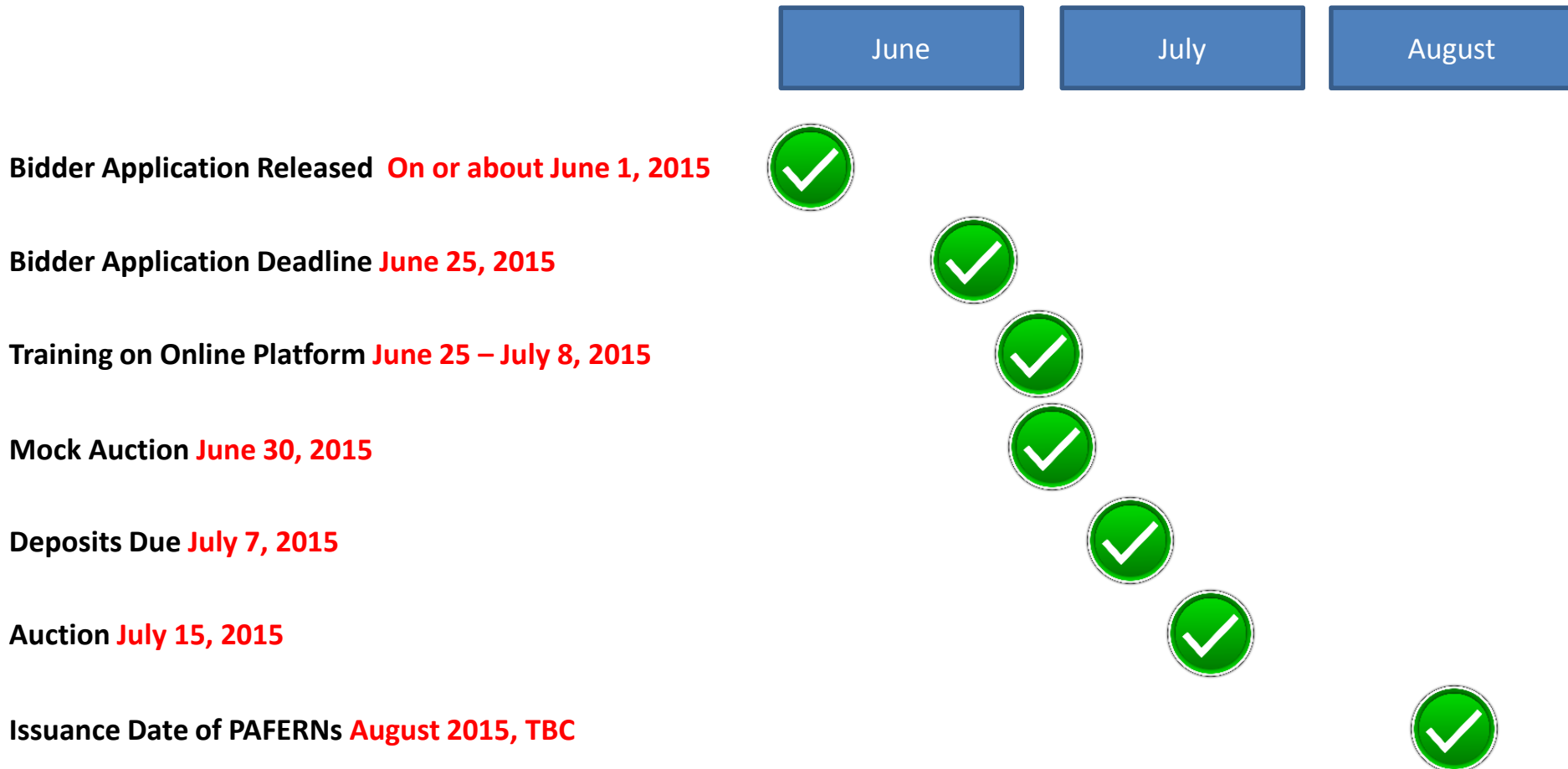
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Consultations and interest to-date

- CCAC Partner engagement 2013-2014
- Private sector consultation, London, UK – June 2, 2014
- Global webinar – October 24, 2014
- South East Asia, Bangkok, Thailand – January 29, 2015
- South Asia, New Delhi, India -- February 2, 2015
- Latin America, São Paulo, Brazil -- Tuesday, March 17, 2015
- Pakistan, via Skype Conference -- March 18, 2015
- Latin America, Bogotá, Colombia -- March 19, 2015
- International Solid Waste Association Webinar – March 31, 2015
- Global webinars (2x) -- April 8, 2015
- Global webinar review of PAFERN Key Terms – May 21, 2015



Upcoming Steps -- In Calendar View



Under Review for second auction

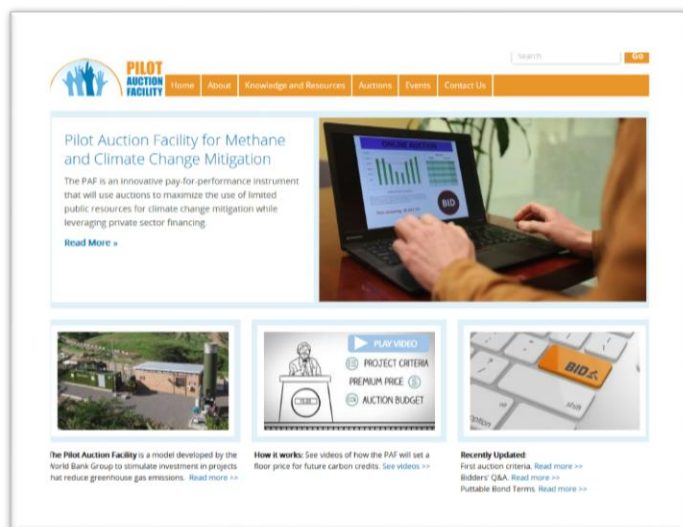
Being Reviewed by PAF Participants

- Expansion to additional carbon credit standards (in addition to CDM)
- Alternative eligible sectors and/or sub-sectors (in addition to methane)
- Geographic focus or carve-out (to target poor countries)
- Forward auction where price guarantee is fixed, and premium is bid upward
- General lessons learned from 1st auction process



Thank you

Please send your questions to PAF_Secretariat@worldbank.org



www.pilotauctionfacility.org



Germany



Sweden



Switzerland



United States

PAF Contributors