Environmental Price Assurance Facility

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Concept: Mitigate the revenue risk carbon offset projects can face.

Problem: Landowners are unwilling to enroll in projects where uncertainty around potential value of the offset revenue stream exists.

Solution: The Climate Trust will auction off put options that can serve as a guaranteed price floor for new projects.
What’s a Put Option?

• **Put Option** – An option contract, giving the owner *the right, but not the obligation*, to sell.
Proven Concept- World Bank Pilot Auction Facility

- Demonstrate a new cost effective mechanism to incentive private sector investment
- Originated from 2012 Methane Finance Study Group
- 1,200 project 850 million mtCO$_2$e in reductions at stake
- Risk due to low carbon market prices
Auction Results

1. June, 2015
- Auction Clearing Price: $2.40 per tCO₂e
- Put option strike price
- Bidders: 23
- Countries: 17
- Volume of put options sold: 8.7 million tCO₂e
- Put option premium: $0.30/CER
- Number of auction rounds: 11

2. May, 2016
- Pilot Auction Facility Second Auction Results
- Auction clearing price/put option premium: $1.41 per tCO₂e
- Auction Rounds: 10
- Bidders: 21
- Countries: 12
- Volume of put options sold: 5.7M tCO₂e

3. January, 2017
- RESULTS
- Future Benefit: $2.10 per tCO₂e
- Future Climate Impact: 6.2 million tCO₂e
- Put Option Premium: $0.30 / Carbon Credit Auction Budget
- Winners:
  - Allcot AG
  - Belektron d.o.o
  - Gases de Metano
  - Shell Trading International Ltd.
  - Sistemas Eléctricos Metropolitanos
  - Statkraft Markets GmbH
  - South Pole Carbon Asset Mgmt. Ltd.
  - WeAct Pty Ltd
- 13 Bidders from 9 Countries
- 5 Winners from 5 Countries

THE CLIMATE TRUST
$10 million price guarantees from Environmental Price Assurance Facility
The EPAF provides put options to investors, project developers and landowners which guarantee a minimum value for environmental credits.

$20 million investment of private carbon finance
Based on The Climate Trust’s experience raising a $5.5 million investment with a $2.75 million put option, it is assumed that each dollar of price guarantee leverages two of private carbon finance investment.

$46.67 million investment of private, more traditional project finance
On average, carbon finance covers roughly 30% of the capital cost of projects in The Climate Trust’s portfolio. The availability of carbon finance leverages the remaining 70% of finance needed to build a project.

Worst Case
Environmental markets end
→ pay for performance
If put options are exercised, verified environmental credits are retired on behalf of EPAF’s funders.

Anticipated Case
Environmental markets continue
→ funding revolves
If put options are not exercised, the original funding revolves into new risk mitigation.

2x leverage
~2.33 x leverage
Environmental Price Assurance Facility

- Grant proposal to USDA to bring the World Bank’s Pilot Auction Facility concept to domestic agricultural and forestry offset projects.

- The Climate Trust (NGO) commits $2 million to purchase agreement. The Climate Trust agrees to purchase and retire up to $2 million of credits, if acquired by EPAF.

- USDA CIG agrees to a $2 million grant agreement. ~$1 million to cover operational expenses. ~$1 million to capitalize the EPAF.

- Environmental Price Assurance Facility (EPAF) is at the center of the ecosystem, facilitating the transaction with various stakeholders:
  - Project developers
  - Landowners
  - Green investors
Design Questions

• What should we auction?
  • The premium or the price?

• Tradability?
  • Should put option holders be able to sell this contract?

• Markets?
  • Compliance and/or voluntary?

• Term
  • 2 years? 5 years? 10 years?
THANK YOU!

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