



PILOT AUCTION FACILITY

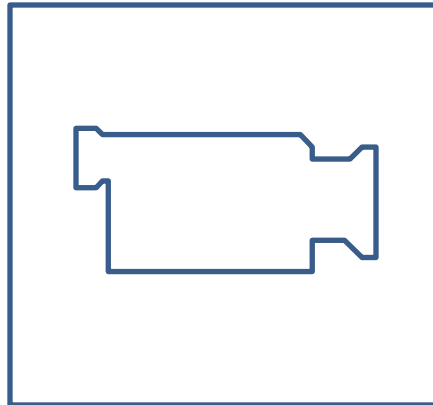
for Methane and Climate Change Mitigation

Veolia Institute

Mitigating methane emissions - From science to innovative solutions

November 09, 2015

Introduction video



[Play Video](#)

Video recap --The PAF's objectives and scope

1. Pilots an innovative climate finance mechanism
2. Uses auctions to maximize impact of funds
3. Provides incentive for private sector investment in GHG reducing projects
4. Pays only upon results
5. Learning a key objective for scaling-up or replication for use with other pollutants or other results -- \$100m target capitalization



The CCAC has been instrumental in the design and launch of the PAF

The CCAC Secretariat serves as an official observer to the PAF's governance



PAF offers a price guarantee for methane projects to sell their carbon credits

- Carbon credit prices collapsed, stranding projects with no incentive to reduce emissions
- The PAF sells “put options” to guarantee projects a floor price for carbon credits



- The auction result set the guarantee price level (a.k.a., strike price)
- Auctioning ensures that the least-cost climate mitigation activities are selected
- Auction winners purchase the price guarantee (a.k.a., premium)

First auction eligible sectors

First auction sectors



Other sectors identified



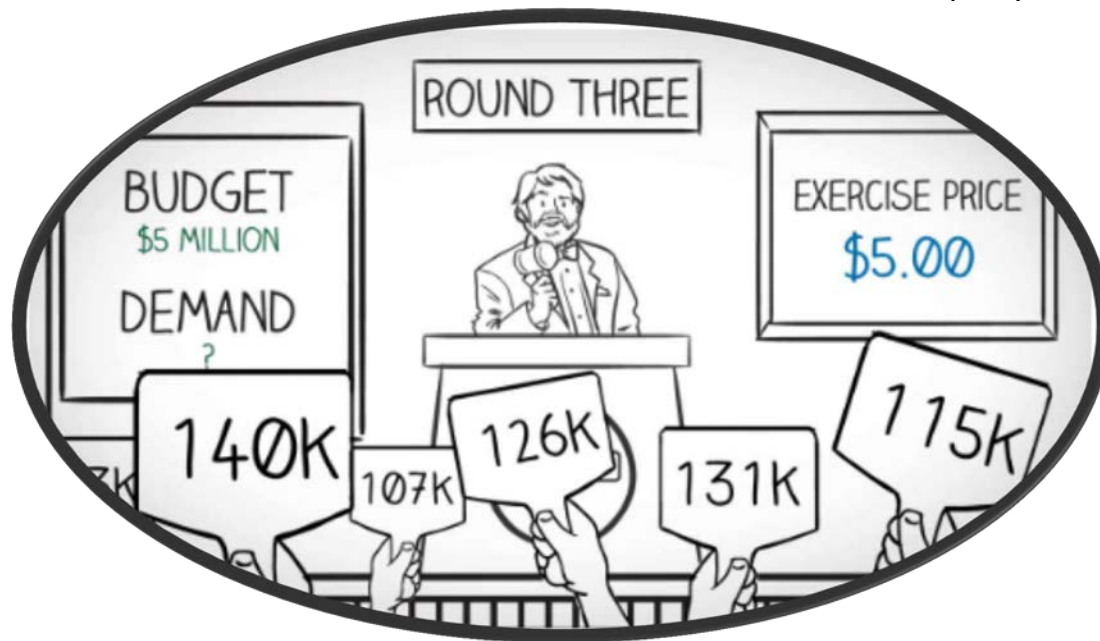
First auction parameters and eligibility of credits

Auction parameters

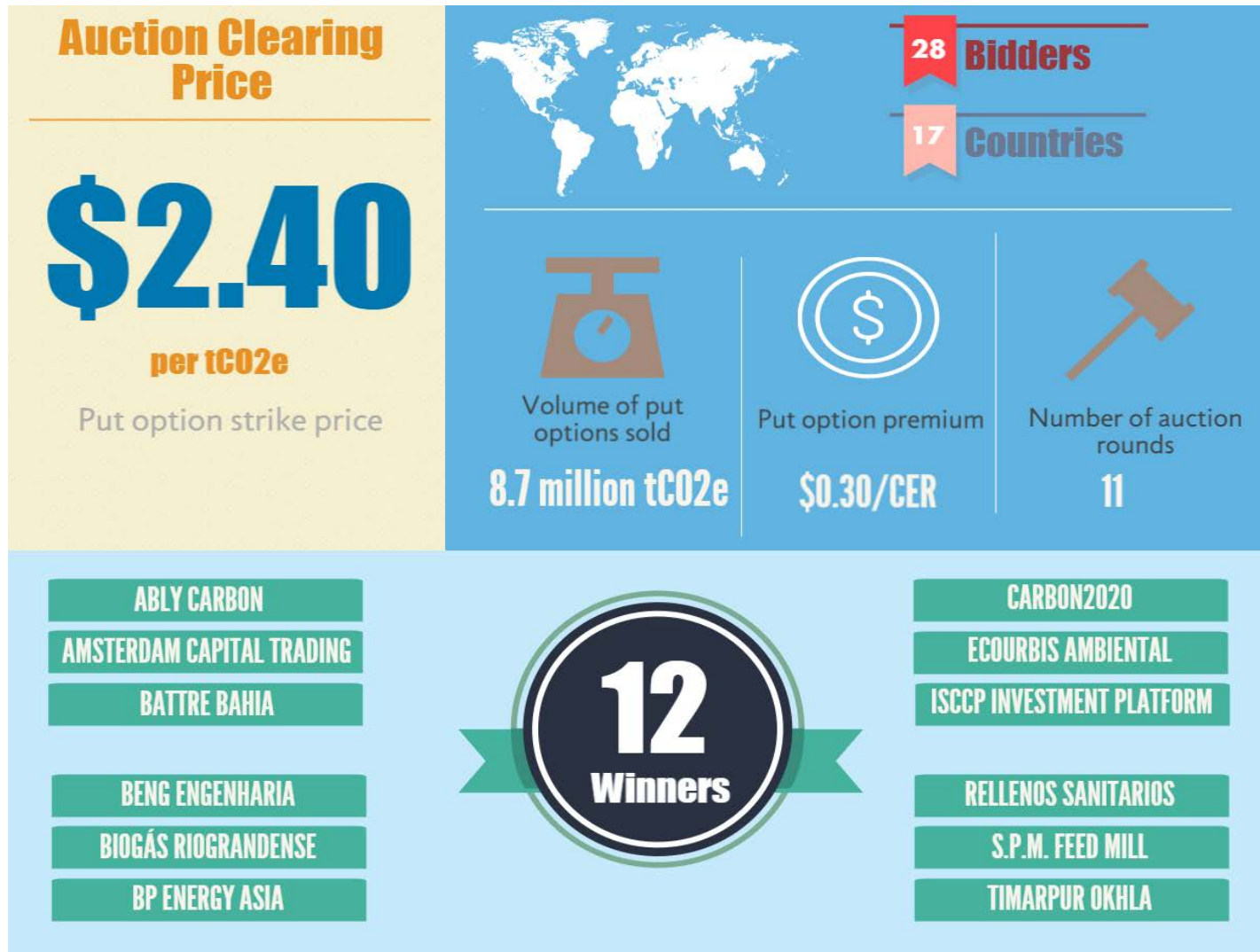
- Auction date was Wednesday, July 15, 2015
- The auction budget was \$25 million
- The minimum bid was for 100,000 CERs; maximum bid is for 2,000,000 CERs
- First round started with guarantee price of \$8/CER
- Prices were bid down in 11 successive rounds

Eligible carbon credits

- Must be Certified Emission Reductions (CERs)
- Originate from a project that uses methodologies in the waste, waste water and agricultural waste sectors
- Originate from an eligible developing country (130+)
- Originate from a project that has obtained a positive environmental, health & safety and social (EHS) report from an accredited 3rd party auditor



First auction result



Next steps

Subsequent PAF auctions

Fundraising ongoing to achieve \$100m capitalization target (\$53m to-date)
Two or three more pilot auctions, expected in 2016/2017
Each auction will test different auction techniques
Discussion among participants regarding sectors of focus for future auctions

Potential replication & scale-up

PAF-like approach may be used by countries to achieve domestic mitigation or support other goals (air pollution, energy access, etc.). These easy gains could be exploited by countries in achieving their INDCs. Also the mechanism has potential to be significantly scaled-up, with resources from the GCF or other public funders, to support mitigation projects in various sectors

Lessons learned

The PAF will release a detailed review of the establishment of the facility and the first auction to share lessons with institutions that might replicate the approach. Lessons will include such topics as auction design, eligibility criteria, marketing to bidders and risk management

Oil & gas

World Bank has published a study on the potential application of a PAF-like mechanism to the oil & gas sector with a particular focus on leak reduction and gas flaring

Applying the PAF mechanism to oil & gas

Study

- Study focused on applying a PAF-like mechanism to flaring and methane emission reductions in the oil and gas sector
- The sectors own emissions represents 8% of global GHG emissions
- Barriers hinder emission reduction efforts. The Study reviews the potential for PAF-like mechanism to provide financing to projects at risk

Potential Opportunity Sectors to Apply PAF Mechanism

- Small and medium scale projects in gas flaring score best on applicability test
- Leak detection, repair programs (LDAR) and investments in various equipment (pneumatic devices, pumps, gas engines and compressors) are the primary project categories suitable for a PAF-Like mechanism



See briefing Note: Pilot Auction Facility for emission reductions in the oil and gas sector, Oct. 29, 2015 produced by *Carbon Limits*, available at www.pilotauctionfacility.org.

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