

Brice Quesnel  
Fund Management Team Leader,  
Carbon Finance Unit  
Climate Policy & Finance Department,  
The World Bank

**Project Developer Forum Ltd.**  
100 New Bridge Street  
UK London EC4V 6JA

Europe: +44 20 7121 6100  
Asia: +65 6578 9286  
office@pd-forum.net  
www.pd-forum.net

**CHAIRPERSON:**  
Gareth Phillips  
[gareth.phillips@pd-forum.net](mailto:gareth.phillips@pd-forum.net)

**CO VICE CHAIRPERSONS:**  
Sven Kolmetz  
[sven.kolmetz@pd-forum.net](mailto:sven.kolmetz@pd-forum.net)  
Rachel Child  
[Rachel.child@pd-forum.net](mailto:Rachel.child@pd-forum.net)

**To** [REDACTED]  
**From** [gareth.phillips@pd-forum.net](mailto:gareth.phillips@pd-forum.net)  
**Date** 16<sup>th</sup> July 2014  
**Page**  
**Subject**

**Comments from PD Forum on the 2<sup>nd</sup> June consultation with  
representatives of private sector firms on the Pilot Auction Facility**

Dear Mr Quesnel,

Thank you for taking the time to meet with some of the PD Forum members and myself at Carbon Expo. For those of us who were unable to attend the 2<sup>nd</sup> June meeting in person, this was very informative.

We would like to take this opportunity to once again express our support for the development of this initiative and we are pleased to note that many of the points we raised in our letter from January this year have been taken on board.

With regards to the most recent presentations we would like to raise the following questions / notes, in no particular order:

**Outreach:** it is critical that as many project developers as possible are aware of the changed nature of the facility and that whilst it currently plans to focus on methane, there is every chance that it will expand to cover other sectors and standards. PD Forum members are active in many areas and we hope that we can assist in reaching out to other developers. To help in the process, it may be useful to provide more information on how the auction process will function and specifically, what kind of data project developers will need to have at hand in order to participate effectively in the bidding process.

**Availability of DOEs and DOE prices:** Some developers have already raised concerns about the role of the DOEs in the verification process. Particularly in the case of methane related emissions, experts are less available and whilst at present the costs of verification are relatively very low, if there is an increase in the level of business activity for specialist areas of expertise, we may see prices starting to rise once again to the levels seen in 2013. This presents a significant risk for project developers who bid into the process at a fixed price. In effect, the developers are taking on a significant amount of risk with regards to the costs of verification. To help to reduce this risk, we would propose that the Facility builds in flexibility over the timing of delivery of CERs so that we avoid a situation where, for example, all CERs generated in 2014 need to be surrendered by 31/12/2015. Placing the emphasis on the vintage of generation and not the date of surrender will give project developers much greater flexibility in the timing and scope (i.e. multiple years) of verification engagements and avoid creating bottle necks in DOE availability and hence price spikes.

**Bidding process:** clarity is sought as to exactly how the auction concludes. For example, when the number of CERs \* the strike price exceeds the available resources (e.g. USD25m), is it your intention to then pro-rate the CERs to all bidders? For example, if there are 5.5 million CERs bid at \$5, will each participant receive 90.9% (5/5.5) of their final bid? The reason this is important is that projects may be viable when selling 100% of their output but not viable when this volume decreases. The result is that the auction process should try to avoid "lumpy" increases or decreases in the volume bid into the auction in successive rounds and therefore the change in strike price or bid price should be small. For example, the auction

might progress in 5 cent or 2 cent intervals. We assume that the auction designers will be aware of these kinds of issues.

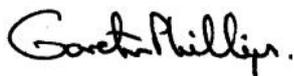
Funding the bid price: Paying cash up front to purchase the put option is a significant challenge to project developers many of whom are already cash strapped. There is a real danger that this mechanism will tend to support well capitalized investors in larger middle income countries or those holding OECD assets and at the same time discriminate against LDC and NGO based activities, whilst in many cases it is NGO and LDC based actors who are in most need of support. We understand the desire to auction a put option but in order to ensure that at least some of the most vulnerable actors and those promoting projects with high sustainable development benefits are supported, we propose that:

- a) The World Bank explore other sources of low-cost short-term support for project developers (similar for example to the existing CDM loan scheme); and
- b) The strike price is auctioned whilst the price paid for the put options remains fixed. Although in the end, the result is the same, fixing the price of the put options will help project developers manage their preparations for the auction because they will be able to calculate the amount of cash they require in advance of the auction. The auction should be structured in this manner because available cash may be the limiting factor for many developers.

World Bank Safeguards Risk: The Pilot Auction Facility needs to address the risk that investors run in buying tradable options and finding that the World Bank Group will not clear the project on safeguards grounds when the option are put back to the Fund. We would request that the Auction Facility is explicit on the criteria which project must meet and that these are addressed by having a registered CDM project which uses the appropriate methodology and has been validated and verified by a DOE which was suitably accredited at the time. We note that extending the scope of the auction to VCS and Gold Standard credits could pose a greater risk because of the lack of any host country LoA which specifically confirms that the project contributes to the host's sustainable development.

We look forward to further engagement on this topic.

Kind regards,



Gareth Phillips  
Chair, Project Developer Forum