



Forest Carbon Partnership Facility

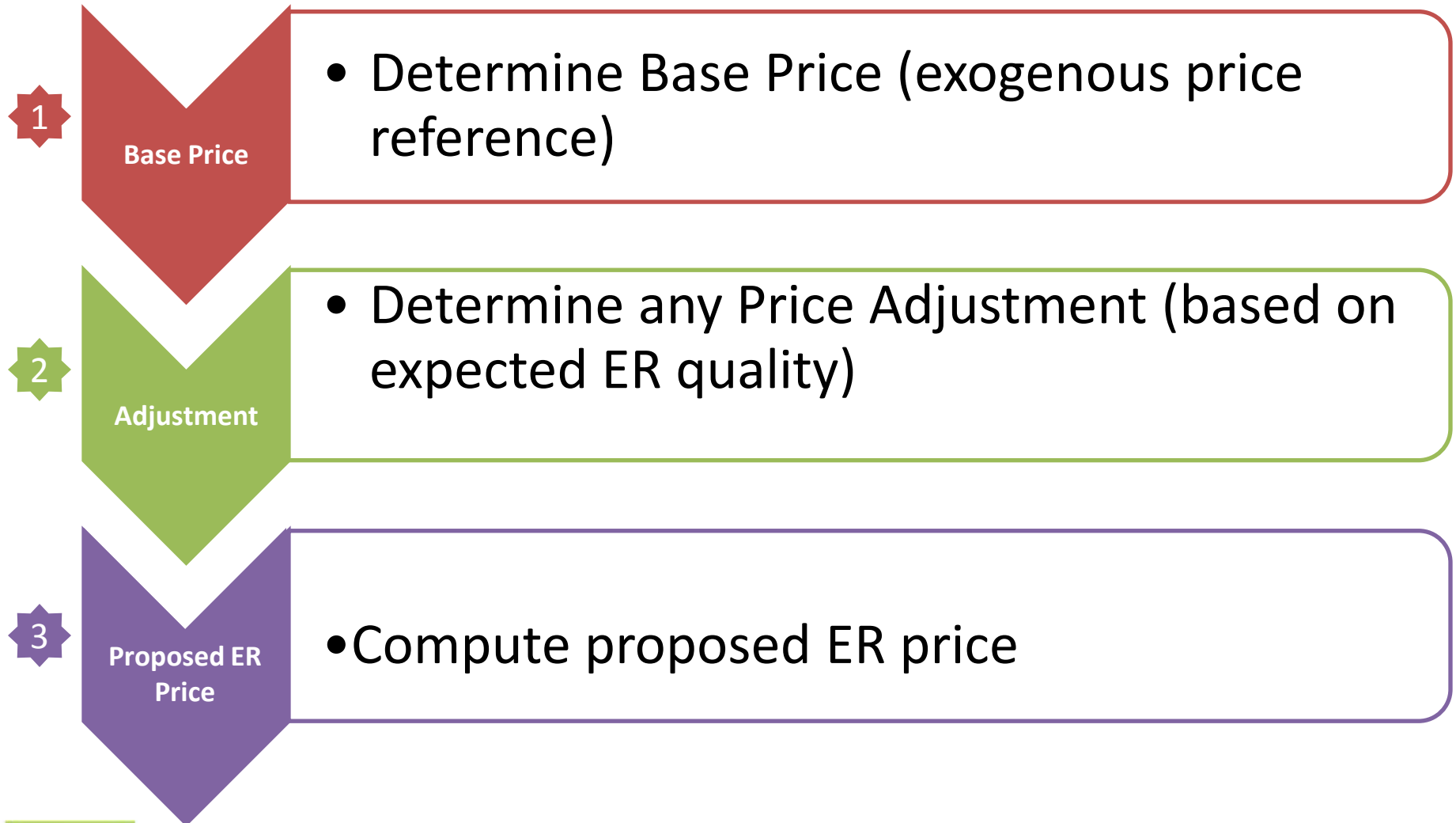
Carbon Fund: Pricing and Valuation Approach - recap from VC September 2011

Second Meeting of the Carbon Fund (CF2)

Berlin, Germany

October 21-21, 2011

Proposed steps in price formation - recap



Price formation recap – Base Price

1

Base Price

- Basic considerations in setting Base Price:
 - What is the reference for setting the price at a certain point in time:
 - Survey (transaction benchmark);
 - Quotations;
 - Auctions.
 - Does the price have a Fixed Value (set at ERPA signature) or a Floating Value (e.g. reference at ER delivery) or a Combination of Fixed + Floating
 - Set parameters for the following formula:
$$P_{base} = (1 - x)P_{fixed} + xP_{deliv}$$
 - Will ERPAs set a price floor and price ceiling?

Price formation recap – Adjustment

- Basic considerations for considering a price adjustment:
 - Will the Carbon Fund recognize possible differences in quality between ER Programs beyond the minimum standard?
 - If so, will this affect:
 - the ERPA price (price premium); or
 - the contracted ER volume (risk adjustment); or
 - both?

2

Adjustment

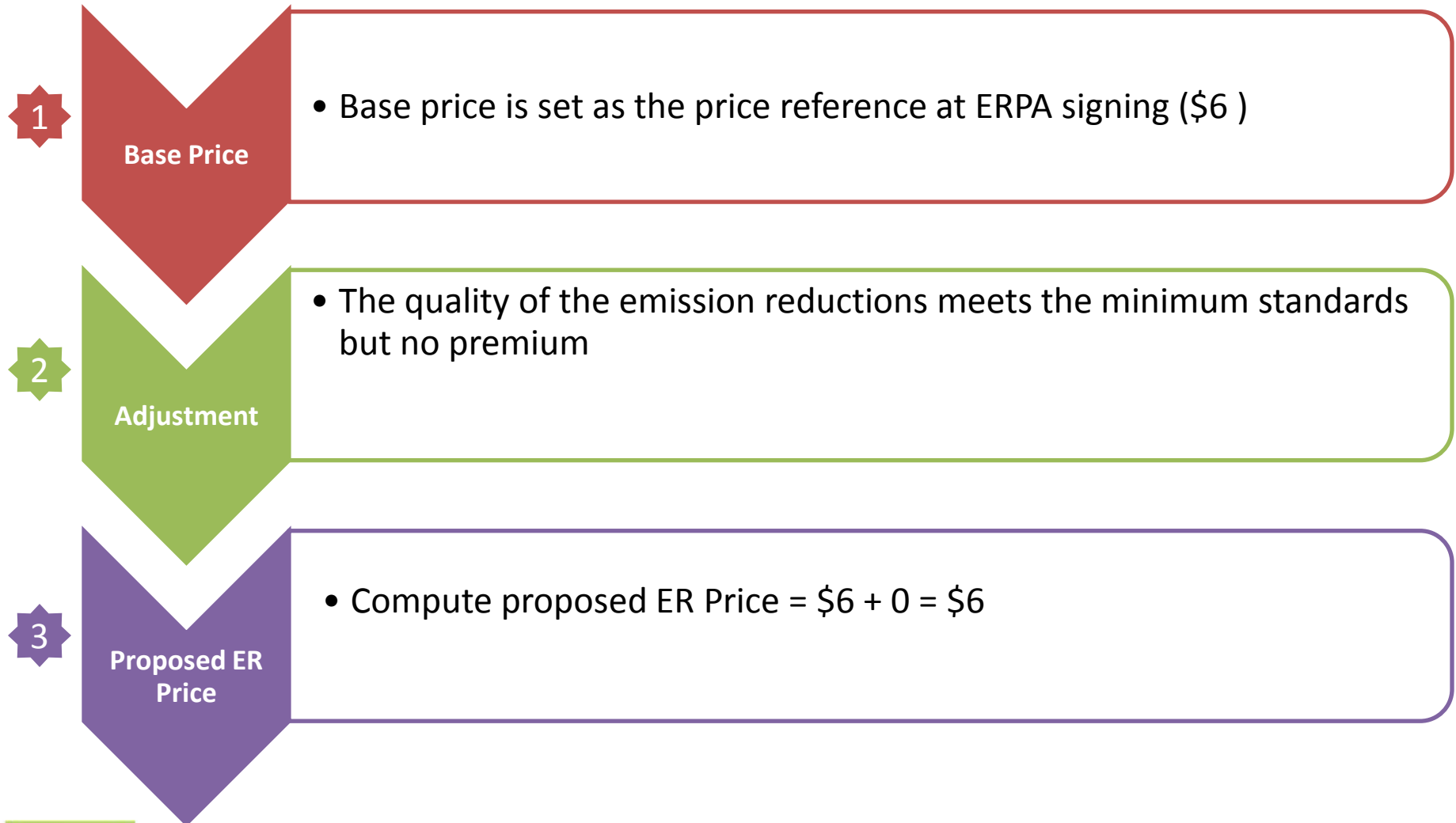
Price formation recap – Proposed ER Price

Compute proposed ER Price

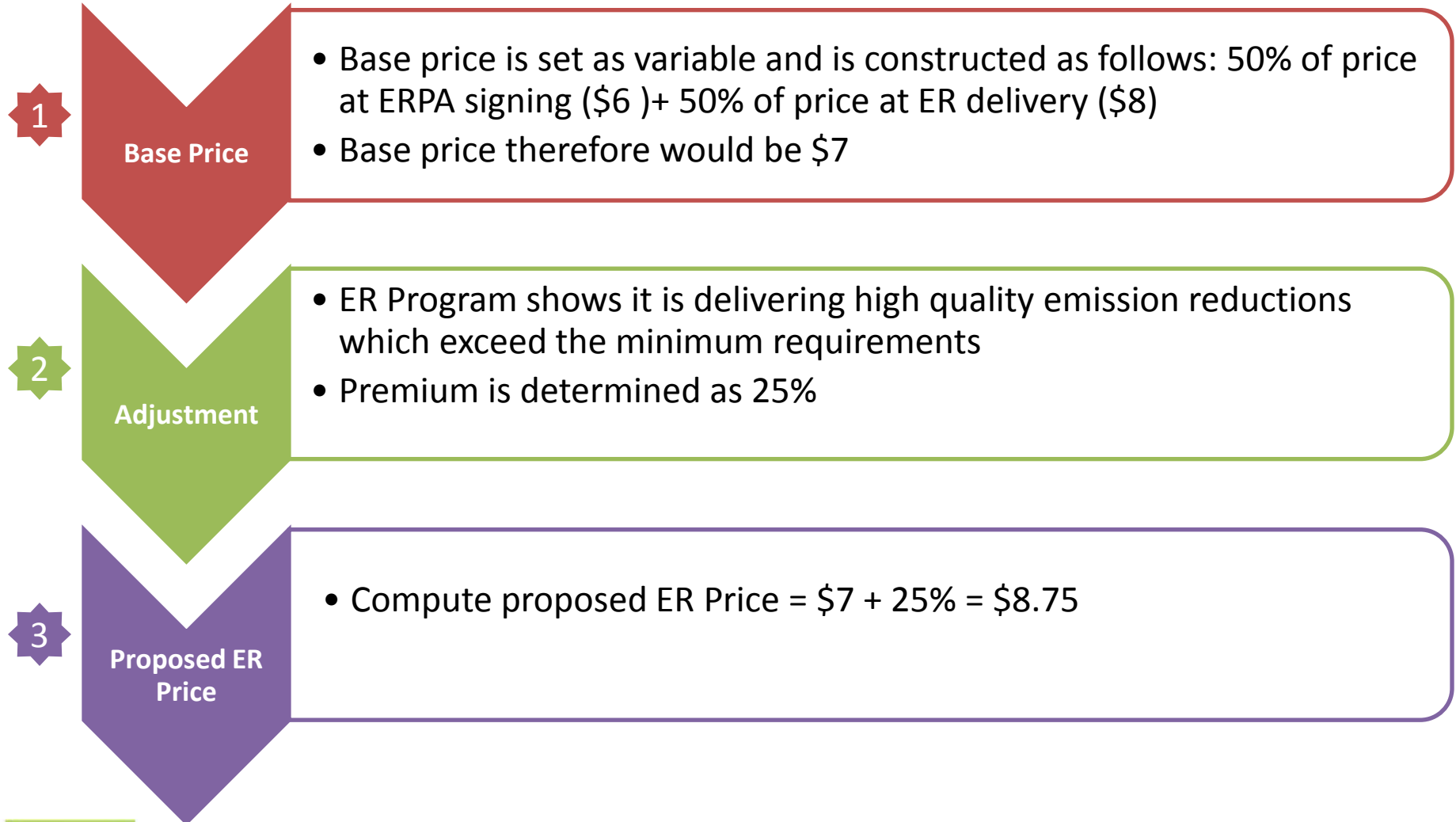
$$\begin{array}{r} \text{Base Price} \\ + \quad \text{Premium} \\ \hline = \text{Proposed ER Price} \end{array}$$



Price formation – hypothetical example (1)



Price formation – hypothetical example (2)



Discussion points - general

- Is the proposed approach fair? Too complex? Too basic?
- Can this work for different types of ER Programs
- What are possible alternatives?
- Will the Carbon Fund recognize possible differences in quality between ER Programs beyond the minimum standard?

Discussion points – base price (1)

- Is there a preference for fixed pricing, variable pricing, or combination?
- Should the base price (formula) for ERs be set for each ERPA individually or predetermined for the whole Carbon Fund?
- In case of combining fixed and floating portions, should the same valuation method be used for both, or could they each use a different valuation method?

Discussion points – base price (2)

- Is there a preference for the kind of valuation method to be used (surveys, price quotations, auctions)?
- For surveys and quotations:
 - Which initiatives or organizations?
 - How many?
 - Take average?
 - Need independent review?
- How often should the references be reviewed?
 - Periodically (e.g., every 6 months or every year)?
 - For each ERPA?

Discussion points – price floors and ceilings

- Should either (or both) be considered?
- If so, should they preset and the same for all ERPAs or be set individually for each ERPA?

Discussion points – price adjustments

Assuming there is a price premium:

- What is the basis for differentiating in quality:
 - What are the elements that would justify a higher price?
 - Can this be build into the Methodological Framework or should a different approach be used?
- How will a price premium be set:
 - How many quality levels?
 - How to apply Premium: % or \$ value?
 - If %, should the premium be applied to the whole base price (fixed & floating portions) or only the fixed portion?
 - How much would the premium be?



THANK YOU!

www.forestcarbonpartnership.org