Private Financing for
Certified Emission Reductions

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“Carbon reached €9 ($12) a tonne, a record price since the market became truly liquid with the launch of the European Union's greenhouse gas emissions trading scheme in January.”
Separate Issues

Certification

Financing
Financing
- It's all about -

RISK CONTROL
Clean Development Mechanism

Pay to Reduce

Create New Credits

Developing Countries

Buy Credits

Industrialized Countries

Sell Certified Credits

CER

$9/ton

$15/ton

Magnet Investment Group
Role of Energy Modelers

CERTIFICATION

- Approved methodologies
- Estimates of carbon emission reductions
- New ideas for carbon reduction
  - Technologies (solar, biomass, MSW)
  - Policies (conservation)
The Wrong Way!

- POOR RISK CONTROL
- WEAK LEGAL STANDING
- NO MARKET FOR TRADING
- INFLEXIBLE
The Wrong Way

- Requiring a new carbon fund with rules for pro rata participation in the partnership. There are already thousands of hedge funds around the world!

- Using a long-term contract (ERPA). This is a very old model from the electric grid. Electricity is now TRADED.
Corporate Carbon Bonds

- Price: € 1000
- Coupon: 16 tons CO2e annual
- Maturity: 15 years
Corporate Carbon Bonds

issuer

Company

BOND

Capital ($)

purchaser

Corporation

CO2e

- RISK CONTROL BY DIVERSIFICATION
- SUPERIOR LEGAL STANDING
- WORLDWIDE MARKET FOR TRADING
- FLEXIBLE
Corporate Carbon Bonds

- Company secures the obligation.
  - general obligation or “designated”
  - may re-certify or purchase certified

- Corporation diversifies purchases.
  - buy/sell bonds as needed

- Hedge funds use for capital appreciation.
  - CO2e supply/demand trading
Corporate Carbon Bonds

Company: Palm Oil Electricity Plant

- € 15 million capital cost
- 10 million kWh
- 56 thousand tons CO2e certified

Carbon Bonds

- € 1000
- 16 tons CO2e
- 15 year
- **Current yield 11.6%**

**Syndicated bond issue: € 3.5 million**
Innovative Carbon Securities

- Corporate Carbon Bonds
- Equity
- SWAP contracts (replacing ERPA)
- Corporate General Obligation Bonds
- Warrants
- Participating Preferred Stock
Private Financing

- Venture capital
- Private investment bank
- IPO firms
- Hedge funds

Capital appreciation

Syndication fees
Summary

- It will be private capital not public monies that provides CO2e reduction.

- Private capital is attracted by the possibilities for capital appreciation.

- Carbon must become a security – subject to trading, risk control and capital growth.

- Corporate Carbon Bonds -
# A1. Corporate Carbon Bond

<table>
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<th>Year</th>
<th>Price</th>
<th>Market CO2e</th>
<th>Bond Yield</th>
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<tr>
<td>0</td>
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<td>€ 9.00 /ton CO2e</td>
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- **Coupon**: 16 ton CO2e
- **Maturity**: 15 years
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- **Bond Yield**: 11.6%