Forest Carbon Partnership Facility

Cost Allocation Options in the ERPA General Conditions

Eleventh Meeting of the Carbon Fund (CF11)
Washington DC, USA
October 6-8, 2014
Recap and Expectations

• At CF10 in June CFPs requested a short note on the issue of cost allocation options in the ERPA General Conditions, together with a suggestion on the recommended option to adopt.

• This presentation substitutes for the note

• Expectations
  – Cost recovery options can be left open in the General Conditions and agreed during negotiation of the ERPA Commercial Terms so a decision does not have to be made at this meeting
  – Preferable if a decision can be made at this meeting
Allocation of Costs - What Costs?

- Costs related to ER Program Preparation, pre-ERPA signature e.g.:
  - ER Program assessment (due diligence)
  - Preparation/review of ER-PD, Reversal Management Mechanism, Benefit Sharing Plan, Safeguards Plans, Title risk assessment, etc.
  - Preparation/execution of ERPA

- Costs related to ER Program implementation/supervision, post-ERPA signature e.g.:
  - Implementation costs
  - Supervision costs
  - Verification costs
  - Communication with registries/other (international) bodies
  - Revision/review of ER Program-related documents
Allocation of Costs - Seller Costs

- Costs incurred by Seller to be borne by Seller
- Expected to be covered through:
  - Own resources
  - External funding/financing
  - FCPF funding, if any & as applicable
  - FCPF ERPA payments (e.g. advance/periodic payments)
  - Future (other) ERPA payments
### Carbon Fund Fixed Costs

<table>
<thead>
<tr>
<th>Fixed Costs</th>
<th>Actual FY09</th>
<th>Actual FY10</th>
<th>Actual FY11</th>
<th>Actual FY12</th>
<th>Actual FY13</th>
<th>Actual FY14</th>
<th>Actual FY15</th>
<th>Actual FY16-20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon Fund Administration¹</td>
<td>183</td>
<td>366</td>
<td>469</td>
<td>652</td>
<td>626</td>
<td>665</td>
<td>2,500</td>
<td>5,461</td>
<td></td>
</tr>
<tr>
<td>Marketing to the Private Sector</td>
<td>1</td>
<td>255</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>256</td>
<td></td>
</tr>
<tr>
<td>Shared Costs (with Readiness Fund)²</td>
<td>1,069</td>
<td>1,236</td>
<td>1,159</td>
<td>1,042</td>
<td>5,252</td>
<td>9,758</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Fixed Costs ($000s)</strong></td>
<td><strong>183</strong></td>
<td><strong>366</strong></td>
<td><strong>1,539</strong></td>
<td><strong>2,143</strong></td>
<td><strong>1,785</strong></td>
<td><strong>1,707</strong></td>
<td><strong>7,752</strong></td>
<td><strong>15,475</strong></td>
<td></td>
</tr>
</tbody>
</table>

| **Total Fixed Costs ($m)**           | **0.18**    | **0.37**    | **1.5**     | **2.1**     | **1.8**     | **1.7**     | **7.8**     | **15.5**        |         |

1. Includes meeting costs. Assumes 3 meetings/year through FY15 then reduces frequency in later years.
2. Carbon Fund to pay 35% of Shared costs from FY12 onward
# Carbon Fund ER Program Costs

## ER Program Costs

<table>
<thead>
<tr>
<th></th>
<th>Cost per year ($000s)</th>
<th>No of years</th>
<th>Cost per project ($000s)</th>
<th>No of projects</th>
<th>Total Cost ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Development - across portfolio</td>
<td>447</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Preparation</td>
<td>650</td>
<td>9</td>
<td>5,850</td>
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<tr>
<td>Preparation (dropped)</td>
<td>200</td>
<td>2</td>
<td>400</td>
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<tr>
<td>Supervision</td>
<td>125</td>
<td>5</td>
<td>625</td>
<td>9</td>
<td>5,625</td>
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<tr>
<td>Validation</td>
<td></td>
<td></td>
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<td>9</td>
<td></td>
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<tr>
<td>Verification</td>
<td>20</td>
<td>5</td>
<td>250</td>
<td>9</td>
<td>2,250</td>
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<td>Country Advisory Support</td>
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<td></td>
<td></td>
<td></td>
<td>1,300</td>
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<tr>
<td>TAP</td>
<td></td>
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<td></td>
<td></td>
<td>450</td>
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<tr>
<td><strong>Total ER Program Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td>9</td>
<td><strong>16,322</strong></td>
</tr>
</tbody>
</table>

### Assumptions

- Number of programs: 9
- Average ERPA term: 5 years
- Program Preparation costs per Program: $650k
- Number of dropped Programs: 2 (at $200k each)
- Supervision Costs per Program: $625k
- Verification Costs per Program: $250k
- No Validation Costs
Option 1: Costs borne by Buyer (ie Carbon Fund)

- Paid by Carbon Fund, and borne by the Carbon Fund (except in the case of Intentional Breach)
- No cost recovery from Seller
- This option, where all costs paid by the CF are borne by the CF, has been assumed in all CF long-term financial plans
- Assumption is that this is the default option in bilateral arrangements
- Also assumed that these bilateral arrangements follow a similar pricing approach to that proposed by the CFPs in Bonn in June 2014 (ie a willingness to pay up to US$5/t CO2e)
- This option of no cost recovery is recommended by FMT
Option 2: Cost Recovery via ERPA payment deductions (least preferred option)
- Certain costs paid by the CF are recovered from the Seller
- Subject to certain cost caps for each category of costs
- Excludes FCPF Bank-executed grant funding
- WB has experience of this option in other Carbon Funds
- Complex and difficult to implement, costly, potentially difficult relationships, particularly if ERs are less than expected
- Costs usually deducted early so incentives and early funding are at a minimum

Option 3: Cost Recovery via Cost Recovery Discount
- Certain discount applied to periodic payment for any transferred ERs (eg. 2.0% of each ER payment, $100k on ER payment of $5 million)
- If ER Program does not generate any/the expected amount of ERs, there is no/reduced Cost recovery
Impact on General Conditions

- General Conditions currently do not refer to cost recovery (except in the case of Intentional Breach)
- Option 2 (least preferred option) has been removed from the latest version of the General Conditions
- If CFPs agree with the FMT recommendation (i.e., Option 1: no cost recovery) the General Conditions can be left as is.
- If CFPs are undecided between Option 1 (no cost recovery) and Option 3 (Cost Recovery Discount), the General Conditions can be left as is. In the event that CFPs later agree on no cost recovery the Cost Recovery Discount can be set at 0% in the ERPA Commercial Terms.
Decisions for this Meeting

- Can CFPs agree on no cost recovery (Option 1), as recommended by the FMT?
- If not, can CFPs at least rule out Option 2 (Cost Recovery via ERPA payment deductions) as a cost recovery option?
THANK YOU!

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