

Professionalizing Carbon Finance: Perspectives from the Voluntary Carbon Market

Environmental Markets Week America

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Today's journey

- Carbon markets 101
- Historical approaches: the good, the bad and the ugly
- Applying project finance to carbon finance: the next generation



About RenewWest

- Environmental asset developer
- Focus on land use, land use change and forestry (LULUCF)
- Largest single site reforestation project in the US
- Exploring opportunities globally, with current focus in Latin America (Peru) and Papua New Guinea

About me:

- CLO and Director of Project Strategy
- 15+ years in carbon
- Focus on forestry
- Represented many well-known carbon developers in North America



Carbon markets 101



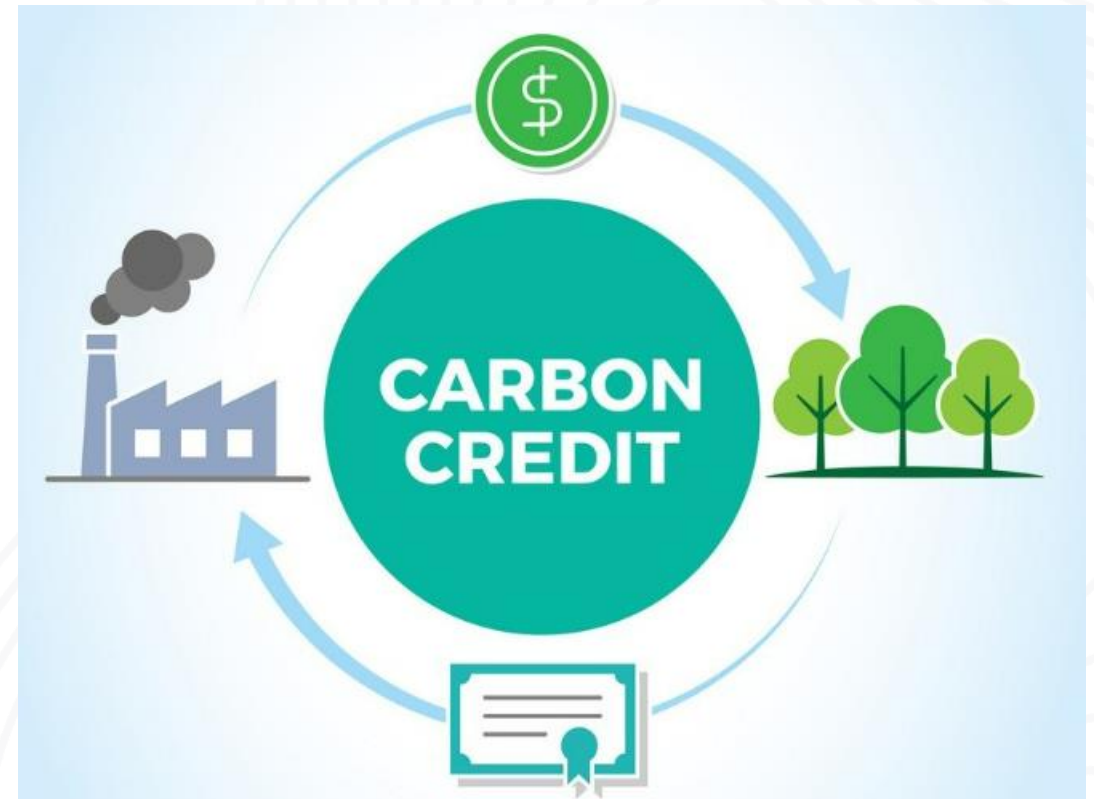
Required to reduce emissions → Compliance

- California cap-and-trade
- EU ETS
- China

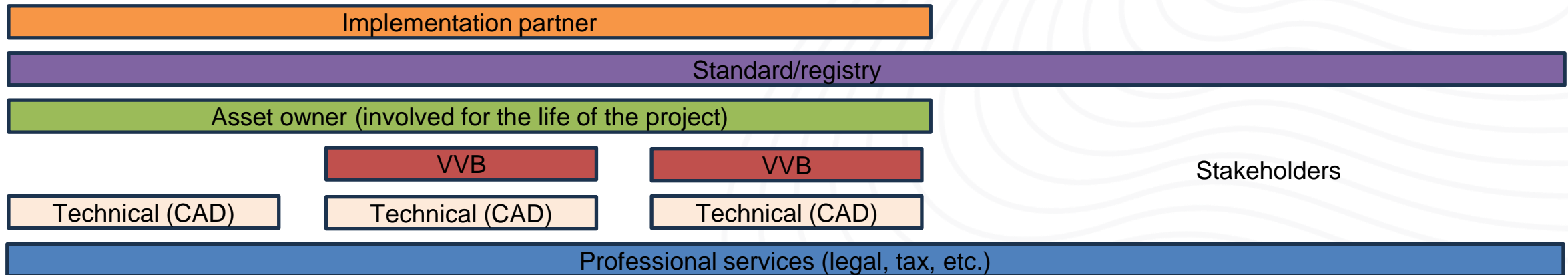
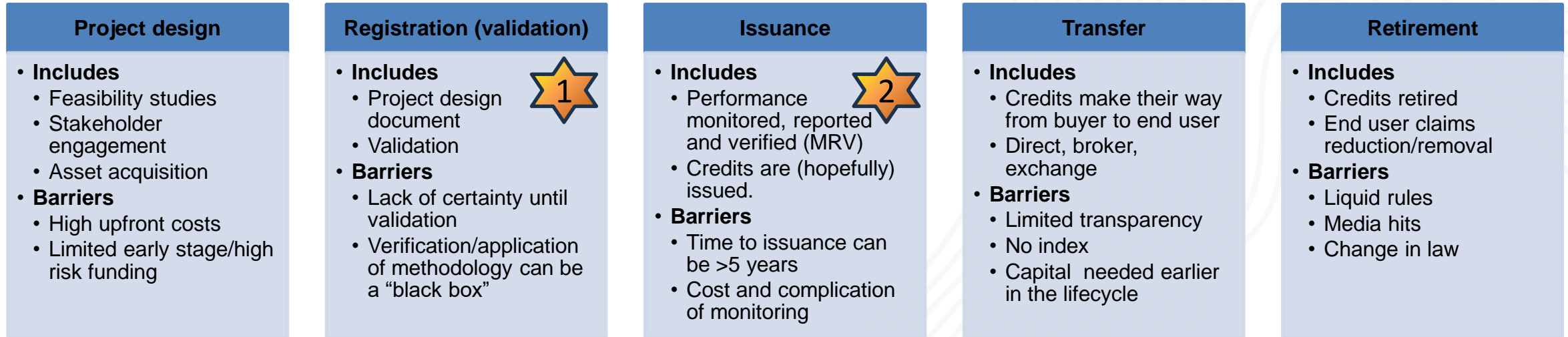
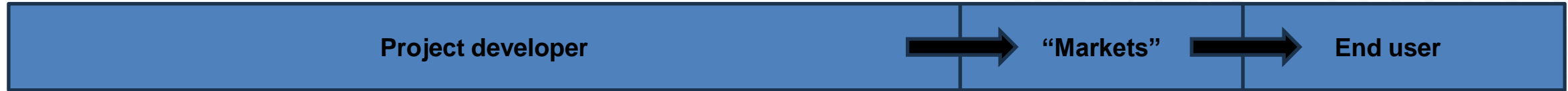


Commits to reduce emissions → Voluntary (VCM)

- Net zero (Science-based targets initiative SBTi)
- Carbon neutral
- Environmental, social and governance (ESG)



Lifecycle of a credit



Demand-side needs

Drivers

- Net zero commitments
- Other ESG
- Reputation

Requirements

- High quality credits
- Removals
- Reasonable assurance of delivery



Supply-side reality

- Purpose driven
- Small balance sheet
- Upfront project costs
- Long lead time to issuance
- Project risks
- Force majeure
- Political risks



Funding projects: historical perspective

ERPA types

- Spot v. forward
- The pre-pay
- The PAUG (pay as you go)
- The hybrid
- Firm versus v. “unit contingent” delivery

Pricing philosophy

- Fixed today
- Discount to index (but no Brent crude!)
- Preferential pricing for guaranteed delivery
- Preferential pricing for delivery with replacement guaranty

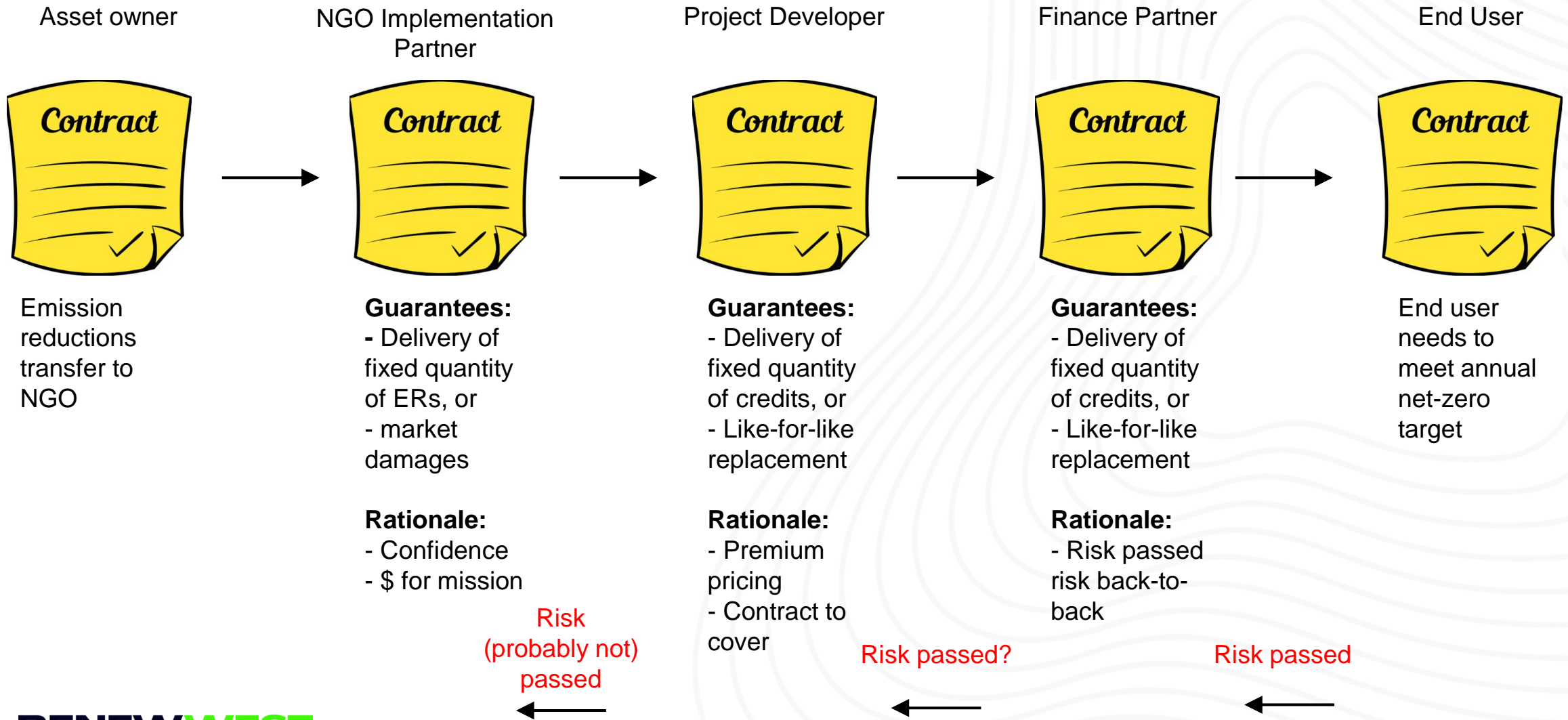
Emission Reduction Purchase Agreement

Introducing (drum roll)

THE ERPA



Historical perspective – the deadly chain of ERPAs



Historical perspective – the deadly of ERPAs

Asset owner

entation

End User

Contract

Contract

Breach

Breach

Breach

Breach

Breach

(LO needs to terminate if sale)

user

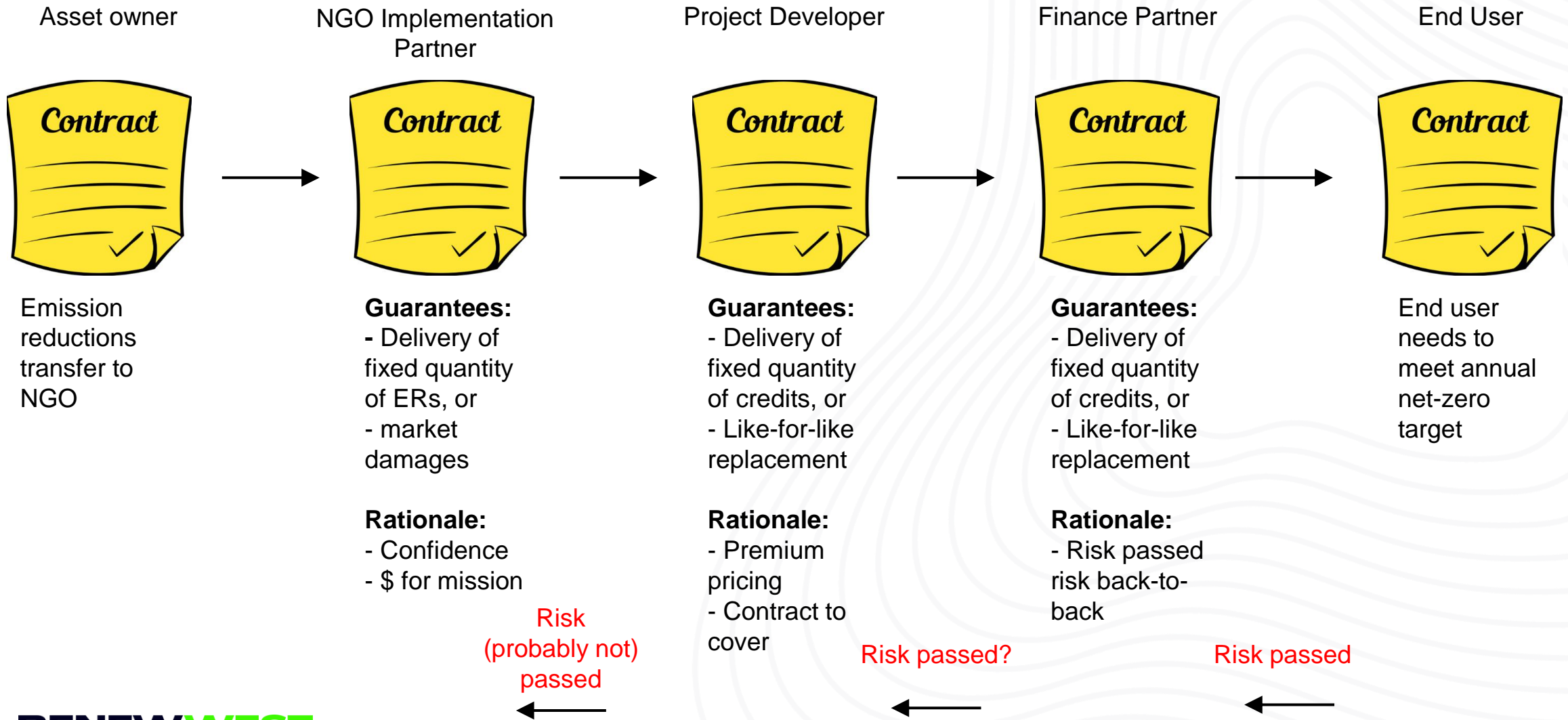
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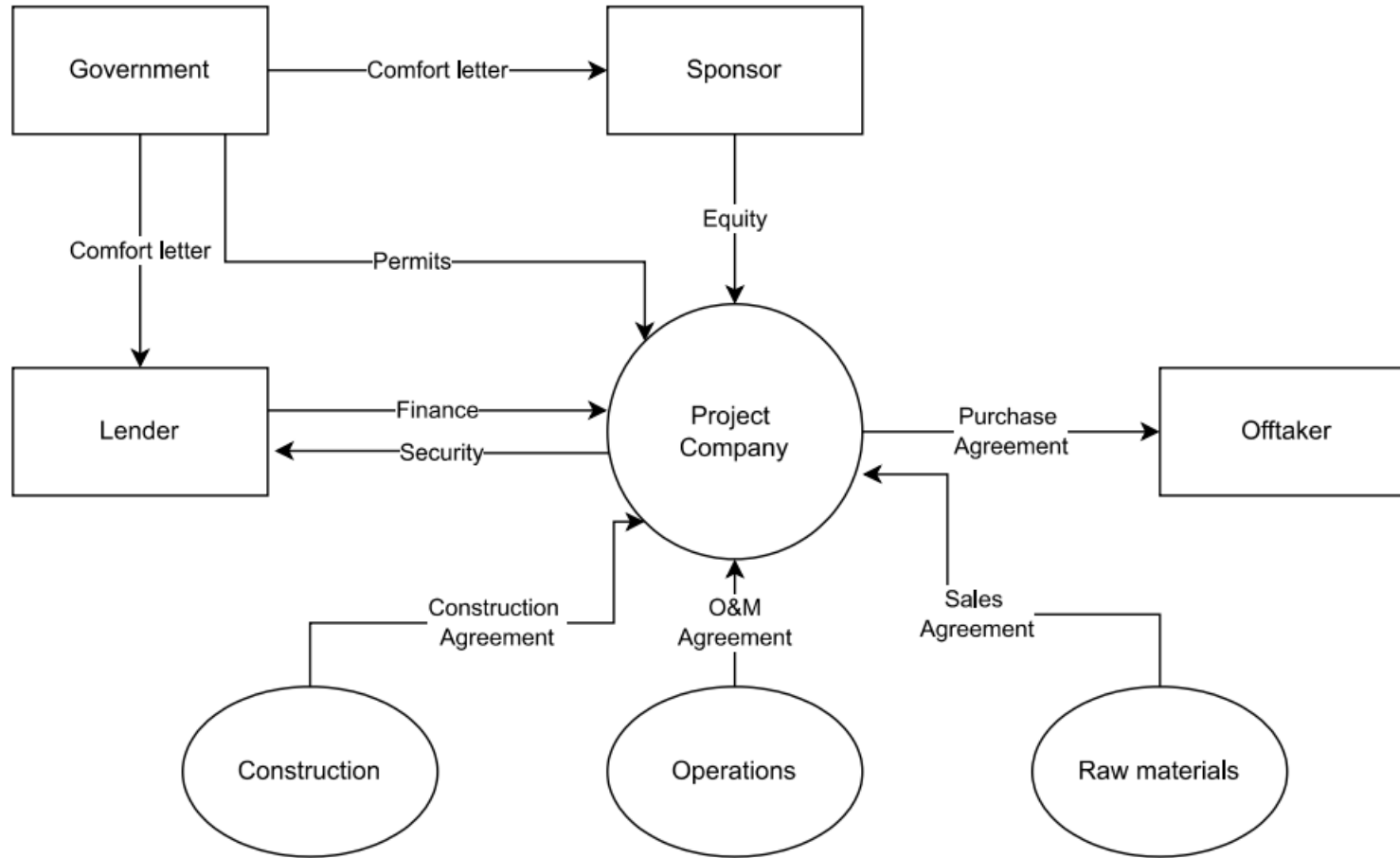
net-zero target

rep
No Brent Crude!

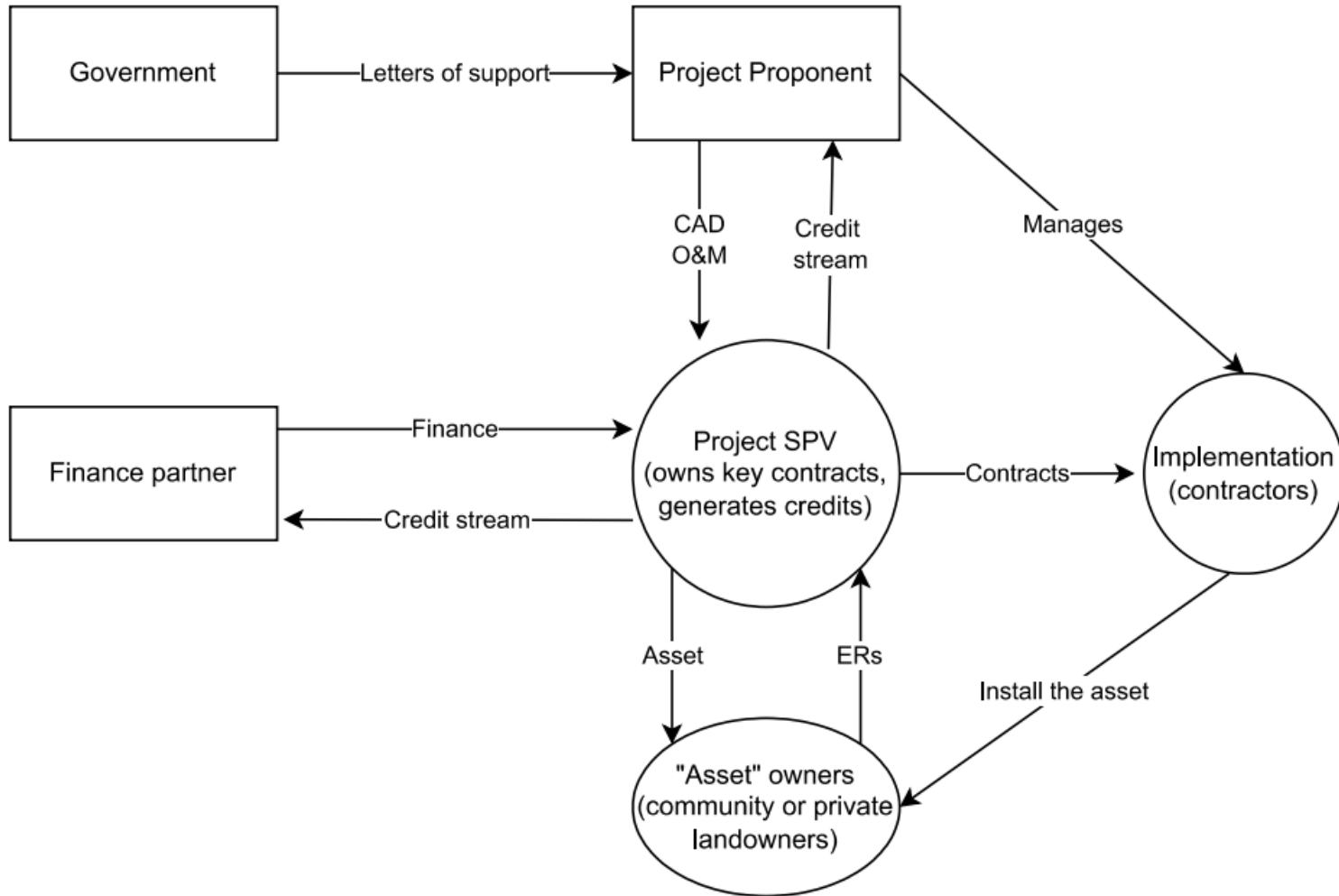
Historical perspective – the deadly chain of ERPAs



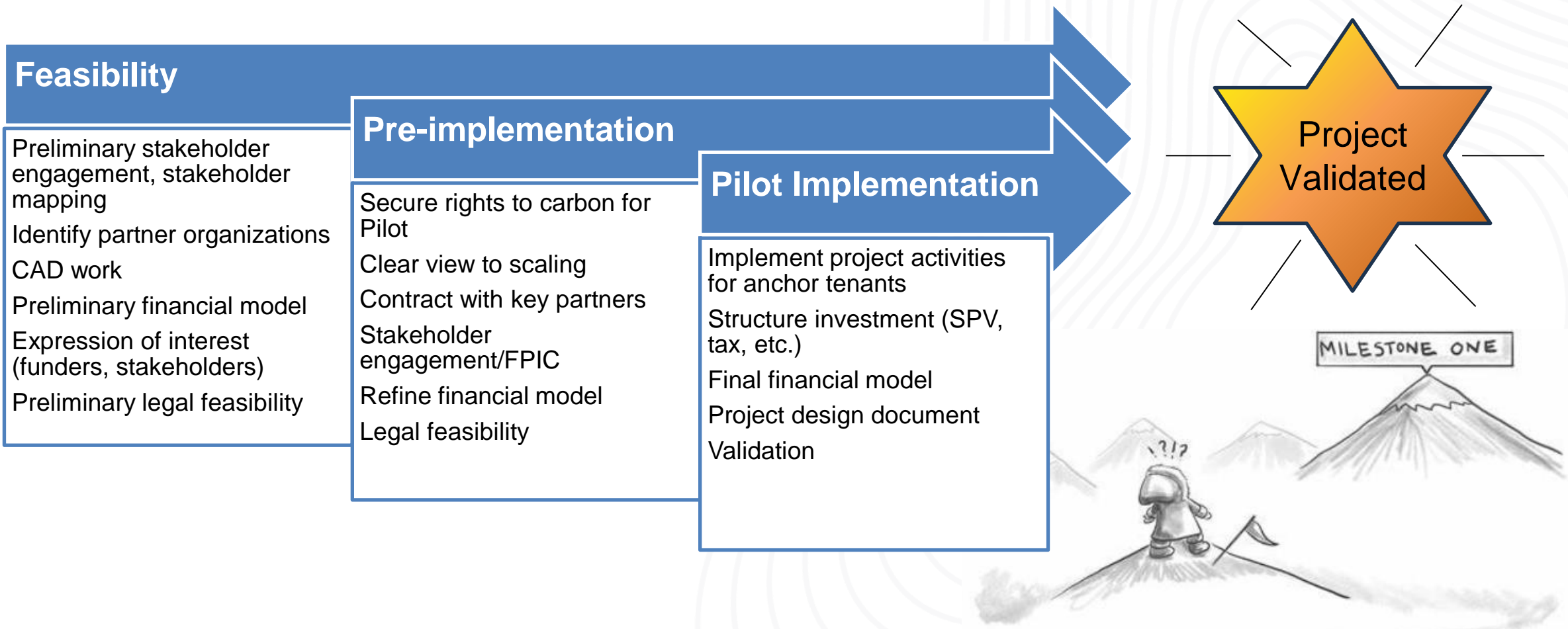
Lessons from mature sectors



Carbon finance – the next generation



Incremental commitments – milestone funding





Thank you

Questions and comments

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