Meeting Compliance Obligations under AB-32 with Livestock Methane Offsets

CAR Webinar
May 2012
BofAML positioning in the carbon markets

BofAML is a fully integrated player in the global carbon emissions markets

- BofAML originates, structures and trades all carbon emission products:
  - **EU ETS**: BofAML is a large liquidity provider of EUA and provides trading and risk management solutions
  - **CDM/JI**: BofAML has originated a CER portfolio and provides CDM and JI risk management services to its clients
  - **California and Quebec**: BofAML is originating AB-32 compliant offsets and has begun trading in CCA (allowances)
  - **Other Markets and Structures**: BofAML is also active in Australia and New Zealand, the voluntary market, and the emerging REDD+ mechanism; we are also developing bonds and other institutional investor products linked to carbon market instruments.

**US/Canada**
- RGGI and CCA trading
- California and Quebec compliant offset origination

**EMEA**
- EUA/CER/ERU/AUU trading & risk management
- JI origination
- Carbon principal investment

**Emerging Markets**
- CDM origination
- CDM risk management service
- REDD+ finance for avoided deforestation projects

**Australia/NZ**
- Early mover in Australian and New Zealand carbon markets

**Japan**
- CER, ERU, AAU risk management
BofAML activities and services in North America

Activities

- BofAML closed its first California-compliant offset portfolio transaction with Terrapass in October 2011
  - Now has direct and indirect access to volumes of livestock methane offsets that will be compliant in the California and Quebec emission markets
- BofAML has begun trading CCA (California Carbon Allowances) on Exchange and OTC
  - Our intention is to provide a full carbon risk management for liable entities in California and Quebec
  - Our carbon risk management services will be a part of a broader suite of power-fuel-emissions hedging for market participants active in the power markets

Services

- Primary Market Service
  - Origination of stand-alone transactions
  - Structuring of compliant carbon offsets
    - Fixed price offtake
    - Fixed price offtake + upside profit sharing
    - Floor + profit sharing against an index
    - Unit contingent call options
- Secondary Market Service
  - Bespoke products for clients interested in reducing compliance costs through participating in offset markets
Terrapass brings significant experience from years of working with dairy farms and piggeries across North America.

Terrapass has invested early efforts in developing offset segment in the North America carbon markets.

BofAML brings sales outreach through broader commodity sales operation in power, fuels, and emissions.

BofAML has existing relationships with liable entities in California and Quebec through investment and commercial banking services.

Liable entities are looking for risk diversification through access to portfolios instead of one-off projects.

Liable entities need bespoke contracting structures to reflect their differences in: counterparty credit risk appetite, price risk, hedging sophistication, access to markets.

Perspectives on counterparty requirements

BofAML sees value in teaming with project developers like Terrapass.