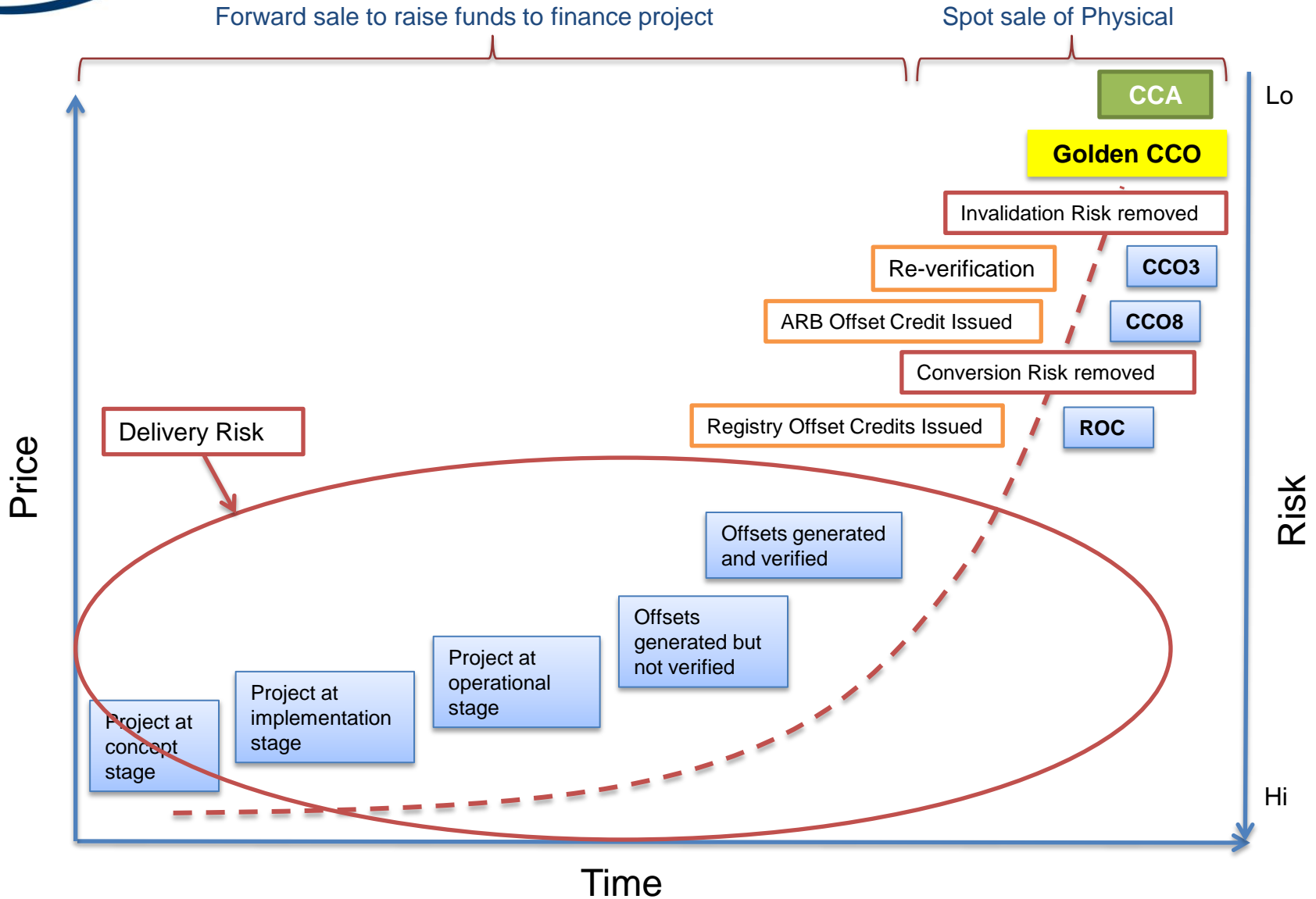


SPECIALISED INSURANCE & RISK FINANCE PRODUCTS FOR CARBON MARKETS,
CLIMATE RISKS, RENEWABLE ENERGY AND EMISSION REDUCTION PROJECTS

Offset Risks and Solutions

April 2015

Evolution of a Golden CCO



Delivery Risk

“Delivery Risk is any risk to an offset prior to its creation”

CDM Delivery Risks Mapping - **69** Individual risk identified

- Operational Risk (5)
- Physical Risk (7)
- Project Risk (4)
- Regulatory Risk (34)
- Credit Risk (5)
- Political Risk (14)

Invalidation Risk

- Invalidation Risk Creates an Uncertain Asset
- Unattractive to Many Buyers
- Difficult for Investor Owner Utilities
- Sellers Largely Unable to Retain Risk
- Price Differential Between Offsets Where the Invalidation Risk Remains with the Buyer ('Buyer Liability') and those where the risk is transferred to another party ('Seller or other Third Party Liability').

Clean Harbors

- 4.5m Offsets Removed from CITSS Accounts
- Potential Market Loss ~US\$45m
- 6 Month Process
- 89,955 Ultimately Invalidated
- Actual Market Loss ~ US\$900,000
- Clarity or Complexity?



*Insurance and
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Solutions

Invalidation Insurance

The **Insured Risks** are the reasons for invalidation as set out in section 95985(c) of the California Cap & Trade Program Regulations being:

- The Offset Project Data Report contains errors that overstate the amount of GHG reductions or GHG removal of enhancements by more than five per cent;
- The offset project activity and implementation of the offset project was not in accordance with all local, state, or national environmental and health and safety regulations during the Reporting Period for which the ARB Offset Credit was issued; or
- ARB determines that offset credits have been issued in any other voluntary or mandatory program within the same offset project boundary and for the same Reporting Period in which ARB Offset Credits were issued for GHG reductions and GHG removal enhancements.

Platinum v Golden

	Platinum	Golden	Comments
Cost	Lo	Hi	Typically the cost of insurance is lower than the spread for Golden.
Utmost Good Faith	✓	✗	Insurance contracts are deemed to be contracts of 'utmost good faith' which holds them to a higher statutory legal standard
Legal Precedent	✓	✗	Insurance contracts benefit from detailed and well established precedent.
Ability to pay	✓	?	The Platinum is covered by A+ rated security.
Willingness to pay	✓	?	The security supporting the Platinum contract is specifically set up to indemnify losses and has a world leading reputation for paying valid claims.

Platinum v Golden

	Platinum	Golden	Comments
Contract Detail	✓	✗	The Platinum contract clearly details the role, responsibilities, rights and obligations of each party, thereby eliminating opportunities for disputes.
Risks Defined	✓	✗	The Platinum contract clearly defines the risks of invalidation which mirror the AB32 regulations.
Costs included	✓	?	The Platinum contract can also include costs incurred with procuring replacement CCOs e.g. legal costs and brokerage.
Fraud	✓	?	The Platinum contract includes invalidation following third party fraud.

Platinum v Golden

	Platinum	Golden	Comments
Limits Adjustable	✓	✗	The Platinum policy limits may be adjusted at any time to reflect changes in market price and to minimize the amount of insurance purchased upfront.
Non-vitiating Clause	✓	✗	The actions of one party will not compromise the coverage for the Loss Payee
Accessibility	✓	?	Platinum can be purchased by either the OPO, the Compliance Buyer or any other party.

Policy Summary

Insured:	Project
Loss Payee:	Owner of the ARBOCs at time of Invalidation
Period:	3 Years from Issuance
Policy Limit:	As required (Typically US\$10-25 per ARBOC)
Basis of Indemnity:	Market Price at date of Invalidation or Cost of Replacement for Equivalent Compliance Instrument
Form of Indemnity:	Cash Settlement but will consider Physical Settlement
Security:	A+ (S&P)

Policy Summary

Key Terms:	No Limit on Trading
	Re-verification required
	Multiple Insured Clause
	Obligation to Minimise Loss
	Obligation to Notify Insurers
	Document Retention
	Premium Payment
	Disclosure
Law & Jurisdiction:	California
Key Exclusions:	1st Party Fraud
	Market Termination



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Thank You
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