

# Climate Auctions

*A Market-Based Approach to National Climate Action*

Tyler Matsuo, Rocky Mountain Institute

April 24, 2019



# Agenda

---

- Why climate auctions are effective
- Where climate auctions are effective

# WHY CLIMATE AUCTIONS ARE EFFECTIVE

Climate auctions are an innovative alternative to traditional upfront grants

---



## RESULTS-BASED

Whereas upfront grants provide finance before achievement of results, climate auctions provide a **price guarantee for the delivery of verified emission reductions**



## COMPETITIVE & TRANSPARENT

Whereas upfront grants allocate finance based on internal evaluation processes, climate auctions allocate finance based on **competitive auctions**



## SUPPORT CARBON PRICING

Whereas upfront grants improve project viability on a case-by-case basis, climate auctions **lay the groundwork for continued private investment** in mitigation activities

While more traditional upfront grants are needed to support climate action in specific contexts, these characteristics result in **several advantages to climate auctions** for national policymakers, public funders, and project developers.

# WHY CLIMATE AUCTIONS ARE EFFECTIVE

For **national policymakers**, climate auctions can help achieve mitigation results in line with **nationally determined contributions (NDCs)**



**NATIONAL POLICYMAKERS** can face challenges...

**CLIMATE AUCTIONS** can address these challenges by...

Developing **pipelines of mitigation projects**

Leveraging the private sector's ability to identify and structure **bankable projects**

Implementing **carbon pricing policies** or other regulations to support national climate action

Providing direct support for mitigation to ease the **transition to carbon pricing** or regulation

# WHY CLIMATE AUCTIONS ARE EFFECTIVE

For **public funders**, climate auctions can improve the **cost-efficiency** of achieving climate outcomes



## PUBLIC FUNDERS

can face challenges...

## CLIMATE AUCTIONS

can address these challenges by...

Determining **who** should receive public finance

Determining **how much** public finance to allocate

Leveraging **private investment**

Ensuring **delivery of climate outcomes**

Using auctions to award funding to the most **cost-competitive projects**

Letting auctions reveal the **carbon price required** to make a project viable

**De-risking private investment** in mitigation projects

Disbursing finance only upon delivery of **verified climate outcomes**

# WHY CLIMATE AUCTIONS ARE EFFECTIVE

For **project developers and commercial entities**, climate auctions improve the **investment case** of mitigation activities



**PROJECT DEVELOPERS AND COMMERCIAL ENTITIES** can face challenges...

**CLIMATE AUCTIONS** can address these challenges by...

Mitigating **revenue risk**, which can be a key barrier to investment

Providing a **guaranteed price** per verified emission reduction, reducing risk and helping developers secure finance

**Transitioning to carbon pricing** or other regulatory schemes

Creating a **direct incentive for private investment** in mitigation projects, building private sector capacity before regulation

# Agenda

---

- Why climate auctions are effective
- Where climate auctions are effective

# WHERE CLIMATE AUCTIONS ARE EFFECTIVE

Climate auctions are most effective if three conditions are met

## MRV

- There exists the ability to effectively **monitor, report, and verify** (MRV) climate outcomes
  - **MRV methodologies** can be utilized from **existing offsetting programs** (e.g., CDM, VCS) or can be developed nationally

## Competition

- There is **adequate competition** among commercial actors willing to pursue mitigation projects
  - **Awareness-raising** and **capacity-building** prior to issuing tenders can help increase auction participation

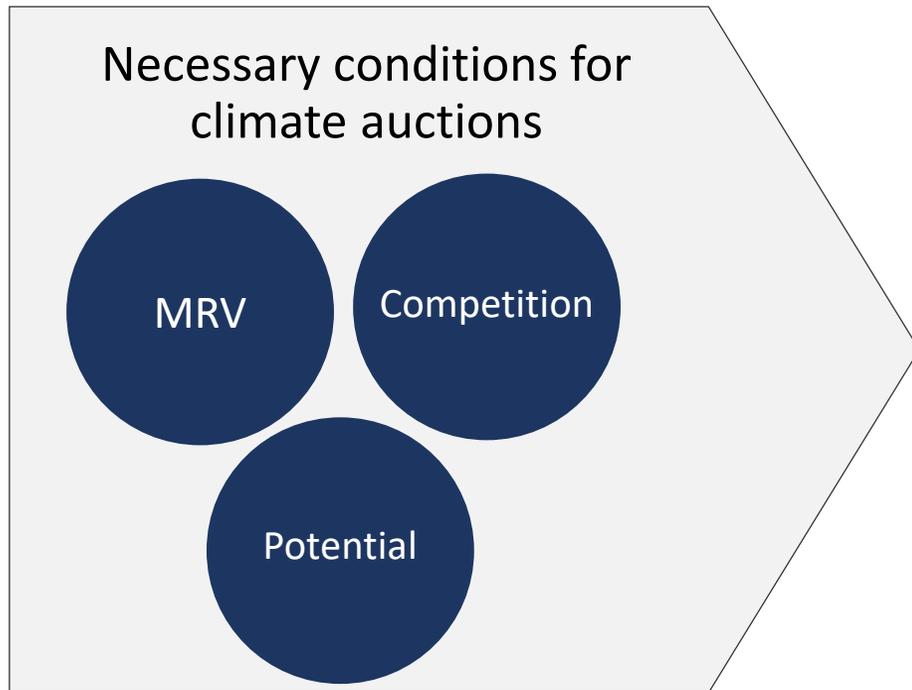
## Potential

- Climate auctions are targeting activities with **high long-term abatement potential**

*Climate auctions **do not need an existing carbon market** to be effective*

# WHERE CLIMATE AUCTIONS ARE EFFECTIVE

Considering these conditions, climate auctions could be utilized to support mitigation in a range of sectors



Buildings	Green buildings, energy efficiency, and cooling
Industry	Energy efficiency, fuel switching, process-related emissions
Power	Utility-scale renewable energy
Transport	Fleet electrification
Waste	Waste to energy, composting

# Thank You!

For more information on climate auctions for national climate action, please read our policy brief:  
<https://www.rmi.org/bidding-on-the-future-how-auctions-help-policymakers-unlock-climate-action/>



# WHERE CLIMATE AUCTIONS ARE EFFECTIVE

An illustrative example from the buildings sector

