**CLIMATE FINANCE (B8363)**

**January Block Week 2018**

Professor Bruce Usher

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Office Hours: By appointment only

This course was previously called Carbon Finance. The course content has been updated, but is otherwise the same course.

**Class schedule**

January 16th and 17th: 9:00 am – 6:00 pm with two 15-minute breaks and a one-hour lunch break.

August 18th: 9:00 am – 12:15 pm with one 15-minute break.

All classes are in Warren 311.

**REQUIRED COURSE MATERIAL**

The Climate Finance course utilizes the following cases, articles and background notes:

Introduction to Climate Finance

* + Speeding Ahead to a Better Place
  + Tesla Motors

Emissions Trading

* International Carbon Finance and EcoSecurities
* American Electric Power: Investing in Forest Conservation

Financing Renewable Energy Projects - Wind

* + The Jersey-Atlantic Wind Farm

Financing Renewable Energy Projects - Solar

* SunEdison

Energy Storage

* + Lazard’s Levelized Cost of Storage Analysis 2.0: Key Findings

Financing Renewable Energy Companies

* Khosla Ventures: Biofuels Strategy
* Pattern Energy

Carbon Capture and Store

* AEP: Carbon Capture and Storage

Socially Responsible Investing

* Stanford Dumps Coal

**REQUIRED PREREQUISITES AND CONNECTION TO THE CORE**

Students must have completed or be concurrently enrolled in B8306 - Capital markets and investments.

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

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| **Core Course** | **Connection with Core** |
| Corporate Finance | 1. Time value of money 2. Efficient markets 3. Risk 4. Capital Asset Pricing Model |
| Decision Models | 1. Use of analysis in decision making 2. Decision making under uncertainty and risk 3. Sensitivity analysis |
| Global Economic Environment I | 1. Role of financial markets in the economy |
| Managerial Economics | 1. Analyzing complex decision making under uncertainty |

Students will be expected to have mastered these concepts and be able to apply them in the course.

***Students who have previously taken Finance & Sustainability (B8349) will find significant overlap with this course; approximately 30% of the material is the same. Students who have completed Finance & Sustainability should only take Climate Finance if they have a serious interest in financing solutions to climate change.***

**COURSE DESCRIPTION**

Climate change may be today’s most serious challenge to the future well-being of our planet. The extent of the environmental and economic impact from climate change is uncertain; however, the recent scientific evidence is increasingly worrisome, suggesting that the world’s businesses and governments may have to take aggressive steps to avert a catastrophe. Climate finance - which refers to investments in companies and projects that reduce greenhouse gas emissions, and the creation of financial instruments that effectively put a price on emissions – is required to transform our global economy.

This block week course will explore the science of climate change and its related economic and environmental impacts, and carefully examine the financial tools and techniques that can be applied to combat climate change in the context of evolving global policy. Specific areas to be covered include the use of capital markets to create market-based emissions trading systems, venture and growth capital to fund low emissions technologies, project finance to build renewable energy projects, and investment management to direct capital towards public companies engaged in climate change solutions and away from companies emitting significant greenhouse gas emissions.

This is a finance course, designed around a combination of cases and financial tools to reach our course objectives. The course is composed of 5 modules:

*I. Background*. Understanding the science of climate change and related impact on the environment, and introducing the application of investment to this problem. The electric vehicle industry will be examined to understand the potential to reduce greenhouse gas emissions and the challenges associated with innovating an entire sector of the economy.

Climate Change Science and Introduction to Climate Finance: What is the problem, and how can climate finance address it?

*II. Capital Markets Tools*. Critical analysis of carbon markets, including allowance markets and carbon credit offset programs.

International treaties and market based mechanisms, credit trading systems, industrial and forestry offsets.

*III: Investment Tools*. Investing in companies and projects that have the potential to reduce emissions of greenhouse gases, including renewable energy sectors such as wind, solar, and biofuels.

Part 1: Financing Renewable Energy Projects: How can we increase the availability of renewable energy through project finance for wind and solar projects? What is the role of energy storage?

Part 2: Financing Renewable Energy Companies: What are key considerations when investing in companies developing innovative renewable energy technologies?

*IV: Carbon Capture and Storage*. Evaluating the challenges and opportunities of investing in the capture and sequestration of greenhouse gases from fossil fuel production.

*V: Socially Responsible Investing*. Analysis of the movement to divest investment portfolios of shares in fossil fuel companies, and the growth of the green bond sector.

**COURSE OBJECTIVES**

This course is designed for both MBA students planning a career in financial services who want to understand the financial implications of climate change, and for students planning a career in a climate change-related field (such as renewable energy companies, non-profit or government organizations) who want to understand the application of the relevant financial tools. The course will also be useful for future consultants or general managers who may help their clients or employer develop and implement “green business” strategies.

Specifically, the course objectives are to:

1. Understand the scientific issues underlying climate change.
2. Analyze which financial tools have been used to date, and their relative effectiveness in combating climate change.
3. Evaluate financial tools and strategies that might be used in the future, in the context of a carbon-constrained global economy and national and international policy developments.

**ASSIGNMENTS**

This course requires substantial preparation. As this is predominantly a case based course, it is essential that every student carefully reads the assigned cases and comes to class prepared to actively participate and contribute to the class discussion. To make the most effective use of your time, the assigned readings will inform you of what cases and sections to focus on and study questions will be provided as guidance. Students will be required to complete short poll questions on the case readings, due online in Canvas, the evening prior to the start of each class. Completion of the poll questions will contribute towards your class participation grade.

The final exam is a take-home case analysis. It will be available at the end of the last class and is due one week later.

**METHOD OF EVALUATION**

This course relies predominately on the case method. The focus of most of the classes is on understanding concepts, and the challenges and opportunities of applying those concepts in real-world settings. The chosen cases analyze companies that invest in projects and businesses that reduce emissions of greenhouse gases, to understand why certain business decisions and models have succeeded while others have failed. This course requires active class participation, and students’ grades will be heavily dependent on the quality of class discussion. Students are expected to challenge each other and to challenge the professor and our guests.

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| Class participation | 50% |
| Final take-home exam  (Type C - individual) | 50% |

**CLASSROOM NORMS AND EXPECTATIONS**

Students are required to prepare for each class by reading and analyzing the assigned cases, utilizing the study guidance questions which are provided in the Canvas system. Students are expected to add thoughtful analysis to each class discussion.

There is a “no devices” policy in this course. Please leave your phones and computers off. Violations of this policy will lead to deductions from a student’s class participation grade.

Students are requested to sit in the same seat for the duration of the course to enhance class discussion and facilitate grading of class participation. Please choose your seat in the first class.