

A decorative horizontal bar consisting of three segments: a yellow segment on the left, an orange segment in the middle, and a blue segment on the right.

AEP's International Forestry Project Experiences

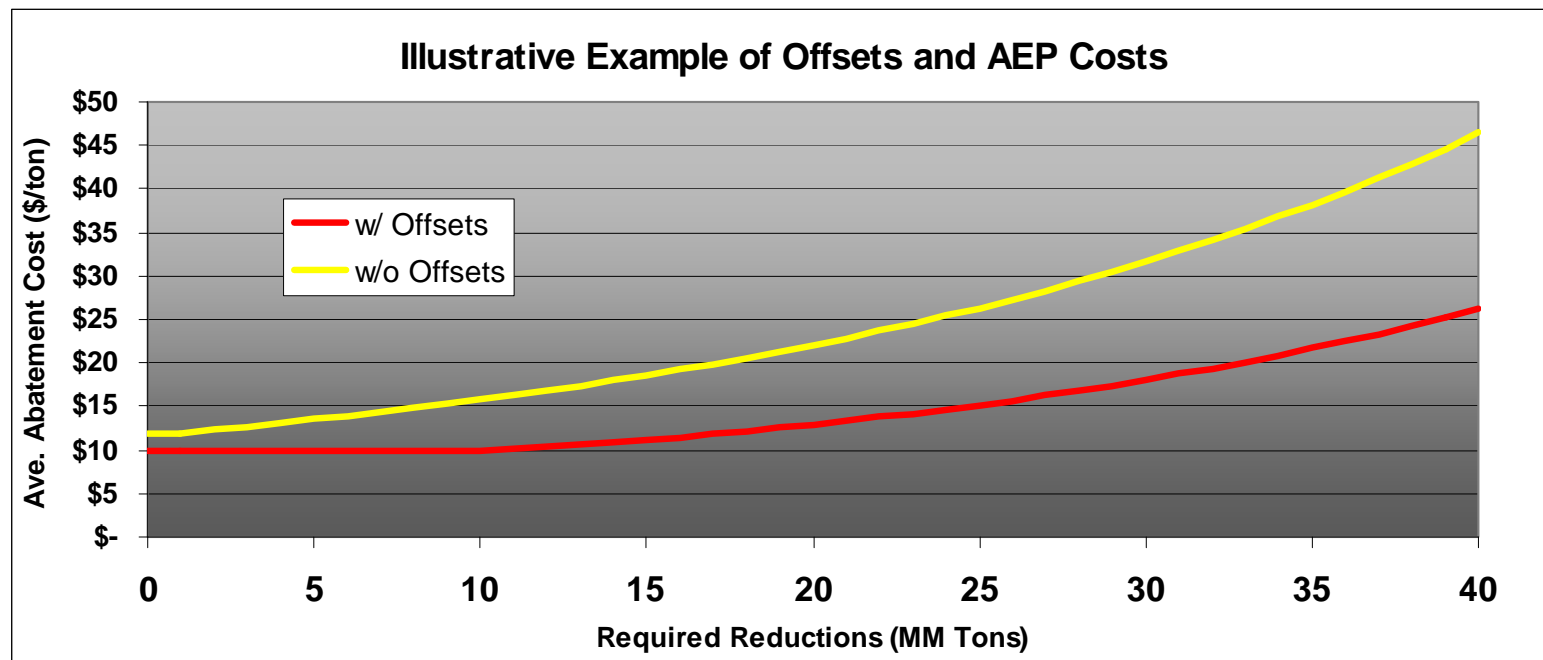
Bruce Braine
Vice President – Strategic Policy
May 13, 2009

AEP

- Serves 5.1 million customers in 11 states
- Over 38,000 MW generating capacity, 67% utilizing fossil fuels
 - One of the largest emitters of greenhouse gases in the Western Hemisphere
- Taking near term actions to address climate change: *forest carbon*, efficiency improvements, renewables, technology development, etc.
- AEP has been one of the largest U.S. investors in forestry to date and advocates for supportive public policies
- International forestry offsets will be used towards AEP's voluntary reduction goals

Why are International Forestry Offsets Important?

- By far, the largest potential source of offsets/sinks for GHGs and provides multiple environmental benefits.
- Projects can help “engage” developing world and perhaps speed long term GHG commitments.
- Can provide for significant reduction in US costs of compliance.



AEP's International Projects



- Noel Kempff – Bolivia
 - Avoided deforestation
 - Partners: The Nature Conservancy, FAN, BP and PacifiCorp

- Guaraquecaba – Brazil
 - Avoided deforestation and reforestation
 - Partners: The Nature Conservancy, SPVS (GM, Chevron)

AEP's International Projects

- Rio Bravo – Belize
 - Avoided deforestation and sustainable forest management
 - Partners: The Nature Conservancy, Programme for Belize, UtiliTree, DTE Energy, Duke, PacifiCorp, We Energies
- Hurricane Recovery – Guatemala
 - Avoided deforestation and reforestation on steep slopes where mudslides occurred
 - Partners: The Nature Conservancy and Vivamos Mejor

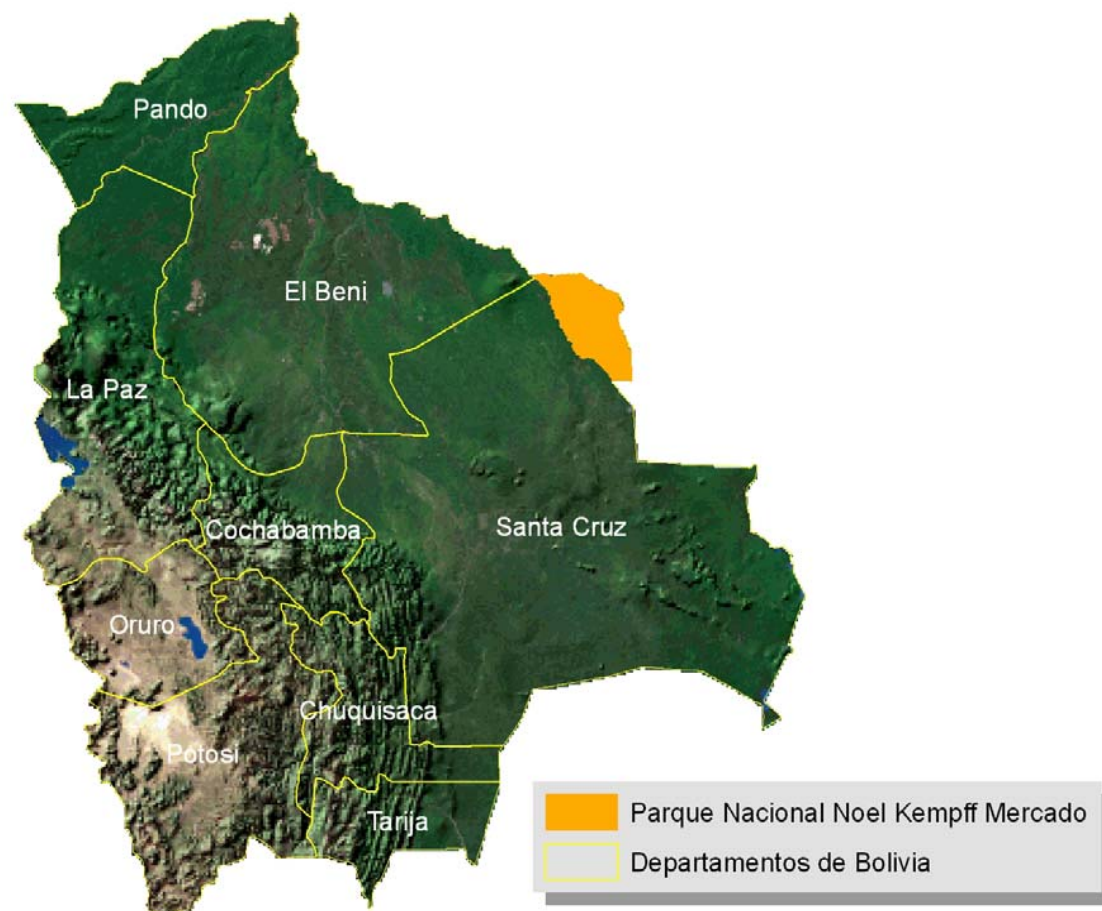


Noel Kempff

- ❑ >1.5 M acres added to 2 M acre national park (about the size of Connecticut)
- ❑ AEP's investment: \$6.2 M (\$11M total)
- ❑ 5.8 MM tons CO₂ sequestered over 30 years



Noel Kempff Location



Noel Kempff Achievements

- Biodiversity conservation
 - Biodiversity “hot spot”
 - Protects critical habitat for threatened species such as jaguar, tapir, fresh water dolphin
 - Numerous new species identified
- Community benefits
 - Jobs created in ecotourism, park guards, sustainable heart of palm production
 - Funding for healthcare, education, electricity
 - Secured land rights for indigenous people



Noel Kempff Achievements

- Offsets certified by an independent verifier (SGS)
 - Project evaluated as if it were being registered as a CDM project under the Kyoto Protocol
 - *Noel Kempff certification represents a critical step in recognizing the validity of avoided deforestation projects*
- Leakage was calculated for logging (country-wide) and other land uses (within 15 km. buffer zone) – 14% deduction

Noel Kempff Challenges

- Large reduction in carbon offset estimates
 - Original estimates were 25-36 MM tons CO₂ – now 5.8 MM tons (1/4 to 1/6 of original)
 - But - many advancements in carbon measurement techniques were a result of research at Noel Kempff
- Offset “cost per ton” now much higher
 - <\$1 per ton originally versus \$7.60/ton (per TNC, AEP costs still higher due to other transaction costs)
- Struggles with in-country enterprises
 - Businesses went bankrupt – lost entire initial investment, paid penalties and legal fees
- Currently unsafe to travel to Bolivia

Noel Kempff Challenges

- Government attempting to tax offsets
 - Contend project delivers “environmental services” or is subject to foreign investor’s tax
 - Holding off on CCX registration as registration might create basis for taxation
- Lack of governmental institutional capacity
 - Capacity building is a critical need for most- if not all - countries that will host REDD projects
- All offsets beyond 2005 “held hostage”
 - Until government fulfills their requirement to return funds from carbon offsets (49%) to communities, parks, biodiversity efforts, etc. further certifications not possible
 - Indigenous peoples blocked process – seeking amendment to grant percentage of offsets

Lessons Learned

- Risk identification and management are important elements of project design
- Types of risk:
 - Political, social instability
 - Unclear land tenure; financial, technical or management failure
 - Rising land opportunity costs
 - Natural disturbances (fire, pests, disease climatic events, geological risks)
 - See www.v-c-s.org
- Risk cannot be solely assumed by the investor
- Capacity building is needed within developing countries to implement REDD

Lessons Learned

- Stability and commitment of the host government is key
- Indigenous peoples should be partners in project design and implementation
- Noel Kempff demonstrates that forest preservation can:
 - Benefit the environment AND local communities
 - Help lower compliance costs if projects and policies are well-designed
- AEP is committed to supporting REDD as an important mechanism to lower compliance costs and impacts to the U.S. economy

REDD Policy Issues

- Waxman – Markey
 - Subnational not included
 - 20% haircut
 - 5% set-aside
- Possible Remedies
 - Allow subnational initially and in designated categories of nations so that market can begin
 - Remove 20% discount
 - Utilize 5% set-aside for some tons for strategic allowance reserve in lieu of allowance allocations

Forest Carbon Dialogue

FORESTS must play a meaningful role in any successful effort to stabilize the atmosphere at a level sufficient to avoid dangerous climate change.



FCD Legislation Priorities

- Ensuring overall *environmental integrity* of the program - maximizing climate and biodiversity benefits
- Delivering *cost savings* to domestic cap-and-trade program through access to international forestry credits
- Creating mechanisms for *developing nations* to participate in emissions reduction efforts
- Recognizing the *urgency* for action

Avoided Deforestation Partners

A Call for U.S. Leadership on Forests and Climate Protection



Protecting tropical forests is critical to solving the climate crisis, enhancing our security, protecting our economy, alleviating global poverty and creating sustainable livelihoods.

- ❑ Signatories include major conservation and humanitarian organizations and corporations.
- ❑ Supporters include politicians, academia and dignitaries such as Wangari Maathai, Stuart Eizenstat, Frank Loy and Teresa Heinz.