Climate Action Reserve Program & Process Overview

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Background on the Climate Action Reserve

- Chartered by state legislation in 2001
  - Mission is to encourage early voluntary actions to reduce emissions and to have such emissions reductions recognized
    - Initially focused on emission reporting and reductions by member organizations
    - Now on emission reduction projects generating offsets
- Balances business, government, and environmental interests
Board of Directors

- California EPA
- Duke University
- Environmental Defense Foundation
- Goldman Sachs
- Metropolitan Water District
- National Institute of Ecology of Mexico
- Natural Resources Defense Council
- New Resource Bank
- NRG Energy
- Pacific Gas & Electric
- Shell Oil Company
- Sierra Club
Objectives of the Reserve

• Show that carbon offsets can be a useful tool in addressing climate change
• Model an offset program that has environmental integrity but is not burdensome to use
• Create value for the North American carbon market
  – For project developers: High value projects
  – For buyers: Confidence in offsets they are buying
• Provide technical resources on offset standards and policy
What We Do

• Develop High Quality Standards
  – Convene stakeholders and lead development of standardized protocols for carbon offset projects

• Manage Independent Third Party Verification
  – Training and oversight of independent verification bodies

• Operate a Transparent Registry System
  – Maintain registry of approved projects
  – Issue and track serialized credits generated by projects
Existing Protocols

• Forestry
  – Improved forest management
  – Avoided conversion
  – Reforestation
• Urban forestry
• Landfill gas capture (US & Mexico)
• Livestock methane capture (US & Mexico)
• Organic waste digestion
• Coal mine methane
• Nitric acid production
• Ozone depleting substances (US & Article 5 sources)
### Reserve stats

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch date</td>
<td>June 2008</td>
</tr>
<tr>
<td>CRTs registered</td>
<td>~5.3 million</td>
</tr>
<tr>
<td>Account holders</td>
<td>325</td>
</tr>
<tr>
<td>Projects submitted</td>
<td>355</td>
</tr>
<tr>
<td>Exchanges</td>
<td>CRT futures are traded on:</td>
</tr>
<tr>
<td></td>
<td>• Chicago Climate Futures Exchange (CCFE)</td>
</tr>
<tr>
<td></td>
<td>• Green Exchange</td>
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<tr>
<td>Recent prices</td>
<td>$5-8 per CRT</td>
</tr>
</tbody>
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Protocol Development

• The Reserve is a “Top Down” Program
  – Staff (with input from Board) select protocols to develop

• Criteria for Selecting Project Types
  – State of science / quantifiability
  – Amenability to standardized baselines & additionality tests
  – Data availability
  – Presence of existing methodologies
  – Total emissions reduction potential (outside of proposed caps)
  – Direct emission reductions (or clear ownership)
  – Significant positive (or negative) secondary impacts

• Protocols Developed with Broad Public Input
Protocol Development Process

- Internal research and scoping
- Kick-off/scoping meeting
- Multi-stakeholder workgroup formation
- Reserve staff produces draft protocol
- Draft protocol considered by workgroup
  - Provides technical expertise and practitioner experience
  - Periodic meetings and individual consultation when needed
- Revised draft released for public comment
- Public workshop
- Final version adopted by Reserve Board in public session
Standardized Protocols

- **Project-Specific**: Parameters & assumptions tailored for each project.
- **“Hybrid”**: Some standard parameters & assumptions.
- **Standardized**: Mostly standard parameters & assumptions.
Standardized Additionality

• Goal: Establish eligibility criteria such that additional projects will qualify but non-additional projects won’t

• No project-specific assessments (e.g., barriers analysis, investment analysis)

• Typical criteria:
  – Project location
  – Start date
  – Exceeds legal requirements
  – Exceeds performance standard (or “common practice”)
  – Other criteria as appropriate
Rationale for Standardization

• Less subjective determinations of additionality and eligibility
• Avoid case-by-case review of monitoring & verification methods
• More certainty in amount of credits
• Lower risk for developers and investors
• Faster project processing
Approach to Leakage

- All protocols define a comprehensive “GHG Assessment Boundary” that incorporates sources of leakage
- Leakage must be accounted for where it is potentially significant
- Accounting methods depend on project type and source(s) of leakage, but methods are generally standardized
  - E.g., Standard leakage rates are defined for Reserve forest projects that result in reduced harvests (improved forest management) or displacement of other land uses (reforestation, avoided conversion)
Approach to Permanence

• Forest Project Protocol Version 3.0:
  – Carbon must be maintained (stored) for 100 years after credit is issued
  – Project owner is liable for avoidable (intentional) reversals (i.e., net reduction in carbon relative to baseline)
  – Contributions to Reserve-administered “Buffer Pool” required to insure against unavoidable (unintentional) reversals
  – No liability for credit buyers

• Future protocols (e.g., in agriculture sector) may or may not follow the same approach
Registration Process

• Open an account on the Reserve
• Submit project for **LISTING**
  • Preliminary determination based on submittal form
  • **NOT** equivalent to validation
• Conduct project activities
• Select verifier
  • Verifier submits conflict of interest form
• Submit project documents, verification report and verification opinion
• Project **REGISTERED** and CRTs issued
The Reserve Project Cycle

- Open an account
- Submit project
- Reduce emissions
- Verify the reductions

Each reporting period

- Listed
- Registered CRTs issued
- Hold, sell, or retire CRTs
Verification

- Verification bodies must be accredited to ISO standards by the American National Standards Institute (ANSI)
- Lead verifiers must take protocol-specific Reserve training
- Verifier submits conflict of interest form each time a project is verified
- Developer hires verifier
  - Verifier makes determination how many tonnes of reduction have taken place
  - Project documents, verification report and verification opinion submitted to the Reserve
Future Protocol Development

- Organic Waste Composting (Board consideration on June 30)
- Adaptation of Forest Project Protocol for Mexico
- Adaptation of Existing Protocols for Canada
- U.S. Domestic Agriculture Sector Protocols
  - Soil Carbon Management
  - Nutrient Management
  - Rice Cultivation
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