CLIMATE ACTION RESERVE

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Mr. Yvo de Boer
Executive Secretary
United Nations Framework Convention on Climate Change
P.O. Box 260124
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Dear Mr. de Boer:

The Climate Action Reserve, a non-governmental organization based in Los Angeles, California, USA, is pleased to submit the following views on developing modalities and procedures for establishing standardized baselines for CDM projects, as requested by the Secretariat under Item 7 in the February 9 Message to Parties citing document FCCC/KP/CMP/2009/L.10 paragraph 26.

Sincerely,

Derik Broekhoff
Vice President, Policy

March 22, 2010

SUBMISSION BY THE CLIMATE ACTION RESERVE

The Climate Action Reserve ("Reserve") is an independent, non-profit organization established by the State of California in 2001 (originally as the "California Climate Action Registry.") Since early 2008, the Reserve has operated as a U.S. national carbon offsets program designed to ensure integrity, transparency and financial value in the North American carbon market. It does this by establishing regulatory-quality standards for the development, quantification and verification of greenhouse gas (GHG) emissions reduction projects in North America; issuing carbon offset credits known as Climate Reserve Tonnes (CRT) generated from such projects; and tracking the transaction of credits over time in a transparent, publicly-accessible system.

The Reserve's core standards consist of series of unique methodologies (referred to in the context of the Reserve's program as "protocols") for the quantification of and verification of GHG reductions. These methodologies have all been developed using a multi-stakeholder consultation process involving representatives from business, environmental NGOs, state, local, and federal government, professional verification bodies, and academics. Since its inception, the Reserve has sought to develop methodologies that are standardized. Standardized methodologies have two main elements:

1. Rules for determining the eligibility and additionality of projects using standard criteria, rather than project-specific assessments (see Box 1, below).
2. Rules for quantifying GHG emission reductions using standard baseline assumptions, emission factors, and monitoring methods

The main goal of standardized methodologies is to minimize the subjective judgment required in evaluating whether a project should receive credit for emission reductions, and in determining how much credit it should receive. Compared to project-specific assessment and analysis, standardized crediting reduces transaction costs for project developers, alleviates uncertainties for investors, and increases the transparency of project approval and verification decisions. Furthermore, the Reserve believes that appropriately designed standardized protocols can be as rigorous as project-specific approaches in ensuring additionality and environmental integrity.

To date, the Reserve has established standardized methodologies for 10 different project types:

1. Landfill methane capture and destruction
2. Livestock methane capture and destruction (manure management)
3. Organic waste digestion
4. Coal mine methane capture and destruction
5. N_2O destruction at nitric acid plants
6. Destruction of ozone depleting substances
7. Reforestation/afforestation
8. Improved forest management
9. Avoided conversion of forestland
10. Urban tree planting

These methodologies are publicly available for review at the Reserve's website, http://www.climateactionreserve.org. The Reserve has currently issued over 3 million offset credits (CRTs) for GHG reductions achieved by U.S. projects registered under

these protocols. Information on all registered projects can be found here: http://www.climateactionreserve.org/how/projects/.

Three challenges with standardized methodologies are worth noting. First, developing standardized methods for determining additionality and establishing baselines requires significant upfront research and analysis. In order to avoid the need for extensive data collection and analysis on a project-by-project basis, the Reserve must invest significant time and resources to establish credible benchmarks and emission factors that can be applied to similar projects throughout an entire industry or sector. The Reserve may frequently build off existing project-specific methodologies, but in general will augment these methodologies with further analysis to establish standardized tests and metrics. Furthermore, although standardized methodologies avoid subjective evaluations at the project level, policy judgments are still required in establishing standardized criteria, assumptions, and metrics.

Second, because "business as usual" activities can vary significantly across different geographic areas, standardized benchmarks and factors for one region will not necessarily be appropriate for other regions. Therefore, standardized protocols will almost always apply to a specific, limited geographic area. Every Reserve protocol specifies the geographic region(s) to which it applies (currently, the United States, along with two protocols adapted for use in Mexico). In adapting protocols for other geographic regions, the Reserve engages in a full stakeholder process designed to assess and incorporate region-specific benchmarks and factors.

Third, not all possible offset project types are equally amenable to standardized methodologies. For some types of projects, determining additionality and estimating baseline emissions cannot be done credibly and accurately on a standardized basis. In general, the Reserve will avoid developing protocols for these project types. Alternatively, the Reserve may incorporate project-specific methods or variables into standardized protocols as appropriate, or limit the scope of protocols to address only activities and conditions for which standardized approaches are feasible.

These three challenges are thoroughly explored in the following report, which also contains considerations and recommendations for incorporating standardized baselines and additionality tests under the Clean Development Mechanism: Broekhoff, D., 2007. *Expanding Global Emissions Trading: Prospects for Standardized Carbon Offset Crediting*. International Emissions Trading Association, Geneva, available at http://www.ieta.org/ieta/www/pages/getfile.php?docID=2730.

More information about how the Reserve develops its methodologies can be found in its Program Manual, available at: http://www.climateactionreserve.org/how/program/program-manual/.

As a U.S. voluntary carbon offset program with 175 listed and registered projects, the Reserve has unparalleled experience in developing and road-testing rigorous, standardized baseline methodologies and additionality tests. We would welcome the opportunity to provide the Secretariat with further information about our program and our experience in developing and applying these methodologies. For further inquiries, please contact Derik Broekhoff, Vice President for Policy at derik@climateactionreserve.org.

Box 1. Project-Specific vs. Standardized Additionality Tests

Project-specific approaches to determining additionality seek to assess, by weighing certain kinds of evidence, whether a project in fact differs from a hypothetical baseline scenario in which there is no carbon offset market. Generally, a project and its possible alternatives are subjected to a comparative analysis of their implementation barriers and/or expected benefits (e.g., financial returns). If an option other than the project itself is identified as the most likely alternative for the "business as usual" (or "baseline") scenario, the project is considered additional.

Standardized, or performance-based, approaches to additionality evaluate projects against a consistent set of criteria designed to exclude non-additional projects and include additional ones on a sector-wide basis. For example, standardized tests could involve determinations that a project:

- Is not mandated by law
- Exceeds common practice
- Involves a particular type of high-performing technology
- Has an emission rate lower than most others in its class (e.g., relative to a performance standard)

From a regulatory perspective, standardized performance-based additionality tests are advantageous in that they are less subjective and administratively easier to implement than project-specific tests. Additionally, they can reduce transaction costs for project developers, alleviate uncertainties for investors, and increase the transparency and consistency of regulatory decisions.