



Elements of the Voluntary Carbon Standard (VCS) and the VCS Program

EPRI Greenhouse Gas Emissions Offset Policy Dialogue

Workshop 8 – Offset Project Development and Approval Processes

24 June 2010

Washington, DC



Overview

- 1) Background on the VCS
- 2) VCS Program
 - ✓ Additionality
 - ✓ Methodologies
 - ✓ Project registration and VCU issuance
 - ✓ Summary of system integrity
- 3) Trends

1) The Voluntary Carbon Standard (VCS)

- Established by IETA, WBCSD, The Climate Group and WEF to:
 - ✓ *Provide a rigorous and innovative global standard for the development of high quality greenhouse gas emission reductions and removals that can be used both in voluntary and compliance markets, and to demonstrate workable frameworks that can be incorporated into compliance regimes worldwide*
 - Establish a global benchmark for quality offsets
 - Provide a framework to bring coherence to the voluntary carbon market
 - Foster innovation within a context of quality, credibility and transparency

The VCS (cont.)

- VCS uses at its core the requirements of ISO 14064-2 and 14064-3 and builds upon this to ensure quality
 - ✓ Only voluntary carbon standard that has been allowed by ISO to include direct language from ISO 14064-2: 2006 and ISO 14064-3: 2006
 - Reinforces the quality of the VCS standard
 - Facilitates use by validators/verifiers, accreditation bodies and project developers
 - Facilitates linking by/with other GHG program
 - ✓ To ensure quality, baseline setting and additionality requirement have to be explicit (ISO in and of itself does not ensure this)

Development of the VCS

- VCS Version 1 (v1) released 28 March 2006
- VCS Version 1 (v2) released 16 October 2006
 - ✓ Released for broad public stakeholder input
 - ✓ Over 60 comments received
 - ✓ Steering Committee appointed to draft VCS 2007 (Ecofys, WRI, Climate Trust, SGS, Cantor CO2e, Cheyne Capital, Taiheyo Cement, Interface, Goldman Sachs, BP, Invista, EcoSecurities, DNV, Blue Source, CCAR)
- VCS 2007 released 19 November 2007
- VCS 2007.1 released 18 November 2008
 - ✓ Fully integrated AFOLU requirements into the VCS Program
- **VCS 2011 forthcoming**
 - ✓ Clarification to language in VCS 2007.1 and incorporation of all program updates
 - ✓ Further specification on certain areas (e.g., project grouping, complaint/appeals process)
 - ✓ Out for public comment in Q3 2010

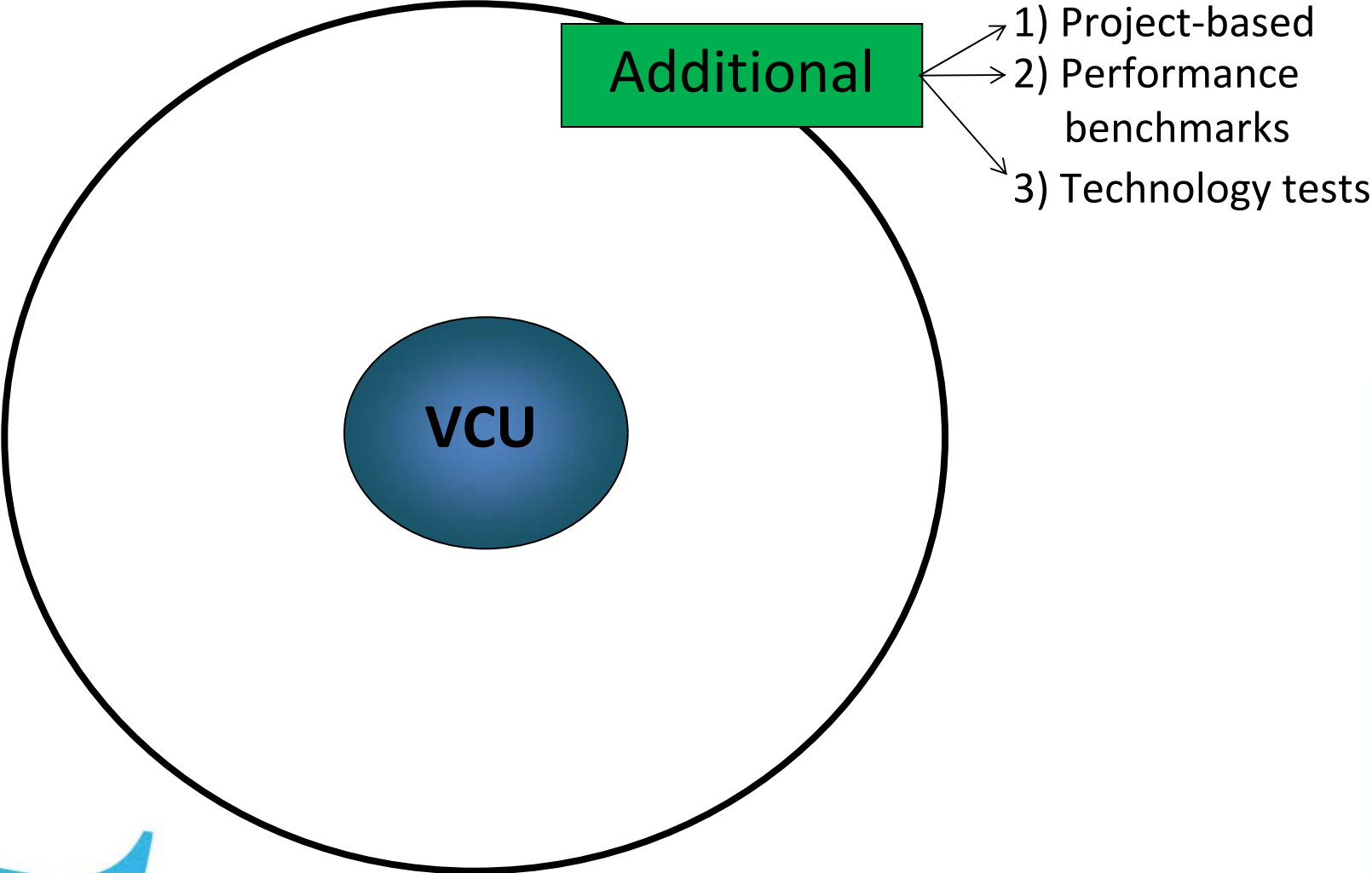
The VCS Association

- Non-profit organization
 - ✓ Headquartered in Washington, DC
 - ✓ Also has a Swiss entity
- Single focus – to develop and manage the platform:
 - ✓ No consulting
 - ✓ No methodology development
 - ✓ No validation/verification
 - ✓ No project development or proprietary positions
- Funded primarily by VCU levy (\$0.10 per VCU)
 - ✓ Foundation grants help supplement special initiatives

2) Carbon Standard vs. GHG Program vs. Registries

- **Standard** provides the overall requirements . . .
 - ✓ Principles (e.g., relevance, transparency, conservativeness)
 - ✓ Criteria for reductions (e.g., additionality, ex-post vs. ex-ante, permanence, MRV)
- **Program** provides the specific rules and infrastructure . . .
 - ✓ Process for approval of new methodologies/protocols
 - ✓ Systems for accreditation of validation/verification bodies
 - ✓ Rules for registering projects and issuing credits (registries)
- **Registry** provides the tracking system . . .
 - ✓ Avoid double selling
 - ✓ Transparency

What is a Voluntary Carbon Unit?



Additionality = Regulatory surplus + . . .

1) **Project test** -- demonstration of barriers

- ✓ Investment, technology, institutional
- ✓ Common practice analysis

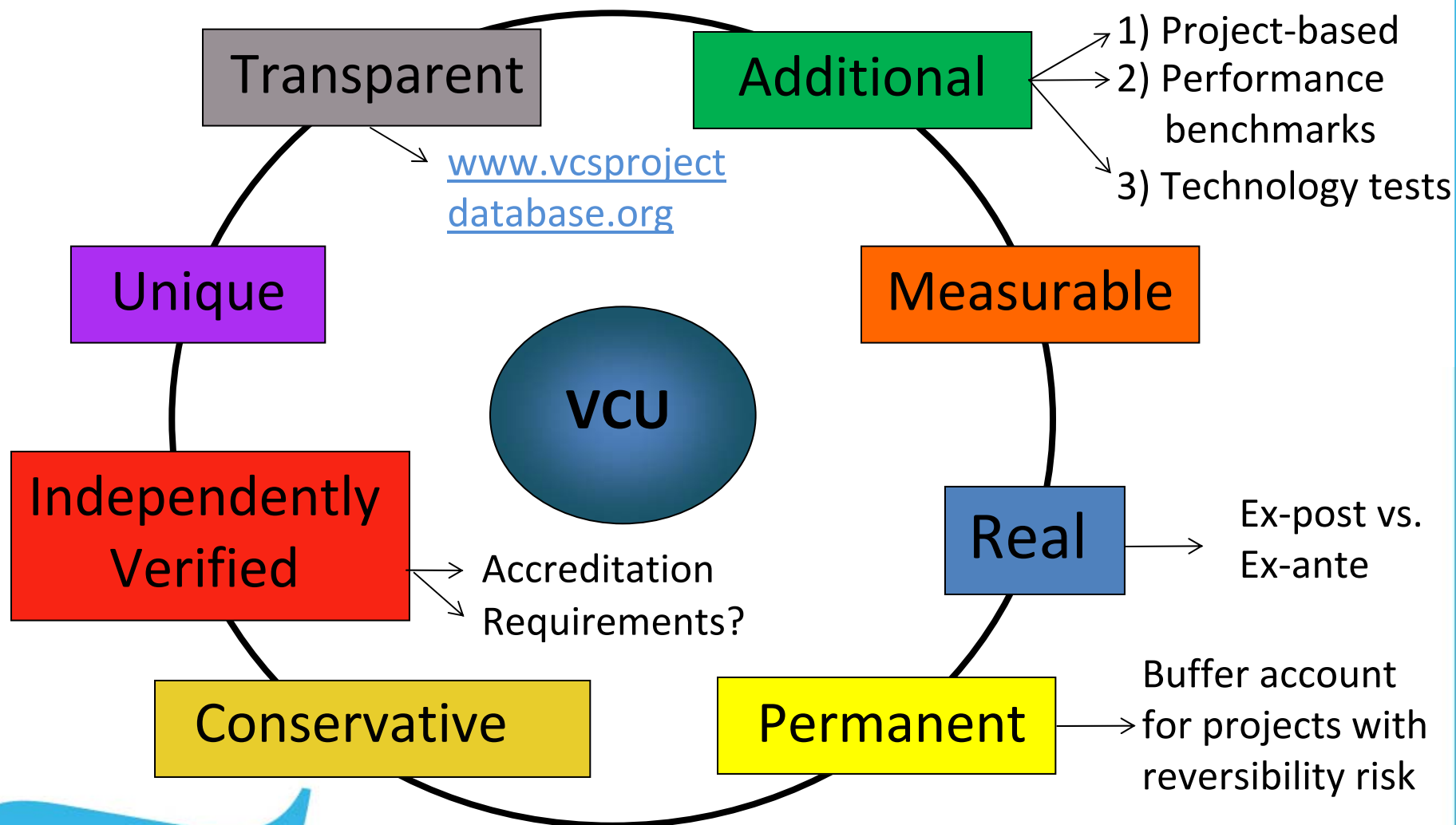
2) **Performance test** -- demonstration that emissions generated (or carbon sequestered) per unit output by the project are below (or above, for sequestration) the level that has been approved by the VCS Program

3) **Technology test** – demonstration that projects using less emissions-intensive technologies meet certain performance criteria, which when met results in crediting up to a pre-determined threshold (e.g., market penetration)

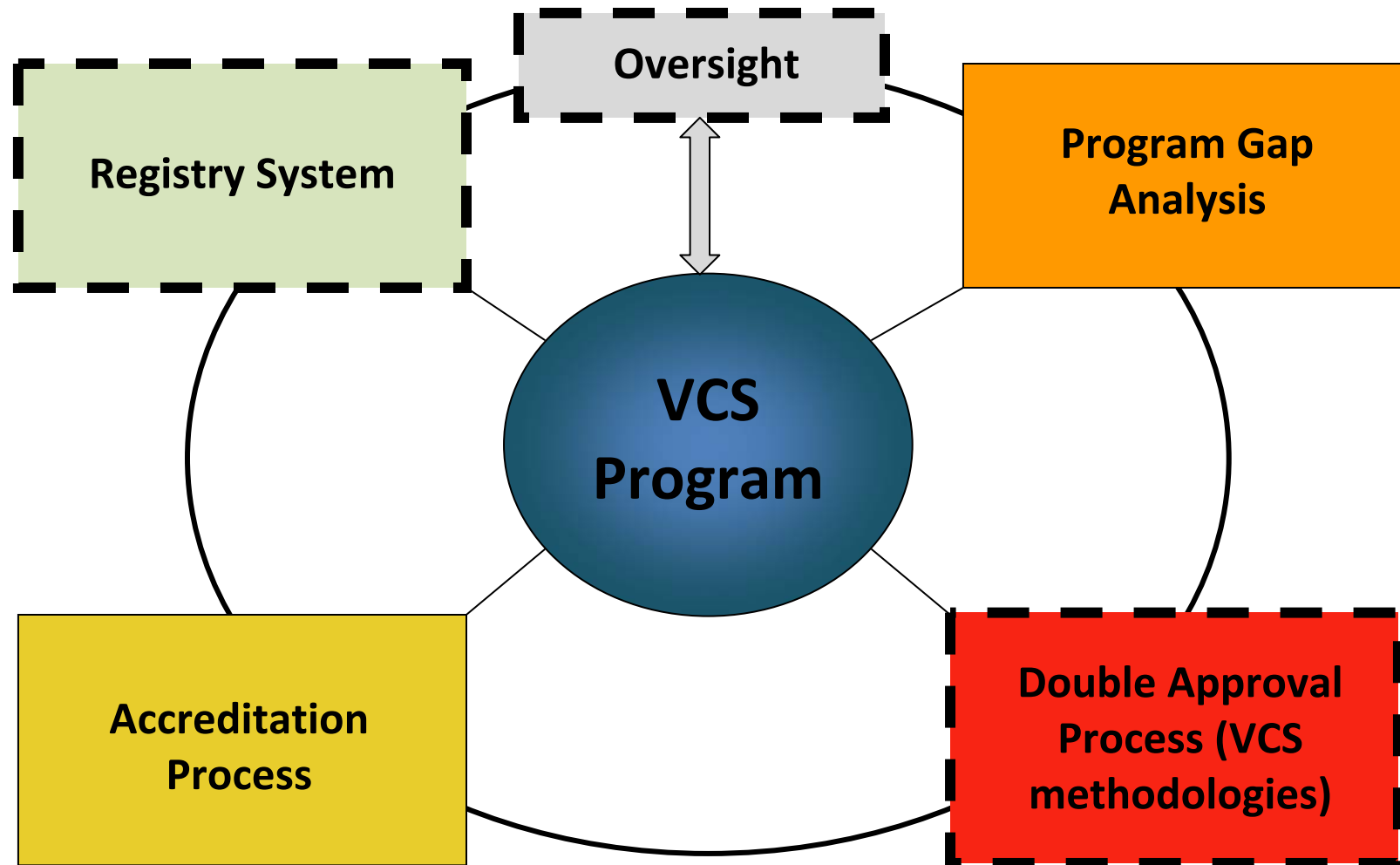
The additionality holy grail

- Streamlined approaches for setting baselines and assessing additionality need standardization
 - ✓ What data are appropriate?
 - ✓ What are appropriate boundaries?
 - ✓ How should the benchmark be set?
 - ✓ How does one determine what market penetration constitutes “success” for a technology?
- VCS convening a steering committee to help provide guidance to enable the development of such approaches under the VCS

What is a Voluntary Carbon Unit?



The VCS Program



Methodologies under the VCS

- Double approval process
 - ✓ 30-day public comment period on VCS website
 - ✓ Assessment by first validator (managed by developer)
 - ✓ Assessment by second validator (managed by VCSA, paid for by developer)
- Approved VCS methodologies will have grace period for use in cases where VCSA issues new requirements
- Methodologies from approved GHG programs
 - ✓ CDM/JI
 - ✓ CAR

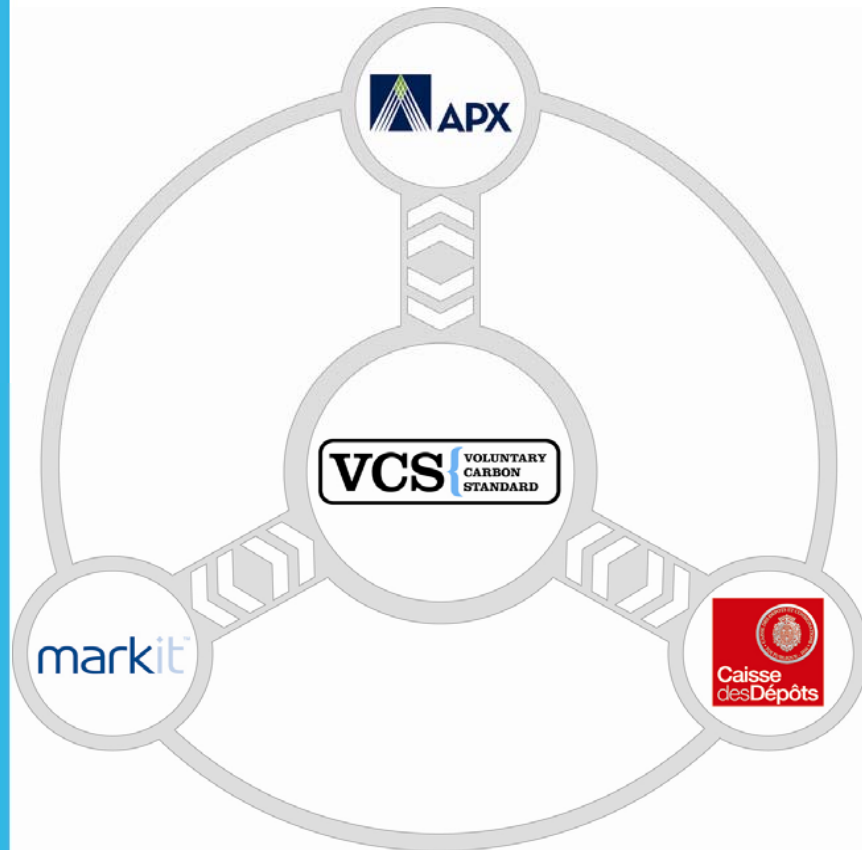
VCS Methodologies

- Approved VCS methodologies (4)
 - ✓ Combined heat and power for generation of electricity (Camco)
 - ✓ Pre-drainage of CMM – revision to ACM0008, v5
 - ✓ HFC leak detection (Carbon Neutral Business Network)
 - ✓ IFM (Ecotrust)
- VCS methodologies in development (19)
 - ✓ AFOLU (ARR - 1, REDD - 5, IFM - 3, ALM - 1)
 - ✓ Coal mines (abandoned and CBM)
 - ✓ Performance benchmark for weatherization of single/multiple family buildings
 - ✓ ODS
 - ✓ Jet engine washing
- More on the way . . .

Compensation Mechanism – VCS Methodology Developers

- Result of a working group convened by VCSA
- Proposal put out for 60-day public comment period (April 12 – June 12)
- Mechanism expected to be finalized in Q3 2010
- Current concept
 - ✓ VCSA will rebate developers of methodologies US\$0.02 per VCU issued with that methodology
 - ✓ Know-how will be protected via confidentiality provisions
 - ✓ Developers of new methodologies can negotiate over use of know-how
 - ✓ Disputes will be settled between parties (VCSA not involved)

The VCS Registry System

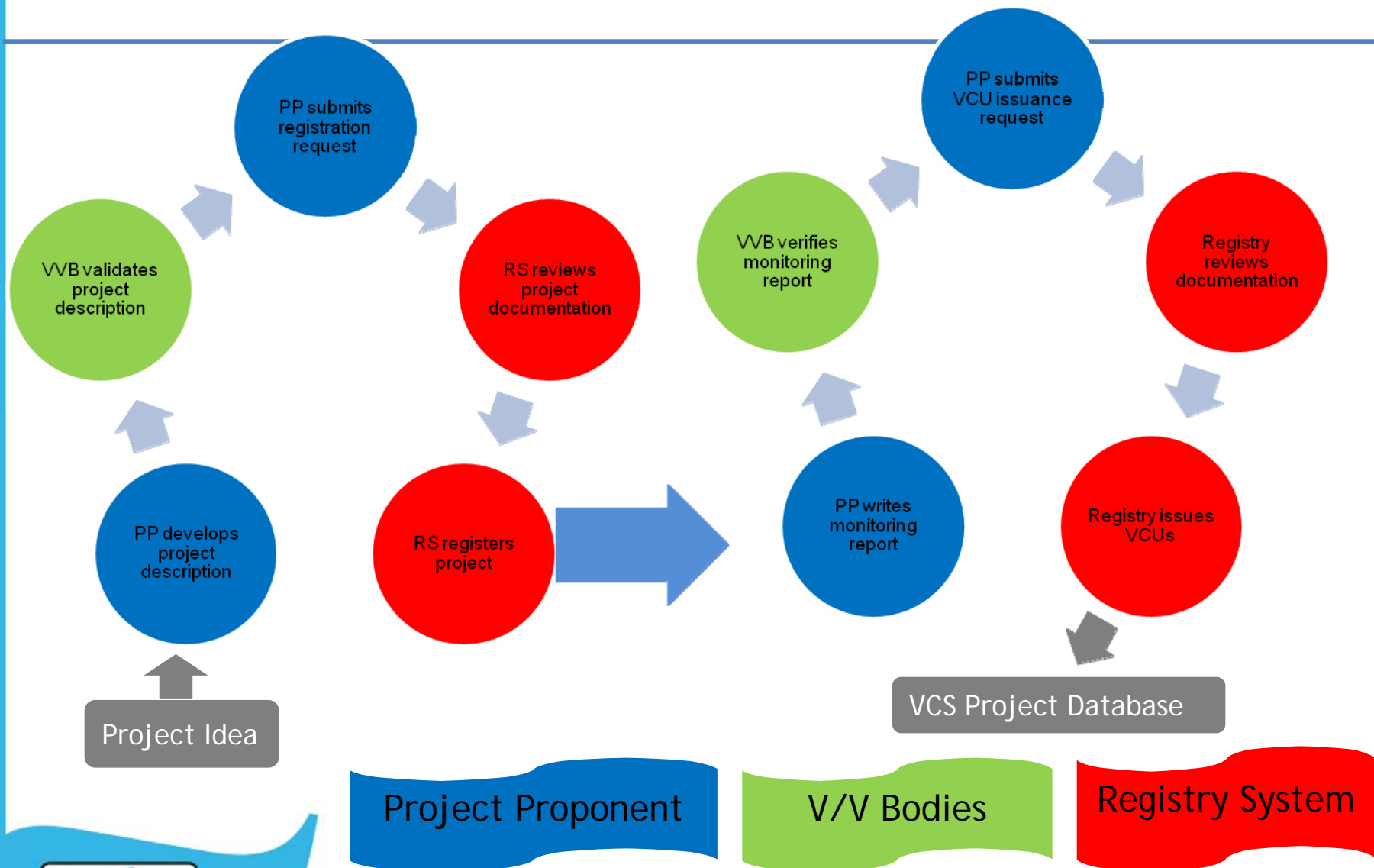


- 3 registries that meet key criteria:
 - ✓ Financial standing
 - ✓ Insolvency protection
- Registries agree to:
 - ✓ Conflict of interest requirements
 - ✓ Replacement of VCUs issued in error
- Registry system is expandable
- VCUs can be certified against other standards (e.g., CCB, Social Carbon)

The VCS Registry System (cont.)

- Registries check adherence to the VCS rules, including:
 - ✓ Completeness of project documents
 - ✓ Correctness of legal documents (PP representations, proof of right...)
 - ✓ Accreditation status of validation/verification body
 - ✓ Uniqueness of project (GPS check via VCS project database)
 - ✓ Credits not issued under another GHG program
- VCS project database (www.vcsprojectdatabase.org):
 - ✓ Serves as central clearing house for all VCS projects
 - ✓ Issues VCU serial numbers to registries
 - ✓ Maintains all project documentation
 - ✓ Tracks VCU retirement

The Project Cycle



Unilateral Representations

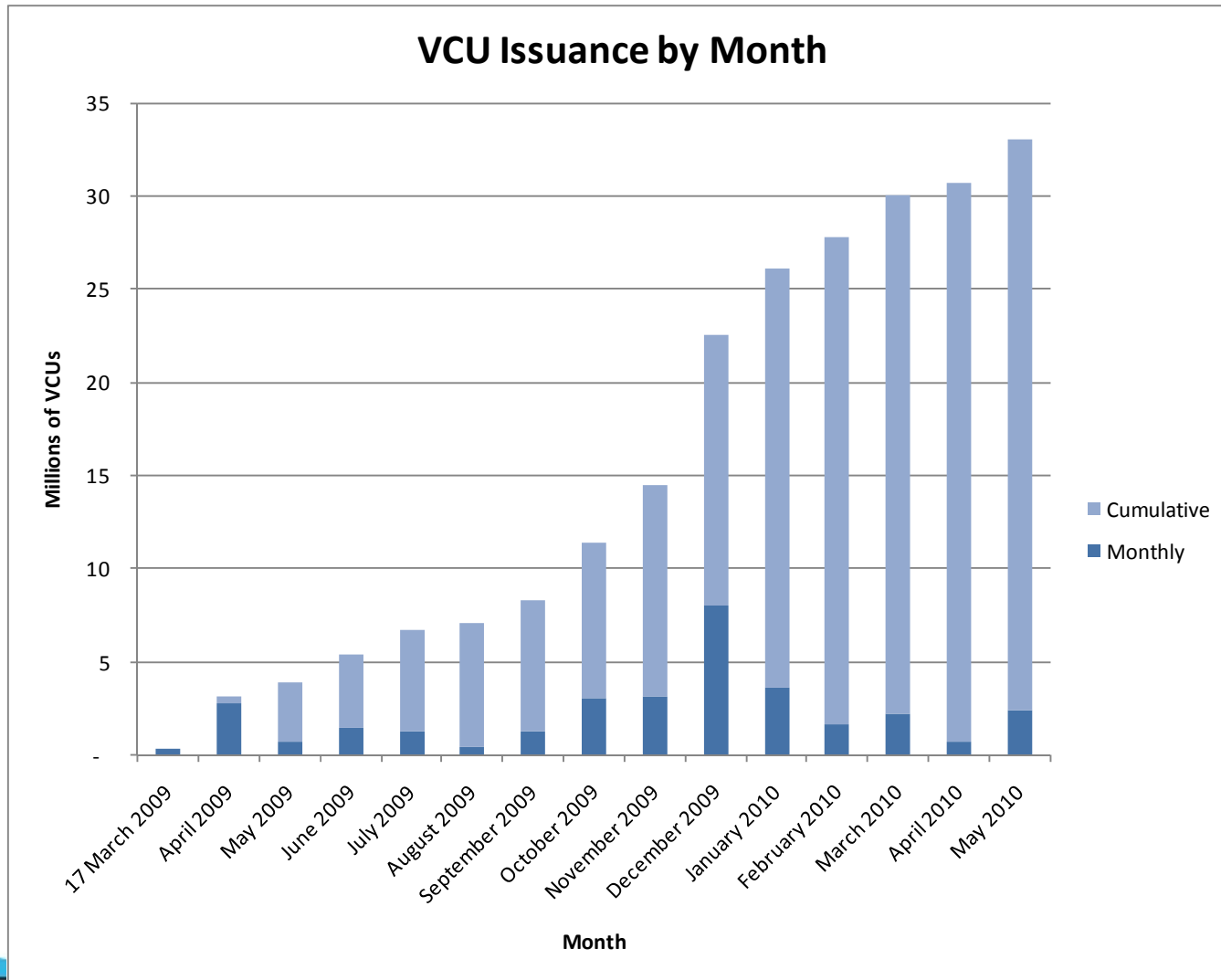
- Project registration:
 - ✓ Project proponent registration representation – accuracy of project description and related docs and right to all ERs
 - ✓ Validation statement – accuracy of validation report and project's compliance with VCS program requirements
- VCU issuance:
 - ✓ Project proponent issuance representation – accuracy of monitoring report and related docs, right to ERs and no claim for ERs under other GHG program
 - ✓ Verification statement – accuracy of verification report and verification of ERs in accordance with VCS rules

Summary of System Integrity/Oversight

- Validation/Verification Bodies (VCSA VVB Agreement)
 - ✓ Strict requirements on liability insurance
 - ✓ Responsibility for replacing VCUs verified in error
- Registries (VCSA Registry Agreement)
 - ✓ Financial standing requirements
 - ✓ Procedural requirements
 - ✓ Responsibility for replacing VCUs verified in error
- Project Proponents (Representations)
 - ✓ Project registration
 - ✓ VCU issuance

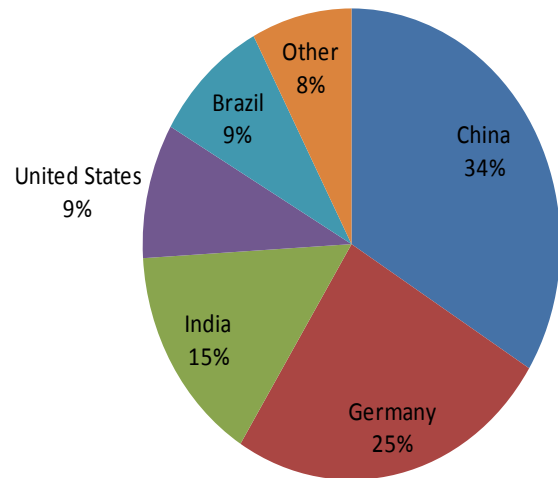
→ THERE IS ALWAYS AN ENTITY STANDING BEHIND A VCU

3) Trends



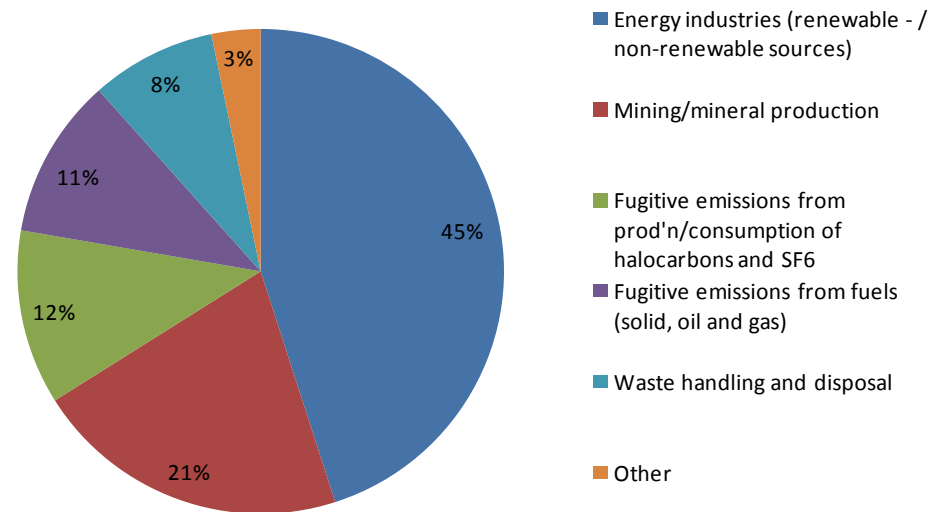
3) Trends (cont.)

Geographic Distribution of Issued VCUs



As of 23 June 2010
38.6 million VCUs issued

Distribution of Issued VCUs



3) Trends – key factors

- VCS methodologies
 - ✓ Approved (4) and under development (19 +)
 - ✓ Double approval process
- New project categories
 - ✓ Peat rewetting and conservation (public comment)
 - ✓ Avoided conversion of non-forest lands (under development)
 - ✓ Wetlands (under consideration)
- Recognition by governments
 - ✓ Australia - NCOS

Thank you

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