



MEMORANDUM

To: Members of Working Group on Early Offsets Supply
From: Nicholas Institute (Jan Mazurek, Lydia Olander, David Cooley, and Brian Murray)
Re: Discussion questions for third call
Date: September 16, 2009

Offset verifiers and verifier accreditation

If offset development incentives, such as the development of interim protocols and adequate timelines discussed in previous calls are sufficient, and investment flows to early offsets, there will be need for accredited offset verifiers. HR 2454 requires EPA to develop regulations in which offset project developers submit to the agency reports of greenhouse gas (GHG) emissions reduced, avoided, or sequestered as a result of offset activities. The measure directs such emissions reduction reports to be prepared by third-party verifiers, who are accredited by EPA.

HR 2454 also allows EPA to accept verifiers accredited under the American National Standards Institute (ANSI) ISO 14065 verifier accreditation program, but only if EPA deems ANSI's program sufficiently robust. ISO 14065¹ specifies accreditation requirements for organizations that validate or verify resulting GHG emission assertions or claims.²

As of January 2010, CCAR verifiers of emissions reduction projects reported to CAR will be required to receive ISO 14065 accreditation.³ CAR presently recognizes nine verification bodies. These bodies include such firms as Det Norske Veritas (DNV) Certification, Inc, NSF-ISR, and SGS North America.⁴

¹ ISO standards historically have been employed to develop uniform products such as camera film. More recently, ISO has developed voluntary codes to standardize environmental management practices.

² International Organization for Standardization (ISO). ISO 14065 standard - new tool for international efforts to address greenhouse gas emissions.
<http://www.iso.org/iso/pressrelease.htm?refid=Ref1054> Accessed September 11, 2009.

³ Project Verifiers. California Registry. <http://www.climateregistry.org/reserve/project-verifiers.html>. Accessed September 11, 2009.

⁴ Climate Action Reserve. Climate Action Reserve Recognized Verification Bodies.
<http://www.climateactionreserve.org/how/verification/connect-with-a-verification-body/> Accessed September 11, 2009.



Other ISO 14001 approaches are not based on auditing or verifying quantitative pollution reductions but rather on whether proper techniques and paperwork are in place. Similarly CCAR's GHG verification system for GHG reports is not based on a compliance or financial accounting model but rather on a risk assessment approach (Appendix A).

Discussion questions:

1. Would legislative language on interim rules for accrediting verifiers help to guarantee the quality of the offsets generated under the interim protocols?
2. Does the experience of CAR, VCS, CCX, and RGGI provide a model for EPA in the development of interim accreditation approaches? Do the experiences of these initiatives provide any indication of how quickly and how thoroughly verifiers and their accreditation bodies would respond to increased demand?
3. As some verification firms also provide vital GHG consulting services, what is the potential for conflicts of interests if the offsets project developer has used the verification body as a consultant in some other capacity? If consulting firms with deep climate expertise are conflicted out, what is the likelihood that less qualified firms will emerge as accredited verifiers? Are HR 2454's directives to EPA sufficient to avoid conflicts of interest (and the likelihood of erroneous verification reporting)?
4. Is the ISO accreditation process sufficiently robust for a mandatory offsets regime? If EPA concludes that the ANSI approach is inadequate, are there other models that the agency could turn to quickly?
 - a. Are there other ongoing EPA third-party verification accreditation approaches that may serve as models (fuel data; Superfund sampling data)?
 - b. The present HR 2454 language only refers to EPA accreditation of verifiers but USDA is likely to play a significant accreditation role, owing to ag and forestry offsets. Does the legislative language need to be clarified? Does USDA have any models?

Early REDD Credits

On the last call, a number of hurdles to the implementation of REDD were identified. These include:

- multi or bi-lateral agreements with countries where the projects are located;
- the need for national or subnational baselines, especially with 20 year targets for net deforestation;
- the 5 year limits on subnational and project based REDD; and
- country limits (which exclude major emitters⁵) from project based REDD.

To address one of these hurdles, it was suggested on the last call that a guaranteed crediting period of 8-10 years would allow sufficient certainty for investment in early projects. However, additional barriers remain.

While these hurdles apply to the implementation of REDD in general, is it possible that they could be addressed specifically for early REDD credits, perhaps in a limited interim pilot program?

The overarching question about early REDD credits is: Is there a way to develop an interim REDD program that would help build REDD offsets without substantially compromising on environmental integrity and certainty?

There are several potential approaches for accomplishing this, including:

- Allowing project and subnational REDD offsets to be credited from 2009- until federal standards are developed under currently established protocols, which could be designated in the legislation or by EPA at enactment to provide early certainty.
- Using existing methods to create rough, tier 1 country-level baselines that would be the basis for annual crediting of early REDD. For example, existing remote sensing data could be used to determine forest area change between two given years, say 2000 and 2005. The deforestation trends identified could then be used to establish a baseline that could be used for REDD crediting. These baselines could be converted to emission rates using multipliers, such as those developed by the IPCC (Tier 1 approach).

Discussion questions:

1. Are existing protocols, such as those under development under VCS and CAR, adequate to encourage investment in early REDD projects while ensuring environmental integrity?
2. If not, is the tier 1 country-level baseline approach an improvement?

⁵ Brazil, Indonesia, Malaysia, DRC, Myanmar (Burma), and Zambia. (Source WRI Climate Analysis Indicators Tool)

3. How would the tier 1 baseline approach be implemented in a pre-federal standard environment? Would EPA approve the temporary baselines and oversee national accounting to assess how early REDD projects are credited? Would that work?

If early REDD projects are accepted using either existing protocols or the tier 1 country-level approach, there still might remain questions on the environmental integrity of the credits. The potential ways of addressing integrity concerns include:

- Discounting these projects significantly, so that on average we expect real emissions reductions and/or we do little damage to integrity while helping to build the market.
- Allowing banking of these potential REDD credits with the guarantee that they will be allowed into the market as REDD offsets if the country where the project is located is able to meet the requirements set out in the legislation. While investors would avoid discounts, they would also incur some amount of risk that the credits would not become eligible.
- Accepting the credits as they are and allowing them to be used without further discounts. This approach assumes that the existing protocols or methodologies already include discounts that are sufficiently conservative to ensure integrity.

It was mentioned on the last call that some of these hurdles for REDD could be avoided altogether for early REDD credits by a pilot program administered by a federal agency, possibly EPA or USAID. Under this pilot program, the agency would buy REDD credits directly and it could either release them into the offsets market directly or use them as a reserve (perhaps for the strategic reserve).

Discussion questions:

1. Where would the funding for this come from? Would this come out of existing overseas development assistance in the interim? Or could the agency allow offsets to be generated pre-2012 that could be used for post-2012 compliance?
2. Could 1% of the supplemental for the first few years be pulled off to pay for emission reductions created through the early (pre-2012) REDD program? (3%@\$15 = \$2 billion or more) Since the supplemental doesn't start until 2012, this would require borrowing from future years.
3. If the agency sold these early REDD offsets on the market in 2012, could the income could be used to repay the supplemental or help fill the strategic reserve? Note, if we are taking money out of the supplemental to create offsets we are trading supplemental tons for offsets, which may not be desirable. Alternatively the offsets could be used to fill a reserve that may never be used. Other ideas?

4. Could this pilot program offer an opportunity for adjusting the environmental outcome before the credits are released into the market or to the reserve? If EPA/USAID assesses the overall environmental outcome of the pilot program and adjusts the number of offsets it can sell for compliance based on this assessment, could this offer some control for uncertainty of environmental outcomes?

Appendix A: CCAR verification process

The CCAR GHG reporting verification process is comprised of three steps:⁶ completeness, management systems, and sampling. For completeness, the verifier determines whether the reporter included all major emissions sources from its operations and correctly defined the organizational and geographic boundaries of those operations. For instance, did the reporter include all combustion equipment? Did the reporter include emissions sources over which it exercises a majority of operational control? If the member has out-of-state emissions sources, did it report on them?

Next, the verifier analyzes the thoroughness of the management systems that the reporter has put in place to estimate emissions. For instance, does the reporter simply base emissions on an incomplete set of chemical or fuel purchase receipts in a disorganized file, or has the reporter set up an electronic database into which line personnel enter purchase data? To check completeness and accuracy of data management, the verifier employs a random sampling technique, whereby it examines various emissions data or data such as invoices, purchase orders, or bills to estimate emissions. The sampling method employed by CCAR verifiers is virtually identical to methods employed under the ISO 14001 approach.⁷

⁶ Mazurek, J. 2008. The Politics of Counting Carbon: Lessons from the California Climate Action Registry. University of California, Los Angeles. Unpublished doctoral dissertation.

⁷ Mazurek, J. 2001. Third Party Auditing of Environmental Management Systems: U.S. Registration Practices for ISO 14001." Washington, D.C. National Academy of Public Administration.
http://www.napawash.org/resources/news/news_5_29_01.html