

ALBERTA AND CLIMATE CHANGE

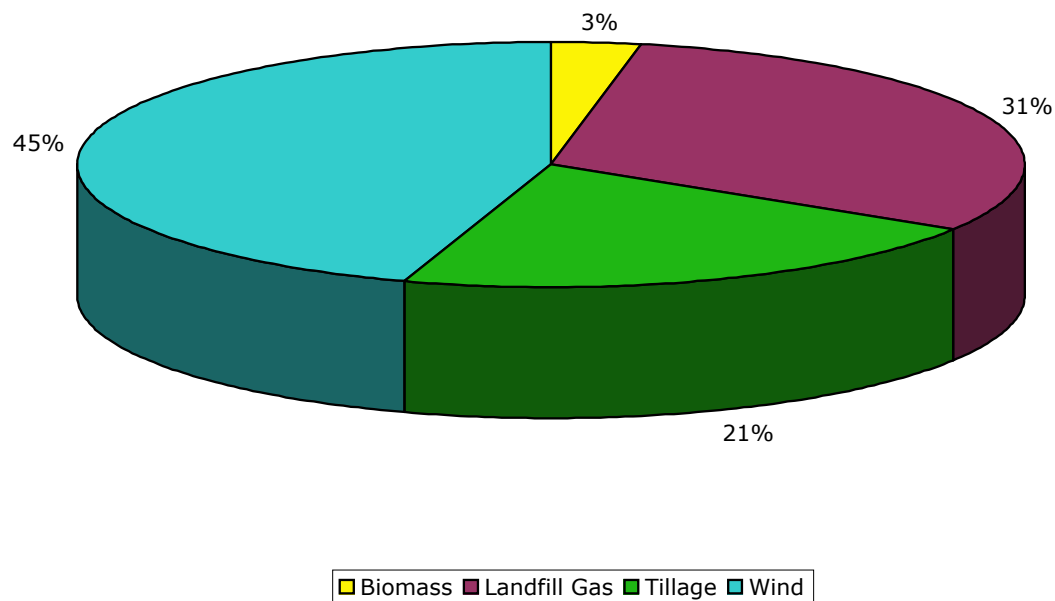
MEETING THE CHALLENGE - Audit Results

Offset Workshop June 22 2009



2007 Offset Credit Use

- 5 Facilities submitted credits from 7 Offset Projects
- 1 million tonnes representing 25% of compliance obligation





Why we audited

- Audit was our opportunity to test how the Offset program is performing
- We were looking for:
 - Overall understanding of Offset system
 - Usability and interpretation of Offset protocols
 - Consistency with other jurisdictions/programs
 - Areas for improvement
- Re-verify a portion of Offset Credits submitted for compliance in 2007
 - Provide assurance on facility true-up



Auditor Criteria

- Auditors were selected through RFP and were required to meet the same criteria as a third party verifier
 - Professional Engineer or Chartered Accountant
 - Had to use one of three approved audit methodologies (CICA Handbook, ISO 14064-3, or ISAE 3000)
 - Have appropriate audit and technical experience



Audit Process

- AENV selects a cross-section of projects for audit based on:
 - Type of project (protocol being used)
 - Volume of credits being generated/submitted
 - Coverage of third party verifier
 - New and existing projects
 - Facility types submitting credits for compliance
 - Flags identified during our internal review
 - Random selection
- **Select consultant**
 - Meet criteria for third party auditor
 - Check for appropriate skills and expertise
 - Conflict of Interest to ensure independence
 - Can not review their own work



Audit Process Con't

- AENV notifies facilities
- Auditors undertake audit
 - Audit to **limited** assurance
 - asked to test whether the system could support **reasonable** assurance
- AENV is final audience.
 - Report submitted to us.
 - We then follow-up with project developers to review audit results and follow-up as needed
- Finalize compliance submission for regulated facility



Audit Process con't

- **Develop a Risk Assessment Report**
 - Based in experience conducting the audits
 - Identify vulnerabilities and risks in the system
 - Will be used to inform future policy and support continuous improvement of the system.
- **Issues might include:**
 - Consistency in interpretation of offset protocols,
 - Usability of protocols,
 - Consistency of protocols with similar protocols in other jurisdictions,
 - Improvement of overall assurance
 - Ability to follow the paper trail,
 - Ability to move to reasonable level of assurance



Audit Process con't

- Alberta Environment audits **ARE NOT** government sign-off on Offset Credits.
- The Audit **IS NOT** a government certification process
- Audits **CANNOT** replace due diligence in Offset Credit transactions – companies should still do their own due diligence.
- **The intent of the audit is to re-verify offset credits submitted for true-up and to confirm and check consistency with the *Specified Gas Emitters Regulation*.**



2007 Audit Results

- Have completed 6 of the 7 project audits
- Overall, happy with audit results
- Project developers appear to be acting in good faith and making decisions consistent with the policy objectives
- Where errors were made, generally aired on the side of conservatism
- Some material and immaterial errors were identified
 - We are working with the project proponent to understand and resolve the issues.
 - We are learning by doing.



2007 Audit Results Con't

- Have one project we have not been able to complete the audit on. We are working with the project proponent and regulated facility that submitted those credits to understand the issues and resolve them.
- Have a potential material error in one project that is being reviewed. Corrective action will be determined based on follow-up discussions with the project proponent.



Audit Results - Materiality

Set a 5% materiality for errors

Materiality provides a threshold which guides how known errors are treated.

- **Material** errors greater than 5% must be corrected retroactively through a complete restatement and re-verification.
- **Immaterial** errors are assessed on a case-by-case basis. These are usually corrected on a go-forward basis, but may require retroactive correction in some circumstances.
 - Immaterial errors must be assessed both from an emissions perspective and a financial perspective.
 - They must also be assessed cumulatively as a number of immaterial errors could add up to a material error.

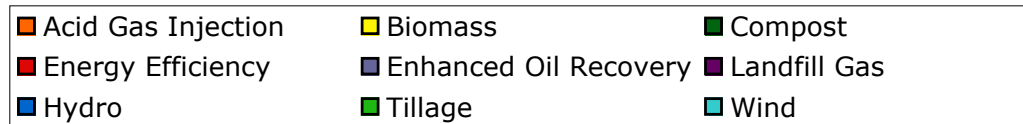
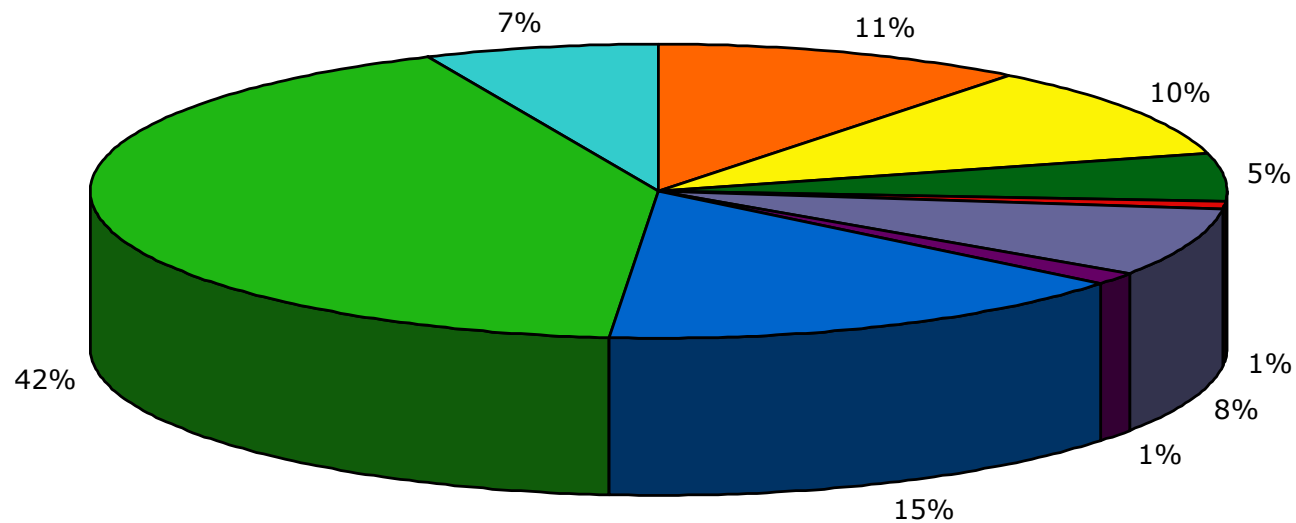


2007 Errors

- Where errors are detected, we first discuss the findings with the project developer to understand the error
- Determine corrective action needed
- Notify Regulated facility of Credit shortfall and request difference be paid into the *Climate Change & Emissions Management Fund* at \$15 per tonne owed
- Contractual agreement between buyer and seller needs to address how tonne shortfall will be corrected between affected parties

2008 Offset Credit Use

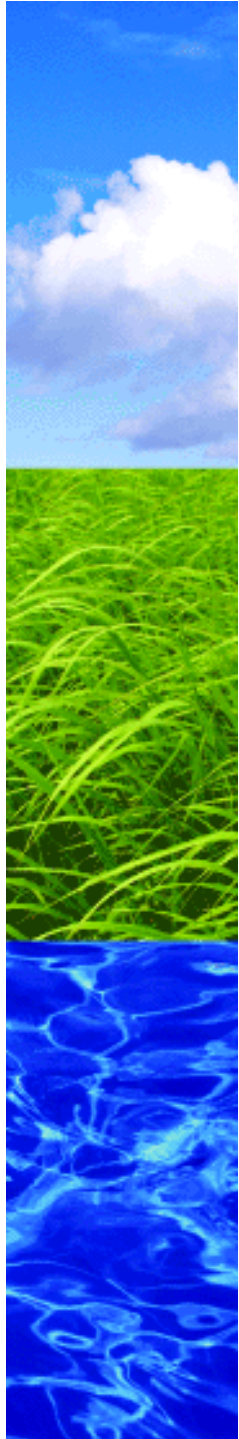
- 25 facilities submitted 2.75 million tonnes from 29 projects





2008 Offset Project Audit

- 11 Offset projects selected for supplemental audit
- Selection criteria considered was:
 - Project developer
 - Existing vs. new projects
 - Type of protocol being used
 - Facility submitting the credits for compliance
 - Third party verifier used
 - Random selection
- Emphasis in 08 was placed on new project developers, new project protocols, and more technically complicated projects
- Results will be available in fall



Questions?