

ALBERTA AND CLIMATE CHANGE

MEETING THE CHALLENGE – Assurance & Issues

Offset Workshop June 22 2009





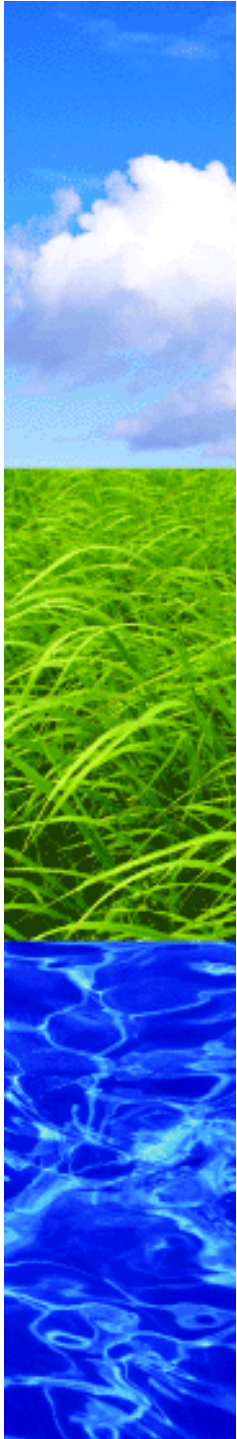
Offset Market

- Developed as a market instrument to support greenhouse gas emissions compliance at regulated facilities
- Is one of three compliance options available to facilities
- Encourages greenhouse gas emission reductions in unregulated sectors
- Supports Alberta's commitment to reduce provincial greenhouse gas emissions



Program Status

- First regulated Offset program in North America
- Ability to learn by doing to develop a robust system
- Alberta has been an international leader in developing protocols
 - 24 government approved protocols for quantifying emission reductions
- We've seen a substantial increase in Offset market participation over first two years



Some Key Issues identified in the use of Offsets for Regulatory Compliance



Paper trail and documentation

- It is critical that government reviewers, verifiers and auditors can follow the paper trail and understand that a reduction occurred.
 - This is particularly true for aggregated projects – need to be able to follow the paper trail back to the individual reductions.
- Project developers must ensure data management systems and supporting documentation that substantiates the GHG assertion are accurate and available for review
 - Needs to be transparent and reproducible
- Is required to support third party verification and government audit



What we saw

- Data management systems are being developed
 - Differing levels of sophistication
 - However, systems are becoming more robust over time
- Differing opinions on what information should be disclosed to a verifier/auditor
 - Verifiers/auditors have the ability to ask for any information they feel is required to reach a conclusion on a project
 - Emphasis is placed on sampling original, raw data sources.
 - If in doubt, disclose to the verifier



What we saw Con't

- Some difficulty in reproducing third party verification results
 - Verifiers should be able to demonstrate appropriate sampling and testing to ensure the ability to verify reductions actually occurred.
 - If we can't come to the same conclusion, we cannot accept the tonnes
 - A “negative” or a “non-opinion” from an auditor amount to the same outcome – the project and tonnes will not be accepted for compliance.
- In some cases, required information was not available to auditors. Data sources include, but are not limited to:
 - Site map and process flow diagram
 - Data flow diagram
 - Original records to support GHG calculations
 - Calibration records, maintenance records, fuel use records, etc.
 - Meter readings and supporting information
 - Data management systems and supporting information
 - Other information as deemed necessary



Submissions to the Registry

- Wide range of Plans and Reports
 - Filling out a Questionnaire
 - Project Impact Statements
 - 2 Page Verification Statements
- Lack of Consistency
- July 2008 Offsets Consultation:
 - Over 60% Surveyed would like to see Project Reporting and Verification Guides



Documentation for Compliance

Projects must include all required documentation

- GHG Project Plan and Project Report
- GHG Assertion
- Statement of Verification
- Verification Report
- Conflict of Interest checklist/Statement of Qualifications

In addition, facilities must include

- Confirmation of initiation of retirement (notice from Registry)
- Proof of ownership
 - Alberta Environment must be able to track ownership to confirm ownership at the time of submission for compliance



Ownership

- Offset Credits must be owned by the company submitting the Offset Credits for compliance
- Alberta Environment cannot accept any credits for true-up if they are not owned by the company submitting them.
 - This includes delayed and/or conditional transfers of ownership



Ownership con't

- Ownership should be clearly identified in all contracts and supporting documentation
 - For **aggregated projects**, contracts must accurately reflect the role of the aggregator in transactions
- Ownership needs to be obtained prior to submitting Offset Credits for compliance
- Project Developers/Regulated Facilities need to ensure appropriate paper trail is available to verifiers, auditors and gov't.
 - Offset verification **must** confirm ownership at time of verification
 - Facility verification **must** confirm transfer of ownership to final end user



Liability and Contracts

- Alberta Environment **does not** directly regulate the Offset market
 - We regulate large industrial emitters
 - Mandate requirements for Offsets as a compliance option
- We do not pre-certify Offset Credits
 - Provide approved offset protocols
 - Provide guidance to project developers and support third party verification
 - Provide templates to improve consistency in report requirements
 - However, quality of credits must be assessed at point of sale
- Liability should be addressed through the contractual agreement between transacting parties
 - Should not be contingent on government audits as we do not audit all projects
 - The courts and legal agreements provide structure and sufficient remedies for addressing disagreements



Verification/Assurance

- Third party verification is a fundamental assurance component of the Offset system
- Provides an independent check on the GHG Assertion to ensure that tonnes being registered on the Alberta Emissions Offset Registry are real, credible, consistent with regulatory requirements, and meet the requirements stated in the government-approved protocols



What we saw

- Verifiers did not submit verification reports
 - Difficult for Regulator to assess validity of Offset Credits without a detailed verification report outlining what the verifier did to become comfortable with the assertion
- Verifiers signed off on projects that had not used appropriate protocol methodologies
 - Liability implications to correct tonnes registered on the Registry, and facility compliance
- Inability of Auditor to reach the same conclusion as the third party verifier
 - Work needs to be replicable
- Facility Verifiers signed-off on Offset Credits that did not use government-approved protocols
 - The facility was out of compliance with the *Regulation*



Verification Requirements

The role of the verification is to confirm the GHG assertion to both the regulated facility purchasing the Credits for compliance, and to the Regulator for final acceptance of Offset Credits.

Verification must:

- Assess the project against the approved protocol and regulatory requirements
- Provide a signed Statement of Verification that includes tonnes being verified and time period covered under the verification
- Signed Conflict of Interest checklist
- A detailed verification report outlining methodology used and conclusions



Conflict of Interest

- Third party verification must adhere to the principle of independence
- Verifications cannot be undertaken where the verifier:
 - Has direct personal or financial involvement in the company
 - Is in a position to be reviewing his/her own work, or work done by other members from his/her company
- **Verifier must remain independent of the activity being validated or verified, and free from bias and conflict of interest.**



Conflict of Interest con't

- Verifiers must sign and include a Conflict of Interest checklist as part of their verification
- Where potential conflicts exist, the verifier should contact Climate Change Central or Alberta Environment to discuss their situation prior to accepting the work

Alberta Environment cannot accept any Credits for compliance where a real or perceived conflict of interest exists



Aggregated Projects

- Aggregated projects posed some challenges to the administration and assurance of the Offset system
 - They typically add a layer of complexity and pose unique challenges to verify and audit, to confirm ownership, etc.
- Some difficulty tracking tonnes submitted for compliance back to real reductions on the ground.
 - We're looking at the existing capabilities of the Offset Registry to see if we can improve its functionality in this regard.



Aggregated Projects con't

- Project developers should complete the spatial locator template prior to verification
 - We encourage this information be made available to verifiers during verification
 - Helps to ensure verifiers are signing-off on information that will be posted on the Registry
 - Supports transparency of records and can facilitate verification
- Spatial Locator Template must be submitted to the Registry as part of the mandatory supporting documents package
 - Information used to check for duplication
 - Confirms tonnes per vintage year
 - Is kept confidential
- AENV and the Registry are developing subproject capability to better track aggregated projects



Timelines

- Reminder – the offset market is open for business year round.
- Offset projects do not necessarily need to adhere to a calendar year for verification and serialization.



What we saw

- Delayed serialization until a buyer was identified
- 95% of serialization requests came in March.
- This posed a significant burden on Registry staff, and worry in Offset community/Regulated facilities that tonnes would not be serialized by the March 31 compliance deadline



Processing Time

- The Registry requires 10 business days to process and assign serial numbers
- The Registry requires at least 5 business days to process transfers of ownership and initiate retirement requests
- Project developers are strongly encouraged to register projects throughout the year.
- Regulated facilities intending to use Offset Credits for compliance are encouraged to initiate transactions throughout the year
 - Excess credits can be banked and used in future years!
- **We will do our best, but AENV will not be able to guarantee serialization and Registry transactions for requests coming in AFTER March 1**

Submitting Offset Credits for Compliance

- System was designed to accommodate a limited number of transactions per block of Offset Credits





What we saw

Large complexity in final submissions

- Multiple transactions through numerous intermediates
- Breaking of serial ranges through transactions and at time of submission
 - Errors were made in allocating serial ranges, including up to 2,500 credit overlap between facilities
 - Credits can only be used once; overlap of serial ranges could result in double counting
 - Requests for retirement should match serial ranges being applied to a facility. This will help reduce overlap and transcription error on submissions



What we saw

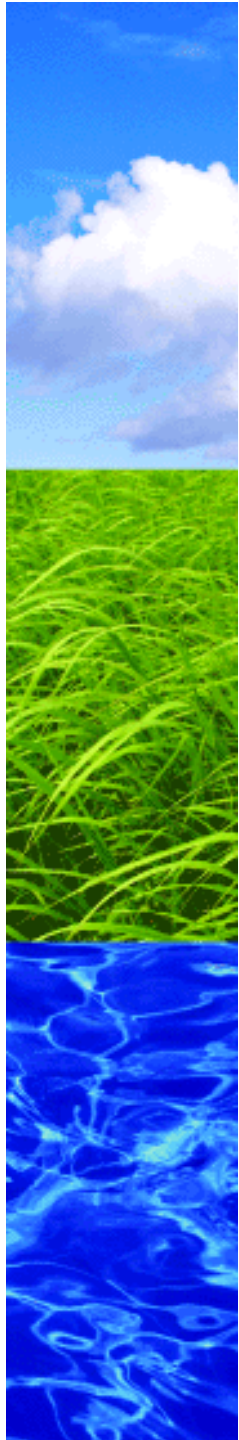
- Credits from a single project being sold to numerous companies and applied to multiple facilities

Offset Project	Company 1	Facility 1a
		Facility 1b
	Company 2	Facility 2a
		Facility 2b
	Company 3	Facility 3
	Company 4	Facility 4a
		Facility 4b
		Facility 4c

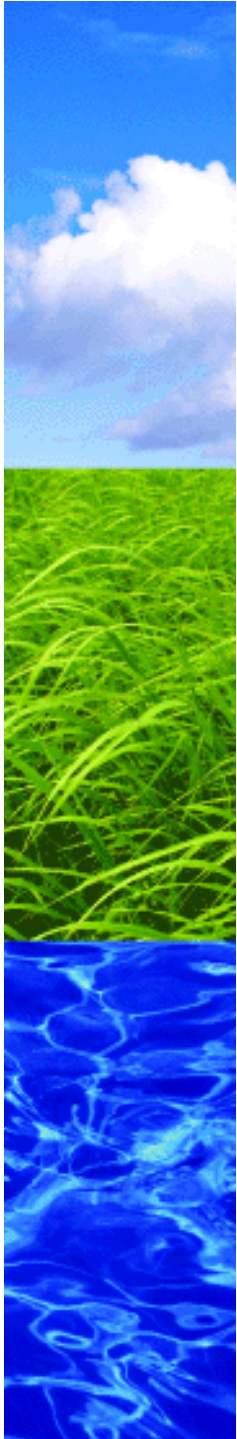


Offset Submissions

- This complexity in the market has challenged our current offset system
 - Are working on improvements to the Registry to accommodate market permutations
- Complete supporting information is critical to our ability to assess true-up
 - We need this paper trail to connect serial ranges to projects, check for double counting, and to assess compliance
 - If we cannot reconcile the paper trail, we cannot accept the credits for compliance



Questions?



Next Steps for Offset System



Outcome of first two cycles

- Have had significant learnings from the first two years
- Significant amount of work accomplished over a very short time
- Significant market interest and uptake
- Have identified a number of areas for future improvements



Next Steps - Protocols

- Revising Offset Protocol development process
 - To ensure alignment with policy objectives
 - Articulate requirements for a valid Offset project
 - Develop a more systematic review process
- Continuous improvement – apply learnings and develop tighter protocols in the future
- Will need to consider implications of Federal Offset Program for Alberta's system



Next Steps - Program

- Will likely need more prescriptive rules for Offset development and use for compliance
- Revising guidance documents
 - Needs to be grounded in Alberta's climate change policy objectives
 - Achieve more consistency with Regulatory system, particularly on verification requirements
 - Will include approved templates for GHG project reports, GHG project plans, and verification reports
- Have identified need for improvements in the Offset Registry
 - e.g., sub-project capability for aggregated projects



Next Steps - Registry

- Have identified areas for improvement
- Working with Climate Change Central and Canadian Standards Association on issues identified
 - E.g.: need better capability for handling aggregated projects
- Should be available by fall
- Stakeholders will be notified in advance of any changes



Next Steps - Verification

- We are looking at accreditation for verification
 - Will provide minimum standards for verifiers
 - Will provide quality assurance on verification
 - Improve accountability in verification community
- Will be aligning verification requirements with Regulatory system
 - Templates for verification reports
 - Require signed Statement of Qualifications
 - Require signed Statement of Verification
 - Require signed Conflict of Interest
- Detailed guide for verification available in fall
- We are also monitoring developments at the national and international level
 - e.g., the Federal Offset system, National Standards Council work on accreditation, ISO Standards



Templates

- GHG Project Plan
- GHG Project Report
- Verification Report



Quick Reminder

- Alberta uses the ISO 14064-2 as the basis for its offset protocols
- Supporting documentation requirements for posting to the Registry are based on ISO requirements
- Criteria for GHG project plans, reports and verification reports are identified in ISO 14064-2, ISO 14064-3, and in Alberta Environment's Offset Credit Guidance Document



GHG Project Plan

- Is completed prior to project development
- Needs to identify:
 - Project scope and site description
 - Demonstrate how it aligns with the protocol
 - Identification and justification for the baseline
 - Inventory of GHG sources, sinks, and reservoirs
 - Quantification plan
 - Monitoring plan
 - Data Information Management system and controls



GHG Project Report

- The GHG Project Report is completed prior to verification.
- It should address the following:
 - Modifications in calculations procedures from those identified in the project plan
 - Data collection/record keeping procedures
 - Emissions factors and other variables used
 - Any changes in the legal requirements associated with the project
- **This report must provide documentation and evidence for project operations that give rise to the reduction or removals achieved**



Verification Report

- Verification Report supports assurance on the GHG Assertion
- Communicates to Offset Credit purchasers and Alberta Environment steps taken by the Third Party Verifier to assess validity and correctness of Offset Credits being claimed
- Is required by the regulated facility submitting the Offset Credits for compliance



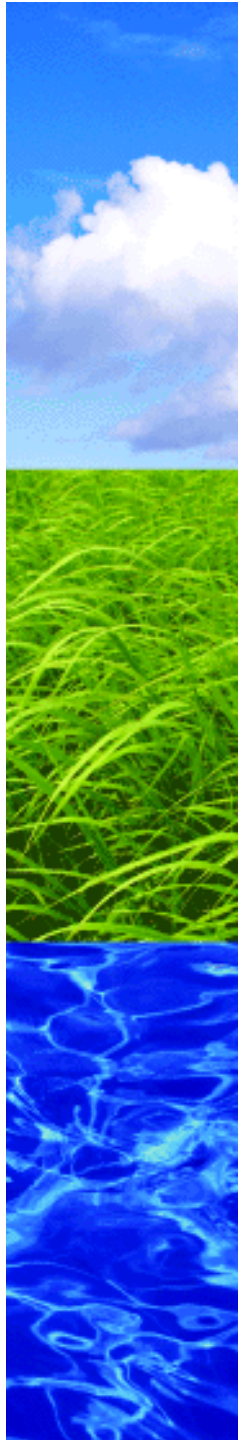
Verification Report Con't

- Verification Reports should include:
 - Verification Summary Table
 - Overview of the project
 - Objectives for the verification
 - Level of Assurance being used
 - Physical and temporal scope
 - Criteria used
 - Final Verification plan including schedule and procedures used
 - Findings, which should include unresolved material and immaterial discrepancies
 - Verification team members



Timing

- Guidance documents will be revised for fall, and will include templates
 - Will review with stakeholders before finalization



Questions?