

Overview of the Climate Action Reserve

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President



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Workshop on Mexico Carbon Offset Projects
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Background on the Climate Action Reserve



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- Chartered by California state legislation in 2001
 - Mission is to encourage early voluntary actions to reduce emissions and to have such emissions reductions recognized
 - Initially focused on emission reporting and reductions by member organizations
 - Now on emission reduction projects generating offsets
- Balances business, government, environmental, and academic interests



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Board of Directors

- California EPA
- Duke University
- Environmental Defense Foundation
- Goldman Sachs
- Metropolitan Water District
- National Institute of Ecology of Mexico
- Natural Resources Defense Council
- New Resource Bank
- NRG Energy
- Pacific Gas & Electric
- Shell Oil Company
- Sierra Club



Objectives of the Reserve

- Encourage actions to reduce greenhouse gas emissions
- Show that carbon offsets can be a useful tool in addressing climate change
- Model an offset program that has environmental integrity but is not burdensome to use
- Create value for the North American carbon market
 - For project developers: High value projects
 - For buyers: Confidence in offsets they are buying
- Provide technical resources on offset standards and policy



What We Do

- Develop High Quality Standards
 - Convene stakeholders and lead development of standardized protocols for carbon offset projects
- Manage Independent Third Party Verification
 - Training and oversight of independent verification bodies
- Operate a Transparent Registry System
 - Maintain registry of approved projects
 - Issue and track serialized credits generated by projects¹

What makes the Reserve different?

Recognition



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Recognized and Supported by:

- California Air Resources Board
- State of Pennsylvania
- Voluntary Carbon Standard (VCS)
- Leading environmental organizations:
 - Environment America
 - Natural Resources Defense Council (NRDC)
 - Environmental Defense Fund
 - Union of Concerned Scientists
 - Sierra Club
 - Wilderness Society

What makes the Reserve different?

Transparency



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- Unparalleled transparency makes the Reserve unique
- Public reports include:
 - All protocols and associated documents
 - List of all account-holders
 - List of all projects and all project documents
 - List of all issued CRTs for every project
 - All retired CRTs

What makes the Reserve different?

Performance Standard



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- Why a performance standard is different
 - The hard work is upfront
 - Assess industry practice as a whole, rather than individual project activities
- Less subjective determination to qualify
- More certainty in amount of credits
- Lower risk for developers and investors
- Faster project processing

What makes the Reserve different?

Separation of Roles

- Reserve does not fund or develop projects
- Does not take ownership of offsets
- Is not an exchange
- Is a 501(c)3 not-for-profit organization
- Independent third-party verification
 - Consistent with international standards
 - Accreditation done by ANSI
 - Assiduous oversight of verifiers



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What makes the Reserve different?

Connecting Markets

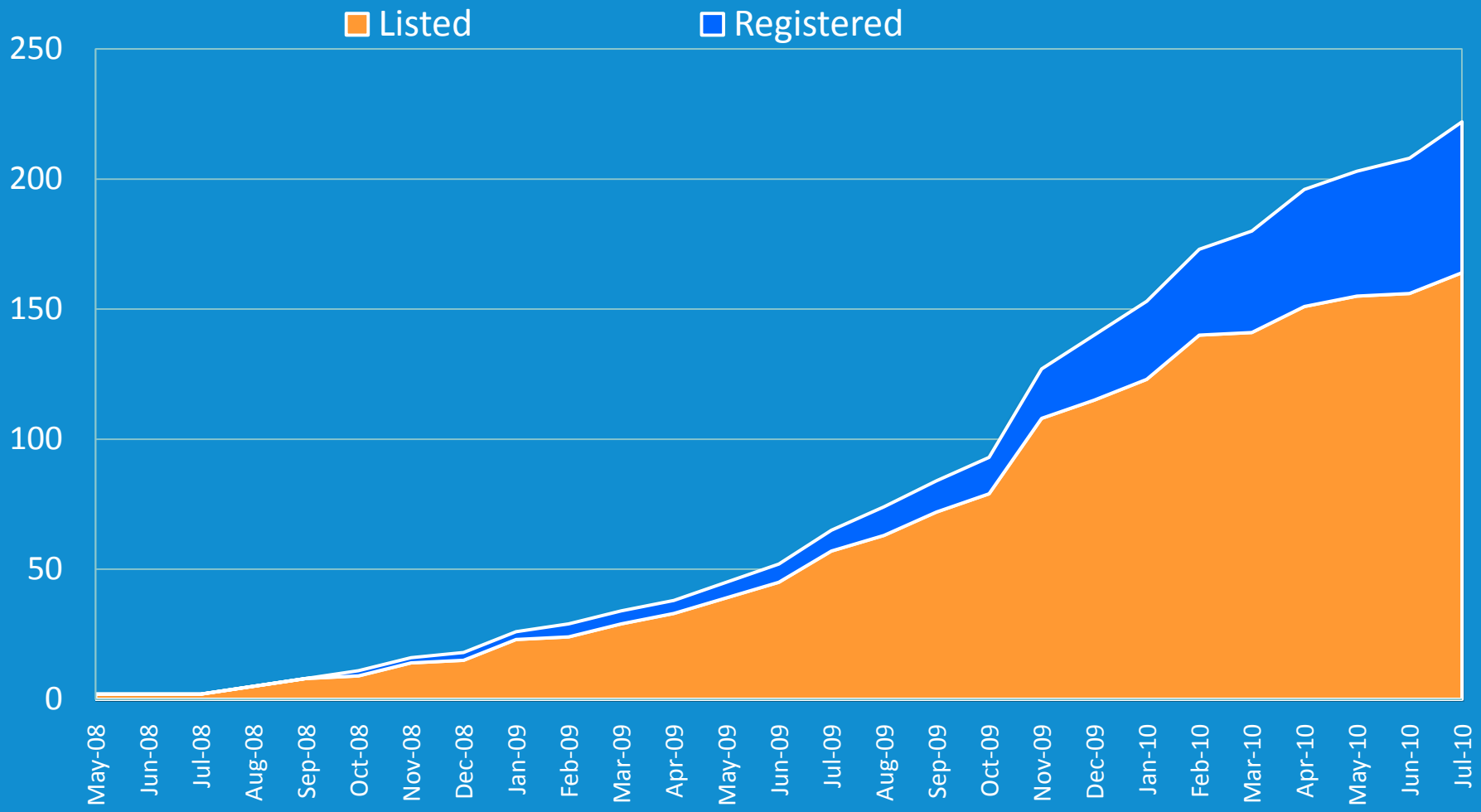


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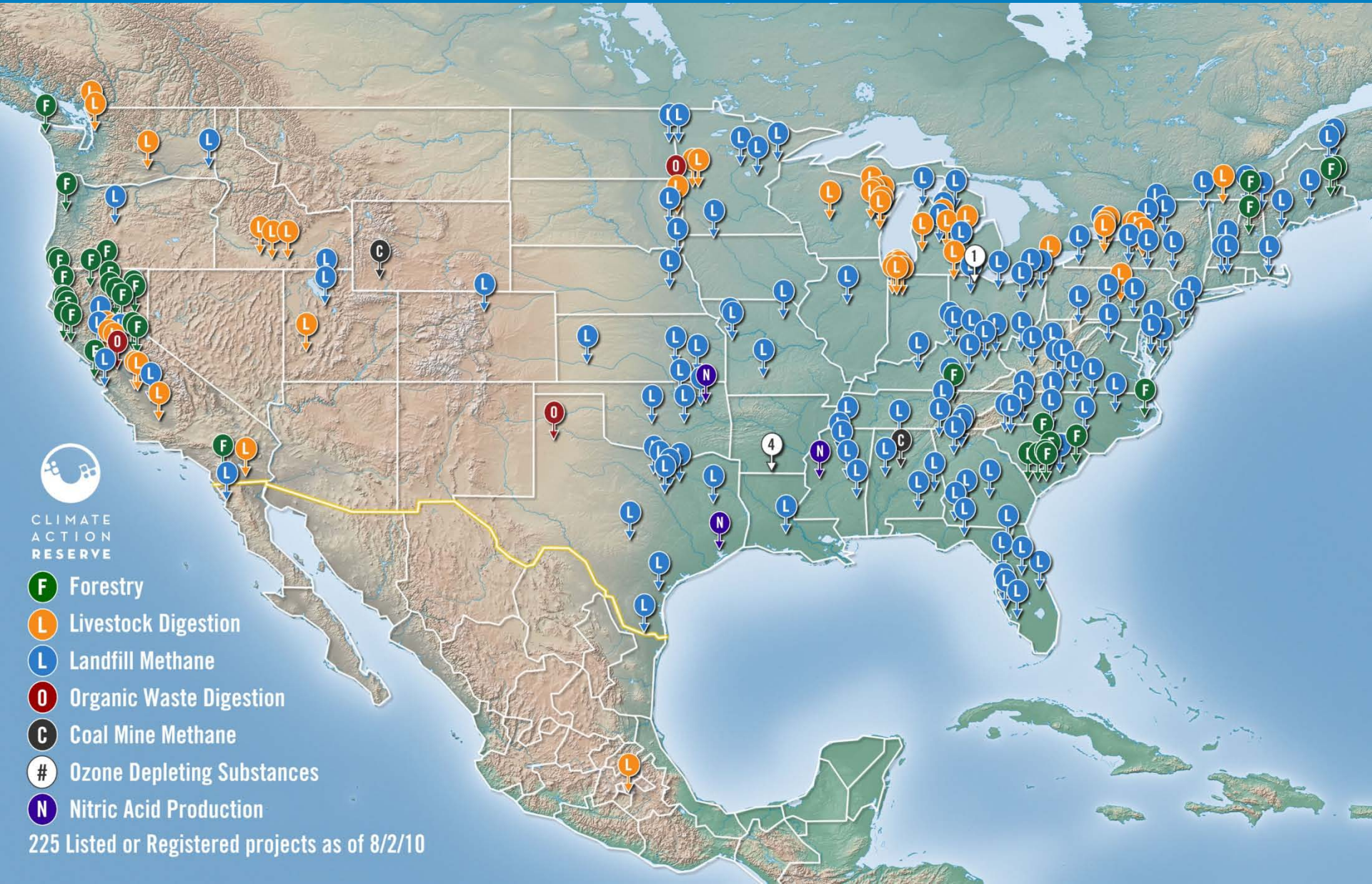
- CRTs are used in voluntary market today
- Many buyers expect that projects will be usable for compliance in California, Western Climate Initiative or in a national system
 - Regulators have yet to make decisions
 - The Reserve “is considered the premier pre-compliance offset standard.” (*State of the Voluntary Carbon Markets 2009*)
- Provides project developers with multiple options for selling their projects



Offset projects in the Reserve



Listed & Registered Projects



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- F** Forestry
- L** Livestock Digestion
- L** Landfill Methane
- O** Organic Waste Digestion
- C** Coal Mine Methane
- #** Ozone Depleting Substances
- N** Nitric Acid Production

225 Listed or Registered projects as of 8/2/10



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Reserve Statistics

Launch date	May 2008
CRTs registered	6.3 million
Account holders	330
Projects submitted	358
Exchanges	CRT futures and options are traded on: <ul style="list-style-type: none">• Chicago Climate Futures Exchange (CCFE)• Green Exchange



Our Protocols

- Developed with broad public input
- Goal is to create a uniform standard that is widely recognized and builds on best practice
 - We incorporate the best elements of other protocols
 - We do not adopt protocols from other programs (i.e. CDM, Gold Standard, VCS, etc.)
- Designed as step-by-step instructions on project development



The Big 5 Tests

- REAL
 - It can be accurately measured.
- ADDITIONAL
 - Occurs outside of any regulatory requirement
 - Including outside capped sector
 - Would not have occurred but for the incentive provided by a GHG market.
- VERIFIABLE
 - It can be independently verified.
- ENFORCEABLE
 - Its ownership is undisputed.
- PERMANENT



Protocol Development Process

1. Literature review
2. Scoping/kick-off meeting
3. Multi-stakeholder workgroup formation
4. Draft protocol to workgroup
5. Revised draft released for public comment
6. Public workshop
7. Adoption by Reserve board in public session
 - It is unique for a non-profit Board to meet in public



History of the Mexico Protocols

- August 2008: California, PG&E, and six Mexican states sign memorandum on carbon projects
- November 2008: Reserve board approves acceptance of projects in Mexico and Canada
- July 2009: First Mexico protocols adopted for Livestock and Landfill methane
- October 2009: Letter of Intent signed between CalEPA, INE, Climate Action Reserve, and EcoLife to develop forest protocols for use in Mexico



Connection to CDM?

- Our program is outside of the CDM
- Projects may transfer programs but can't get double credits for any vintage
 - Example: early credits through the Reserve then option to move to CDM



Existing Protocols

- Forestry
 - Improved forest management
 - Avoided conversion
 - Reforestation
- Urban forestry
- Landfill gas capture (US & Mexico)
- Livestock methane capture (US & Mexico)
- Organic waste digestion
- Coal mine methane
- Nitric Acid Production
- Ozone Depleting Substances (US & Article 5 sources)
- Organic Waste Composting



Protocols Under Consideration

Agriculture and Biological Sequestration

- Soil Conservation
- Nutrient Management
- Rice Cultivation

- Tidal Wetlands Restoration
- Biochar

** In-progress*

Industrial Processes

- Boiler Efficiency
- Natural Gas T&D Systems

Transportation

- Truck Stop Electrification

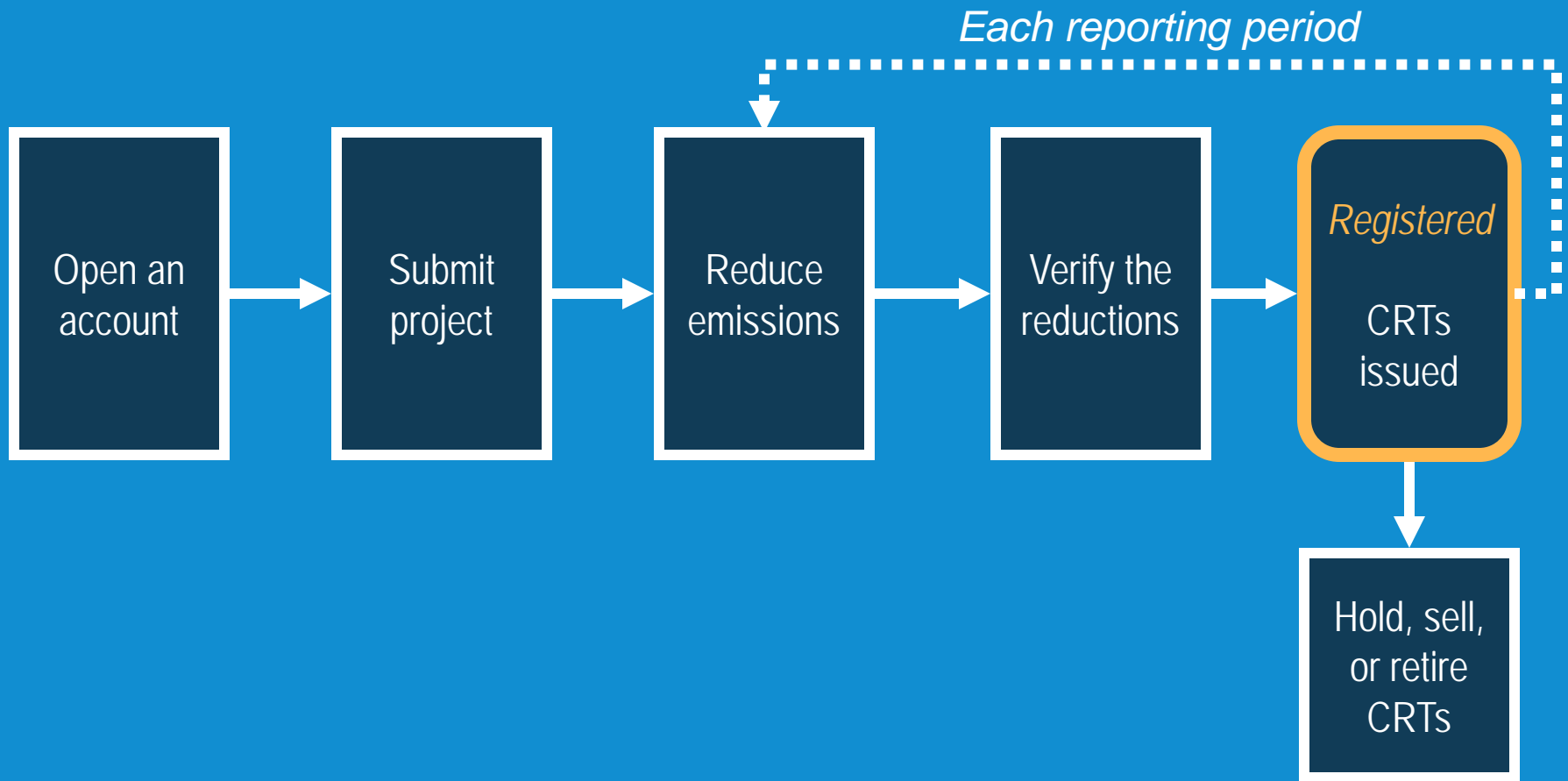
International Expansion

- Mexican Forestry *
- Canadian Protocols

The Reserve Process



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Transferring Credits

- Developer contracts to sell CRTs to a buyer
 - Financial transaction is outside of the system
 - Buyer must have an account on the system
- Developer instructs the system to transfer the CRTs into the buyer's account
- Buyer can hold them, retire them or transfer them
- Financial transaction can be done through:
 - Broker
 - Exchange: CCFE or Green Exchange
 - Directly
 - Public auction



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