



Nutrient Management Project Protocol Credit Stacking Subcommittee

Meeting #1 Memo

July 12, 2011

The Climate Action Reserve (Reserve) has formed the Credit Stacking subcommittee to think creatively about how to develop policies to address multiple payments for ecosystem services under its Nutrient Management Project Protocol (NMPP). The NMPP is currently under development and is scheduled to be completed in early 2012.

The objective of this subcommittee is to provide options and make recommendations to the Reserve and the NMPP workgroup on policies to address:

1. credit stacking, defined as establishing more than one credit type on spatially overlapping areas (i.e., in the same acre).¹ The focus will be on the issuance of water quality credits and Reserve-issued carbon offset credits
2. payment stacking, defined as establishing credits for a best management or conservation practice that was originally funded by the government (via grants, subsidies, payment, etc.)¹

The main consideration for the subcommittee is whether and how the nutrient management protocol can ensure additionality of an offset project that reduces N₂O emissions in cases where the project may receive incentive payments for adopting nutrient management best practices and/or sell water quality credits for reducing nitrogen leaching/run-off. The crux of the issue is that from an additionality standpoint, stacking should only be allowed in cases where a project requires payment for more than one ecosystem service in order to be economically viable. The protocol must set requirements for how a project demonstrates this need.

While both credit stacking and payment stacking involve payments for ecosystem services, we feel that it may be appropriate to approach the different payment types separately. One reason for this is the role of additionality in the two payment types. In order to allow credit stacking (e.g., stacking of credits for mitigation and offsets), one must prove that multiple incentive payments are necessary in order to support the implementation of a project. This is because both GHG credits and water quality credits will be used to “offset” another party’s GHG emissions and nutrient discharges into a waterway, respectively.

When issuing GHG credits to project lands that were originally incentivized to change behavior through conservation funding (e.g., government funding or conservation easements), one must ensure the additionality of the action that will produce the GHG credit, but not necessarily the additionality of the

¹ Jessica Fox, Royal Gardner and Todd Maki. *Stacking Opportunities and Risks in Environmental Credit Markets*, Environmental Law Reporter (2011).

actions resulting from the incentive payment, as incentive payments are not usually intended to create a credit for use in a market. Because of this, there may be less risk in payment stacking (i.e., staking an incentive payment with a GHG offset credit), as long as the additionality of the GHG offset crediting action can be proven.

Current Approach to Credit and Payment Stacking

Although neither is called out by name in existing protocols, the Reserve does have some policies in place that address the concepts of credit stacking and payment stacking. For example, under the Forest Project Protocol Version 3.2 (FPP), the Reserve requires that pre-existing wetland mitigation banks occurring on the same land as a forest project must be modeled into the project's baseline. In other words, credit stacking is not allowed – the landowner cannot receive GHG credits for the same conservation action that is created for and assigned to the wetland mitigation bank (i.e. maintaining the same trees). However, the landowner could plant additional trees on that same piece of land above and beyond what is protected by the wetland mitigation bank and receive GHG credits for those trees. Furthermore, the timing of payments is important - if a land owner were to first establish a GHG sequestration project and then later sought to use the same lands for a wetland mitigation bank, the actions undertaken for the wetland mitigation banking would not be required to be modeled into the baseline. As the land owner is required to sign a Project Implementation Agreement that is recorded with the deed of the property, the Reserve assumes the party that would be issuing another credit or payment would be alerted to the presence of a GHG sequestration project on the land; it would be their decision whether or not to provide an additional payment. In this way, the Reserve has shifted the responsibility of decision making for credit stacking to the other party who would issue the additional credit.

Under other protocols, disallowing projects that received government funding has been considered during the protocol development process (e.g. livestock projects, coal mine methane projects). To date, the Reserve has not established any such restrictions on eligibility. While government funding for these project types is not for conservation or improved management of land, some conceptual parallels can be drawn. One could interpret the lack of limitation on government funding to mean payment stacking is allowed, as long as the acceptance of government funding still allows the project developer to attest to ownership of the GHG credits generated by the project and attest that the project was voluntarily implemented.

Conceptual Framework for NMPP Performance Standard

Policies to address payment stacking and credit stacking must work in concert with the other eligibility requirements specified in the protocol, with particular attention paid to the performance standard test. After a project has established that it is not required by law, the performance standard test is the primary test of a project's additionality, and thus its merit as an offset project. It seems appropriate that any test or requirement for credit stacking would piggyback or be an extension of the performance standard test. This means the structure/basis of the performance standard test could be very important to the structure/basis of any stacking eligibility policy.

Currently, the performance standard for the NMPP is envisioned as a two-step test:

1. Nitrogen application rate threshold: fertilizer application rate on project lands must be below the determined threshold, regardless of pre-project application rate
2. *N* practices must be implemented on project land from a list of practice standards specified by region/crop

The performance standard is explicitly not going to be used as the project's baseline. Instead, the protocol will allow each project to individually model a baseline using site-specific soils and climate information as well as historical nutrient management practice. This will also allow a project to take into account existing project-specific legal requirements or voluntary commitments, if necessary.

Options to Consider

1. Exclude all credit and payment stacking
2. Allow payment stacking on the condition that the additionality of the GHG credit can be determined or the payment comes after the GHG project start date
3. Allow credit stacking when it can be shown that additional funding is necessary to implement the project