CRS center for resource solutions

October 30, 2011

Verified Carbon Standard Association (VCSA)
1730 Rhode Island Avenue, NW
Suite 803
Washington, DC 20036

RE: Public Consultation: Draft Requirements for Standardized Approaches

To Whom It May Concern:

Center for Resource Solutions (CRS) appreciates the opportunity to comment on the Verified Carbon Standard's (VCS's) draft requirements for standardized approaches to baselines and additionality.

Background on CRS and Green-e®

CRS is a U.S.-based non-profit established in 1997 to create policy and market solutions to advance sustainable energy and mitigate climate change. Our leadership through collaboration and environmental innovation builds policies and consumer-protection mechanisms in renewable energy, greenhouse gas (GHG) reductions, and energy efficiency that foster healthy and sustained growth in national and international markets.

CRS administers the Green-e programs. Green-e Energy is North America's leading independent consumer protection program providing certification and verification for renewable electricity and renewable energy certificates (RECs). Green-e Climate (described further below) is a certification program that sets consumer protection and environmental-integrity standards for retail carbon offsets sold in the voluntary market. Green-e Marketplace recognizes companies that make meaningful commitments to use renewable energy by allowing them to display the Green-e logo when they have purchased a qualifying amount of certified renewable energy and/or offsets and passed the program's verification standards.

Stakeholder-driven standards supported by rigorous verification audits are a cornerstone of Green-e and enable CRS to provide independent third-party certification of environmental commodity transactions. The Green-e environmental and consumer standards are overseen by an independent governance board of industry experts, including representatives from environmental nonprofits, consumer advocates, and purchasers. Our standards have been developed and are periodically revised through an open stakeholder process. Green-e program documents, including the standards, contract templates, and the annual verification report, are available at www.green-e.org.

Green-e Climate

Green-e Climate was launched in 2008 as a consumer protection program for the voluntary offset market certifying retail GHG products (offsets) that are created and offered by offset sellers in the market in order to provide consumer-level protections around their sales. The program complements project certification

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and verification programs, such as VCS, by ensuring that offset sellers 1) source only verified and properly tracked and credited reductions from high-quality projects certified under project standards that meet a high standard of quality, 2) retire correct volumes and types of emissions reductions on behalf of customers alongside a clear chain of custody from the project to the consumer, and 3) provide customers with sufficient and accurate disclosure and do not mislead customers with inaccurate advertising. Please find a full program description located here our website: http://www.green-e.org/getcert_ghg_intro.shtml, as well as Program Standards and governing documents here: http://www.green-e.org/getcert_ghg_standard.shtml.

The VCS program (version 2007.1 of the *VCS Standard*) was endorsed by the Green-e Governance Board as an eligible GHG Program under Green-e Climate in January 2008, making the following VCS project types eligible to supply VCUs to Green-e Climate Certified offsets:

- Renewable Energy
- Energy Efficiency
- Agriculture, Forestry and other Land Uses (AFOLU)
- Methane Capture
- SF_6 Destruction

VCS version 3.0 was recently endorsed by the Green-e Governance Board on July 7, 2011. Please see section IV.B.5 of the *Green-e Climate Code of Conduct*[1] for more information.

General Support of Incorporating Standardized Approaches into the VCS Program

First, we would like to express our support for the VCSA's decision to move forward with incorporating standardized approaches into the VCS Program. We feel that this will positively impact both the environmental integrity and accessibility of the Program. As they tend to be more data-driven than common project methods, standardized methods can have significant advantages in terms of both rigor and transparency, while also lowering barriers to entry for projects (particularly small-scale projects) and administrative burden for the VCS Program. The effect of this is very often to enhance the transparency of the marketplace and therefore encourage project development.

Comments Pertaining to Consultation Questions

Consultation Question No. 2 – Do the specifications for performance methods lend themselves to the project activities one feels could be addressed via performance benchmark approaches?

We believe that renewable energy is particularly suited to standardized methodologies. It appears that VCS's specifications for standardized methods do lend themselves to renewable energy, but that performance methods as a subset of this do not. Our interpretation of VCS's current draft requirements for standardized approaches is that one cannot set a performance benchmark (in terms of GHG/unit of output) for renewable energy because renewable energy is zero-emitting and the performance benchmark cannot be less than zero. Instead, one must utilize the alternative activity method for a renewable energy

[1] Available online at: http://www.green-e.org/docs/climate/AppendixB-CodeofConduct.pdf.

methodology under VCS. We are requesting further clarification on how VCS's proposed standardized methods could potentially be applied to renewable energy.

It would be possible to use a performance method in a methodology for electricity generation, in which an average emission rate (performance) is calculated for electricity generation in a certain region, which then serves as the additionality and/or crediting baseline for electricity generation in that region. In this case, all renewable energy is additional in terms of emissions (performance), even if all but one generation units are renewable, and each would be credited up to the baseline rate, creating a potential free-rider situation. Stratification by technology – zero-emitting vs. emitting generation – could prevent free-riders, but then one is left with the same problem of assessing additionality on the basis of emissions for zero-emitting projects.

For example, in the *Green-e Climate Protocol for Renewable Energy (PRE)*[2] – a GHG project standard developed by CRS in 2007 for U.S. grid-connected renewable energy, intended solely for use as an eligible project standard (among others) available to offset sellers participating in the Green-e Climate program – CRS has previously defined a "performance and technology" additionality test. Since a performance test is intended to establish that a project activity has lower GHG intensity than what is common practice (business-as-usual) in the sector, CRS determined that for zero-emitting renewable energy, this meant establishing whether zero-emitting generation is common practice among electricity generation activities in the U.S. electricity sector. Therefore, the PRE's performance and technology test evaluates the composition of the U.S. electricity sector (using U.S. Energy Information Administration [EIA] and U.S. Environmental Protection Agency [EPA] Emissions & Generation Resource Integrated Database [eGRID] data) in terms of generation technology. Where it can be shown that the percent of new capacity represented by each respective renewable technology falls below a pre-determined threshold for business-as-usual (also as a percent of new capacity), that technology may be included on a list of beyond-business-as-usual activities. In essence, the performance and technology test sets the performance threshold at zero emissions and then applies activity penetration analysis for a positive list of technologies. Where additional, the PRE considers the entire difference between what is being emitted (zero) and the emissions baseline for the activity in the region to be creditable. It is possible that this generally fits with VCS's definition of an activity method (though the assessment of activity penetration does not exactly conform to that which VCS sets forth).

In any case, we believe it is very important that there be some way to use standardized methods for renewable energy under VCS. In addition to further clarification on this specific matter, more general guidance would be useful on how VCS's standardized approaches could be applied to direct vs. indirect reduction projects.

Consultation Question No. 3 – Are the requirements with respect to setting the level of the performance benchmark metric sufficient? Should more detail be provided to ensure methodologies set an appropriate performance level? Are requirements sufficient in relation to the frequency and procedure by which standardized methods must be updated?

Regarding performance methods and setting the performance level, we submit the following comments:

[2] Available online at: http://www.green-e.org/docs/climate/Green-eClimateProtocolforRenewableEnergy.pdf.

- Section 4.3.4 of the VCS Standard Consultation Document for Inclusion of Standardized Methods (hereafter, "VCS Standard") is crucial for VCS's conformance with the *Green-e Climate Standard* (which determines its eligibility as an Endorsed GHG Program in the Green-e Climate program). In order to further clarify this section's intent, we suggest the following sentence explicitly requiring *specification* of technologies and/or measures be moved from the rationale to the actual text for section 4.3.4: "The methodology will need to specify technologies and/or measures that lead to substantial performance improvement relative to the crediting baseline and what is achievable in the sector."
- Section 4.5.4 of the VCS Standard, requiring that performance benchmarks take account of current practices and trends, including those showing improvement in the sector, is currently worded so that this merely involves using a dataset that is updated annually or using an autonomous improvement factor. Section 4.5.5.(3) also states that data be from a time period that reflects current practice and trends, and then refers to the WRI GHG Protocol for further guidance on temporal ranges. We recommend that VCS explicitly state its requirements, in either of these sections, that taking account of current practices and trends means using data that reflects actions taken in recent years. Performance should be assessed relative to modern times. This is especially important for long-lived assets. For example, looking at emissions from total installed instances of the activity may not as accurately describe what's happening in the sector as looking at emissions from *recently* installed instances, especially if you're dealing with longer-lived assets. We feel that this is important enough to demand explicit language in the Standard rather than merely a reference to the GHG Protocol.
- To the list of requirements for data sources for performance methods in section 4.5.5 of the VCS Standard, we suggest adding guidance pertaining specifically to data that is collected and maintained by government agencies. For example, it is unclear whether these sources need to be assessed by third-parties as well.

Regarding the frequency and procedure by which standardized methods are updated, we submit the following comments:

- Section 4.2.4 of the VCS Standard provides no specific requirements for methodology revisions for standardized methodologies, but revisions are required as a part of the review of standardized methods requirements in the Methodology Approval Process Consultation Document for Inclusion of Standardized Methods (hereafter, "Methodology Approval Process document"). We suggest that Section 4.2.4 of the VCS Standard at least refer to Section 10 of the Methodology Approval Process document.
- Section 10.1.1 of the Methodology Approval Process document, currently states that, for the 5-year revision of the method, "stakeholder consultation with respect to the level of the performance benchmark metric is not required." However, later in the rationale section, it is written that, "The VCSA will set out in due course the procedure by which it shall re-examine the appropriateness of the level(s) of performance benchmarks (Section 10.1.1(4) above). This is likely to involve public stakeholder consultation hosted on the VCS website and third-party experts." We request further clarification on the circumstances under which stakeholder consultation is required for revisions of standardized methods, and by whom. We feel that stakeholder consultation is necessary in all instances in which it is not only the data itself that is being updated. Where the method for determination of the level or the

circumstances affecting the applicability/appropriateness of the method for determining the level have changed, stakeholder consultation should be required.

Consultation Question No. 4 – Does the financial viability specification provide a procedure by which classes of project activities can reliably and consistently be deemed as additional? Are the extra specifications on applying the CDM additionality tool sufficient to establish additionality for an entire class of project activity?

We have interpreted Option B for qualifying a project activity for a positive list under the activity method, financial viability, as a standardized financial additionality (or investment analysis) test, in which one makes a financial additionality case for a class of projects, as opposed to an individual project activity. We have significant concerns with this approach. We feel that the well-known subjectivity and gaming issues surrounding financial additionality in a project-specific scenario are compounded when financial analysis is being applied to a class of projects.

Although it may be appropriate for certain types of projects, if VCS were to move forward allowing the financial viability option, it should provide much more guidance on how to establish or define project classes. Most financial additionality arguments are based on the project's return on investment (ROI) and what is assumed about ROI depends to a large extent on what parties are involved. As a result, it is extremely difficult to define a class of projects that would be appropriate to be evaluated together in terms of their finances. There may be other aspects of this type of assessment which also require further clarification beyond the CDM additionality tool, which is intended for use in individual project assessment.

Furthermore, we feel that, to a large extent, where there is a class of projects that are not financially viable without carbon finance, an activity penetration analysis should bear this out. Therefore, we feel that the other two options, activity penetration and revenue stream, could be appropriately and accurately used to assess additionality for the majority of project methodologies which would otherwise employ the financial viability option.

Comments Pertaining to Other Areas of the Consultation Documents, Generally Addressing Consultation Questions 1 and 5: Environmental Integrity, Practicality, and Clarity of Requirements

We submit the following comments regarding the VCS Standard Consultation Document for Inclusion of Standardized Methods:

- Regarding the Note in section 4.1.8, we request further clarification as to whether "combination" here refers to use of one of the three methods (project, performance, and activity) for additionality and a different one for crediting, as described in section 4.1.7, or use of a method, for either crediting or additionality, that represents a combination of a performance and an activity method. If the latter, please provide further clarification on what a combination of performance and activity approaches might look like.
- Whereas section 4.3.2 states, "applicability conditions shall cause to be excluded those classes of project activity that it can be reasonably assumed will be implemented without intervention created by the carbon market," the setting of applicability conditions appears to represent an additional and

preceding additionality screen. Without specific rules for setting applicability conditions for the purpose of determining which activities would have been implemented anyway, assumptions made per this section may impact the extent to which VCS methodologies provide sufficient financial incentive to potential projects. For example, setting applicability too narrowly per this section could have the same effect as setting the performance threshold too low. The effect would not be limited to narrowing the applicability of the methodology, but it would also send signals to the market that certain types of projects are de-facto non-additional based on assumption, when in fact this should be tested/proven with a credible additionality test. It is our view that applicability conditions should ensure that methodologies describe like or comparable activities so that subsequent standardized additionality tests are meaningful, not to apply additionality limitations prior to additionality tests. We recommend that VCS reconsider inclusion of this section, and we request further clarification on whether or not methodologies need to show any evidence, and if so what kind, in the setting of applicability conditions in accordance with this section (sections 4.3.3-6 provide guidance on what applicability conditions should consist of for performance tests, but not on how they should be determined or the evidence that needs to be shown).

- We request further clarification on whether section 4.5.6, allowing methodologies to reference an external dataset and set out the procedures for determining the performance threshold, as opposed to setting the performance threshold in the methodology, applies to activity methods as well, specifically the activity penetration method for establishing the positive list.
- The second paragraph under sections 4.6.7 and the final sentence of the rationale for section 4.7.3, as currently written, imply that additionality is something that is reassessed at each verification period, as opposed to once during project validation. We do not recommend suggesting that a project's additionality fluctuates during the crediting period. Among other reasons, this calls into question the strength and comparability of other additionality tests which only assess additionality once at validation (e.g. project methods). Our understanding of additionality is that it is intended to assess whether the project activity is beyond business-as-usual at the time of project development/implementation, and/or is in need of carbon revenue/financing in order to occur. For example, if a forestry project fails to net sequester during a particular verification period, certainly it should not be credited for reductions during that period, but this would not reflect on the project's additionality. We recommend limiting language about not granting credit where emissions are above the baseline to the crediting baseline sections only, and removing language about project additionality from these sections.
- Regarding the equation in section 4.6.9.(1)(a):
    - Please clarify that OA and MAP variables are number of instances.
    - It is unclear whether OA and MAP variables are defined as total cumulative instances up to year *y*, or instances of adoption in year *y* only. But in either case, we suggest instead defining these as *new or added number of instances over a recent period* (temporal range) (e.g. y_1–y_5). We feel that penetration should be assessed relative to modern times. The appropriate specific temporal range (though in all cases recent) would depend on the nature of the project activity. In some cases, resources like the GHG Protocol provide guidance; otherwise the project proponent would need to provide justification for the recent temporal range chosen.

- We request further guidance around the calculation of the OA variable. For example, we feel that OA should be limited to voluntary instances only, so that an assessment of penetration takes into account the difference between voluntary and non-voluntary instances.
- We have significant concerns with the MAP variable, its calculation, and its placement in the equation. Specifically, as it is currently defined and treated, we feel MAP introduces variables that can be subjectively manipulated and will lead to gaming. Our understanding is that, if defined properly, MAP would equal OA (i.e. if all externalities are considered or internalized, the adoption possible should equal adoption observed), and as a result, MAP essentially sets up the equation so that methodologies finesse the concept to meet the 5% threshold. We suggest reconsidering use of this variable in this way. An alternative approach to activity penetration calculation is taken in the *Green-e Climate Protocol for Renewable Energy*, introduced above (under Comments Pertaining to Consultation Questions, Question No. 2). Briefly, rather than divide by MAP, calculate AP as a percentage of all new occurrences of similar technologies and practices producing the same or similar goods or services as the project activity, and then set a business-as-usual threshold representing the adoption level that would indicate the activity is commercially viable and competitive without carbon finance. Consider the following equation:

  $AP_{y1-y5} = OA_{y1-y5}/TO_{y1-y5} \leq BAU$

  Where

  AP_{y1-y5} = activity penetration of the project activity in years y_1–y_5 (percentage)

  OA_{y1-y5} = observed adoption of the project activity in years y_1–y_5

  TO_{y1-y5} = total occurrences of similar technologies and practices producing the same or similar goods or services as the project activity in years y_1–y_5

  BAU = the penetration level that above which would indicate the activity is commercially viable and competitive without carbon finance

  We would be happy to discuss this further.
- Setting the threshold for AP equal to 5%, in section 4.6.9.(1)(b), appears to be arbitrary and does not reflect the adoption level that would indicate the activity is commercially viable and competitive without carbon finance. As a result, this threshold may be too low or too high depending on the project type, sector, and circumstance. Rather, it should ideally be set on the basis of what constitutes business-as-usual for the sector or project type. Adjusting this may involve adjusting other parts of the equation in section 4.6.9.(1)(a), as discussed above. We would be happy to discuss this further.

Thank you again for the opportunity to comment. Please contact us for any clarification on these comments or with any questions.

Sincerely,

Todd Jones
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Center for Resource Solutions