



Climate Neutral Network Offset Protocol

Executive Summary
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Climate Neutral Network
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Acknowledgements

Climate Neutral Network (CNN) is collaborative, stakeholder-based organization, whose certification protocols have been developed on a consensus basis as the result of collaboration between leading environment organizations, leading businesses and policy makers. Founded in 2000, CNN's mission is to help companies create profitable new Climate Cool choices that, for the first time, can credibly eliminate the global warming impacts of their products and enterprises. Climate Cool products achieve a net zero impact on the earth's climate by investing in reducing greenhouse gas emissions both internally and through carbon offset purchases. Interest in creating new Climate Cool innovations has spread across the country – with companies, purchasers and policy makers alike particularly interested in building new supply chain partnerships to deliver profitable, progressive Climate Cool choices to their customers in ways that simultaneously advance their core business objectives. This CNN Offset Certification Protocol is designed to help companies design and purchase credible Climate Cool offsets to help deliver on these objectives.

Climate Neutral Network appreciates the contributions made by many individuals to the Climate Neutral Network Offset Protocol.

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I. Overview

A. Resources Available

The Climate Neutral Network has developed a series of resources to aid companies in developing a Climate Cool offset portfolio:

- ***Climate Neutral Network Design principles*** - the Design Principles provide the criteria through which each offset project is assessed, overall portfolio criteria and provide the principles and intent of the Network's rules to aid in making any necessary subjective decisions (see below)
- ***Summary of steps (blueprint)*** necessary to establish a Climate Cool offset portfolio
- ***Pre-approved Offsets*** – Climate Neutral Network maintains a list of “pre-approved” offsets. Offset projects on this list have already been screened by Climate Neutral Network and approved for use in a company's offset portfolio.
- ***Technical Assistance and Consulting Services*** – The network provides technical assistance and business development consulting services on a fee for service basis through Climate Neutral Business Network.

B. Design Principles Relevant to Development of Qualified Offsets

Several Climate Neutral Network design principles guide the development of qualified offsets as follows:

Each offset investment must qualify according to the following criteria:

1. ***Measurable:*** Only projects in which emissions are measurable qualify.
2. ***Additional:*** Emissions are reduced below those that would have occurred in the absence of the project activity, i.e. unplanned and unlikely to occur without the carbon offset investment. Discount tools will be used to determine the net amount of carbon that will contribute to the overall portfolio on an additional basis.
3. ***Level of performance:*** To be eligible, a proposed project activity must achieve a level of performance with respect to reductions in anthropogenic emissions that is significantly better than average compared with recently undertaken and comparable activities or facilities within an appropriate geographical area or sector. Leading edge technologies are favored.
4. ***Retired:*** Offsets should be retired in perpetuity. The offsets cannot be traded but rather will create long-term permanent trusts to secure these climate gains for future generations.
5. ***Transparent and verifiable:*** The data necessary to establish use patterns and emissions must be accessible and the calculation basis should be publicly available.
6. ***Monitoring and Verification:*** Proposals must include a monitoring and independent verification plan for the full project life.

7. **Leakage:** Projects must minimize and compensate for potential leakage. Leakage inside and outside, upstream and downstream of the project boundary must be identified and included in the emissions profile. Projects must result in real and permanent emissions reductions. Projects that merely delay activities or shift the location of emissions are not acceptable.
8. **Ownership:** The emission reductions must be clearly owned by the seller.
9. **Performance:** Offset sellers must provide contractual guarantee of delivery of promised greenhouse gas offsets.
10. **Environmental impact:** Projects must be based on “environmentally sound technology” and ideally not shift the burden from one environmental problem to another. The environmental impacts of a project, when considered in sum total, must be positive.
11. **Viability:** The technology to be employed must be sound and have a high likelihood of success in its particular application.
12. **Sustainable Development:** Ideally projects will contribute to sustainable development and deliver social or economic value beyond the reduction of climate change impact such as poverty eradication, job creation, the creation of sustainable livelihoods, water quality, sustainable consumption and production, etc..
13. **Double Counting:** Offsets must not be double counted or registered with CDM.
14. **Front Loading:** The Climate Neutral Network prefers current year accounting but does permit front loading because the carbon market is immature. This means an offset project can take credit for future years’ carbon reduction in a current year certification. Be aware that this implies that in future years, the carbon savings will not be available.
15. **Units of Measure :** GHG emissions are quantified in metric tons CO₂ equivalent according to the IPCC global warming potential for a one hundred-year horizon

C. Design Principles Relevant to the Development of an Offset Portfolio

Each Overall CN Offset Portfolio must qualify according to the following criteria:

1. **Internal Commitment:** Efforts must be made to reduce the greenhouse gas emissions footprint of the enterprise, product or event itself; the portfolio of emission reduction activities cannot be built wholly on external offset projects but can, if desired, be built of 100% internal projects.
2. **Reflect GHG Sources:** The portfolio of offsets must reflect the principal sources of greenhouse gas emissions in the proposed solutions. Currently 60% of global GHG emissions are attributable to fossil fuel, so as a general rule, at least 60% of the portfolio needs to be focused on CO₂ reductions from fossil/energy sources. However, if a product or enterprise has a large percentage of non- CO₂ based emissions, then the offset portfolio can reflect a similar proportion of non- CO₂ offsets.
3. **Domestic:** Two-thirds of the total offset portfolio tons must occur within the United States or follow current CNN guidance for other regions (see details below).

4. **Sequestration:** Sink projects, such as forest conservation and planting can represent no more than 20 % of the total portfolio.
5. **CO₂ Re-injection:** CO₂ Re-injection is subject to a 50% of portfolio limitation.

Other Protocols: The Climate Neutral Network is considering accepting projects that have been certified under the World Wildlife Fund's Carbon Label and other leading established offset certification standards.¹

D. Major Steps in the Development of an Offset Portfolio

There are seven major steps in the development of an offset portfolio:

- Step 1: Preliminary Screening
 - i. Project Eligibility
 - ii. Environmental Additionality Assessment
- Step 2: Eligible Project Additionality Assessment
- Step 3: Establish Offset Baseline
- Step 4: Estimate Future Emissions
- Step 5: GHG Emission Reduction Adjustments
- Step 6: Develop a Monitoring and Verification Plan
- Step 7: Compile Portfolio of Internal and Offset Projects
(for product/enterprise certifications)
- Step 8: Periodic Review of Project Performance

Each of these steps is summarized in Sections II below.. More detailed guidance and example certification projects are available to the Environmental Advisory Board but have not been included here due to confidentiality concerns.

¹ Final Environmental Advisory Board decision pending; some WWF Carbon Label projects have already been successfully certified as Climate Cool.

II. Summary of Steps to Develop an Offset Portfolio

Step 1: Preliminary Screening

To determine if a project is eligible for inclusion in a Climate Neutral offset portfolio, the project must meet the CNN preliminary screening criteria.

Climate Neutral Network defines two categories of offset projects:

- **Pre-approved offset projects** – see List of Pre-Approved Offset projects available from Climate Neutral Network. (This list is included in Appendix 2 and is subject to refinement). Projects on this list have already been screened and approved by Climate Neutral Network’s Environmental Advisory Board.
- **New and Innovative Offset Projects** - any type of offset that has not been certified before. Projects in this category must be presented to Climate Neutral Network’s Environmental Advisory Board at one of its tri-annual meetings or conference calls

Screening Criteria: Preliminary Assessment

The preliminary screening test is based on the following questions intended to make the project applicant aware of the issues that are described in further detail in the protocol and that must be met for project eligibility. These preliminary screens are used to determine preliminary project eligibility.

Measurable & Verifiable – Are emissions reductions achievable through your project measurable and verifiable? Can you establish a credible baseline, project life and technology turnover rate for the project?

Real and Permanent – Are the emissions reductions achievable through your project real and permanent?

Not Required – Are the emission reductions achievable through your project required by law, code or legislation?

Owned – Do you have the legal rights to the GHG reductions resulting from your project?

Retired – will the offsets be retired in perpetuity?

Not Double Counted – will the offset credits be counted by any other entity?

Step 2: Additionality Assessment

To qualify as a credible offset project in a Climate Cool portfolio, the project must represent genuine emission reductions that are additional to what would have happened anyway. There are three types of additionality that must be considered at this stage in the screening process: technical, financial and sustainable development as shown below. A selection of representative questions that help establish project additionality are included below. Projects typically anchor additionality arguments by establishing why the project represents a “beyond business as usual” investment, including a detailed analysis of financial considerations, market barriers and benchmarks for current “best practice” or current technology adoption rates. This analysis is detailed and comprehensive. The following questions are therefore for illustrative purposes only.

Technical

Project Performance: Is the project efficiency or performance higher than average compared with recently undertaken and comparable activities or facilities within your geographical area or sector OR if applicable, higher than code, minimum efficiency legislation or other nationally accepted standard?

Financial

Barriers – Does the carbon funding or credit allow the project to overcome market or company barriers that would otherwise prevent its implementation?

Scope – does the carbon funding or credit allow the scope of the project to be increased?

Timing – will the carbon funding or credit allow the project to be implemented sooner than it otherwise would have been implemented?

Sustainable Development and Environmental Impact

Sustainable Development for International Projects – is the project likely to cause negative impacts on sustainable development indicators?

Sustainable Development for Domestic Projects - does the project contribute to sustainable development and deliver social or economic value beyond the climate change impact such as poverty eradication, job creation, the creation of sustainable livelihoods, sustainable consumption and production?

Environmental Impact – is the project environmentally sound technology are the environmental impacts of the project, when considered in sum total, positive?

Step 3: Establish Offset Baseline

CNN generally adopts WRI's Project Protocol when establishing baselines, anchoring its review in both a barriers analysis and, if a single baseline does not then result, a financial analysis. Detailed discussions of how offset projects have established their baselines have been developed for each project certification, developing precedents from which CNN's Environmental Advisory Board (EAB) can conservatively and consistently review new applications. Detailed guidelines for the EAB for key offset categories have been prepared but contain confidential information from project developers and have not therefore been included in this Certification Protocol Summary.

Step 4: Estimate Future Emissions

There are three steps involved in estimating "with project" emissions reductions. Each of these steps is described in more detail in Section III.

Estimate 1st Year "with" project emissions – calculate the "with" project emissions.

Calculate the 1st year emission reduction – equal to the "without" project emissions minus the "with project" baseline.

Estimate Project Life – this is the time frame over which the project will produce the estimated CO₂ reductions.

Step 5: GHG Emission Reduction Adjustments

Adjustments to the projected emission reductions must be made to counter any expected emission leakage. In other words, if the project while reducing emissions at one site is likely to cause emission increases elsewhere, those increases must be subtracted from the net savings.

Leakage – is there likely to be any leakage of emission reduction resulting from the project (i.e. shifting of the emissions elsewhere)? If so, have steps been taken to identify, minimize and compensate for any potential leakage in the net CO₂ claims?

Next, if GHG reductions are being front-loaded or claimed over a period longer than one year, discount rates must be applied to account for several factors described below that will reduce the future net savings.

Atmospheric Discount Rate – must be applied to account for the atmospheric forcing effect (the time it takes for GHG emission reductions to achieve their full impact) in the environment. Atmospheric discount rate has been set at 1%/year for all projects except renewables (in order to provide incentive)

Technology Adoption Rate – must be established for each project to account for the normal technology advancement over time. For CNN certification, the baseline is adjusted over time to account for the gradual changes in avoided GHG emissions as “business as usual” standards evolve. In essence the technology adoption rate (a discount rate) adjusts the projected CO₂ savings to account for changes in the new technology developments and improvements in the efficiency of commonly purchased technologies over time.

Quality Discount Rate – quality discounts are only applied if the project represents a ground-breaking development but, due to a lack of track record, has a salient risk of failing to achieve its full quota of projected GHG reductions or if there are measurement uncertainties.

Step 6: Establish a Monitoring and Verification Plan

The principle goal of verification or certification procedures is to ensure the integrity of emissions information reported without imposing an undue burden or expense upon offset project developers. Applicants must include a plan for monitoring and verifying the estimated performance for each offset project. Offset projects' M&V reports will be scrutinized during the periodic certification follow up reviews that the Environmental Advisory Board conducts after an initial certification decision has been taken. Independent third party project verification is strongly preferred.

Step 7: Compile Portfolio of Internal and Offset Projects

The offset portfolio guidelines, which apply to Climate Cool Product, Enterprise or Event certifications, are designed to insure that the GHG reductions mirror the sources of GHGs, contribute to countries' goals for GHG intensity reductions and that companies are making all feasible and economical internal reductions prior to purchasing external offsets.

Internal Commitment – has the company shown a commitment to reduce internal GHG – relative to the CNN Design Principle requirements?

Domestic – do 2/3rds of the total GHG reductions in the portfolio occur domestically in the United States or Canada for a US-based company?

Note: this domestic requirement is currently not required for companies based in Kyoto countries pending clarifications to ensure that local offset projects with reductions beyond 2007 are not double counted within the country's Kyoto inventories

Sequestration – Are sequestration projects responsible for no more than 20% of the total GHG reductions in the portfolio?

Reflect GHG Sources – Are at least 60% of the GHG reductions in the portfolio reductions in fossil fuel emissions? OR, do they reflect the GHG sources in your facility if it emits non-CO2 gases?

CO₂ Re-injection – do CO₂ re-injection projects constitute no more than 50% of the offset portfolio?

Step 8: Periodic Review

Offset performance is subject to periodic review by the EAB. The timeline for these reviews is established during the initial certification recognizing the project timelines involved. These follow up reviews apply either to the company which purchased the offset for Climate Cool product/enterprise certification purposes or to the project developer/broker if certification is sought independently. Independent M&V reviews/third party reports form part of this review for certified offset projects, consistent with the original M&V system agreed at the initial certification.

If offsets do not deliver GHG reductions consistent with the initial certification basis, then:

- Climate Cool investing companies must develop plans to compensate within their portfolio in order to meet their “net zero” certification requirements within an appropriate period of time. This compensation plan is developed and agreed collaboratively with the EAB during the periodic review. Climate Cool certification would otherwise will lapse.
- The project developer/broker will need to establish a revised accounting basis for the project with the EAB during this review and, if its certification basis is reconfirmed, tons can only be sold as “Climate Cool” certified going forward on a basis consistent with this new accounting.