

Climate Care Project Approach

Climate Care provides companies and individuals with emission reductions provided from a wide range of projects around the world.

The purpose of this document is to lay out the principles we apply to the origination and sourcing of emission reductions for our clients. It is in three parts:

1. Our Project Principles
2. Our Key Project Processes
3. Frequently Asked Questions

1. Climate Care Project Principles

Location & Double Counting

Climate Care needs to ensure that its emissions reductions are not “double counted” by countries that have emission reductions targets under the United Nations Kyoto Protocol. Climate Care will therefore not fund projects in countries that have binding targets under the Kyoto Protocol (i.e. Developed Countries that have ratified the Protocol) during the period when they have legally binding targets (2008-12), unless it can be assured that the emission reductions can be retired from the national account.

Additionality

Key to Climate Care’s projects is their additionality: that is to say that the emission reductions project would not have happened without the carbon finance. The money gained from selling emission reductions is used to overcome financial and other barriers that would otherwise mean the project would not happen. For its additionality assessment Climate Care uses the guidelines published by the United Nations Framework Convention on Climate Change (UNFCCC) for Clean Development Mechanism (CDM) projects. There is more about this process in the Project Processes section of this document.

Timing of Emissions Reductions

There are two main ways of financing emissions reductions projects:

1. Pay for the emissions reductions once they have happened on the ground and are independently verified as genuine.
2. Pay for the emissions reductions expected to be achieved over a project’s life at the start of the project.

Climate Care uses both methods, depending on the project. There is less risk of non-delivery in the first model, but many projects are short of capital. The second model enables the carbon finance to make a significant contribution towards the capital a project needs at its start – which can often be a key factor for more development-focused projects.

Our commitment is to make the emission reductions as soon as possible after you have purchased the offset. In our 2007 financial year, 78% of emission reductions sold through our General Portfolio were made in the same year.

In order to reduce the delivery risk for projects where the emissions reductions will happen in the future, Climate Care runs portfolios which contain projects with varying technologies and risk profiles. The risk of non delivery is borne by Climate Care.

Our portfolio approach

When you buy a carbon offset from Climate Care, your money is used to fund a portfolio of projects around the world that reduces emissions. Climate Care run a 'General Portfolio', which is used to offset emissions bought through our website (www.climatecare.org) and the those sold to most of our business clients.

For clients buying very high volumes of carbon, Climate Care can develop bespoke portfolios to suit our clients' emission reduction goals. In joint consultation, we will consider all factors including project types, emission credit types and geographical locations to build a project portfolio which will most effectively help the client to achieve the goals of their scheme.

Using a portfolio approach to make emission reductions has a range of benefits:

- It manages the risk of under-achievement from individual projects, so you can be confident that the emission reductions will be made. For example, any shortfall in expected emission reductions from one project is able to be made up from another.
- It enables us to offer a standard price per tonne, making the pricing for our carbon offsetting service simple and clear.
- It can provide a range of stories with which to engage our clients' customers, employees and other stakeholders.

Compliance with Recognised Standards

The Clean Development Mechanism sets rigorous standards for project validation and verification. In addition to the CDM standards there are now credible project standards for voluntary emissions reductions.

We are developing projects to comply with the CDM, Gold Standard CDM, Gold Standard VER, Voluntary Carbon Standard (VCS) and VER+. All new projects from 2007 will be accredited to one of these or other internationally recognised and rigorous standards.

Environmental and Social Impacts

Climate Care pursues a policy of maintaining high environmental and social standards and we analyse the impacts of a project on a full range of stakeholders.

In instances where there is an apparent conflict between the interests of the community and the interests of the project (e.g. illegal logging for charcoal being of benefit to the local community) our reference point will be compliance with the law.

Project Types

Climate Care's focus is on projects that reduce emissions of greenhouse gases produced by industry and other human activity. Examples of project types that we fund are listed below. The list is not comprehensive and we will consider further innovative ways of reducing emissions.

- Renewable Electricity generated from sources including:
 - Wind power
 - Hydro power (run of the river)
 - Solar power
 - Sustainably grown biomass

- Agricultural residues (crop and animal waste)
- Renewable Heat generated from sources including :
 - Sustainably grown biomass
 - Agricultural residues (crop and animal waste)
- Energy Efficiency - included in this category are projects that reduce the consumption of non-renewable biomass as their baseline:
 - Electrical efficiency
 - Heating efficiency
 - Efficient cooking
- Methane:
 - Projects that avoid the production of methane
 - Projects that destroy methane through flaring or electricity generation
- Reforestation

Leakage

A standard component of our project design is a leakage assessment. Leakage occurs if a project activity causes displacement so carbon emissions are reduced in the project area but increase in a different location as a consequence. Leakage is always project specific and is addressed when required.

Permanence

Permanence tends only to be seen as an issue for carbon sequestration projects, where fire, damage or deforestation can be an issue, and crediting periods over which carbon is stored are substantially longer.

Projects that reduce emissions directly tend to be viewed as permanent. Climate Care has one rainforest reforestation project in our portfolio (in a national park in Uganda). This project was carefully selected based on its rigorous forest management practices and therefore its high likelihood of long term survival. A significant part of the management plan is on fire protection.

Reforestation

In 2007 our one reforestation project contributed to 20% of emission reductions for our General Portfolio. As a portion of our entire projected tonnage of emission reductions, this is significantly under 1%.

Suppressed Demand

Climate Care's basic assumption is that in time all communities will be given access to the basic energy services that many of us already enjoy elsewhere in the world.

It makes no economic or environmental sense to allow this development to happen in a non-sustainable way. It is much better, and normally much more cost effective, to intercept the path of development and divert it to a sustainable, low-carbon route, rather than let it proceed in an unsustainable way.

On this basis Climate Care is prepared to support renewables and energy efficient projects in communities that are still at a low level of development. In these cases we will use as our baseline a projected increase in emissions over time – using energy data from elsewhere in the economy as a baseline.

Retiring your credits

Climate Care operates an internal management system to control the delivery and retirement of your emission reductions, and our accounts are externally audited.

The voluntary market has developed rapidly over the last year, and we are now seeing a few high quality standards emerging. However, as there is no one controlling organisation, the retirement of credits is not managed centrally as in the compliance market. To ensure a similar level of assurance can be provided for voluntary market credits, the standards Climate Care support are in the process of developing their registries. These are expected to be operational during 2008. All relevant credits will be retired into these external registries as soon as possible.

Climate Care has also developed a project database which will provide high quality access to project information to provide greater transparency and assurance. It will internally retire credits and will be linked to the registries to retire credits formally.

2. Climate Care Project Processes

Our projects follow the same robust process of design, monitoring and independent verification as set down by the UN's Clean Development Mechanism.

Additionality Tests

For its additionality assessment Climate Care uses the guidelines published by the UNFCCC for CDM projects. The UNFCCC publishes two sets of additionality tests, for large and small scale projects. These guidelines can be viewed from the following link:

http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf

Validation and Verification

Validation and verification are the two stages in the project cycle providing independent assessment and audit of project design and emissions reductions, and are consequently very important steps in the process.

Phase One

For every Climate Care project a Project Design Document (PDD) is completed that follows the format proscribed by the CDM (even for voluntary market projects). This document structure is based on that used for CDM Kyoto projects and sets out, amongst other things:

- Description of the project
- Projected emissions occurring in absence of project (baseline methodology)
- Demonstration of how GHG emissions are reduced by the project below what would otherwise occurs (additionality)
- Calculation of projected reductions in GHG emissions (methodology)
- Method of monitoring actual GHG emission reductions (monitoring methodology)
- Projected impact on sustainable development.

Our in-house engineering and technology skills allow us to help project partners develop their monitoring and management approaches.

This document is reviewed by Climate Care and then also submitted to an independent third party to validate the contents, confirming it is a true and accurate reflection of the project and the methods to be used are appropriate.

Where possible we endeavour to use a Designated Operational Entity (DOE) UN approved organisations designed to act as auditors on Kyoto projects and who are unable to participate in any other way in the carbon market thus sustaining independence.

Establishing a baseline

The baseline determines what the emissions would have been in the absence of the project activity and is therefore central to calculating what the emissions reductions will be.

Where appropriate, we will use a baseline methodology as approved by the UNFCCC for the CDM. Where there is not an appropriate methodology, we will look to develop a methodology, which will be assessed and approved by one of the international standards.

This baseline calculation is a key component of the project design which is validated by an independent third party.

Phase Two

Once the PDD has been validated and approved the second phase begins. This involves the longer term monitoring of the project, which is when the difference between the baseline emissions and actual emissions reductions are measured.

Our project partners keep detailed records (as per the requirements of the PDD) for monitoring. A monitoring report is periodically produced and this is not only reviewed by ourselves but will also typically be verified by a DOE. The function of the DOE is to confirm the emissions reductions actually happened, the monitoring was carried out correctly and methodology for calculating credits correctly applied.

Only when this report has been verified do we retire the emissions reductions against our liabilities.

3. Climate Care Project FAQs

How do you source emission reductions?

In October 2006, in response to the rapid expansion of the offsetting market and the requirement to fund such expansion on a commercial basis, Climate Care set up a new company, Pioneer Carbon. This company concentrates on the development of projects and the delivery of verified emissions reductions. Pioneer Carbon is within the Climate Care group, but the new structure has enabled a quicker expansion of resources to meet current and forecast demand.

Pioneer Carbon is able to originate emission reduction projects and to source emission reductions from the global carbon market. We see that being “on the ground” is crucial, which is why Pioneer Carbon is headquartered in Nairobi, Kenya and has offices in Chile, Turkey and Mauritius. Staff in the Oxford office have close contact with the Climate Care team as well as being located close to the London carbon market. Pioneer Carbon also has associations with companies in China and India.

Does Climate Care provide CERs or VERs?

Climate Care can provide both certified emission reductions under the Kyoto Protocol (CERs) and verified emission reductions under the Voluntary market (VERs), from its own managed projects and through our extensive network in the market.

Climate Care’s General Portfolio comprises solely of VERs. However, we can build bespoke client portfolios which can also include CERs depending on clients’ specific preferences.

How do you ensure delivery of emission reductions?

We manage price/marketing risk with our partners by building balanced portfolios diversifying emissions reduction credit vintages (the year the emission reductions are achieved), project type and accreditation standard, to meet their needs. The scale of our sourcing operation can give our clients the flexibility to shift the emphasis of their credit types as their business needs evolve. Our engineering expertise and hands-on approach to projects also means we have the long-term flexibility to develop innovative projects and approaches.

When bought through a portfolio, Climate Care generally assumes the risk of emission reduction delivery.

Can I choose the location of my projects?

The location of a carbon offset project is often important to an organisation for strategic or communication purposes. Climate Care is a project originator and developer and, as such, we can work to source projects of an appropriate type in an appropriate location.

We will only do so, however, if the project goes above and beyond any savings that would have happened without our investment. This key principle in our approach means that Climate Care does not invest in any country that has a legally binding target under the Kyoto Protocol, such as the UK.

Can I specify the vintage of my emission reduction?

The year in which the carbon reduction takes place is known as its vintage. The vintage of a carbon offset is often labelled as delivered or future. A delivered carbon offset, where the emission reduction has already been made, has two main benefits: it is guaranteed and can be purchased so that its vintage is aligned to the same year as the emissions that are being offset.

A future carbon offset is made by investing in a new project that will deliver emissions reductions in future years. The benefits of this approach include more flexibility of project type, a more obvious sense of creating new savings when communicating the project and generally a price that is cost related rather than market driven.

Climate Care can provide both future and delivered emission reductions and will seek to offer clients vintages meeting your specifications.

Can you provide me with the type of emission reductions I want?

If you require a large volume of emission reductions, Climate Care can build bespoke client portfolios around vintage, technology, location and standard.

Do your projects comply with the UK Government's code of best practice for offset providers?

The Department for Environment, Food and Rural Affairs (DEFRA) are currently consulting on a proposed 'Voluntary Code of Best Practice' for carbon offset providers. Climate Care broadly welcomes this initiative - we had been encouraging the government to become involved with the voluntary market since 1999.

The Code is yet to be published. At present, the draft code recommends only carbon offsets bought from the formal markets. It ignores standards such as the Gold Standard-VER and VCS developed specifically for the voluntary market. Consultation with stakeholders has been held, and the majority called for some form of inclusion of VERs under the auspices of the DEFRA code. The final version has been delayed and is expected in early 2008.

The Government's Environmental Audit Committee (EAC) launched an Inquiry in 2007 into the Voluntary Carbon Market. They have concluded that voluntary offsets play an important role, and they recommend that DEFRA incorporates VERs into their code.

Our formal response to DEFRA's consultation can be found on our website:

http://www.climatecare.org/media/documents/pdf/climate_care_response_to_defra_consultation_on_code_of_best_practice_13april2007.pdf

Climate Care has the capability to provide offsets that meet the Draft Code's best practice to clients requiring large volumes of offsets.

Do you have the capacity to scale up quickly to meet demand?

Yes. We have flexibility within our organisation to evolve with the market without compromising our standards and values.

Climate Care, through its sister company Pioneer Carbon, has a project pipeline of over 9 million tonnes under contract and significantly more from projects under assessment and negotiation. It also offers services to source other credits including compliance credits from our extensive network in the market.

We have a long-term strategy for a programmatic approach to Emission Reductions – Pioneer Carbon is developing international strategic partnerships at a government level with the aim of providing systematic, country-wide programmes for low emission, sustainable development. These growing international relationships will allow us to provide partners with the volume of offsets needed in a market where supplies will undoubtedly be scarce.