ClimateCare Project Approach

ClimateCare 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

1. ClimateCare Project Principles

Location & Double Counting

ClimateCare needs to ensure that its emissions reductions are not "double counted" by countries that have emission reductions targets under the United Nations Kyoto Protocol. ClimateCare 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 ClimateCare'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 ClimateCare 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.

ClimateCare 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, ClimateCare runs portfolios which contain projects with varying technologies and risk profiles. The risk of non delivery is generally borne by ClimateCare.

Our portfolio approach

When you buy a carbon offset from ClimateCare, your money is used to fund a portfolio of projects around the world that reduces emissions. ClimateCare 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, ClimateCare 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

ClimateCare 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

ClimateCare'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. ClimateCare 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

ClimateCare'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 ClimateCare 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

ClimateCare 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 ClimateCare 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.

ClimateCare 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.

JPMorgan

climatecare

2. ClimateCare 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 ClimateCare 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 ClimateCare 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 ClimateCare 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.