PCIA Webinar: "Perspectives: Allocating Carbon Revenue"

Moderator

Tayna Petersen, The Gold Standard Foundation

Panelists

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Erik Wurster, UpEnergy
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General Questions and Answers

Q1: In your experience, is there some measure of the minimum size at which the time invested in a carbon credit program is justified?

A1: Yes. In general, carbon lends itself to scale. It represents a fairly high investment cost, maintenance cost and a fairly long lag time between that investment and the realization of revenues. Many of these factors can be overcome through creative financing mechanisms, but for very small projects (especially if you can operate effectively without carbon), it may not make sense. However, it is for these reasons that The Gold Standard has created its unique micro-scale scheme, which provides streamlined processes and lower transaction costs for these types of projects.

Tom: The Gold Standard runs a Micro Scale scheme for projects smaller than 10,000 tonnes reductions a year which has lower transaction costs as you do not need to employ a DOE. People often undervalue their time and of course it depends on the value you get for the emissions reductions when you sell them.

Q2: What are the Gold Standard requirements in terms of revenue allocation?

A2: The Gold Standard does not currently have any specific requirements in terms of carbon allocations.

Q3: Are any of the participating organizations involved in your projects able to sell the credits they generate on their own or do all sales have to go through the project developer?

A3: If the project is registered under The Gold Standard, each project application must designate the legal owner of the carbon credits. This is the organization that will receive the credits once they are issued. That organization is free to distribute or sell the credits as they wish as long as there is no double-counting.

Erik: We have not had a situation in which partner organizations have sold credits on their own, but this could certainly be an option for future programs. That is, there's nothing at the outset precluding such an arrangement.

Tom: Who is able to sell the credits depends on the agreements the parties involved have as to who has title to them. So it is crucial to work this out and have it in writing. Part of your initial instruction to the Gold Standard will be to instruct them about to which account the credits should be issued.

Q4: What proportion of the revenues does each of these companies keep from the carbon credits?

A4: See A2 and A3 above.

Tom: Once again, there is no one size fits all. It depends what you want. Do you want to have a fixed price which covers your costs so that you know you will be paid? This "floor" approach means that the buyer is assuming market risk, which may reflect a lower price. Or do you want exposure to a rising market? In which case you may get a higher proportion of the ultimate sale price, but if the market falls, you get less. Also, if you want the buyer to pay you cash at the start, this will also be reflected in the price compared to if you are paid cash on issuance of the credits.

Q5: What is the best way to attract investment to overcome the initial verification/registration period, all the way until first issuance of credits? Who are the best investors to go for?

A5: Difficult question to answer as it's a bit like asking which type of people are the best people to hire. Carbon offsets are rightly perceived as a risky investment proposition, so you either need investors who understand those risks clearly and can properly price them or impact capital focused on the environmental and social outcomes despite the risks or some combination thereof. Either way, there is no clear investor type that we've found who consistently seek to fund these projects.

Q6: What financial or social institutions are experienced with providing project funding loans against Gold Standard project projected VER income?

A6: There are a variety of banks, NGOs, foundations and micro-finance institutions that may provide loans or project-related investments for cookstove projects. To find specific organizations, it may be helpful to look at the publically available project documents on the Gold Standard Registry, which list all of the entities involved in a specific cookstove project activity.

Q7: I have been looking at large scale reforestation projects with a fuels and stoves portion. The development of an acceptable local stove takes time and effort and is inherently more risky than reforestation. Do you think these should be treated as separate trades or is there significant advantage in pooling the effort and return? Sustainable forests can produce multiple biofuels and it looks attractive to make three sustainable and perhaps separately accounted activities: forest, fuels and stoves.

A7:
Neil: We are just starting a reforestation project in Ethiopia with World Vision and have talked about combing the two. A few points to consider:

1) They are very, very different and separate undertakings and business models. You need expertise individually in each disciple to be successful in both. From a community standpoint, they are extremely complementary to each other and should function very well together, but I wouldn't ask forestry people to try to develop a stove project in terms of carbon and supply chain and on the ground project development or vice versa.

2) Currently the two methodologies are somewhat in conflict with each other as non-renewable biomass is a key component to measuring the value of a stove project and sustainable forestry, in essence lowers that number. From a carbon perspective, they work in opposition.

Tom: Might be an idea to see the cooking stove project as a renewable fuel project and provide renewable fuel from sustainably managed forests– but you may have a challenge to prove that people are only using your renewable fuel in the stoves . . . . If you are reforesting a large area and also introducing stoves to reduce pressure on the forest, then the methodologies are very different.

Q8: Are biochar, agroforestry and energy forests in combination with cook stove projects going to be part of getting carbon credits under the Gold Standard umbrella?

A8: To the extent biochar, agroforestry and energy forests relate to renewable fuels, then they may be included under The Gold Standard umbrella. However, to the extent that these activities refer to sequestration, then that is not possible at this time. It may be possible if and when The Gold Standard begins certifying land use management project activities.

Q9: We have two types of stove transactions in Ethiopia. One is donor placed stoves (in refugee camps). The other is commercial stoves sold in a retail market (Addis Ababa). Can both be swept into a single project? In one case wood is displaced. In the other case several fuels are displaced, including kerosene.

A9:
Erik: It's technically possible to lump them into one project (assuming they are both efficient biomass stoves), each crediting against a different baseline. One would do so differently under Gold Standard VER than under CDM, since each mechanism requires one to establish the baseline in different ways, but it should be possible under both mechanisms. One concern is with respect to the donor funded effort and where the money is coming from. In certain cases, government funded efforts from Official Development Assistance (ODA) can threaten additionality, which is a key prerequisite to registration. If, on the other hand, the refugee camp stove is a liquid fuel stove, such as an ethanol stove, then you could only use the Gold Standard methodology to lump them together, since under the CDM these two stove types would use different methodologies entirely and thus could not be lumped together.

Tom: In principle, yes. You need to do a Kitchen Survey that assesses the types of stoves and fuels people are using in the baseline and thus the characteristics of each "cluster" of users and check this is still the case on a periodic basis as determined in the PDD.

Q10: Given the importance of a human rights based approach to development (which emphasizes beneficiary participation and ownership as best practice) how do we best design carbon projects and allocate revenue from these projects to ensure a rights based approach is fully upheld? I'm interested in this as a general question and also with regards to end user waivers.

A10:
Tanya: The Gold Standard does not have a position on best practices for allocating carbon revenue. However, all of our projects are developed with local stakeholder consultations, ensuring that the community has input into the design of the project that is a fit for the community. This is certainly a rights based approach. In addition, all the community benefits that the project entails are monitored, reported and verified, which is also a rights based approach.

Tom: Firstly, it is important to note that the user of the stove benefits significantly from the new stove in terms of charcoal or fuel saved. In situations where we have analyzed this, the charcoal savings are about US$50 per year, but the carbon value is about US$10. This benefit should not be overlooked as well as the other benefits (increased time, health, etc.)

The project operator has significant costs; so does the organization doing the carbon paperwork, and in turn, the organization doing the sale of the credits to the consumer. Along the line, all of these parties take on costs and assume risk. The amount of cost risk that each is willing to take should be reflected in the amounts paid.

Assigning carbon value back to the user of the stove also has its challenges because of expectation management as delivery of the carbon credits takes a long time, if the payment is delayed, they may lose faith in the whole process. Overall, the user really has to enjoy using the stove and see benefits in terms of fuels savings and not necessarily where the carbon value is as the carbon value goes into running the project- marketing, distribution, cost of capital. Finally, If the project decides to fix into a deal, it is really important to make sure the person you are contracting with will be around to pay you when the tonnes are issued – sometimes referred to as counterparty risk.

Erik: There is a provision in the GS methodology that requires the use of end user waivers for carbon rights so the default owner in the case of cook stove carbon projects is the end user and you are required to include a waiver that says essentially, in exchange for waiving your ownership rights over carbon credits, you are receiving the specific benefits of the project such as a lower cost stove, high quality, more accessible, etc. From a human rights perspective, this is an essential component to make sure there is full transparency.

Q11: Can the waiver be attached to the product itself? Must it be individually signed?

A11: Erik: There is a full range of how this work. In my experience, I have seen projects that have it attached to the product and have also seen projects that have it sold inside the box along with the product. It has also been something that you actively have to sign. Also, in terms of end users that are illiterate, the text of the waiver is explained verbally and users put their fingerprint on them to acknowledge the waiver.

Q12: Do any of you have experience with projects that have multiple partners (>3), such as manufacturer, project management international NGO, local NGO for training and distribution, end users, etc? What kinds of partnerships are available for allocating revenues?

A12: Erik: This type of structure is particularly well suited to the program of activities mechanism in which we are developing several. This is a specific mechanism under the CDM that allows multiple partners. This has been referenced by Virginia as the CPA which is a separate project within the program of activities. This depends on what role each partner is playing in the partnership. Our partners range from retailers, product distributors and international NGOs that are buying the stove at wholesale price and turning around selling it at a retail price and they have a margin to cover their operating cost to be financially sustainable and able to grow. Another example is a manufacture that is doing all of their own distribution as well in which there is a more in depth relationship where there would be a clear carbon allocation towards growing the manufacturing facilities and company in an effort to get more stoves out the door and grow the market. Ultimately, it depends on the role the partner is playing.

Q13: Do buyers contact you or do you go in search of buyers?

A13:
Tom: It is both ways. We have been in the market since 1998 so in many cases, buyers come to us. They will often run a tender and invite 3 or 4 carbon offset retailers to apply to the tender. The nature of a tender is to get the cheapest price possible. By lowering the price, in other cases, we know various funders in the markets so when we an attractive proposition, we will present a specific opportunity to individual buyers and funders. We also have ongoing clients we have had for many years. It is very much a two-way process.

Neil: Have an off taker partner in blue source that has a lot of depth of time in the market with repeat buyers and some come to us through them or directly to us and we move them to them.

Q14: Can the Paradigm Project help us (a Bolivian NGO owner of a GS 1050 project for cook stoves) with front financing against future VER income?

A14: Unfortunately not. We are primarily project developers who seek financing of our own for scaled project implementation.

Q15: Project Gaia is operating 4000 ethanol stoves in the refugee camps of Ethiopia with a wood displacement of 3.6 metric tons per year per stove. The gains achieved by the ethanol stove are well-measured. Can we/UNHCR use the Uganda Carbon Bureau's DOE to qualify these stoves for VERs?

A15: Of course you can use the DOE we had for our PoA validation. I don't think this was the intended question though? Nevertheless, ours is a CDM PoA so any project that applies for inclusion will be trading CERs (not VERs). Unfortunately the methodology we use does not allow ethanol stoves, only firewood and charcoal ones. Uganda Carbon Bureau is also considering developing a fuel switch PoA.