Western Climate Initiative

Final Recommendations
Offset System Process
(Offset Committee Task 1.3)
February 22, 2012

An efficient offset system, consistent across WCI Partner jurisdictions, will help ensure an adequate supply of high-quality offsets.

The Western Climate Initiative (WCI) Partner jurisdictions today release final recommendations for the requirements and process of offset project review, approval, and certificate creation for the regional emissions trading program.

The WCI Design Recommendations (2008) recommended the establishment of a rigorous offset system to support the cap-and-trade programs established by WCI Partner jurisdictions. The Design for the WCI Regional Program (2010) recommended essential criteria for high-quality offsets and that standards and processes for approving offset projects be developed in an open and transparent manner in advance of the start of the cap-and-trade program. The final recommendations in this paper support these objectives.

The final recommendations identify the critical elements of offset project approval that WCI Partner jurisdictions believe will lead to high-quality offset certificates that can be exchangeable across the region. Consistent, transparent processes are expected to lower project development costs and support learning and sharing of experience among Partner jurisdictions and offset project developers. Stakeholder engagement, third party involvement, and regulatory oversight combine to ensure the environmental integrity of the program.

The final recommendations reflect input from stakeholders. All stakeholder comments are available on the WCI website.

Table of Contents

1 Executive Summary

This paper is issued by the WCI Offsets Committee as part of its efforts to offer design recommendations for the WCI offset system to the WCI Partner jurisdictions. This paper describes the final recommendations for the WCI offset system process steps. Previous papers provided recommendations for the WCI offset definition and essential criteria.

In the WCI's workplan, this paper is part of the Offset Committee's Task 1.3 to identify the specific requirements for registration, validation, monitoring, quantification, reporting, verification, certification and issuance of offset certificates. For each of these steps, this paper presents final recommendations which are summarized in Table 1.0 below and depicted in Figure 1.

As WCI Partner jurisdictions will recognize the offset certificates issued by other Partner jurisdictions, it is important for the Partner jurisdictions to have processes in their offset systems that ensure the rigor and interchangeability of offset certificates across the WCI Partner jurisdictions. These final recommendations propose processes to help ensure the necessary level of rigor across WCI Partner jurisdictions.

The WCI Partner jurisdictions recognize that Partner jurisdictions have labeled the steps with varying terms, and in some cases have combined steps in their proposed programs. These final recommendations acknowledge that such variations, which result in the same or greater level of rigor being achieved, are acceptable.

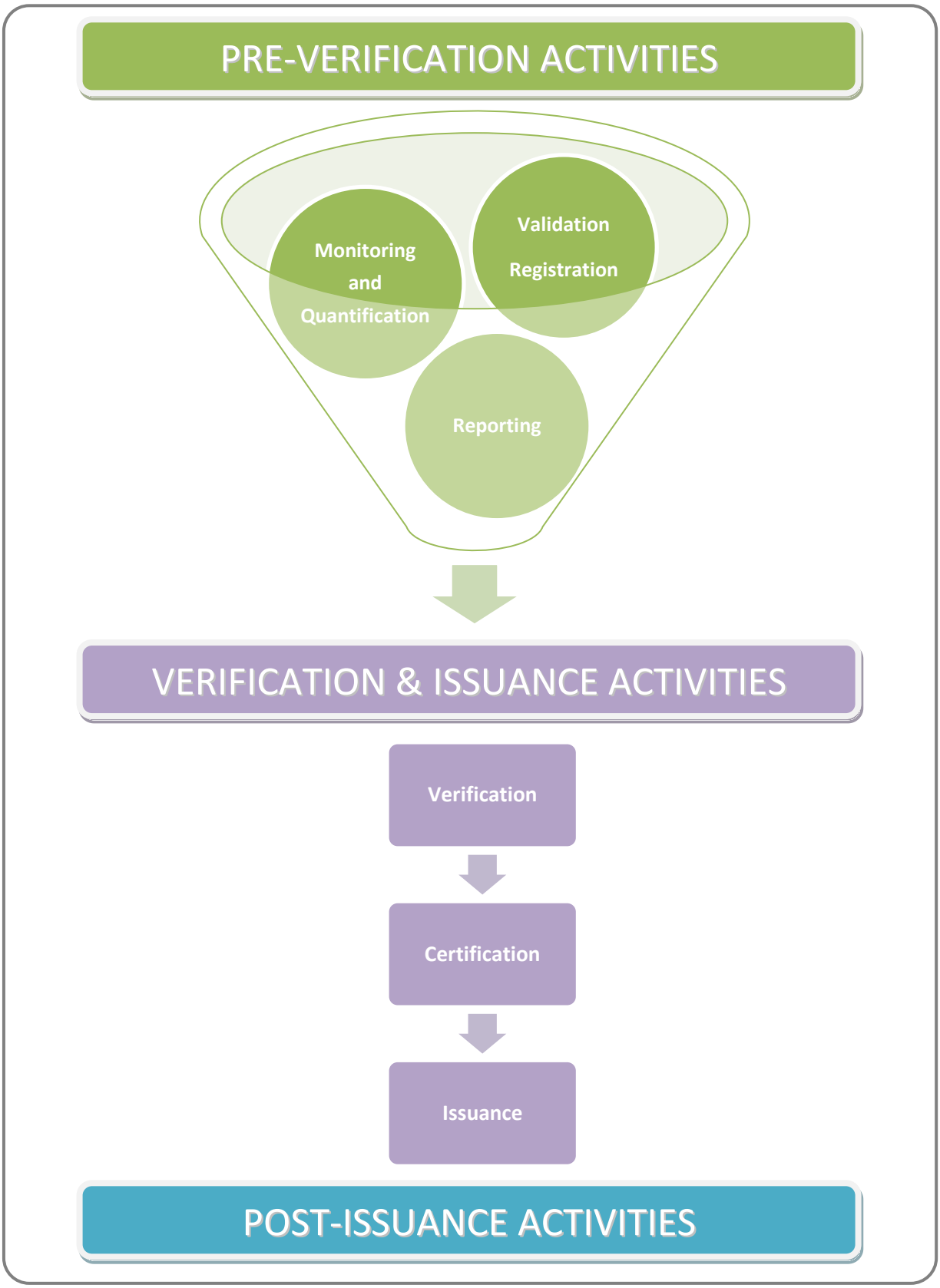

Figure 1. Recommended Western Climate Initiative offset system process flow

Table 1. Summary of Final Recommendations.

Group	Criteria	Summary of Final Recommendation
Pre-verification Activities	Validation	Validation is intended to provide the project developer and the WCI Partner jurisdiction with assurance that the project, when implemented, is likely to meet all of the WCI criteria and is likely to result in emission reductions qualifying under the WCI offset system. Each WCI Partner jurisdiction will be responsible for evaluating offset projects within its respective jurisdiction and may also evaluate and record offset projects in non-WCI jurisdictions throughout Canada, the United States and Mexico. Therefore, whether performed by a WCI Partner jurisdiction or a validation body, validation will be conducted with the expectation that the project will be considered under a specific jurisdiction's offset system. An offset project proponent initiates the process by submitting information on their proposed project required by the WCI Partner jurisdiction or an accredited third-party validation body to effectively perform their validation activities. The required information may be defined by the appropriate protocol (i.e. the WCI recommended protocol adopted by jurisdictions) and may be in the form of a project plan providing basic contact information, describing the project, referring to the appropriate protocol baseline scenario (where appropriate) or performance standard, and identifying all project-specific monitoring requirements. The WCI Partner jurisdiction or the validation body will assess whether the project meets the relevant jurisdiction's requirements and is in conformance with an appropriate protocol. The validation step must be completed prior to verification of the offset project's first project report. A project must be validated as part of each renewed crediting period. Subject to activity (validation/verification) and sectoral scope (project type) requirements, third-party validation bodies must conduct validation in accordance with ISO 14064-3 and must be accredited to ISO 14065 through (a) a program developed under ISO 17011 by an accreditation body that is a member of the International Accreditation Forum or (b) a program developed or authorized by a WCI Partner jurisdiction under the jurisdiction's required statutory or regulatory process that is at least as stringent as the process defined in ISO 17011.

Pre-verification Activities	Registration	Project registration requires the submission of information for each project to the responsible WCI Partner jurisdiction. The required information may be defined by the appropriate protocol and may be in the form of a project plan. Registration information will be posted for public review and comment to provide transparency. For a potential offset project, the project developer will follow an appropriate protocol as adopted by a WCI Partner jurisdiction. For aggregation of small projects, a single request for registration may be submitted for the entire aggregation. The request for registration must include the required information on each small project. The project developer must implement the project per the information provided as part of registration. If the proponent changes any aspect of the project compared to the project plan at the time of registration, the change will need to be approved by the relevant WCI Partner jurisdiction and a revised project plan reflecting the change(s) posted for public review. WCI Partner jurisdictions will endeavor to adopt protocol content that is as similar as possible to that recommended by WCI Partner jurisdictions. The committee recommends that WCI Partner jurisdictions retain the flexibility to select the registration approach most appropriate for their jurisdiction. However, for all WCI Partner jurisdictions, no offset certificates will be issued until the project is validated, registered and has verified emission reductions.
	Monitoring and Quantification	Each offset project shall follow the monitoring and quantification requirements specified in the appropriate protocol. Monitoring and quantification requirements for offset projects will be harmonized, to the extent practicable, with Reporting Requirements recommended by the WCI for facilities and sources covered by emission caps.

	Reporting	Reporting frequency will be annual unless otherwise specified in the appropriate protocol. A WCI Partner jurisdiction will have two options for assigning the annual reporting date for a project: • the month and day of the project start date (as determined by the first day for which a reduction is claimed); or • a common calendar date for all projects each year. Reporting requirements will be harmonized, to the extent possible, with the Reporting Requirements recommended by the WCI for covered sources. Aggregated small projects may submit a single report for the entire aggregation of projects, although the report must include required information on each project's reductions.
All pre-verification steps must be completed before moving on to VERIFICATION.		
Verification & Issuance Activities	**All steps in this section must be completed in order: VERIFICATION, then CERTIFICATION, then ISSUANCE.**	
	Verification	Emission reductions or removals must be verified by an accredited third-party verification body and submitted to the relevant WCI Partner jurisdiction prior to the issuance of offset certificates. Subject to activity (validation/verification) and sectoral scope (project type) requirements, verification bodies must be accredited to ISO 14065 through (a) a program developed under ISO 17011 by an accreditation body that is a member of the International Accreditation Forum or (b) a program developed or authorized by a WCI Partner jurisdiction under the jurisdiction's required statutory or regulatory process that is at least as stringent as the process defined in ISO 17011. The verification must also be conducted in accordance with ISO 14064-3 to a reasonable level of assurance. A third party verifier that validated the project plan may not perform third-party verification of a project report for that project within the same crediting period. Verification statements will be posted publicly. For aggregation of small projects, a single verification report can be submitted for the entire aggregation, although it must include verification for each project's reductions.
	Certification	The certification step involves the WCI Partner jurisdiction or its agent/recognized body reviewing project documentation presented as evidence and accepting that evidence into the system through the assignment or creation of an offset certificate when it is satisfied all conditions of the WCI Partner jurisdiction have been or will be met. The committee recommends certification take place before issuance of offset certificates, so that certificates are not issued prior to successful completion of certification.

	Issuance	Following certification, the WCI Partner jurisdiction will proceed with the issuance of offset certificates. The jurisdiction will complete the administrative steps necessary to serialize the units. Issuance does not require the project proponent to submit any additional information nor require the WCI Partner jurisdiction to conduct any further review of the project.
Post-issuance Activities	Project Reversals, Fraud and Error	Offset project protocols and the offset systems of the WCI Partner jurisdictions will have mechanisms in place to ensure permanence, including provisions to address unintentional and intentional reversals. The offset systems of the WCI Partner jurisdictions will establish rules that enable action to be taken where fraud or error has been discovered. The outcomes of such action will include maintaining the environmental integrity of the program by ensuring every certificate in the system is supported by an emission reduction that is real, additional, permanent and verifiable. WCI Partner jurisdictions may choose to issue, at their discretion, offset certificates that are either revocable or non-revocable. This option would support some jurisdictions issuing offset certificates that may be revoked, and others issuing offset certificates that may not be revoked. Partner jurisdictions should have the ability to manage both revocable and non-revocable offset certificates.

2 Purpose and Background

The July 2010 Design for the WCI Regional Program includes provisions for a rigorous offset system. The primary role of the offset system is to reduce the compliance costs associated with the cap-and-trade program while maintaining the environmental integrity of the cap. The design of the offset system should encourage emission reductions, innovation, and technology development in sectors and at sources not covered by the cap-and-trade program. WCI Partners will only consider non-covered sources on a limited and case-by-case basis.

The purpose of the WCI Offsets Committee is to make recommendations to the WCI Partner jurisdictions on the design and operation of the offset system as part of the WCI cap-and-trade program. The committee divided its work into three tasks. Task 1 is to make recommendations for essential elements and infrastructure to create and operate the WCI offset system. Task 2 is to make recommendations for accepting offset certificates and allowances from other greenhouse gas trading programs. Task 3 is to make recommendations for the review and recommendation of protocols for the WCI offset system. This paper uses the term "appropriate protocol" to mean recommended by WCI Partner jurisdictions and adopted into the rules and regulations of Partner jurisdictions.

This paper is part of the Offsets Committee's Task 1 Essential Elements work, specifically Task 1.3, to identify the specific requirements for pre-verification activities (registration, validation, monitoring, quantification, reporting), verification, certification, issuance and post-issuance activities. This paper presents final recommendations for those elements. Since WCI Partner jurisdictions will recognize the offset certificates issued by other Partners, it is important for the Partner jurisdictions to have processes in their offset systems that ensure the rigor and interchangeability of offset certificates across the WCI Partner jurisdictions.

These final recommendations propose processes to ensure the necessary level of rigor across WCI Partner jurisdictions. Figure 1 identifies the process steps for an offset project. The WCI Partner jurisdictions recognize that Partner jurisdictions have labeled the steps with varying terms, and in some cases have combined steps, in the processes proposed for their programs. While offering these final recommendations, the WCI Partner jurisdictions acknowledge that such variations that result in the same or greater level of rigor being achieved are acceptable.

As part of their effort to design an offset system that encourages emission reductions from sources not covered by the cap-and-trade program, WCI Partner jurisdictions aim to facilitate participation of small projects by implementing a process that readily accommodates the aggregation of small projects. The final recommendations for some process steps include specific elements related to the aggregation of small projects in order to streamline the process for these projects while ensuring the same high quality standards are met for all offset projects.

Information collected during the offset system process will be made publicly available by the WCI Partner jurisdictions. WCI Partner jurisdictions will make information public consistent with public records and protection of privacy laws and policies in the respective jurisdiction. WCI Partner jurisdictions maintain that the process for approving offset projects be conducted in an open and transparent manner.

3 Process Options and Final Recommendations

PRE-VERIFICATION ACTIVITIES

Validation

Validation is the assessment of a proposed offset project against the offset system requirements. Validation includes review and assessment of project information for conformance with system criteria; alignment with an appropriate protocol; and review of quantification methodologies, baselines, standards, calculations, assumptions, factors, forecasts and assertions. More detailed information on the validation step can be found in ISO 14064-3.

Final Recommendation

Validation is intended to provide the project developer and the WCI Partner jurisdiction with assurance that the project, when implemented, is likely to meet all of the WCI criteria and is likely to result in emission reductions qualifying under the WCI offset system. Each WCI Partner jurisdiction will be responsible for evaluating offset projects within its respective jurisdiction and may also evaluate and register offset projects in non-WCI jurisdictions throughout Canada, the United States and Mexico.[1] Therefore, whether performed by a WCI Partner jurisdiction or a validation body, validation will be conducted with the expectation that the project will be considered under a specific jurisdiction's offset system.

An offset project proponent initiates the validation process by submitting information on their proposed project required by the WCI Partner jurisdiction or an accredited third-party validation body to effectively perform their validation activities. The required information may be defined by the appropriate protocol[2] and may be in the form of a project plan providing basic contact information, describing the project, referring to the appropriate protocol (i.e. the

[1] There is some possibility that a WCI Partner jurisdiction may choose not to administer its own offset system. In that case, it may be necessary for offset projects in that jurisdiction to have another WCI Partner jurisdiction(s) issuing offset certificates for projects in that jurisdiction. It is not the intent of the WCI Partner jurisdictions to prevent offset projects from occurring in a jurisdiction that may lack the resources to effectively administer its own offset system.

[2] The protocols included in California's cap-and-trade program refer to this information as "listing information."

WCI recommended protocol adopted by jurisdictions), baseline scenario (where appropriate) or performance standard, and identifying all project-specific monitoring requirements. The WCI Partner jurisdiction or the validation body will assess whether the project meets the relevant jurisdiction's requirements WCI offset system requirements as adopted by WCI Partner jurisdictions and is in conformance with an appropriate protocol.

The validation step must be completed prior to verification of the offset project's first project report. A project must be validated as part of each renewed crediting period. If validation is performed by an accredited third-party validation body, the validation body must issue a positive validation statement before the project can be registered. Subject to activity (validation/verification) and sectoral scope (project type) requirements, third-party validation bodies must conduct validation in accordance with ISO 14064-3 and must be accredited to ISO 14065 through (a) a program developed under ISO 17011 by an accreditation body that is a member of the International Accreditation Forum or (b) a program developed or authorized by a WCI Partner jurisdiction under the jurisdiction's required statutory or regulatory process that is at least as stringent as the process defined in ISO 17011.

Explanation of Final Recommendation

This final recommendation meets the WCI Offset System Essential Elements Final Recommendation (July 2010) that "validation is a required review by an accredited independent third party of the WCI Partner jurisdiction to assess the likely result of reduction or sequestration from a proposed project that would use a WCI offset protocol."

In order to ensure a complete and efficient verification of emission reductions, the final recommendation proposes that validation be conducted prior to verification of the first project report for a given offset project. Each project must be validated prior to each crediting period to assure that the project meets the current requirements of the appropriate protocol. To the degree possible, the validation process for project renewal will be streamlined. At the start of a new crediting period some project information reviewed as part of the validation process is unlikely to change. However, information regarding applicable regulatory requirements, as well as performance standard thresholds to assess additionality, may change over time.

Information submitted on the proposed project will serve as the basis for the validation review. Submitted information will include identification and description of the project, an assertion of the projection's additionality, and copies of other legal documentation required for the project (e.g., permits, environmental impact assessment).

The final recommendation does not require site visits as part of the project review process for validation. The WCI Offsets Committee recognizes that requiring a site visit presents a potentially unnecessary cost to project developers, particularly given the WCI Partners' preference for standardized offset protocols. However, if required for particular protocols, project types or technologies a site visit could be included as part of the validation process.

The accreditation requirement for third-party validators is designed to mirror as closely as possible the accreditation requirement for third-party verifiers providing services for mandatory reporting and offset projects. Following a validation review, a third-party validator may only issue a positive validation statement if they determine the project to be in conformance with offset system requirements and the appropriate protocol. As discussed later in this paper, a verifier would then verify a project against the validated project plan and the appropriate protocol.

Registration

The registration process is the mechanism for project developers to record offset project information with the WCI Partner jurisdiction evaluating the project. Project registration requires the submittal of forms and information on each project to the applicable WCI Partner jurisdiction to help ensure that projects meet the requirements of the offset system. For the WCI Partner jurisdictions, a registration system for recording and managing project information will be especially important to ensure proper oversight for a regulatory compliance program and effective communication across multiple jurisdictions. Posting registration information for public review provides transparency to the offset system.

Final Recommendation

Project registration requires the submission of information for each project to the responsible WCI Partner jurisdiction. The required information may be defined by the appropriate protocol and may be in the form of a project plan.

For a potential offset project, the project developer will follow an appropriate WCI protocol as adopted by a WCI Partner jurisdiction. For aggregation of small projects, a single request for registration can be submitted for the entire aggregation, although it must include the required information on each project. The project developer must implement the project in accordance with the information provided as part of registration. If the proponent changes any aspect of the project compared to the project plan at the time of registration, the change will need to be approved by the relevant WCI Partner jurisdiction and a revised project plan reflecting the change must be posted for public review.

The committee recommends that WCI Partner jurisdictions retain the flexibility to select the registration approach most appropriate for their jurisdiction. However, for all WCI Partner jurisdictions, no offset certificates will be issued until the project has completed the pre-verification activities and has verified emissions reductions. In order to ensure against double-counting and prevent the issuance of offset certificates from the same project under multiple registries, offset projects cannot be registered in more than one registry.

If the project was previously registered under a different offset program registry, it must be deregistered from all other registries before being registered in a WCI Partner jurisdiction. The emission reductions and removals from the project for which offset certificate issuance by a WCI Partner jurisdiction may be requested must not have already been retired, canceled, used to meet a surrender obligation, used to meet a voluntary commitment, or used to meet any GHG requirement in any voluntary or regulatory system. Also, the emission reductions and removals must:

- have a legal owner;
- meet the relevant jurisdiction's requirements, including being in conformance with an appropriate protocol (i.e., the WCI recommended protocol adopted by the jurisdiction); and
- have all the documentation required by the appropriate protocol to ensure that the emission reductions and removals meet the program requirements.

Prior to issuing offset certificates for emission reductions and removals from a project that was previously registered in another registry, all instruments representing those emission reductions and removals in any other programs must be retired to avoid double crediting.

Explanation of Final Recommendation

The WCI Offsets Committee recommends the priority for ensuring the integrity of offset certificates across the WCI Partner jurisdictions is for requirements to be consistently met and documented in all WCI Partner jurisdictions prior to the issuance of offset certificates. Pre-verification activities are completed before verification and the timing and order of steps within pre-verification activities may vary based on circumstances specific to each WCI Partner jurisdiction.

Monitoring and Quantification

Monitoring is the process of collecting project activity data essential for quantifying greenhouse gas (GHG) reductions or removals and also the process of confirming assumptions used in quantification. Monitoring includes determining what project activities need to be measured, how often measurements should be taken, what methods are acceptable, what

instrumentation should be used for data collection, how the data is stored and how data quality is maintained. Monitoring of an offset project is intended to allow for the complete and transparent quantification of GHG reductions or removals.

Essential elements of monitoring procedures and monitoring reports often include the following:

- GHG data and information for all sources and sinks to be monitored, including units of measurement.
- Source information for all data and information included.
- Monitoring methodology identified, including description of the approach used (e.g., estimation, modeling, measurement or calculation) and description of all relevant assumptions, constants, mathematical relationships and formulas.
- Measurement collection techniques identified including technical information regarding location and specifications of metering equipment, procedures for meter reading, calibration and maintenance, and length of measurement periods.
- Level of uncertainty associated with measurement and estimation of data.
- Roles and responsibilities for monitoring procedures.
- Quality assurance/quality control measures including data management systems, procedures for managing poor quality or lost data and data archive procedures.

Quantification is the process of estimating emissions reductions achieved from project activity data collected through monitoring. Requirements for quantification will be included in offset protocols recommended by the WCI Partner jurisdictions. The process for developing appropriate protocols recommended by the WCI Partner jurisdictions, including quantification requirements, will be addressed through the work under Task 3 of the WCI Offset Committee.

Final Recommendation

Each offset project shall follow the monitoring and quantification requirements specified in the appropriate protocol and offset system rules of the WCI Partner jurisdiction. Monitoring and quantification requirements for offset projects will be harmonized, to the extent practicable, with reporting requirements recommended by the WCI for facilities and sources covered by emission caps.

Explanation of Final Recommendation

Protocol-specific monitoring requirements will provide consistency across projects using the same appropriate protocol and allow WCI Partner jurisdictions to tailor monitoring requirements to each project type. Under this approach, monitoring requirements will be included as part of each appropriate protocol for a given project type. Since waiting until verification to have the monitoring plan approved could increase risk to project developers,

project proponents will be required to submit a plan to meet monitoring requirements as part of the validation review that demonstrates how the project will meet the monitoring requirements of the appropriate protocol being used. During the reporting and verification process steps, submitted monitoring data will be reviewed to ensure it meets the procedures outlined in the approved plan.

Consistency of monitored data is important for quantification, reporting and verification. Requiring all project developers for each project type to follow the same monitoring requirements helps ensure the consistency of monitored data. However, under certain circumstances a WCI Partner jurisdiction may allow a project proponent to use an alternative monitoring approach or to propose alternative monitoring approaches with approval from WCI Partner jurisdictions. For a proponent to propose an alternative monitoring approach, the proponent must be unable to implement the monitoring approach in the appropriate protocol, and the proponent must propose an approach that will achieve a similar level of accuracy to the approach in the appropriate protocol.

Reporting

Reporting refers to the process of summarizing project monitoring data, quantifying the GHG reduction achieved in the applicable period according to the calculation methodology in the project plan, and documenting that information in a project report. Periodic reporting on the performance of GHG reduction projects is a step required by most offsets systems and a necessary step before offset certificates can be issued. The required content and level of detail required in project reports vary between systems and by project type. A complete project report in the WCI offset system might include the following components:

- Summarized monitoring data
- Calculations supporting the GHG reductions achieved (in accordance with the quantification methodologies of the appropriate protocol)
- Proponent's assertion of the GHG reduction.
- A signed verification statement.

The WCI Partner jurisdictions will establish overall reporting requirements to ensure adequate oversight of the offset system. These requirements are intended to serve the needs of project proponents, assurance providers, and ultimately the wider WCI market by establishing what information must be documented before an offset certificate may be issued. Clear reporting requirements should allow for reports to be submitted and verified without undue delay.

Final Recommendation

Reporting frequency will be annual unless otherwise specified in an appropriate protocol. A WCI Partner jurisdiction will have two options for assigning the annual reporting date for a project:

- the month and day of the project start date (as determined by the first day for which a reduction is claimed); or
- a common calendar date for all projects each year.

Reporting requirements will be harmonized, to the extent possible, with the reporting requirements recommended by the WCI for covered sources. Aggregated small projects may submit a single report for the entire aggregation of projects, although the report must include required information on each project's reductions.

Explanation of Final Recommendation

The WCI Offsets Committee recommends annual reporting to ensure ongoing oversight of project activities. For particular project types (e.g., long-term sequestration projects), less frequent reporting may be appropriate.

The WCI Offsets Committee discussed the merits of having common or staggered reporting dates for offset projects. The advantage of the common date was that offset project reporting would thus be more similarly aligned with mandatory reporting which also has a common date. Staggered reporting dates according to a project's start date allow the workload placed on verifiers and jurisdiction staff to be more constant throughout the year instead of focused in one quarter of the year. Staggered dates are also consistent with other notable offset systems. The Offsets Committee believes that both approaches are valid and recommends that WCI Partner jurisdictions follow either approach, as this should not adversely affect the rigor or fungibility of offset certificates across the WCI region.

Harmonization of reporting requirements with the WCI Mandatory Reporting Requirements and aggregation of small projects into a single reporting report, are recommendations aimed at reducing the administrative burden and improving efficiency for project developers.

All pre-verification steps must be completed before moving on to VERIFICATION & ISSUANCE ACTIVITIES.

VERIFICATION & ISSUANCE ACTIVITIES

All steps in this section must be completed in order:
VERIFICATION, then CERTIFICATION, then ISSUANCE.

Verification

Verification is the process of reviewing offset project information to ensure that claimed emissions reductions have been achieved in accordance with the appropriate protocol and project plan.

Final Recommendation

Emission reductions or removals must be verified by an accredited third-party verification body and submitted to the relevant WCI Partner jurisdiction prior to the issuance of offset certificates. Subject to activity (validation/verification) and sectoral scope (project type) requirements, verification bodies must be accredited to ISO 14065 through (a) a program developed under ISO 17011 by an accreditation body that is a member of the International Accreditation Forum or (b) a program developed or authorized by a WCI Partner jurisdiction under the jurisdiction's required statutory or regulatory process that is at least as stringent as the process defined in ISO 17011. The verification must also be conducted in accordance with ISO 14064-3 to a reasonable level of assurance. The verification must also be conducted in accordance with ISO 14064-3 to a reasonable level of assurance.

A third party assurance provider which validated the registered project plan may not perform third-party verification of a project report for a minimum of the next five verifications. WCI Partners may consider changing the minimum requirement if it is found that additional verifiers are not available. Any staff member of a verification team may not perform verification services for the same project for more than six consecutive years. Any verification staff that previously performed six years of verification services for the project may only again perform verification services for the project: 1) after the project has been verified by another verification team; and 2) at least 3 years after the verification staff last provided verification services for the project.

Explanation of Final Recommendation

The final recommendation for the verification process steps is based on the final recommendation for verification established in the WCI Offsets System Essential Elements Final Recommendations Paper (July 2010). The final recommendation stated, "verifiers for WCI offsets will be independent third parties who have been accredited to a standard acceptable by the WCI Partner jurisdiction in which the project is registered." The process steps final recommendation presents accreditation requirements for third-party verifiers. The recommended accreditation requirements, accreditation for entities verifying offset projects

are consistent with the requirements recommended for mandatory reporting by covered sources. A site visit is required for the first project verification, and as stated in the protocol thereafter.

Certification

At some point in the creation of an offset compliance instrument a WCI Partner jurisdiction has to "accept" that the documentation provided and reviewed indicates that the reduction upon which the offset certificate may be based is real, additional, permanent and verifiable. At this step in the process, the WCI Partner jurisdiction must have the ability to enforce these requirements through its review of the documentation and its assessment of whether it supports a determination that the reduction is real, additional, permanent, and verifiable. By performing this step, other jurisdictions in a regional trading system would be assured that the resulting offset certificate and underlying project meet all of the offset criteria and would be able to accept the offset certificate for compliance.

It is not essential that the WCI Partner jurisdiction perform all of the certification steps directly and may assign certain roles, tasks and decisions to a third party. The tasks or steps involved in certification can take place at different times in the offset cycle and may be separated for convenience or functional efficiency. The successful completion of the certification step is expected to lead to the Partner jurisdiction issuing a tradable unit with a unique serial number within the tracking system of the WCI Partner jurisdictions.

Final Recommendation

The certification step involves the WCI Partner jurisdiction or its agent/recognized body reviewing project documentation presented as evidence and accepting that evidence into the system through the assignment or creation of an offset certificate when they are satisfied all conditions of the Partner jurisdiction have been or will be met. The committee recommends certification take place before issuing an offset certificate, so that certificates are not issued prior to successful completion of certification.

Explanation of Final Recommendation

The final recommendation for the certification process is based on WCI Partner jurisdictions preferring to avoid adding uncertainty to the reliability of offset certificates and preferring not to add complexity to compliance procedures for little or no benefit. Completing certification prior to issuance ensures that the full set of reviews and evaluations are conducted prior to the offset certificate being issued, so that the quality and reliability of the offset instrument are less uncertain. In making this recommendation the WCI Partner jurisdictions recognize that the full set of criteria and processes recommended for offset systems collectively contribute to the quality and reliability of offset certificates. Certification is identified as one component of the

overall process at which a final evaluation ensures that the emission reduction on which the offset certificate is based is real, additional, permanent, and verifiable.

Issuance

After an emissions reduction or removal has been verified and certified in accordance with all requirements and a project proponent has submitted all required reports, the WCI Partner jurisdiction will issue offset certificates in a number equal to the reductions credited to the projects, with each issued offset certificate representing one metric tonne CO_2e reduced or removed. Issued offset certificates will be assigned unique serial numbers and issued to the proponent's registry account or a registry account designated by the proponent. For sequestration projects, some offset certificates may also be retained in a contingency account or buffer pool as required by WCI Partner jurisdictions.

The unique serial number allows each issued offset certificate to be linked to all supporting documents for the offset project. It also allows tracking of an offset certificate from issuance until retirement, enhancing transparency and assisting with any enforcement activities that may be required. Once issued and deposited in an account, offsets certificates can be traded voluntarily retired, or used to meet a compliance obligation.

Final Recommendation

Following certification, the WCI Partner jurisdiction will proceed with offset certificate issuance. The jurisdiction will complete the administrative steps necessary to serialize the units. Issuance does not require the project proponent to submit any additional information nor require the WCI Partner jurisdiction to conduct any further review of the project.

Explanation of Final Recommendation

The comprehensive due diligence process recommended in this paper combines the rigor of direct WCI Partner jurisdiction oversight and accreditation with the efficient aspects of third-party service providers, allowing project developers the maximum flexibility in scheduling and arranging for assurance services and providing jurisdictions with maximum assurance and control. The issuance of an offset certificate culminates the due diligence cycle, delivering a high quality, reliable product into the marketplace.

POST-ISSUANCE ACTIVITIES

Project Reversals, Fraud and Error

Following issuance of offset certificates, the ownership of the certificates will be tracked in the tracking system used by the WCI Partner jurisdictions. Offset certificates may be traded and used for compliance within the rules of the WCI Partner jurisdiction programs. Offset certificates could also be retired by their owners for reasons other than compliance if desired.

The offset criteria and processes recommended by the WCI Partner jurisdictions are designed to ensure that all offset certificates are based on well-documented emission reductions. Nevertheless, situations may arise that require action by regulatory authorities regarding specific offset certificates in order to maintain the environmental integrity of the offset system and as a consequence the cap-and-trade program.

It is well recognized that carbon sequestration projects (such as some forestry projects) are vulnerable to reversal in which carbon that was verified as sequestered is released into the atmosphere. To ensure that carbon sequestration achieves the level of permanence described in the offset criteria, appropriate protocols and the offset system must include procedures for addressing both unintentional and intentional project reversals. Following issuance, regulatory authorities that issue the offset certificates must have the ability to enforce these procedures and requirements.

In addition to permanence risk, there is a risk that following issuance the basis for issuing an offset certificate for a specific project could be found to be fraudulent or in error. The recommended documentation and independent review requirements are designed to detect such conditions prior to issuance, so that post-issuance discovery of such conditions is expected to be rare. Nevertheless, procedures are required to respond to such circumstances when they arise.

Final Recommendation

Appropriate project protocols and the offset systems of the WCI Partner jurisdictions will have mechanisms in place to ensure permanence, including provisions to address unintentional and intentional reversals.

The offset systems of the WCI Partner jurisdictions will establish rules which enable action to be taken where fraud or error has been discovered. The outcomes of such action will include maintaining the environmental integrity of the program by ensuring every certificate in the system is supported by an emission reduction that is real, additional, permanent and verifiable.

WCI Partner jurisdictions may choose to issue, at their discretion, offset certificates that are either revocable or non-revocable. This option supports some jurisdictions issuing offset certificates that may be revoked, and others issuing offset certificates that may not be revoked. All WCI Partner jurisdictions should have the ability to manage both revocable and non-revocable offset certificates.

Explanation of Final Recommendation

The final recommendation regarding unintentional and intentional reversals is designed to ensure that sequestration projects and the offset system have built-in mechanisms to ensure permanence. These mechanisms should be used to deliver the promised performance of the offset projects.

The approach to post-issuance activities has been divided into two parts for this recommendation, one part for project reversals and one part for fraud and error. For projects that have a risk of reversal the appropriate project protocol must be designed with features that provide a mechanism for ensuring permanence. Mechanisms may include, for example, a buffer pool of offset certificates that is used to replace reductions that are unintentionally reversed. For this approach to be effective, the regulatory authority must have the ability to require that the buffer pool be maintained in adequate quantity to address risks of unintentional reversal, must have the ability to detect when unintentional reversals occur, and must be able to access the pool when needed, to replace the carbon lost to unintentional reversal. Through these procedures, the offset certificate that is in circulation (or that may have been used for compliance) remains in circulation and the reduction underlying the certificate is replaced by a reduction from the buffer pool.

Mechanisms for addressing intentional reversals may vary from those for unintentional reversals. The WCI Partner jurisdictions expect that an enforceable relationship between the regulatory authority and the project proponent will require that the project proponent provide a valid instrument to replace the reduction reversed through an intentional reversal. The regulatory authority must have the ability to enforce this requirement. Through this procedure, the offset certificate that is in circulation (or that may have been used for compliance) remains in circulation and the reduction underlying the certificate is replaced with another valid instrument.

Although expected to be rare, fraud or error could affect the validity of an offset certificate from any type of project. Information regarding potential fraud or error could become available in several ways, including from a third-party verifier hired to verify emission reductions at an

ongoing project, from public comment, or from Partner jurisdiction audit. Regulatory authorities must have the resources to respond to such information and determine whether the new information changes the conclusion that the project meets the requirements for the offset system. If the regulatory agency finds that the project does not meet the requirements, it must take action to ensure that the environmental integrity of the offset system is maintained.

Two approaches have been identified for taking action:

- The regulatory authority is expected to have the ability to enforce requirements placed on project proponents and verifiers. The regulatory authority could require that those entities replace the offset certificates. While the regulatory authority pursues its remedies with the responsible parties, the offset certificate that is in circulation (or that may have been used for compliance) remains in circulation and the reduction underlying the certificate is replaced by project proponents.

- The regulatory authority could revoke offset certificates in the tracking system, removing them from any account. If the offset certificates have been used for compliance, the entity that used the offset certificate would be required by the jurisdiction in which it submitted the offset certificate for compliance to replace it. The owner of the offset certificate that was revoked could choose to pursue those responsible for the error or fraud to remedy their loss. The regulatory authority could pursue cases of fraud, but may not seek replacement of the offset certificate itself, as that would be left to the offset certificate owner.

In both approaches, the regulatory authorities have the ability to pursue remedies from those responsible for the error or fraud. The first approach puts the responsibility of ensuring that the offset certificate is replaced on the regulatory authority. The current owner has no exposure to the risks of fraud or error in this first approach. The second approach puts the risk on the offset certificate owner. If fraud or error is found to undermine an offset certificate, the offset certificate is revoked and the offset certificate owner may seek a remedy from the responsible party.

Both approaches can also encounter situations in which the mechanisms or those responsible for replacing the offset certificate are unable to replace it. For example, a project proponent may have inadequate resources to replace offset certificates as directed by regulatory authorities. Consequently, under both approaches the regulatory authorities issuing the offsets must be able to take responsibility to ensure the environmental integrity of the program when those required to replace offset certificates cannot be compelled to do so.

4 Conclusion

This paper describes the final recommendations for the WCI offset system process steps, including specific requirements for registration, validation, monitoring, quantification, reporting, verification, certification and issuance of offset certificates. The Final Recommendations reflect input provided by stakeholders via the WCI website and webinar. This Final Recommendations paper is the final deliverable for Task 1 of the WCI Offset Committee's work. The Final Recommendations are made available on the WCI website and the WCI Offsets Committee will hold a stakeholder conference call to present the final recommendations.