



# Climate Leaders Greenhouse Gas Inventory Protocol Optional Module Guidance:

## Using Offsets to Help Climate Leaders Achieve Their GHG Reduction Goals

### Climate Leaders Offset Module Overview

*Climate Leaders is an EPA industry-government partnership that works with companies to develop comprehensive climate change strategies. Partner companies commit to reducing their impact on the global environment by setting aggressive greenhouse gas reduction goals and annually reporting their progress to EPA.*

### Introduction

An important objective of the Climate Leaders program is to focus corporate attention on achieving cost-effective greenhouse gas (GHG) reductions through internal projects, such as energy efficiency and on-site renewable energy projects. Partners may also use reductions and/or removals which occur outside their organizational boundary (i.e., external reductions or “offsets”) to help them achieve their goals. To ensure that the GHG emission reductions from offsets are credible, Partners must ensure that the reductions meet four key accounting principles:

- **Real:** The quantified GHG reductions must represent actual emission reductions that have already occurred.
- **Additional:** The GHG reductions must be surplus to regulation and beyond what would have happened in the absence of the project or in a business-as-usual scenario based on a performance standard methodology.
- **Permanent:** The GHG reductions must be permanent or have guarantees to ensure that any losses are replaced in the future.
- **Verifiable:** The GHG reductions must result from projects whose performance can be readily and accurately quantified, monitored and verified.

EPA has developed the Offset Module Overview guidance (“Offset Guidance”) based on a top-down “performance standard” methodology to address additionality and selection and setting of the baseline for specific project types. It also establishes standardized monitoring options. This Offset Guidance includes a discussion of the performance standard approach and the general guidelines that all offset projects must meet in order to be used to help Partners achieve their goals. Detailed accounting methodologies for specific project types are also included. Overall, the EPA approach to offset accounting



is consistent with the *Greenhouse Gas Protocol: The GHG Protocol for Project Accounting*.<sup>1</sup>

## Climate Leaders Offset Guidance for all Project Types

The following sections provide guidance to ensure that GHG reductions from Partners' offset projects meet the four key accounting principles: real, additional, permanent and verifiable. Detailed methodological guidance for specific project types eligible for Climate Leaders is available in the Climate Leaders Offset Project Methodologies in *Appendix A*. EPA encourages the use of GHG reductions from project types for which a Climate Leaders Offset Project Methodology is available to help Partners achieve their reduction goals. For projects of those types, Partners are required to use the corresponding Climate Leaders Offsets Project Methodology. Alternatively, submissions of projects for which a Climate Leaders Offsets Methodology has not been developed are allowed and must follow the procedures for submitting a new methodology or data set, as described in Appendix C. Also, Partners may purchase GHG reductions rather than developing or investing in their own GHG mitigation projects. The purchased GHG reductions must be from projects evaluated using a Climate Leaders Offsets Project Methodology.

### Geographic Scope

GHG reductions from offset projects that occur either in the U.S., and if adequate data sources are available, from projects outside the U.S., are eligible for use in helping Partners meet their reduction goals. At this time, Climate Leaders Offset Project Methodologies have been developed for domestic projects based on U.S. data sets. Projects outside of the U.S. may use the same accounting methodology, however, the applicable data set will have to be acquired and analyzed by the Partner to propose an appropriate performance standard. Partners choosing to use reductions from international projects should submit a pre-proposal to EPA for review and approval of the relevant country-specific data set that will be used (see *Appendix C*).

### Project Start Date

Partners may only use GHG reductions from new offset projects implemented after the launch date of the Climate Leaders program (February 20, 2002). Exceptions may be granted for projects developed by Partners through state or other federal GHG programs under the following conditions: 1) the Partner joined Climate Leaders prior to the release of this guidance (January 2009); 2) the reductions are quantified and reported using a Climate Leaders accounting methodology; 3) the reductions are

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<sup>1</sup> World Resources Institute and World Business Council for Sustainable Development, *The Greenhouse Gas Protocol: The GHG Protocol for Project Accounting* (November 2005), available at: <http://www.ghgprotocol.org>.



quantified in a manner that adheres to this Offset Guidance; and 4) the reductions were previously reported to EPA or on a comprehensive and transparent registry system.

### **Regulatory Eligibility**

GHG reductions resulting from offset projects must be surplus to regulation. Emissions must be reduced below the level effectively required by any existing federal, state, or local laws, regulations, or ordinances. This may also apply to consent decrees, other legal agreements, or federal and state programs that compensate voluntary action (for example, establishing forests on marginal agricultural lands or other environmentally sensitive areas).

### **Additionality**

To demonstrate additionality, a performance standard approach is applied. Offset projects are required to achieve a level of performance with respect to emission reductions and/or removals that is significantly better than business-as-usual. EPA determines a performance threshold for additionality specific to each project type, by examining data sets of similar, recently undertaken or planned practices, activities or facilities in the same geographic region. This level of performance is presented in the form of an emissions rate, a technology standard, or a practice standard, as selected by EPA based on the characteristics of the data examined. Partners or project developers compare the performance of their project against the corresponding project-specific threshold to determine if the project is additional.

The performance standard approach minimizes the risk of accepting a project that is not additional or rejecting a project that is additional. A performance standard approach also reduces the complexity, cost, and subjectivity of constructing individual project-specific reviews.

### **Baselines**

The baseline reflects the emissions or removals that would have occurred in the absence of the project activity. Baselines are calculated either from a historic project emissions rate or based on data sets from similar recently undertaken or planned practices, activities, or facilities in the same geographic region depending on the specific project type, and are provided in the Climate Leaders Offset Project Methodologies. Potential GHG emission reductions from the offset project may be estimated by comparing emissions from the baseline with emissions from the proposed project. Actual GHG emission reductions from the project should be calculated using project generated data that follows EPA monitoring guidelines for the specific project type.

### **Updating the Performance Standard**



An important aspect of a performance standard is to keep it up to date. EPA plans to update the accounting methodologies for individual project types and the data sets underlying project additionality and baselines on a periodic (5-8 year) basis depending on the specific project type. This will ensure that continuous performance improvements, such as market trends, technology developments, and land-use trends, are reflected in updates to the data set.

### **Treatment of Approved Projects When Accounting Methodologies are Updated**

To provide investment certainty for Partners, as data sets for a specific project type are updated, an approved project will retain regulatory eligibility and be determined to be additional for the period up to the Partner's stated goal year, unless specifically prohibited in the accounting methodology for that project type (e.g., New Source Performance Standards emission thresholds are triggered for landfills). The data set used to set a baseline and to calculate reductions from an eligible project may also be used for the period up to the Partner's stated goal year. If a Partner enters a new goal period, the most up-to-date Climate Leaders Offset Project Methodology must be used to re-determine regulatory eligibility and additionality and to calculate reductions after the Partner's current goal period ends.

### **Leakage**

Leakage is an increase in greenhouse gas emissions or decrease in sequestration caused by the project but not accounted for in the project boundary which may produce offsetting effects that fully or partially negate the benefits of the project. Although there are several forms of leakage, at this time for these performance standards, leakage is limited to activity shifting – the displacement of activities and their associated GHG emissions outside the project boundary (e.g., another parcel of land is deforested to make up for lost cropland converted for the offset project). If significant emissions that are reasonably attributable to the project occur outside the project boundary, these emissions should be quantified and included in the calculation of reductions; however, no specific quantification methodology is provided or required at this time. All associated activities determined to contribute to leakage should be monitored.

### **Permanence**

The GHG reductions must be permanent or have guarantees to ensure that any losses are replaced in the future. There are several options that are available for ensuring permanence of GHG reductions including temporary crediting, leases, ex-ante discounting and insurance<sup>2</sup>. Partners should ensure that their projects are designed to achieve permanence of reductions, taking into account the options listed above.

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<sup>2</sup> For more information on these options, see Murray, B.C., B.L. Sohngen, and M.T. Ross. 2007. "Economic Consequences of Consideration of Permanence, Leakage and Additionality for Soil Carbon Sequestration Projects." *Climatic Change* 80:127-143 available at: <http://www.springerlink.com/content/lj77757232590311/fulltext.pdf>.



## **Monitoring**

Projects should be monitored in a manner that leads to an accurate, verifiable accounting of emissions and/or removals from the project. The objective of monitoring is to provide complete information to relevant parties of the emission reductions performance of a specific project. Monitoring should address all relevant project performance indicators (emissions and removals) inside the physical boundary and, if present, should take into account activity leakage. Monitoring must also include consideration of any changes in regulatory requirements that might affect the continued eligibility of the project. Quality assurance and control provisions for the monitoring methodology, recording and reporting, and a description of how monitored data will be used to calculate the emissions reduced or removed should be addressed in the project documentation submitted for review to EPA.

## **Non-greenhouse Gas Impacts of the Project**

Projects should be evaluated for any significant non-greenhouse gas impacts, both positive and negative, that are anticipated as a result of the specific measures to reduce or sequester emissions, including but not limited to: economic development, sustainability, technology transfer, public participation, and capacity building.

## **Eligible Vintages of GHG Reductions**

The vintage of a GHG reduction is the calendar year in which the reduction actually took place. Partners may use GHG reductions with vintages from any of the calendar years that coincide with their current goal period. For example, if a Partner's base year is 2005 and goal year is 2010, the Partner may use reductions with vintages from any years between and including 2005 to 2010 to help in achieving the goal. Exceptions may be granted to Partners that developed a GHG mitigation project prior to the release of this guidance.

## **Additional Considerations When Purchasing GHG Reductions**

Partners may purchase GHG reductions rather than developing or investing in their own GHG mitigation projects. EPA has developed a sample Request for Proposal to assist Partners in purchasing high-quality offsets (*Appendix B*). In order to help Partners achieve their Climate Leaders reduction goals, purchased GHG reductions must be from projects that are evaluated using a Climate Leaders Offset Project Methodology and adhere to all other provisions in this guidance. This requires that the purchased GHG reductions are traceable to a specific project and that the offset provider has sufficient administrative robustness to ensure that the review of the project and accounting methodology has been well-implemented. EPA encourages Partners to consider market best practices when procuring offsets to ensure their credibility. Best practices include:





- Appropriate independent third-parties for validation and verification;
- A viable and trustworthy accreditation system;
- Standards and instructions for validation and verification that ensure reproducible results;
- Well-documented identification of project activities, their ownership, their outcomes, and other key features of offset projects;
- Clear ownership of GHG reductions; and
- A comprehensive and transparent registry system to document offset generation and their transfer to avoid double-counting.

### **Review and Approval of Projects with Climate Leaders Offset Project Methodologies**

EPA will review proposed GHG emission reductions from all offset projects for eligibility prior to allowing their use toward the achievement of a Climate Leaders reduction goal. This review will be based on information for individual projects or purchased GHG reductions provided by the Partner in the Climate Leaders Offset Project Submission Checklist (see Appendix D). The Checklist includes the following information:

- Section A: Project Information (project type and contact information);
- Section B: Project Description (start date, boundary, regulatory eligibility);
- Section C: Additionality;
- Section D: Reduction Quantification (baseline and project emissions);
- Section E: Quality Assurance
- Section F: Validation and Registry

Partners should provide this information to EPA for review at least three months prior to the date they plan on applying GHG reductions from the project toward the achievement of their goal.

Companies wishing to receive some assurance that certain offset projects are eligible for Climate Leaders prior to investment or purchase may submit an abbreviated Offset Project Submission Checklist that addresses Sections A through C of the Checklist (Project Information, Project Description, and Additionality). These EPA reviews do not constitute a full review but should flag any early indications that a project may not be eligible for Climate Leaders. A final determination of acceptance of this project will be made upon completion of the Full Review.

### **Review and Approval of New Accounting Methodologies or Data Sets**

Partners who wish to develop and propose: 1) a new accounting methodology based on a "performance standard" approach for a project type for which EPA has not yet developed a Climate Leaders Offset Project Methodology; or 2) a new data set (e.g.



based on international country-specific data) for use with a Climate Leaders Offset Project Methodology, must provide a pre-proposal to EPA detailing the project type, including proposed project accounting methodology and data set (see *Appendix C*). Partners should be aware that the review and approval process for a new accounting methodology or data set is on a case-by-case basis based on the pre-proposal and is likely to be more time and data intensive for Partners than the use of a Climate Leaders Offset Project Methodology. At a minimum, EPA needs 60 days for review of new methodologies and data sets.

If approved, new accounting methodologies and data sets will be posted on the EPA Climate Leaders website and will be eligible for use by all Partners. New methodologies and data sets will be updated by EPA on the same time horizon (5-8 years) as all other methodologies.

### **Reporting of Offsets for Goal Tracking Purposes**

Once a project has been approved by EPA, the Partner may report the reductions for goal tracking. The emission reductions from offsets are accounted for as an adjustment to GHG inventory emissions on a Partner's Annual GHG Inventory Summary and Goal Tracking Form. Partners should transparently and publicly report on their use of offsets when announcing the achievement of their reduction goal. Once reported, these reductions cannot then be used to make any other reduction claims.



## **APPENDIX A**

*Appendix A* includes Climate Leaders Offset Project Methodologies for specific project types which provide more detailed guidance applicable to each project type.

## **APPENDIX B**

*Appendix B* includes a sample Request for Proposals (RFP) to assist Partners that wish to purchase GHG reductions rather than developing or investing in their own GHG mitigation projects.

### **B.1 Sample Request for Proposals**

## **APPENDIX C**

*Appendix C* includes guidelines and a project design document template for Partners that wish to develop and propose: 1) a project using a new accounting methodology based on a “performance standard” approach for a project type for which EPA has not yet developed a Climate Leaders Offset Project Methodology; or 2) propose a project using a new or different data set (e.g., either an alternate domestic dataset or data for a project outside the U.S.) for use with a Climate Leaders Offset Project Methodology. Partners should be aware that the review and approval process for a new project accounting methodology or data set is likely to be more time and data intensive for Partners than the use of a Climate Leaders Offset Project Methodology.

### **C.1 Template for Proposing a Project Using a New Accounting Methodology**

### **C.2 Template for Proposing a New Data Set**

## **APPENDIX D**

*Appendix D* includes an Offset Project Submission Checklist for submission of information on each offset project. For a Full Review, Partners should submit the Checklist to EPA at least three months prior to the date they plan on applying GHG reductions from the project toward the achievement of their goal. For an Initial Review, EPA needs 30 days to complete the review.

### **D.1 Offset Project Submission Checklist for Initial and Full Reviews**