



## The CarbonNeutral Company’s Response to Independent Reviews of Offset Projects in 2008 19 March 2009

### Introduction

The CarbonNeutral Company (the Company) thanks the Independent Advisory Group (IAG), and specifically the IAG members Melanie Eddis and John O. Niles, for executing the independent carbon offset project reviews in FY2008/09, and for reporting the results of their work through written reports and presentations to the IAG and the Company.

The projects reviewed were:

1. Renewable energy projects (Melanie Eddis)  
Two hydro installations in Sichuan Province, China
2. Forestry (John O. Niles)  
Tensas River Reforestation Project in Louisiana, USA  
N'Hambita Reforestation Project, Mozambique

The purpose of this document is to provide The CarbonNeutral Company’s response to the independent project reviews – specifically the comments made by the IAG when the project reviews were presented and discussed in its December 2008 meeting.

### CarbonNeutral Company Response to key conclusions and recommendations

It is our view that both reviews are valuable and fair assessments of the projects in question. Therefore, our comments focus on the strategic and operational implications of their findings and recommendations. The Table below summarises the key conclusions and our responses.

	Recommendation/Concern	Response / Specific Action
1.	The Company should develop a standard file of information for project reviewers to ensure all data is easily accessible to the reviewers. This follows the reviewers concerns that it took some effort to extract relevant information from the Company, and even after the reviews were complete, there were some questions as to whether the reviewers had all relevant information at their disposal.	To be adopted.  Table of contents will be: <ul style="list-style-type: none"> <li>- PIN, PDD, and other formal validation reports</li> <li>- Verification reports</li> <li>- Registry details</li> <li>- Company project description sheet</li> <li>- Company summary of contracting arrangements, sales history</li> <li>- Company press and media file</li> <li>- Contacts details for project, project developer, agents, key stakeholders</li> </ul>

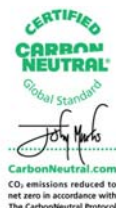


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		The completed project file will be made available to the member as soon as possible after the IAG has approved the review project selection.
2.	Social and environmental benefits beyond pure carbon additionality are not well defined and communicated.	Project Attribute Profiles of the CarbonNeutral Protocol has been revised to reflect these concerns, and will be used in project selection, reviews, and reporting in the public register from 2Q2009.
3.	<p>While the Sichuan Project has been validated to VCS and is considered a very sound project with both climate and sustainable development benefits, questions arose about the strength of the additionality of the project – specifically:</p> <ul style="list-style-type: none"> <li>- whether the sales of VERs from the project made the difference between the project going ahead or not; and,</li> <li>- although it is clear that for this particular rural community project there is little or no government leverage, it was noted that China has progressive policies in support of renewable energy investments.</li> </ul>	<p>This is a live issue and currently the Company relies on three levels of assurance on additionality:</p> <ol style="list-style-type: none"> <li>1. The validation processes of third party standards to which we are currently mandated through ICROA (VCS, GS, CDM); and,</li> <li>2. The additional due diligence conducted the Company's Carbon Procurement Team.</li> <li>3. The ICROA Code of Best Practice, which commits members to the principle of financial additionality above and beyond any acceptance of specific standards.</li> </ol> <p>We note the tension between some market participants on the one hand to rely extensively on leading standards to define additionality tests that can be trusted to protect the integrity of offsetting, and others such as Environmental Defense Fund which have made a point of conducting their own tests for project additionality independent of third party standards.</p> <p>As the market matures, we can expect that additionality tests of standards will in time suffice, but at present we accept that our own scrutiny of additionality remains critical. We continue to contribute to the debate through our work, and our participation in ICROA.</p>
4.	The Sichuan project design document over-estimated river flow, and as a result has subsequently under-delivered on projected carbon reductions. Specifically, 'the PDD for these projects over-estimated the number of credits the projects could produce, as it did not take into account the seasonal variations in water levels. However, the estimates have now been corrected and the project is on track to deliver the credits the Company has purchased'.	As stated in the report, the initial over-estimation has not caused material under-delivery of credits over time. However, our Carbon Procurement team notes a trend for technology projects to under-deliver against PDD projections – and has therefore strengthened their due diligence processes, and follows a conservative approach to contracting. The Company faces a market risk when projects under-deliver, and so contingencies and buffers are built into our portfolio management procedures.

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5.	<p>Both forestry projects were initiated in early 2000, and concerns are raised about the process for selecting and monitoring the projects. Specifically, ‘...the monitoring processes put in place, while adequate in 2002, would not meet current standards...’.</p>	<p>The Company strives to operate to best practices in place at any time, but does not routinely and retrospectively improve past projects on the basis of current best practice. That said, the comments on monitoring forestry projects is being addressed in the following ways:</p> <ul style="list-style-type: none"> <li>- Monitoring and buffering processes are being continually improved;</li> <li>- satellite imagery approaches to provide more consistent ongoing monitoring is being investigated; and</li> <li>- forestry projects contracted in future will be to the AFOLU methods within the VCS or other internationally accepted third party standards as may be accepted into the ICROA Code of Best Practice.</li> </ul>
6.	<p>The Company’s contact with its projects is contractual / transactional, and Reviewers believe that a closer and more consistent relationship would be beneficial to both parties.</p>	<p>We note that as the offsetting market grows to maturity, an ever greater percentage of carbon contracts are through intermediaries and for credits generated by ‘efficient, industrial’ projects, rather than ‘charismatic, community’ projects – like those that have defined the value of the voluntary carbon market to date.</p> <p>We realise and accept that as our business has shifted to the former, we have not paid attention to maintaining relationships that are necessary to nurture and grow the charismatic projects which are such an important contributor to innovation and reach of the voluntary market. We will remedy this by:</p> <ul style="list-style-type: none"> <li>- using the revised Project Attribute Profile to identify those projects with which we should establish and maintain a close partnership;</li> <li>- for these projects, increasing and deepening our involvement by visits to the project by the carbon team and IAG members;</li> <li>- for all projects, maintaining regular contact through email and other means appropriate to the nature of the relationship; and</li> <li>- where we use carbon intermediaries, focussing on building deeper partnerships with those from whom we source our more charismatic projects (e.g. Climate Bridge, South Pole).</li> </ul>



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**Communicating Reviews**

Executive summaries of the reviews will be made public through the Company's website, as will this response.

**Forward Plans**

Two further project reviews will be scheduled in CY2010.

