

## ClimateCare Project Approach

ClimateCare provides companies and individuals with emission reductions sourced 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 two parts:

Part 1: Our project principles

Part 2: Our key project processes

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### Part 1: ClimateCare Project Principles

#### 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 operates a mixed portfolio, which is used to offset emissions bought through [our website](#) and those sold to many of our business clients. [Click here](#) to view the current portfolio selection online.

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 may be 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.

#### Timing of emissions reductions

There are two main ways of financing emission reduction projects:

- Pay for the emission reductions once they have happened on the ground and are independently verified as genuine.
- Pay upfront for those emission 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.

We endeavour to make a high proportion of the emission reductions as soon as possible after you have purchased an offset from our online portfolio. In our 2009 financial year, 89% of emission reductions sold through our 'General Portfolio' (online) were already verified.

Emission reductions which are still to happen in the future have an element of delivery risk associated with them, since problems may arise at various points along the project cycle. Depending on the performance of the project, such Voluntary Emission Reductions (VERs) may be delivered in a slightly earlier or later vintage. 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 in our online portfolio is borne by ClimateCare.** In the event that a project fails to be registered on an eligible registry or does not generate sufficient emission reductions to meet an offset obligation, ClimateCare may substitute reasonably comparable VERs equal to the shortfall quantity from similar projects of a similar quality and internationally recognised standard.

Specific projects offered may under-perform and provide lower than expected volumes for forward vintages, despite our best endeavours. To guard against this risk, we adjust down all volumes expected from our projects based on a number of criteria including similar projects' performance in the past and stage in the project cycle. This means we reserve a proportion of the VERs we expect to achieve from any project and do not sell these VERs until delivery finally occurs.

*In the rest of Part 1 we describe the key factors that we take into account when sourcing projects: location, project type, 'additionality', standards, environmental and social impacts, leakage, permanence and suppressed demand.*

## **Location and double counting**

To prevent double counting it is essential that only one credit (one tonne of carbon offset) is associated with a single emission reduction. ClimateCare therefore does not fund projects in countries that have binding targets under the United Nations Kyoto Protocol (i.e. developed countries that have ratified the protocol) during the period when they have legally binding targets (2008-12). That is true for all cases unless it can be assured that the emission reductions can be retired from the country's national account. To ensure transparency, all VERs we now procure are stored and managed in independent third-party registries.

## 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 in the table below. This is not an exhaustive list and we continue to welcome further innovative ways of reducing emissions:

Project Type	Example sources
Renewable Electricity	<ul style="list-style-type: none"> <li>• Wind Power</li> <li>• Hydro power (run-of-the river)</li> <li>• Solar power</li> <li>• Sustainably grown biomass</li> <li>• Agricultural residues (crop and animal waste)</li> </ul>
Renewable Heat	<ul style="list-style-type: none"> <li>• Sustainably grown biomass</li> <li>• Agricultural residues (crop and animal waste)</li> </ul>
Energy Efficiency (included in this category are projects that reduce the consumption of non-renewable biomass as their baseline)	<ul style="list-style-type: none"> <li>• Electrical efficiency</li> <li>• Heating efficiency</li> <li>• Efficient cooking</li> </ul>
Methane	<ul style="list-style-type: none"> <li>• Projects that avoid the production of methane</li> <li>• Projects that destroy methane through flaring or electricity generation</li> </ul>
Forestry	<ul style="list-style-type: none"> <li>• Afforestation</li> <li>• Reforestation</li> <li>• REDD (Reducing Emissions from Deforestation and Forest Degradation)</li> </ul>

## Additionality

Key to ClimateCare's projects is their additionality; the emission reduction project would not have been possible 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 follows the project-based additionality requirements of the internationally recognised standards that we support. These typically use 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.

## Compliance with recognised standards

ClimateCare is a founding member of the International Carbon Reduction and Offset Alliance (ICROA), an alliance of offset providers established to ensure rigorous standards among offset providers and across the industry. For more information about ICROA please visit their website: [www.icroa.org](http://www.icroa.org)

ICROA members are obliged to use carbon credits sourced from offset projects that are validated, verified and registered to the following specified standards:

- The Clean Development Mechanism (CDM)
- Joint Implementation (JI)
- Gold Standard VER (GS VER)
- The Voluntary Carbon Standard (VCS)
- The California US Climate Action Reserve (CAR)
- Government Approved Schemes

Since the launch of ICROA in June 2008, all ClimateCare projects are 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. As required by the approved standards, the impacts of a project on a full range of stakeholders are assessed. Where feasible environmental impact assessments are also conducted, all legal requirements must be met and we will always scrutinise projects to consider the wider impacts, both positive and negative.

Towards the goal of maintaining high environmental and social standards, ClimateCare specialises in the development of efficient cook-stoves projects. These projects bring great benefits to communities as well as having the potential to achieve enormous emission reductions. A large proportion of our portfolio is also being designed to, or has achieved accreditation to, the Gold Standard. This requires substantial additional assessment and ongoing monitoring of project impacts.

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.

## Leakage

A standard component of our project design is a leakage assessment. Leakage occurs if a project activity causes displacement so that 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

It is important that credits represent permanent emission reductions and removals. 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 the carbon is stored are substantially longer.



Projects that reduce emissions directly tend to be viewed as permanent. ClimateCare's overall portfolio contains one rainforest reforestation project (in a national park in Uganda)<sup>1</sup>. 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.

## **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 efficiency projects in communities that are still at a low level of development. In these cases we will use as our baseline (the business-as-usual level of emissions from which we count our reductions) a projected increase in emissions over time, using energy data from elsewhere in the economy as a baseline.

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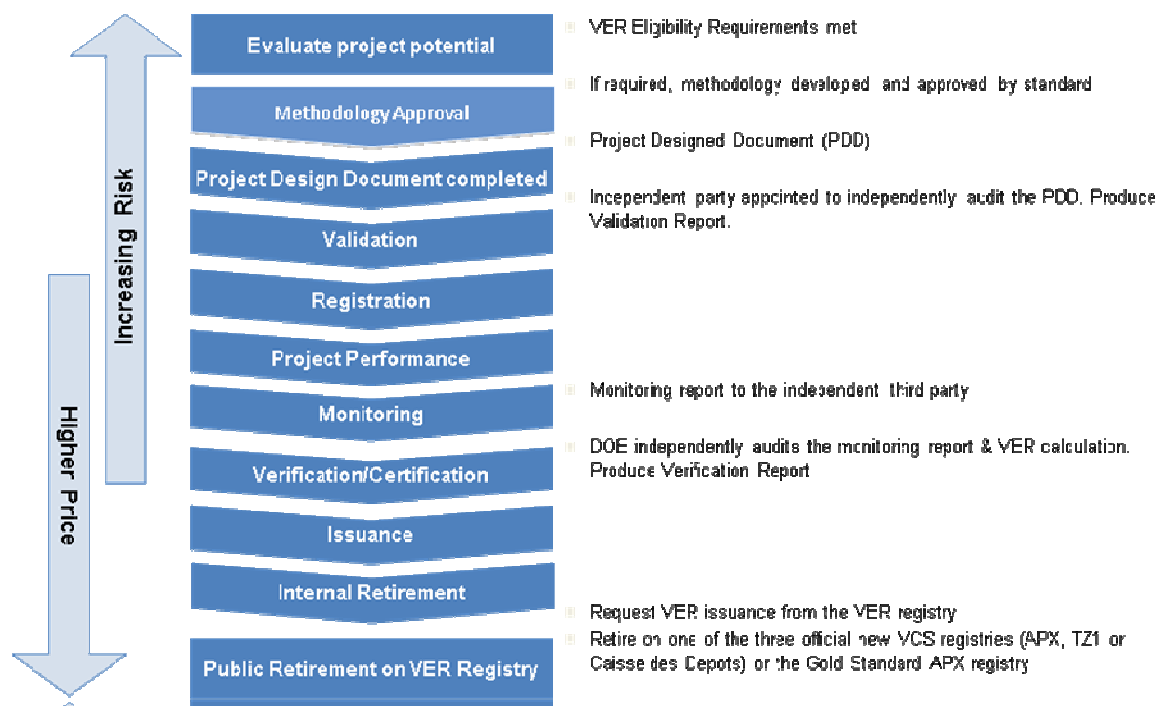
<sup>1</sup> Correct as stated at January 2010.

## Part 2: ClimateCare Project Processes

ClimateCare projects follow the same robust process of design, monitoring and independent verification as set down by the UN's Clean Development Mechanism.

The diagram below shows the steps involved in the project cycle from its conception through to retirement on a registry.

### The Project Cycle



### Additionality tests

All our projects must demonstrate that they would not have been developed without the benefit of carbon finance. This is known as 'additionality'. For its additionality assessment ClimateCare uses the rules established by the recognised voluntary standards. These rules typically follow the guidelines published by the UNFCCC for CDM projects. The UNFCCC publishes two sets of additionality tests, one set each for large and small scale projects. These guidelines can be viewed here:

[http://cdm.unfccc.int/methodologies/PAMethodologies/AdditionalityTools/Additionality\\_tool.pdf](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 emission 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;

- A description of the project
- Projected emissions occurring in absence of project (baseline methodology)
- Demonstration of how Greenhouse Gas (GHG) emissions are reduced by the project below what would otherwise occur (additionality)
- Calculation of projected reductions in GHG emissions (methodology)
- Method of monitoring actual GHG emission reductions (monitoring methodology)
- Projected impact on sustainable development.

This document is then 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.

All independent auditors must be approved by the relevant standard and are unable to participate in any other way in the carbon market, thus maintaining independence. Where possible we endeavour to use a Designated Operational Entity (DOE), which are UN-approved organisations designed to act as auditors on Kyoto projects.

## **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 total emission reductions will be.

Where appropriate, we will use a baseline methodology as approved by the UNFCCC for the CDM or by the relevant voluntary standard. 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 and is checked by an independent third party during validation.

## **Phase Two**

Once the PDD has been validated it will be submitted for registration to the appropriate standard. After this point any emission reductions achieved can be claimed for final issuance.

The second phase of the project involves the longer term monitoring of the project, which is when the difference between the baseline emissions and actual emission reductions are measured.

Detailed records are maintained following the requirements of the PDD for monitoring. A monitoring report is periodically produced demonstrating the project's compliance with the PDD during that period and calculating the volume of emission reductions achieved.

This report is then audited by one of the independent organisations, typically a DOE, through a process called verification. The function of the independent entity is to confirm that the emission reductions actually happened, the monitoring was carried out correctly and the methodology for calculating credits correctly applied. Typically we expect annual verification to be achieved within 6 months after the vintage year specified, although it can take longer depending on the complexity of the project and the capacity of the auditor.



Only when this report has been verified can credits be finally issued by the standard onto an approved registry. At this point any VERs sold as offsets can be retired on the registry.

## **Retiring your credits**

ClimateCare operates an internal management system to control the delivery of your emission reductions.

The voluntary market has developed rapidly over the last decade, with the emergence of several robust standards. 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 degree of assurance can be provided for voluntary market credits, the standards ClimateCare supports have developed independent registries. All new VERs are now managed through these registries, which currently includes the Gold Standard registry and VCS registries hosted by APX, Markit and Caisse des Dépôts.

The VCS VER database can be publically viewed here:

<http://www.vcsprojectdatabase.org/resources/AccessReports.asp>

The Gold Standard VER database can be publically viewed here:

<http://goldstandard.apx.com/resources/AccessReports.asp>

ClimateCare will retire issued VERs upon request in these external registries.

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