Forest Carbon Partnership Facility

Operationalizing the ER Program Buffer

Tenth Meeting of the Carbon Fund (CF10)

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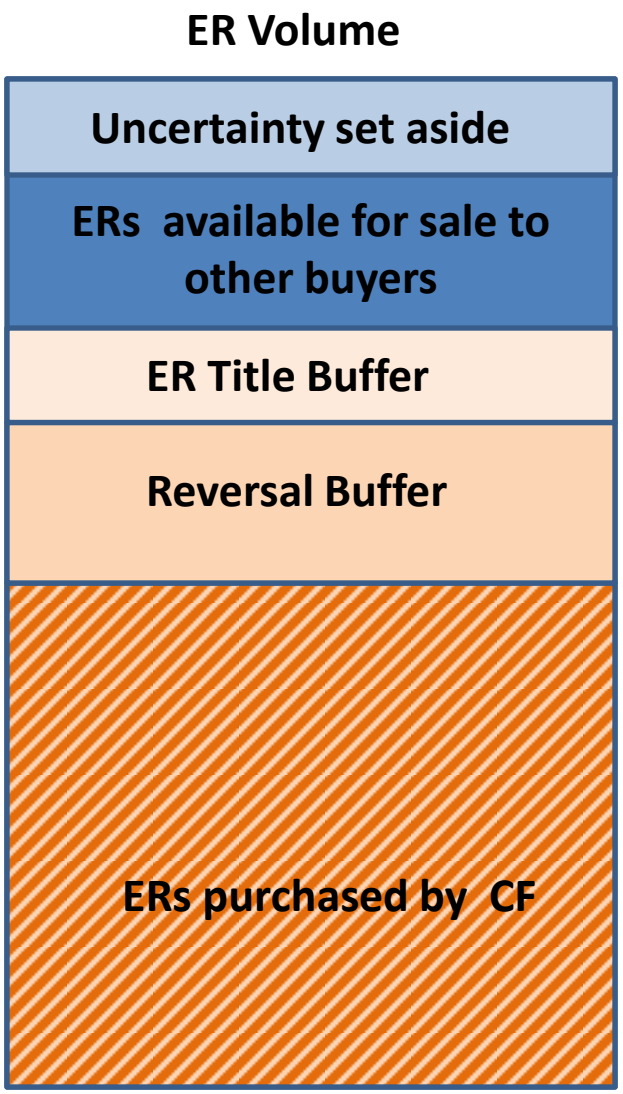
FOREST CARBON PARTNERSHIP FACILITY

ER Program Buffer

- A mechanism to reserve (or set aside) verified ERs generated in the ER Program Accounting Area in a separate account to cover the following risks:
  1. Reversals,
     - The amount of ERs set aside to cover potential reversals during the term of the ERPA, based on an ER reversal risk assessment
     - After the term of the ERPA, ER Programs will have their own reversal risk management system
     - A minimum set aside of 10% and a maximum set aside of 40% of the ERs generated, verified and transferred to the Carbon Fund (CF) at each time of ER transfer
  2. Measurement uncertainty, and
     - The amount of ERs set aside determined by applying a "conservativeness factor" that reflects the measurement uncertainty of calculated ERs
  3. Disputes to ER title.
     - The volume of set aside to reflect the risk associated with the ER Program's ability to transfer ERs without dispute to ownership
- The set asides for each buffer will be separate from one another.
- Each ER Program will have its own program-specific buffers

Buffers foreseen in the Methodological Framework



- Determine the total ER Volume – subtract the reported and verified emissions and removals from the Reference Level.
- Set aside a number of ERs to reflect the level of measurement uncertainty associated with the estimation of ERs (percentage of ER Volume)
- CF will buy percentage of the ER Volume
- Set-aside ERs to deal with risk of Reversals of ERs purchased by the CF (percentage of ERs purchased by and transferred to CF)
- Set-aside ERs to deal with risk associated with ERs purchased by the CF (percentage of ER purchased by and transferred to CF)
- Remaining ERs available for other use, e.g., sold to other buyers

Key Objectives

- Facilitate sustainable program design and implementation
- Provide confidence in the environmental integrity of the ER Program
- Use “simplified” approach to determine buffer size
  - For reversal buffer, create three risk levels
    - Green: 15% set aside
    - Yellow: 25% set aside
    - Red: 35% set aside
  - For uncertainty buffer, use set-aside levels from MF (Criterion 22)
  - For title buffer – to be determined

Two Parts to the ER Program Buffer Guidelines

1. Modalities and Procedures
   - A description of rules and processes:
     - How the buffers will work,
     - Role and responsibilities,
     - Timing,
     - Other matters
   - Applicable to all three buffers

2. Risk Assessment Tool
   - A resource to determine the level of ERs that will be set-aside for each ER Program
   - Applicable to ER Reversal and ER Title buffers
     - For uncertainty buffer, standard calculation procedures exist (IPCC) and a table is in MF – i.e., Criterion 22.

Next Steps

- Develop operational processes for the Modalities and Procedures
  - When are ERs put in the buffer?
  - Where will the buffer be held?
  - How can ERs be released from the buffer and based on what?
  - Address other outstanding issues, e.g.,
    - How to incorporate WB Standardized Operational Risk-rating Tool (SORT)
    - Require buffer replenishment after reversal?

- Produce guidance for the Risk Assessment Tools
  - For instance, ER Reversal risk categories
    - Natural risk
    - Governance and political risk
    - Design risk
    - Operational risk
    - Market risk (i.e., commodity market)

- Registries
  - FMT to continue to develop specifications, including incorporating buffers
  - FMT exploring registry options based on existing CFU infrastructure

THANK YOU!

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