

Voluntary Carbon Standard

Voluntary Carbon Standard Program Guidelines

18 November 2008

VCS

**VOLUNTARY
CARBON
STANDARD**

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1 INTRODUCTION AND SCOPE OF THIS DOCUMENT

1.1 Scope

This document provides an overview of the Voluntary Carbon Standard (VCS) Program (hereafter the “VCS Program”) and describes the rules and procedures that regulate the operation of the VCS Program. Specifically, it defines the rules governing the interaction between the validators and verifiers, project developers, Voluntary Carbon Unit (VCU) buyers and traders, VCS Registries, GHG Programs seeking recognition by the VCS Program and the VCS Secretariat and Board.

1.2 Other Languages

The operating language of the VCS Program shall be English. The VCS Program documents may be translated into other languages to facilitate local approved use. However the English version of VCS Program documents shall take precedent over any foreign language translations and the interpretation of the English versions of the VCS Program documents shall supersede any other language versions.

1.3 Updates and Official Communications

The VCS Association will issue edition updates to VCS Program documentation from time to time. Annex 1 to these Program Guidelines 2007.1 will be continually updated to contain the VCS Program documentation edition updates. These updates will be sent to all VCS Program approved validators and verifiers as official communications, and will form part of the normative document that must be followed (see normative document list in clause 3.3 below). Each update will state the dates that the updates come into force and the date that the previous edition becomes obsolete.

The VCS Program Guidelines 2007.1 was released on 18 November 2008 and becomes the applicable version with immediate effect. The VCS Program Guidelines 2007 may be used up to and including 31 December 2008 and becomes obsolete thereafter.

1.4 Definitions

Definitions as set out in ISO 14064-2:2006, ISO 14064-3:2006, ISO 14065:2007¹ and the Voluntary Carbon Standard 2007.1 shall apply to the VCS Program Guidelines 2007.1.

1 ISO standards can be purchased from www.iso.org

2 OBJECTIVES AND PRINCIPLES

2.1 VCS Program Objectives

The VCS Program provides a robust global standard, program framework and institutional structure for validation and verification of voluntary GHG emission reductions or removals. The VCS Program aims to:

- Standardize and provide transparency and credibility to the voluntary carbon market by establishing the VCS Program as a rigorous, global standard for voluntary GHG emission reductions and removals and create a trusted and fungible voluntary GHG emission reduction and removal credit; the VCU;
- Experiment and stimulate innovation in GHG mitigation technologies and validation, verification and registration processes and offer lessons that can be build into other programs and regulations;
- Provide a secure, custodial service for all VCUs that offers assurance against double counting and provides transparency to the public; and
- Provide assurance for investors, buyers and other users that the VCUs they are purchasing are real, additional and permanent.

2.2 VCS Program Criteria for GHG Projects

VCUs validated and verified under the VCS Program must meet the following principles:

2.2.1 Real

All the GHG emission reductions and removals and the projects that generate them must be proven to have genuinely taken place.

2.2.2 Measurable

All GHG emission reductions and removals must be quantifiable using recognised measurement tools (including adjustments for uncertainty and leakage) against a credible emissions baseline.

2.2.3 Permanent

Where GHG emission reductions or removals are generated by projects that carry a risk of reversibility, adequate safeguards must be in place to ensure that the risk of reversal is minimized and that, should any reversal occur, a mechanism is in place that guarantees the reductions or removals will be replaced or compensated.

2.2.4 Additional

Project-based GHG emission reductions and removals must be additional to what would have happened under a business as usual scenario if the project had not been carried out.

2.2.5 Independently verified

All GHG emission reductions and removals must be verified to a reasonable level of assurance by an accredited validator or verifier with the expertise necessary in both the country and sector in which the project is taking place.

2.2.6 Unique

Each VCU must be unique and should only be associated with a single GHG emission reduction or removal activity. GHG Programs must contain checks to ensure that double counting of reductions and removals – in mandatory or other voluntary markets – does not take place.

2.2.7 Transparent

Publicly disclose sufficient and appropriate GHG related information to allow intended users to make decisions with reasonable confidence.

2.2.8 Conservative

Use conservative assumptions, values and procedures to ensure that the GHG emission reductions or removals are not over-estimated.

3 OVERVIEW OF THE VCS PROGRAM

3.1 History

The Climate Group, the International Emissions Trading Association (IETA) and the World Business Council for Sustainable Development are the partner organizations that founded the VCS Program. The World Economic Forum also partnered in development of the Program for part of the process. Version 1 of the VCS was released on 28 March 2006 as both a consultation document and a standard for use by the market. VCS Version 2 was released in October 2006 as a consultation document and did not replace Version 1 as the applicable standard. After two years of work, two public consultation rounds, 150 written submissions, 12 months work from a 19 member Steering Committee, seven technical working groups, and consultation with approximately 1000 stakeholders, the VCS 2007 was released on 19 November 2007. The VCS 2007.1 was released on 18 November 2008.

3.2 Scope

The VCS Program provides the standards and framework for independent validation and verification of GHG emission reductions and removals based on ISO 14064-2:2006 and ISO 14064-3:2006. The scope of the VCS Program covers all those activities related to the generation of GHG emission reductions and removals. The scope does not cover company carbon footprints or carbon neutral claims.

Participation is voluntary and based on objective criteria. The VCS Program is not discriminatory to validators and verifiers, registries, project proponents, buyers and other GHG Programs seeking recognition under the VCS Program.

3.3 Program Documents

The VCS Program consists of set of normative documents. These include:

- These Program Guidelines 2007.1 which provide rules for project proponents, validators and verifiers governing:
 - The Voluntary Carbon Standard (VCS) 2007.1
 - Tools for AFOLU Project Activities containing guidance regarding:
 - Non-Permanence Risk Analysis and Buffer Determination
 - Methodological Issues
 - VCS Project Description and template for validation and verification reports
 - Group projects
 - Project registration
 - VCS terms and conditions for project proponents and validators and verifiers
- The VCS Gap Analysis Methodology including process for linking with other GHG Programmes

3.4 VCS Program Revision

The VCS shall be updated on periodic basis, as developments require. The VCS Program review process will be announced on www.v-c-s.org.

3.5 Roles and Responsibilities

3.5.1 Project Proponent

Project proponents are those bodies that establish and operate GHG projects in accordance with VCS Program requirements. This includes providing a VCS PD, monitoring plan and report and proof of title for validation and verification.

3.5.2 Validator and Verifier

Validators and verifiers are accredited to:

- validate and verify GHG projects; and
- validate new GHG project methodologies, baseline and additionality performance standards

The list of VCS approved validators and verifiers organized by the sectoral scopes and geographies for which they are approved is available on www.v-c-s.org. All validators and verifiers must sign the VCS validation and verification agreement with the VCS Association before they can perform any validations and verifications in connection with the VCS Program.

Validators and verifiers are only eligible to carry out work for the project scopes and geographies that they are accredited for.

Micro projects can be validated and verified by micro project validators and verifiers not accredited by an approved VCS Program when they meet the requirements outlined in the VCS 2007.1. A minimum of the first five verification reports from the micro verifier must be reviewed by an approved VCS validator or verifier. The project proponent must cover the costs of all verifiers.

Once a micro project verifier has successfully undertaken 5 validations or verifications, it will be able to apply to the VCS Secretariat for permission to no longer need the review by a VCS approved validator or verifier. The VCS Secretariat will then approve the small project verifier within a given scope. The small projects verifier must have a minimum of three successful verification reports to establish competency in a given scope.

It is up to the VCS accredited validators or verifiers reviewing the micro project validator or verifier work to ensure that the micro project validator or verifier meets the requirements of VCS 2007.1. The VCS Secretariat will be responsible for reviewing the performance of micro project validators and verifiers. The review process will be outlined and announced on www.v-c-s.org.

3.5.3 Registry Operator

VCS Registry operators are those bodies that operate approved VCS Registries. VCS Registry operators are responsible for: verifying that all required VCS documents have been submitted to the registry; issuing and maintaining accounts of VCUs for account holders; tracking and reporting the deposit/withdrawal of buffer credits to/from the centrally managed AFOLU Pooled Buffer Account; and maintaining custody and records of VCU original legal ownership.

3.5.4 Buyers

Buyers are companies, organizations or individuals who purchase VCUs.

3.5.5 VCS Association

The VCS Program is managed by the VCS Association. The VCS Association is

an independent, non-profit, association that legally represents the VCS Secretariat and Board. The VCS Association is registered as an Association under Swiss Law. The VCS Program has its own Secretariat which is responsible for responding to stakeholder queries, liaising with the media, entering into contracts, managing relationships with VCS Registry operators and accreditation bodies and managing the VCS website and VCS Project Database. The VCS Secretariat will not be responsible for approving or rejecting projects, new baseline, monitoring or additionality methodologies or making decisions about accreditation of validators and verifiers.

The Board can request that the VCS Secretariat be strengthened by Technical Advisory Groups (TAGs). The TAGs shall provide detailed technical recommendations to the Board on issues related to the VCS Program and its requirements. The Agriculture, Forestry and Other Land-Use (AFOLU) TAG has provided this role through the VCS 2007.1 development process. A full list of TAGs can be found on www.v-c-s.org.

4 RULES

4.1 Rules

The VCS Program Guidelines 2007.1 establish the rules applicable to validators and verifiers approved under the VCS Program to validate and verify GHG projects. Project proponents can be any of the following:

4.1.1 Individual GHG Project

A project is a measure, operation or an action that aims at reducing or removing GHG emissions.

4.1.2 A Group of GHG Projects

Any combination of GHG projects or project categories that meets the requirements of the VCS 2007.1 (See clause 5.2 below).

4.2 Licenses and Agreements.

Rights and obligations for validators and verifiers, project proponents and registry operators are set out in the agreements signed with the VCS Association. The VCS Association issues licences to approved validators and verifiers, who are thus empowered to issue validation and verification statements of compliance against the VCS standard.

The VCS Board reserves the right to sanction validators and verifiers, project proponents and registry operators based on evidence of an improper procedure.

5 OPTIONS FOR VALIDATION & VERIFICATION

Project Proponents can achieve validation and verification for their GHG Project under any one of the two options described below.

5.1 OPTION 1: Individual Validation and Verification of a GHG Project

Any single GHG Project that meets the VCS 2007.1 requirements can be registered. Projects are divided into three groups:

- micro projects: under 5,000 tCO₂-e per year;
- projects: 5,000 – 1,000,000 tCO₂-e per year; and
- mega projects: greater than 1,000,000 tCO₂-e per year.

Verification requirements differ depending on the project size.

5.2 OPTION 2: Grouped Projects

Any combination of GHG projects or project categories that meets the requirements of the VCS 2007.1 can be registered as a grouped project.

A grouped project can include one or more sub-groups, for example a combination of project categories or projects, as long as each sub group retains its distinctive characteristics. A grouped project shall have one central GHG information system and controls associated with the project and its monitoring. It is anticipated that such central GHG information system and controls will include items identified in ISO14064-3:2006, clause 4.5.

The sampling done by the verifiers differ depending on the number of subgroups and projects in each sub group and will be amended based on the ongoing findings from the verification. The sampling shall as a minimum meet the sampling requirements set out under IAF Guide to ISO/IEC Guide 66:1999.

6 VCS REGISTRATION

6.1 Registration Steps

A flowchart summarizing the VCS Program project approval process is at Annex 2. The registration steps are:

6.1.1 Step 1

The project proponent submits its VCS project description, monitoring plan and reports, proof of title and if already available a validation report and other information required to the VCS Program accredited validation and verification body.

6.1.2 Step 2

An accredited VCS Program validator or verifier then assess the claim against the VCS 2007.1 and produces:

- a validation report - validation of the VCS PD including an assessment of additionality;
- a verification report - report of a periodic formal independent review and ex-post determination of the monitored GHG emission reductions and removals, which includes a written assurance (verification statement) issued by the VCS Program verifier that the GHG emission reductions and removals have been achieved in accordance with the VCS. For AFOLU projects the verification report shall also confirm the project's non-permanence risk rating and the amount of credits that must be deposited in the AFOLU Pooled Buffer Account

6.1.3 Step 3

The project proponent opens a VCS Registry account, including submitting a signed copy of the VCS Program Terms and Conditions, and then submits the VCS PD, validation report, monitoring report, verification report and proof of title to the VCS Registry operator.

6.1.4 Step 4

The VCS Registry operator checks the documentation submitted under Step 3 to ensure that the required VCS Program documents have been submitted. If the VCS Registry operator is satisfied, it submits electronic copies of these documents to the VCS Project Database and requests VCU serial numbers for the VCUs.

Projects that received an up-front validation, but have not had any GHG emissions reductions or removals verified can volunteer to be recorded on the VCS Project

Database in line with the normal VCS Program requirements.

6.1.5 Step 5

The VCS Project Database checks that the project has not been previously registered under the VCS Program, by searching to see that the project's GPS boundaries have not been registered in the VCS Project Database. It then issues VCU serial numbers to the VCS Registry, logging these on the VCS Program Project Database along with project documentation. In case of AFOLU projects, the VCS Registry in which the project is registered deposits the appropriate amount of credits, as indicated in the approved verification report into the AFOLU Pooled Buffer Account.

The VCS Registry operator requests and receives payment from the project proponent of the VCS Registration Levy.

6.1.6 Step 6

The VCS Registry deposits any original documentation submitted under Step 3 into custodial service. The VCS Registry issues VCUs into the account of the project proponent.

6.2 VCS Registration Levy

The VCS Secretariat charges a registration levy to cover administration costs. The levy is currently set at €0.04 for every VCU issued. The fee must be paid before VCUs shall be issued by a VCS Registry. VCS Registries will make additional charges for their services and these are separate from the VCS Registration Levy.

7 VCS PROJECT DATABASE

The VCS Registries are supported by a central project database, the VCS Project Database. The VCS Project Database lists each approved VCS Program project including providing a unique serial number for the project's VCUs.

The VCS Project Database provides access to the physical documentation pertaining to registered projects. At a minimum this will include the VCS PD and validation and verification reports. Commercially sensitive information will be protected as described in VCS 2007.1.

The VCS Project Database provides the main interface for public access. Users will be able to search the database to locate VCS Program projects as well as confirm the cancellation of VCUs. Stakeholders will be able to search for the unique VCU numbers and verify whether this VCU has been cancelled or not. They will not be able to verify who owns the VCU.

7.1 AFOLU Pooled Buffer Account

The VCS project database also contains the AFOLU Pooled Buffer Account with non-tradable AFOLU carbon credits.

If a project fails to submit a verification report to the VCS within five years from its latest verification, 50% of the credits associated with its buffer will automatically be cancelled. If the project fails to submit a verification report to the VCS within a further five years, all of its remaining buffer credits will be cancelled. If no subsequent verification has been presented within a period of 15 years, and the crediting period of the project has not yet expired, buffer credits are cancelled from the AFOLU Pooled Buffer Account for an amount equivalent to the total number of tradable credits issued to the project.

The AFOLU Pooled Buffer Account is subject to a periodic "truing up". Operational procedures for the "truing up" will be defined by the VCS Board within two years after the

first issuance of VCUs generated by AFOLU projects. Truing up will be based on a review of existing VCS AFOLU verification reports under the VCS and an assessment of how projects are actually performing. This process will flag the projects that have failed or underperformed and then identify their common characteristics. The buffer values and/or risk criteria for VCS AFOLU projects going forward will then be adjusted accordingly, so that there is always a net surplus of carbon credits in the overall buffer after subtracting the actual losses from projects.

8 VCS APPROVED REGISTRIES

8.1 VCS Registries

Only registries approved by the VCS Association can issue VCUs. The approved list of VCS registries and the process by which they are approved is available on www.v-c-s.org.

9 APPEALS

9.1 Appeal process

There will be an appeal process for cases where project proponents feel that the validator or verifier have misinterpreted the VCS Program and all avenues of discussion with the validator or verifier have been exhausted. The VCS Association will commission an independent consultant to perform this review. The independent consultant will be selected by the VCS Secretariat and paid for by the project proponent demanding the review. All final decisions on the appeal will be made by the VCS Board.

10 VCS RECOGNITION OF OTHER GHG PROGRAMS

The VCS Program aims to build on and recognise other credible GHG Programs. Projects approved under an approved GHG Program can choose to have their GHG emission reductions or removals transferred into VCUs.

10.1 Gap Analysis Methodology

The approval of other GHG Programs is based on the principle of full compatibility with the VCS Program.

This will be determined based on a gap analysis that verifies that the GHG emission reductions or removals approved under the GHG Program are fully compatible with VCUs created under the VCS Program. A copy of the gap analysis methodology that schemes are assessed against is available at www.v-c-s.org.

10.2 Gap Analysis Process

Other GHG Programs must apply to be approved under the VCS Program. The initiation of the gap analysis could come from other interested parties as long as they provide relevant documentation in relation to the GHG Program and are endorsed to do so by the GHG Program.

The onus is on the GHG Program to prove that they meet the VCS Program criteria. The costs of the verification are borne by the GHG Program or whoever initiates the gap analysis. The applicant prepares and submits an evidence pack demonstrating how the GHG Program is in compliance with the relevant requirements of the VCS Program. The VCS Association then selects a qualified team who will use the evidence pack to verify compliance with the VCS Program. The team may seek additional evidence and information from the GHG Program.

GHG Programs do not have to translate their Program document into English, but the gap analysis report shall be produced in English and the association carrying out the verification shall be able to interact in both languages fluently.

10.3 Outcomes of the Gap Analysis

Based on the gap analysis report the VCS Board will make a decision to adopt the full GHG Program, elements of the program or reject the program.

The team's report will be made public when a decision has been made by the VCS Board.

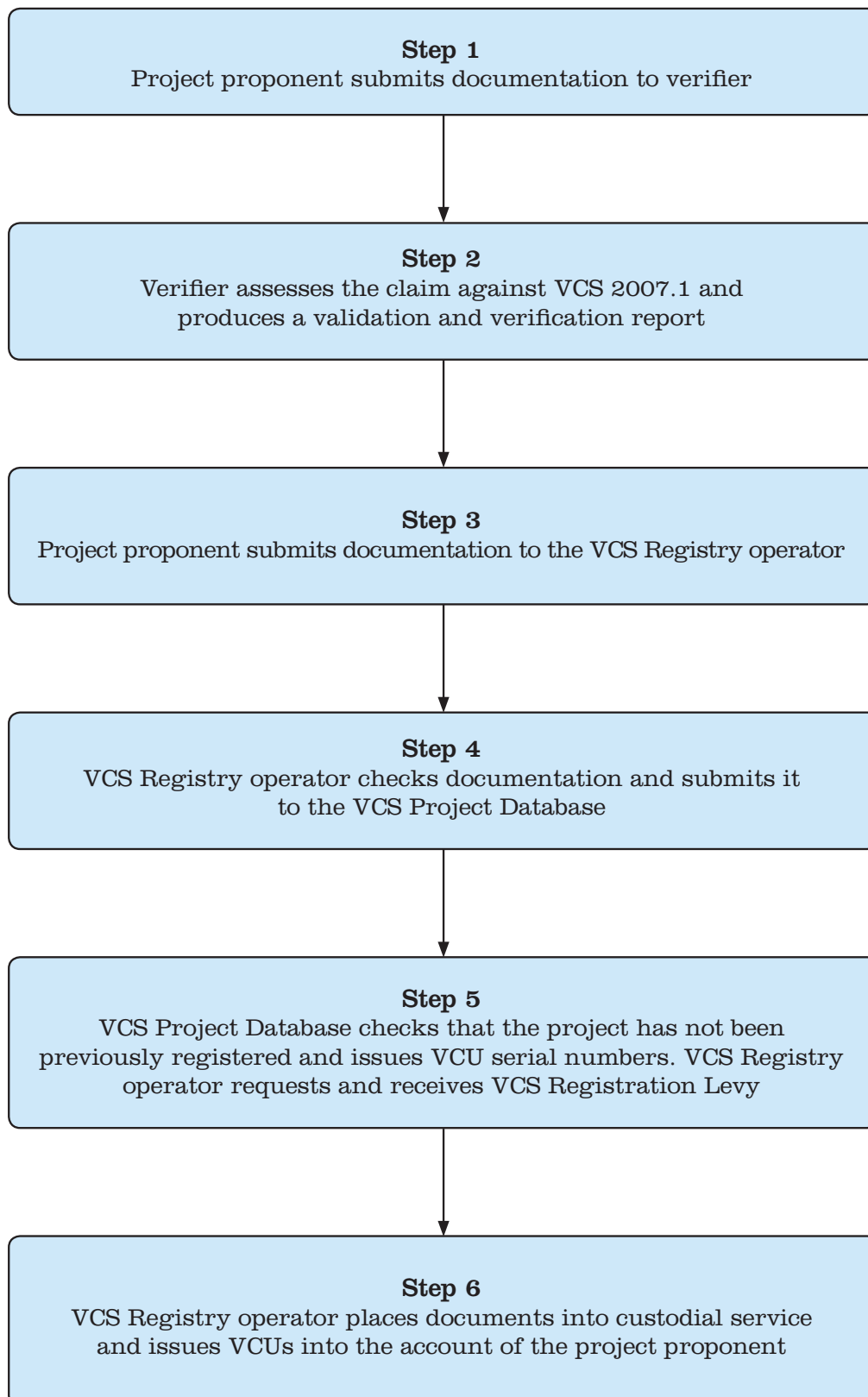
10.4 Review of VCS Approved GHG Programs

Approved GHG Programs are reviewed annually by the VCS Secretariat. Any changes made by an approved GHG Program which may effect their compatibility with the VCS Program will have to be communicated immediately to the VCS Board. In the event that the VCS Board considers that the changes will lead to a non-compliance with the VCS Program requirements the VCS Board may decided to suspend its recognition of the approved GHG Program temporarily or indefinitely. Any projects approved under the GHG Program prior to its changes will not be effected by the decision of the VCS Board.

11 ANNEXES

Annex 1 – VCS Program Documentation Edition Updates

1. Voluntary Carbon Standard 2007.1; 18 November 2008
2. Program Guidelines 2007.1; 18 November 2008
3. VCS Guidance for Agriculture, Forestry and Other Land Use Projects; 18 November 2008
4. Policy Announcement from VCS Association: VCS 2007 Validation Date Deadline; 10 September 2008
5. Policy Announcement from VCS Association: Update on VCS Registries; 22 August 2008
6. Policy Announcement from VCS Association: Further Guidance for Projects that are Registered in Two GHG Programs; 19 March 2008
7. Policy Announcement from VCS Association: Temporary Accreditation of VCS Validators and Verifiers; 19 March 2008

Annex 2 - VCS Project Process Flowchart

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