Revision to Scope of VCS Program

1 ABSTRACT

Over the past ten years, projects certified under the VCS Program have prevented millions of tonnes of greenhouse gasses from entering the atmosphere and have benefited communities around the world. During this time, it is clear that carbon finance has played a constructive role in helping projects to overcome implementation barriers. As a result, some of the project types that have been supported through carbon finance have gained a foothold and increased their competitiveness with emissions-intensive alternatives. Because of these successes and the evolving nature of technology, Verra believes it is prudent to periodically assess whether certain classes of project types have moved beyond their need to rely on carbon instruments as a source of critical, early-stage finance, suggesting that such project types may no longer need carbon finance and therefore should no longer be eligible under the VCS Program.

Given the above, Verra has completed a review of varying perspectives on key determinants of additionality as they relate to project types currently eligible under the scope of the VCS Program. This review has identified certain project types which, under certain contexts described below, have moved beyond their need to be supported by carbon financing and therefore should no longer be eligible under the VCS Program. Accordingly, Verra seeks comment on its consideration to revise the scope of the VCS Program to exclude such project activities from future eligibility[1].

2 BACKGROUND

The most important objective of the VCS Program is to ensure the environmental integrity of the Verified Carbon Units (VCUs) it issues. Additionality is, of course, a key part of environmental integrity. Accordingly, where certain project types have moved beyond their need to be supported by carbon financing, it is not appropriate for Verra to continue supporting such project types.

Verra has noted that certain project types are becoming less dependent on carbon finance as a necessary catalyst for development. For example, renewable energy has represented a significantly larger proportion of global growth in net electricity generating capacity over the past ten years than other forms of power generation[2]. Other project types currently eligible under the VCS Program are seeing similar uptake and success in the absence of carbon financing.

Verra believes that, to maintain the integrity of the VCS Program, it must be conservative in determining the project activities that should continue to be eligible under the VCS Program. As a

[1] Verra is aware of the ongoing negotiations under Article 6 of the Paris Agreement, which may provide an alternative lens for conceptualizing project additionality. Verra would consider accepting such Article 6 additionality rules once they are in force, but in the meantime is considering this approach.

[2] https://www.iea.org/media/publications/mtrmr/Renewables2017ExecutiveSummary.PDF

result, Verra has undertaken an extensive literature review to assess current perspectives on the likely additionality of project types currently eligible under the VCS Program. The objective of this review was to assess whether certain project types currently eligible under the VCS Program have moved beyond their need to be supported by carbon finance. At a high level, key determinants for this assessment included, *inter alia*:

- An activity's cost-competitiveness with more emissions-intensive alternatives;
- The impact of carbon revenue on an activity's finances;
- The prevalence or common practice of the activity; and
- Current or prospective state and regulatory support for certain activity types.

Out of that review, Verra identified certain classes of activities which, for a large proportion of projects under particular circumstances, are moving beyond their need to be supported by carbon finance, and we list those in Section 3 below. Verra is considering excluding such activities from future eligibility under the VCS Program. It is important to note that Verra appreciates that such an approach will lead to the exclusion of certain truly additional projects from registering with the VCS Program. However, Verra believes that ensuring the environmental integrity of VCUs issued under the VCS Program justifies this approach.

3 PROPOSAL

Verra is considering to revise the scope of the VCS Program such that those activities identified with a red "X" in the table below would be excluded from future eligibility under the Program. Activities indicated with a green checkmark, and any activities not listed in the table, would remain eligible.

Activity	Non LDC/SIDS		LDC/SIDS	
	Large Scale	Small Scale	Large Scale	Small Scale
Grid-connected hydro	X	X	X	✓
Grid-connected geothermal, solar, wind	X	X	✓	✓
Waste heat	X	X	✓	✓
Fuel switch, biomass	X	X	✓	✓
Fuel switch, fossil fuels	X	X	✓	✓
Energy efficient lighting	X	✓	✓	✓
Energy distribution	X	✓	✓	✓

Note that the table above sets out a number of relevant conditions which include the project scale (i.e., either large or small scale, as defined in the *CDM project standard for project activities*[3], and which Verra's research indicates is relevant to project reliance on carbon financing) and the project location (i.e., within a country designated by the United Nations as a Least Developed Country (LDC) or Small Island Developing State (SIDS), for which Verra's research indicates that economic circumstances are sufficiently distinct to warrant differentiated project type eligibility). In addition, Verra is considering differentiating between grid-connected electricity generation and off-grid electricity generation.

Note that registered projects and projects that apply for registration within three (3) months of such revision to the scope of the VCS Program (anticipated mid-October 2018, consistent with the release of VCS Version 4) would remain eligible under the VCS Program and may participate under the Program for the entirety of their renewable crediting periods. Following such grace period, the project types listed in the table above would no longer be eligible to request registration.

Verra is requesting feedback on the following:

- Would such an approach help ensure the integrity of the VCS Program, specifically by ensuring that only additional projects are approved under the Program?
- Does the approach of excluding the above-mentioned project activities accurately reflect changes in costs, financing needs and adoption rates of the targeted technologies?
- Is the list of project activities included above complete, or are there activities included on the list that should be considered differently?
- Is the categorization of activities under project scale, grid connection status and LDC/SIDS circumstances reasonable and workable?
- Does the relative status of a country being an LDC or SIDS justify the distinctions set out above?
- Is there a better way for Verra to take account of a host-country's policy context with regard to the targeted technologies or sectors (i.e., whether a technology/sector is inside or outside a host's NDC)?

[3] Large scale is considered to be greater than 15MW of maximum output capacity for renewable energy activities, greater than 15MW(e)/45MW thermal output for *fuel switch, biomass activities*, greater than 60GWh(e)/180GWh(t) of maximum energy saving in a year for waste heat, energy-efficient lighting and energy distribution activities, and greater than 60kt CO_2e per year of emission reductions for *fuel switch, fossil fuels activities*. Small scale is considered to be less than those capacities.