



T H E C L I M A T E T R U S T

2 0 0 1 A N N U A L R E P O R T

## Our Mission

The Climate Trust promotes climate change solutions by providing high quality greenhouse gas offset projects and advancing sound offset policy.

## Our Vision

- The Climate Trust will be a global *leader* and *innovator* in the emerging offset market.
- The Climate Trust will act in the *public interest*, and apply high standards of *integrity* to its environmental benefits and business dealings.
- The Climate Trust will pursue *cost effectiveness* and consider environmental, economic, and social *co-benefits* when selecting offsets.
- The Climate Trust will inject creativity into the offset market by *encouraging innovative* offset technologies, financing mechanisms, and participation of organizations not traditionally involved with climate change.
- The Climate Trust will involve itself with *reliable* partners in projects with *measurable* results.
- The Climate Trust will accomplish its aims by employing *partnerships* and by *leveraging* its funds and its market leader position.
- The Climate Trust will offer *practical* and *user-friendly* solutions to its customers.

## Message from the Chair

In response to citizen concerns about rapid climate change, in 1997 Oregon enacted the first legislation in the United States aimed at reducing greenhouse gas emissions. Since then, new power plants in the state have been required to offset a significant portion of their carbon dioxide emissions by funding projects that reduce atmospheric carbon dioxide levels. A key innovation in the regulation allows power companies to meet this requirement by providing funding to a non-profit organization, which uses the funding to purchase high quality carbon dioxide offsets. The need for such an organization led to the formation of The Climate Trust.

The Climate Trust's core program uses money provided by new Oregon power plants to fund projects that avoid, displace, or sequester carbon dioxide. The offsets from these projects are *retired*, or held in trust for the benefit of the environment. With this, our first annual report, we are pleased to announce the completion of our initial offset portfolio under our Oregon Power Plant Offset Program. As we go to press, The Climate Trust is finalizing its second offset portfolio. This will bring our total under this program to 3.5 million metric tons of carbon dioxide offsets purchased from twelve projects at a cost of seven million dollars.

The Climate Trust's public interest goals extend beyond regulatory compliance under the Oregon Power Plant Offset Program. We are also developing additional voluntary programs to assist business, government, and non-profits in meeting their greenhouse gas offset goals, create high quality supply for the emerging offset market, establish innovative mechanisms for leveraging offset funding, and encourage sound offset policy nationally and internationally. This annual report describes some of the initial successes of our Greenhouse Gas Partnership Program.

The accomplishments of The Climate Trust testify to its three vital roles in the creation of a global offset market. First, we are using our core program funding to counter the harmful impacts of climate change, maximize greenhouse gas reductions, demonstrate the viability of offsets, and encourage innovative offsets. Second, we are applying our expertise in offsets to expanding and enhancing the emerging offset market. Finally, we are serving the public interest by sharing our unique experience and promoting high quality standards for the offset market. For the benefit of our fragile environment and our threatened global community, The Climate Trust is committed to providing leadership in the emerging offset market by promoting and implementing viable climate change solutions.



*Diana Bodtker*

Diana Bodtker  
2001 Board Chair

## History of The Climate Trust and the Oregon Carbon Dioxide Standard

The Climate Trust (the Trust) came into existence in July 1997, in the wake of a groundbreaking law enacted that year by the State of Oregon. House Bill 3283 was the first legislative action in the United States to control carbon dioxide (CO<sub>2</sub>), the most prevalent global warming pollutant. HB 3283 requires new energy facilities built in the state to avoid, sequester, or displace a significant portion of their carbon dioxide emissions.

Under the law, new gas-fired power plants with a capacity greater than 25 megawatts, and certain other energy facilities, must meet a net emissions rate of 0.675 pounds of CO<sub>2</sub> per kilowatt-hour. The net emissions rate is adjusted periodically to meet a level that is 17% below the most CO<sub>2</sub>-efficient gas-fired power plant commercially operating in the United States. A plant developer may choose to meet part or all of its reduction target by making a one-time, lump sum payment of mitigation funds to the Trust to offset the emissions over the life of the power plant. In turn, the Trust must use the funds to carry out projects that avoid, sequester, or displace the carbon dioxide that the plant will emit in excess of the required standard. The Trust retires the tons acquired under the Oregon standard for the benefit of the environment.

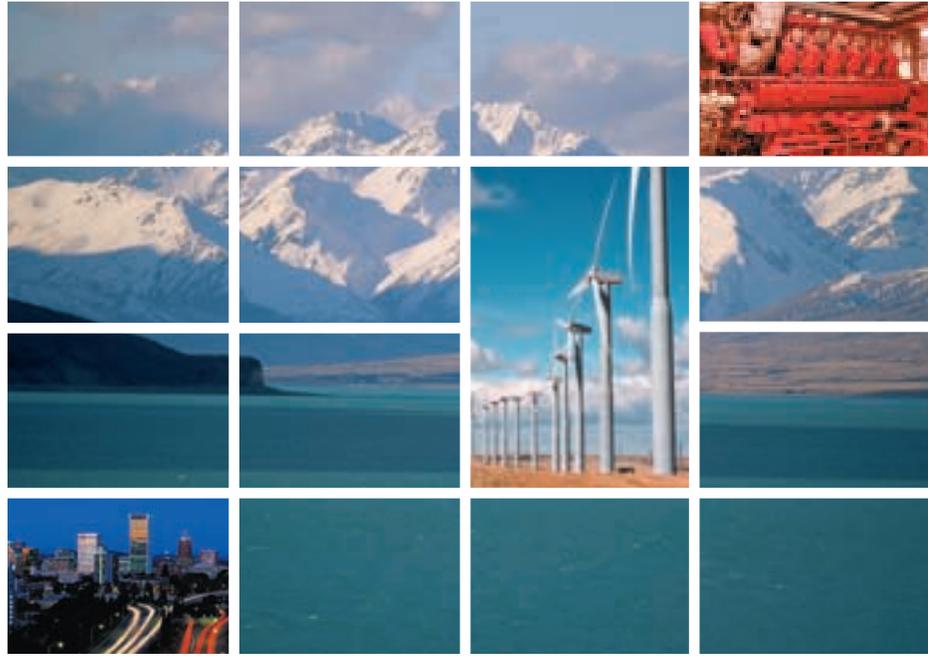
Projects funded or under negotiation by The Climate Trust reduce traffic congestion, create efficient multifamily housing, build wind and renewable energy, use otherwise wasted industrial energy to generate electricity, substitute low carbon construction materials, and plant and permanently protect native trees in some of the world's most diverse and threatened ecosystems.

### The Climate Trust's Process for Acquiring Offsets

Under the law's guidelines, a wide variety of offset projects are eligible for funding from the Trust. Examples of eligible project types include renewable energy, energy efficiency, energy system decarbonization, and carbon sequestration. Projects can be located anywhere in the world, with a preference for high quality projects located in Oregon. Oregon's standard requires the purchase of quantifiable, monitored, and verified CO<sub>2</sub> offsets generated from projects implemented in the future.

In 2000 and 2001, the Trust used a two-phase Request for Proposal (RFP) process to identify and select offset projects. First, a globally distributed solicitation invites short form proposals. Selected projects from the first phase are invited to submit detailed proposals. During both phases, proposals are subject to extensive review by

staff, outside experts, and the Trust's Offset Committee, with all final selections approved by the Trust's Board of Directors. Cost effectiveness in terms of the cost per ton of reasonably assured additional CO<sub>2</sub> benefit is the primary selection factor. Other selection factors include: reliability of the project concept, reliability of the project partner, monitoring and verification, permanence, guarantees, location, portfolio diversity, replicability, expandability, and co-benefits. The purchasing process concludes with negotiation and agreement on a detailed term sheet that is finalized in a contract.



## Oregon Carbon Dioxide Standard

### Implementation

In the year 2000, The Climate Trust released its first RFP. Funds were provided by the City of Klamath Falls to offset emissions for the Klamath Cogeneration Project, operated by PacifiCorp Power Marketing, Inc. This solicitation drew 60 short-form proposals from fourteen states and fifteen countries. Eight projects were invited to submit detailed proposals. The Trust contracted for five offset projects totaling 850,000 metric tons at an average cost of \$1.41/metric ton. These projects are highlighted on the next page.

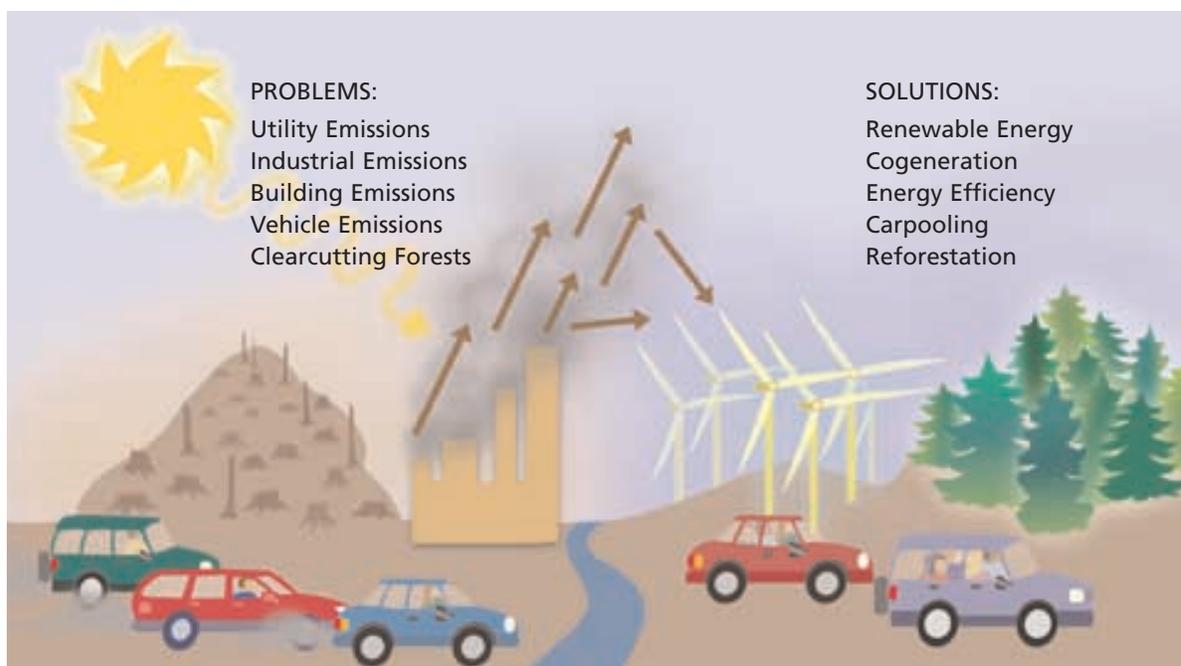
In 2001, the Trust solicited \$5.75 million of offsets with funding provided by power plants owned or operated by Calpine Corporation, Avista Corporation, NW Natural, and PacifiCorp Power Marketing, Inc. Almost 80 short-form proposals were submitted by high quality organizations involving a wide range of mitigation technology types. Approximately 20 proposers were invited to submit detailed proposals, from which the Trust selected seven projects for final negotiations. Sectors represented in the 2001 portfolio include cogeneration, distributed generation, transportation, building efficiency, forest sequestration, and material substitution. The Trust anticipates completing contracting for 2.65 million metric tons in 2002.

## Updates

- Every two years, Oregon's Energy Facility Siting Council (EFSC) has the option to increase the monetary path rate to reflect changes in the offset market and inflation. In 2001, EFSC acted to increase the monetary path rate from \$0.57 to \$0.85 per short ton (\$0.94 per metric ton) of CO<sub>2</sub>.
- Oregon passed Senate Bill 843, which changes the energy siting process to allow for expedited development of temporary energy resources to avoid power black-outs. Despite passing this legislation during the peak of the California power crisis, the legislature still required these facilities to meet the Oregon carbon dioxide standard.

## The Importance of Carbon Dioxide Offsets

Offsets are an important complement to the global community's primary challenge of achieving significant emissions reduction by major emitters. Offsets act to maximize the environmental benefit from society's climate change mitigation funding by focusing it on the most cost-effective mitigation opportunities. Offsets are more than just a part of the solution to climate change. They also benefit the economy by stimulating technologies necessary to transform our economy toward lower carbon intensity, and by reducing the many costs resulting from our predominant reliance on fossil fuels. In addition, they protect natural resources such as air quality, water supply, forests, coastal areas, and biodiversity.



## The Initial Offset Projects Portfolio: The 2000 Request for Proposals

The Climate Trust began contracting and funding its first portfolio of projects in 2001. The City of Klamath Falls provided over \$1 million to the Trust to offset carbon dioxide emissions from an expansion of its 480-MW Klamath Cogeneration Plant, operated by PacifiCorp Power Marketing, Inc. Over the lifetime of these high quality projects, the Trust will retire 850,000 metric tons of carbon dioxide. The selected projects include:

### **Internet-based carpool coordination in Portland area**

The Climate Trust is funding a safe, quick, interactive Internet site to help commuters conveniently and easily arrange carpools.

### **Landfill gas to electricity with CO<sub>2</sub> recovery**

The Climate Trust is funding a landfill gas to electricity project planned to demonstrate new technology that cleans the landfill gas and captures carbon dioxide prior to combustion.

### **Innovative financing of Oregon wind power**

The Climate Trust and Bonneville Environmental Foundation are sharing the costs of purchasing *green tags* from a wind farm in Oregon.

### **Preserve unique Northwest forest**

The Climate Trust is helping the Lummi Indian Tribe buy more than 1,600 acres of forestland and protect it from logging. The project involves protecting rare pristine mid-elevation Cascade mountain old growth and restoring adjacent forest lands.

### **Reforestation in Coastal Ecuador**

The Climate Trust is funding Conservation International and the Jatun Sacha Foundation to reforest more than 680 acres of highly degraded pasture. The project is located in one of the most biologically diverse and threatened areas in the world. (Contract executed in 2002.)

## Expanding the Trust's Role: The Climate Trust's Partnership Program

The Climate Trust is now partnering with private and public entities to actively mitigate their greenhouse gas emissions using a wide range of cost effective and practical mechanisms. The Trust took significant strides in founding its Greenhouse

Gas Partnership Program during 2001 by establishing the capability to acquire offsets to meet the needs of other organizations in addition to Oregon power plant owners. Partnerships receive high priority because they play a key role in the Trust's mission to reduce greenhouse gas levels, and they provide revenues to complement the Trust's core program funding.

The Greenhouse Gas Partnership Program allows the Trust to serve the voluntary greenhouse gas offset market as well as the regulated market under the Oregon program. The offsets that are acquired under this program can be held in perpetuity by the Trust for the benefit of the environment.

The Trust has focused on increasing the size of scaleable projects in its core program offset portfolio to offer partners the option to expand existing projects. This allows partners to benefit from the same expertise, ongoing processes, and high quality standards that the Trust applies to the core Oregon program offsets. Similarly, the Trust may work with large partners to identify and manage new and distinct offsets. On behalf of its partners, the Trust solicits, evaluates, selects, negotiates, contracts, and manages offset projects, applying strict standards and expert reviews from both staff and consultants. The Trust serves as a very efficient and cost-effective vehicle for assisting all partners in meeting their offset needs.

The Trust's current partnership with Seattle City Light was the first in its Greenhouse Gas Partnership Program. In a 2000 Earth Day resolution, Seattle committed to mitigate the greenhouse gas emissions associated with its new energy

purchases and resources. Seattle joined the Trust's 2001 offset RFP, soliciting 247,000 metric tons. Seattle is participating in and sharing the cost of the offset evaluation, selection, and contracting processes. In 2001, the Trust began contracting for seven projects under this solicitation, some of which will be shared with Seattle City Light. Ultimately, the Trust will likely transfer significantly more tons at a much lower cost than Seattle originally anticipated.

In 2001, the Trust also established the Giving to Protect the Climate partnership program, an innovative *donate*



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& retire mechanism for funding offsets. Organizations make a tax-deductible donation to the Trust enabling us to purchase additional offsets and hold them in perpetuity for the benefit of the environment. A variant of this cost-efficient and user-friendly mechanism can be used to transfer ownership of high quality offsets to a purchaser, though without the tax advantages.

### Looking Ahead

The Climate Trust is excited to be expanding programs and initiatives in 2002. In addition to completing a \$6 million offset acquisition process for projects from the 2001 solicitation, the Trust will build its partnership program to help business, government, and non-profits meet their greenhouse gas offset goals. The Trust will also expand its efforts in fulfilling a mission of advancing sound offset policy in the United States and around the globe.

The Trust will share more of its unique expertise with policy makers in the coming years in order to help advance the offset market in three areas: carbon offset standards, policy replication and extension, and offset market development.

### **Greenhouse Gas Partnership Program**

The Trust will continue expanding its Greenhouse Gas Partnership Program to: create a high quality supply of carbon dioxide offsets for the emerging market, provide an efficient, cost effective, and user friendly way for organizations to make greenhouse gas offsets happen, and help establish innovative mechanisms for leveraging offset funding.

### **Policy Development**

The Trust plays a unique role in the global offset market by combining the perspectives and aspirations of an environmental non-profit with the pragmatic needs of a corporate offset buyer. To increase market efficiency of acquiring high quality offsets, the Trust will help establish practical rules for an offset market. The Trust will share more of its unique expertise with policy makers in the coming years in order to help advance the offset market in three areas: carbon offset standards, policy replication and extension, and offset market development.

### ***Carbon Offset Standards***

Carbon offset standards are an essential precursor to the orders-of-magnitude scale-up needed for a fully active emissions trading system. Standards would encourage

business participation in today's voluntary mitigation regime by reducing risk and clarifying value when undertaking mitigation and buying offsets.

### *Policy Replication and Expansion*

Weak federal government leadership on climate change has created an urgent need for effective policies at the state and local levels. One of the Trust's goals is to provide information to the policy arena that will encourage the replication of Oregon's carbon dioxide standard and trust model in other states. The Trust also intends to work with other states to extend the Oregon climate policy from new power plants to other sectors.

### *Offset Market Development*

The Trust will utilize its experience and expertise to assist interested states in developing registries for greenhouse gas mitigation projects and other climate policies. Registering greenhouse gas mitigation projects with a recognized agency will help establish integrity and desirability of offset projects. States working on climate change policy know that standard practices for registration and accounting will increase the credibility of projects and assist in developing the offset market.

## The Climate Trust Offset Funds Tracking Overview

December 31, 2001

Developer's Commitment		Offset Contracting					Offset Management			
Offset Fund	Developer's Commitment	Amount Received	Remaining Commitment	Minimum Allowable Offset Amount	Actual Offset Contract Amount	Obligated Contracts	Balance Left to Obligate	Total Offset Mgmt. Funds	Offset Mgmt. Funds Spent	Offset Mgmt. Funds Unspent
Klamath Cogeneration Project	1,197,697	1,197,697	0	958,158	1,036,120	850,120	186,000	161,577	35,141	126,436
Hermiston Power Project	4,215,874	0	4,215,874	3,372,699	0	0	3,372,699	843,175	0	843,175
Coyote Springs 2	2,643,097	1,843,285	799,812	2,114,478	0	0	2,114,478	528,619	0	528,619
Klamath Expansion Project	261,478	261,478	0	209,182	0	0	209,182	52,296	0	52,296
NW Natural	23,566	23,566	0	18,853	0	0	18,853	4,713	0	4,713

## Financial Statement

December 31, 2001 & 2000 Audited

### Statements of Financial Position

	2001	2000
<b>Assets</b>		
Cash	\$ 3,389,441	\$ 2,000,459
Other current assets	5,632	3,180
Office equipment, net of accumulated depreciation	16,218	2,945
<b>Total Assets</b>	<b>\$ 3,511,291</b>	<b>\$ 2,006,584</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 21,260	\$ 14,230
Offset contracts payable*	677,620	—
Unearned contract revenue*	2,575,765	1,755,167
<b>Total Liabilities</b>	<b>3,274,645</b>	<b>1,769,387</b>
<b>Net Assets</b>		
Unrestricted net assets	236,646	237,187
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,511,291</b>	<b>\$ 2,006,584</b>

### Statements of Activities

#### Revenues

Contract revenue	\$ 1,145,635	\$ 11,725
Contributions	5,000	—
Interest income	103,232	94,340
Other income	1,600	—
<b>Total Revenues</b>	<b>\$ 1,255,467</b>	<b>\$ 214,065</b>

#### Expenses

Program	\$ 1,187,434	\$ 147,596
General and administrative	44,128	41,386
Fundraising	24,446	9,114
<b>Total Expenses</b>	<b>\$ 1,256,008</b>	<b>\$ 198,096</b>

<b>Change in net assets</b>	<b>\$ (541)</b>	<b>\$ 15,969</b>
<b>Net assets—beginning of year</b>	<b>\$ <u>237,187</u></b>	<b>\$ <u>221,218</u></b>
<b>Net assets—end of year</b>	<b>\$ 236,646</b>	<b>\$ 237,187</b>

\*The Climate Trust is restricted by law to use this money for the sole purpose of funding offset projects.

#### Unearned Contract Revenue

Contract revenues are recognized as revenue in the period the services are performed. Contract funds received but unspent are recorded as unearned contract revenue.

Unearned contract revenue is summarized as follows:

	2001	2000
Balance at beginning of year	\$ 1,755,167	\$ 1,268,517
Funds received	1,931,680	604,002
Revenue earned	<u>(1,111,082)</u>	<u>(117,353)</u>
Unearned contract revenue	\$ 2,575,765	\$ 1,755,167

## The Board and Staff

### Board of Directors Voting

**Bill Edmonds**, Board Chair

**Margaret Gardner**, Vice Chair

**Bettina von Hagen**, Secretary

**Eugene Rosolie**, Treasurer

**Susan Anderson**

**Diana Bodtker**

**Catherine Ciarlo**

### Non-Voting

**Tim Carlberg**

**Michael J. Hayward**

**Sam McIntosh**

**Roby Roberts**

### Staff

**Mike Burnett**

Executive Director

**Michael Ashford**

Deputy Director

**Erica C. Graetz**

Program and Operations Manager

The Trust is governed by a seven member Board of Directors, as required by the Oregon energy facility siting law. The Oregon Energy Facility Siting Council appoints three of the Board members. Three more are appointed by an environmental organization (currently Northwest Energy Coalition). The applicants and holders of energy facility site certificates who use the monetary path to comply with the law's carbon dioxide standard appoint the seventh Board member. Each site certificate holder that has provided money to The Trust may appoint a nonvoting member to serve on the Board so long as The Trust holds undisbursed funds associated with that site certificate.