



THE CLIMATE TRUST 2002 ANNUAL REPORT



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Letter from the Chair



THE IMPORTANT WORK OF THE CLIMATE TRUST sits on the forward edge of climate policy development, not just in the US, but globally. The Trust stands as a unique institution—a US entity guided by broad policy objectives in the practical pursuit of quality offsets of all kind. The practical experience of the Trust is a valuable resource to leaders developing environmentally responsible and realistically achievable climate policies.

As of 2002, The Climate Trust has dedicated five years to acquiring high quality offsets, acting as a pioneer in this emerging offset market. Highlights include:

- The Oregon Power Plant Offset Program added six offset projects to our portfolio in 2002.
- Our carbon dioxide offset portfolio is now actively reducing 2.4 million metric tons of CO₂ through eleven projects worth over \$5 million.
- Our Greenhouse Gas Offset Partnership Program is experiencing dramatic growth as industry realizes the great responsibility to reduce our impact on climate change.
- The Trust has now made its offset expertise available to the individual at www.CarbonCounter.org.
- Power companies and utilities are turning to the Trust to help meet new local regulations.

All these efforts make us one of the largest buyers of offsets anywhere. The Trust is sharing its knowledge and unique experience with the broad climate policy community. We are participating in the development of the World Resources Institute's GHG Protocol offset project accounting module and sharing our experience with the Natural Resources Defense Council's State GHG Registries Collaborative. While there is not clear agreement in the international community about how to proceed to address the climate challenge, ensuring offsets are of the highest credibility should be a goal easily adopted by all stakeholders.

The Climate Trust recognizes the critical importance of our offset work and our policy engagement on climate. Knowing our efforts provide important data for emerging policy, we take very seriously our responsibility to make sure our offset work meets the highest standards.

A handwritten signature in black ink that reads "Bill Edmonds". The signature is written in a cursive, flowing style.

Bill Edmonds
Board Chair

Mission Statement

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

Vision Statement

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** while considering environmental, economic, and social **co-benefits** when selecting offsets.

The Climate Trust will **encourage innovation** in terms of offset technologies, financing mechanisms, and the 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.

The Oregon CO₂ Standard

Innovative Oregon legislation requires new power plants to meet a CO₂ standard that reduces emissions by approximately 17 percent. Power plant developers can meet the standard by making a fixed price per ton pay-

ment to The Climate Trust, which uses the funds to stimulate projects to reduce atmospheric CO₂ levels. To date the Trust has spent \$5 million through this standard to contract for 2.5 million tons of carbon dioxide offsets.

What is a Greenhouse Gas Offset Project?

A greenhouse gas offset is a project implemented specifically to reduce the level of greenhouse gases in the atmosphere. A wide variety of technological approaches can be employed to create an offset. These approaches include energy efficiency in buildings, factories, and transportation; renewable energy, such as wind and solar energy; shifting to lower carbon energy sources, e.g., from coal to natural gas; cogeneration; and capturing carbon dioxide in forests and in agricultural soils.

Offsets are named for the fact that they offset the purchaser's emissions through actions taken by the implementer. Typically, the purchaser of the offset is striving to meet a voluntary or mandatory emissions target, and has exhausted all cost-effective emissions mitigation opportunities on its own sites. Since the purchaser is emitting in excess of its target, it must purchase emissions reduction offsets from another organization, which implements an emissions reduction project with funding provided by the purchaser. The project imple-

menter transfers the rights to the emissions reduction to the offset purchaser, which uses the transferred emissions reductions to fill the gap needed to meet its target. By encouraging this "emissions trading" approach, regulators ensure that mitigation occurs at the lowest total cost to society.

In order to assure that emissions trading results in a tangible net benefit to the environment, offset projects must meet two essential tests. First, it must be demonstrated that an offset project would not occur without the funding provided by the offset purchaser. Second, results must be rigorously quantified. A realistic future baseline projection of emissions absent the project must be developed, and actual emissions must be measured. The difference between the actual emissions and the baseline's projected emissions is the greenhouse gas benefit provided by the offset project. A third party with no financial interest in the offset project must verify the approach and calculations used to quantify the results.



The Climate Trust's Process for Acquiring Oregon Program Offsets

Under the Oregon 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 and measured CO₂ 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 CO₂ 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.

The Climate Trust's 2001 Greenhouse Gas Offset Portfolio

The Climate Trust initiated its second large-scale carbon dioxide offset acquisition process in January 2001. After receiving and reviewing nearly 80 short-form offset project proposals in response to our request for proposals, we invited nearly twenty projects to submit detailed proposals. After considerable review and due diligence by the Trust's staff, Offset Committee, and outside experts, the Trust's Board selected seven offset projects for negotiations. The following six offset projects have been put under contract to date. Market conditions relating to the seventh project changed during negotiations and it may or may not go forward. We are hopeful that it will proceed, but if it does not, we will place the funding that we had allocated to it into other offset projects.

This portfolio includes a diverse array of projects, including building energy efficiency, transportation efficiency, cogeneration, distributed generation, material substitution, and permanent forest sequestration. It complements our initial five-project portfolio initiated in 2000. The earlier portfolio included wind energy, landfill-gas-to-electricity, transportation efficiency, and permanent forest sequestration. For more information on our initial portfolio visit: www.climatetrust.org/CTProjects.html.

Data Center Distributed Generation Project:

The Climate Trust has contracted to buy offsets from a Sure Power Corporation project that will install ultra-high reliability onsite power generation systems at data centers. Sure Power systems are highly efficient, and emit less carbon dioxide than do conventional systems relying on the power grid. The Climate Trust will pay a fixed price per ton for these emissions reductions at the end of each year, after they have been quantified by a third party verifier. Sure Power's environmentally preferred systems



An onsite power generation system installed by Sure Power Corporation.



The City of Portland will work to optimize traffic signal timing on major arterials.

This Portland apartment complex (above right) has been weatherized for energy efficiency under the Multifamily Assistance Program.

produce what the company calls “24-by-7-by-forever” power through a patented architecture of multiple power generation, storage, and backup devices. Sure Power systems are installed with state-of-the-art environmental controls, and they eliminate the need for environmentally unfriendly back-up batteries and diesel generators. They also integrate combined heat and power (CHP) technologies that recycle byproduct heat through highly efficient heating and cooling systems.

Portland Traffic Signals Timing Project:

The Climate Trust has contracted to buy offsets from a City of Portland project that will improve the timing of traffic signals. Over the next five years, the Portland Office of Sustainable Development will work with the Portland Office of Transportation, Washington County, and the Oregon Department of Transportation to improve signal timing on seventeen major metropolitan area arterials. By reducing idling and acceleration, emissions of carbon dioxide from gasoline and diesel fuel will decrease. After the signal timing has been completed, The Climate Trust will pay Portland based upon the amount of carbon dioxide emissions that will be avoided.

Portland Building Energy Efficiency Project:

The Climate Trust has contracted to buy offsets from two City of Portland building energy efficiency programs. These programs reduce carbon dioxide emissions from grid power, natural gas, and fuel oil. The Multifamily Assistance Program increases weatherization activity in multifamily housing units by serving as a one-stop shop for project coordination, technical and financial advice, and incentives. The Commercial Green Buildings Program encourages building designers and owners to construct to Portland’s highly efficient LEED Green Building Standards. After the efficiency measures have been installed, The Climate Trust will pay a fixed price per ton based upon the anticipated carbon dioxide reductions over the lives of the measures.

Deschutes Riparian Reforestation Project:

The Climate Trust has contracted to buy offsets from a Deschutes Resources Conservancy (DRC) program that helps landowners in the Deschutes River Basin reforest denuded riparian areas with native trees. The Deschutes River is one of Oregon's premier trout streams. Stock for replanting denuded stream banks will be taken from remnant stands of local native species. As the trees grow, they will absorb carbon dioxide from the atmosphere and sequester it in biomass. The amount of sequestration will be quantified according to a state-of-the-art monitoring and verification plan. The Climate Trust funding will pay DRC to recruit and provide incentives to landowners to participate in the program. Landowners will enter into legally binding agreements to preserve the trees for at least 50 years.



The Deschutes River in Central Oregon.

Cement Substitution Project:

The Climate Trust has contracted to buy offsets from the International Institute for Energy Conservation's (IIEC) Blended Cement Program. IIEC, a global nonprofit organization with headquarters in Washington, DC, has worked on sustainable energy solutions including energy efficiency, renewable energy, and integrated transport planning since 1984. The manufacturing process for Portland cement releases approximately one ton of carbon dioxide for every ton of cement produced. In blended cement, industrial byproducts replace part of the cement in concrete while maintaining its structural integrity. This avoids the emissions of carbon dioxide resulting from the cement manufacturing process. The Climate Trust will pay IIEC to recruit participants and provide incentives for the use of blended cement concrete in construction and civil works projects. Part of IIEC's funding is contingent on certification of the use of blended cement concrete, and incentives are in place for IIEC to exceed the targeted amount of carbon dioxide benefit.

The 150 kW backpressure turbine-generator pictured is installed at Franciscan Sisters of Perpetual Adoration in their District Heating Plant in La Crosse, Wisconsin.



Lumber Mill Cogeneration Project:

The Climate Trust has contracted to buy offsets from a Collins Companies project that will install a cogeneration facility at a lumber mill in Lakeview, Oregon. This factory will switch from a high-pressure to a low-pressure drying kiln, and install a high efficiency 638 kW backpressure steam turbine to generate elec-

tricity from previously wasted steam. The co-generated electricity will displace purchased power, and the corresponding carbon dioxide emissions, from the grid. The Climate Trust will provide funding once the cogeneration facility has achieved commercial operation. Collins guarantees that the project will provide a pre-determined amount of offsets over a 15-year life.

Monitoring and Verification

The Trust requires state-of-the-art monitoring and verification of its offset projects. Nationally recognized experts are required to prepare monitoring and verification plans to quantify the CO₂ benefits. Periodic monitoring and verification reports are prepared and verified by an independent third party. The Trust manages its offset contracts carefully to assure that the developer meets all offset eligibility requirements, monitoring and verification requirements, performance milestones, performance guarantees, and other requirements.

Funding for this Portfolio

Funding for this portfolio was provided by new energy facilities choosing the Trust to meet the requirements of Oregon's Carbon Dioxide Standard. Initially, funding for approximately \$5.5 million of offset projects was provided by two new combined cycle gas turbines starting construction in Oregon: Hermiston Power Project (550 MW; Hermiston, OR; owned by Calpine) and Coyote Springs 2 (270 MW; Boardman, OR; owned by Avista).

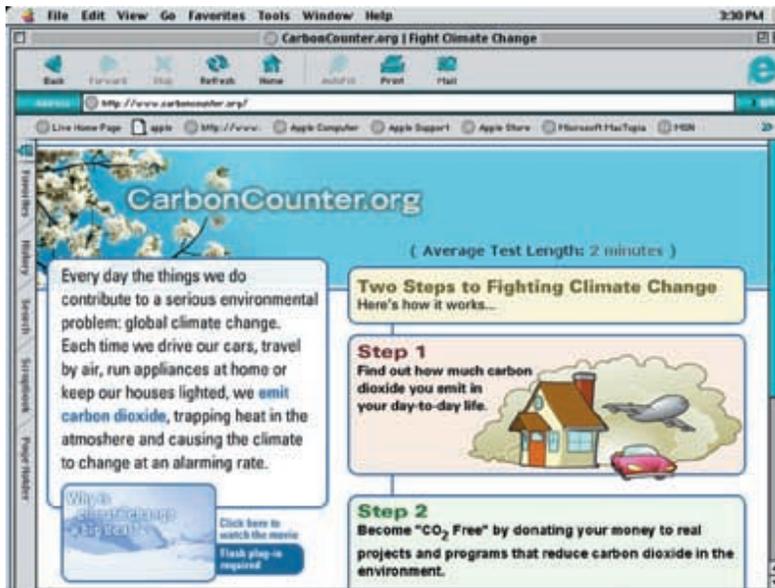
As we were evaluating offset proposals, two smaller energy facilities were subject to the standard. This included a 100 MW single cycle gas turbine diesel generator constructed by PacifiCorp Power Marketing to meet the West Coast power crisis, and an underground natural gas storage station constructed by NW Natural.

Greenhouse Gas Offset Partnership Program

Organizations fund offsets via The Climate Trust

The Greenhouse Gas Offset Partnership Program allows organizations to benefit from our offset acquisition expertise and processes. These services are available to businesses, governments, and non-profit corporations who can purchase or donate to offset their emissions.

Large Emitter Customized Offset Acquisitions: This program element is for large purchasers, such as power plants and other companies consuming large amounts of fossil fuel. The Trust works with the client to determine preferences for offset type, criteria, and cost, and helps the client solicit, select, and negotiate contracts for offsets. The client can directly sign the offset contract that the Trust helps the client negotiate, or the Trust can sign the offset contract, transfer the offset rights to the client, and manage the contract on behalf of the client. The Trust has successfully provided this service to Seattle City Light as well as two Massachusetts power plants.



Visit our new web site
www.CarbonCounter.org
to offset your personal
emissions.

to calculate and offset their carbon dioxide emissions. CarbonCounter.org calculates the amount of carbon dioxide emitted from an individual's home, car, and airplane travel. Participants are given the opportunity to offset their carbon dioxide emissions by donating money to expand our innovative offset portfolio.

Employee Offset Program: Coming in 2003! Organizations seeking to help employees reduce their impact on global warming will be able to partner with The Climate Trust to provide an employee-matching offset program. Under this program organizations can encourage employees to calculate and offset their carbon dioxide emissions on CarbonCounter.org by matching the employees' donation amount.

Donate-to-Offset Program: This program element allows organizations to donate funds to the Trust, which uses the funding to acquire offsets and hold them in trust for the benefit of the environment. This element is designed to be a convenient mechanism for organizations to cause the implementation of high quality offsets. The Trust has had six businesses participate in this program to date, including such companies as Nike, Delta Airlines, Progressive Investment Management, and Green Mountain Energy.

CarbonCounter.org: Coming in 2003! The Climate Trust and Mercy Corps are teaming up to provide small emitters and individuals a simple tool

Our Giving Program

Protect the Climate

The Climate Trust is a 501(c)3 non-profit organization doing cutting edge work to reduce greenhouse gas levels! We invite individuals, businesses, and organizations to donate to the Climate Trust. Our newly launched Giving Program helps us to move forward with our mission of...

“promoting climate change solutions by providing high quality greenhouse gas offset projects and advancing sound offset policy.”

Donations directly support new program development in creative and innovative ways to protect the climate. In particular, new funding can help us expand our Greenhouse Gas Offset Partnership Program, which provides a simple and easy way for institutions and individuals to offset their greenhouse gas impact.

Direct financial support helps The Climate Trust expand new programs because our current funding can only be spent on purchasing offsets. Over 96% of our expenses go directly to offset-based climate change mitigation programs.

Support The Climate Trust with a 501(c)3 tax deductible donation.

Mail checks or money orders payable to:

The Climate Trust
Attn: Giving Program
516 SE Morrison Street, Suite 300
Portland, OR 97214-2343



Financial Statement

December 31, 2002 & 2001 Audited

Statements of Financial Position

	2002	2001
Assets		
Cash	\$8,419,440	\$3,489,441
Other current assets	\$16,760	\$5,632
Office equipment, net of accumulated depreciation	\$11,966	\$16,218
TOTAL ASSETS	\$8,448,166	\$3,511,291
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$24,514	\$21,260
Offset contracts payable*	\$4,750,669	\$677,620
Unearned offset contract revenue*	\$3,508,988	\$2,575,765
Total Liabilities	\$8,284,171	\$3,274,645
Net assets		
Unrestricted	\$120,950	\$231,646
Temporarily restricted	\$43,045	\$5,000
Total Net Assets	\$163,995	\$236,646
TOTAL LIABILITIES AND NET ASSETS	\$8,448,166	\$3,511,291

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

Offset Funds Tracking Report

Offset Fund	Developer's Commitment			Offset Contracting			Offset Management		
	Developer's Commitment	Amount Transferred to Climate Trust	Minimum Allowable Offset Amount	Actual Offset Contract Amount	Obligated Contracts	Balance Left to Obligate	Total for Offset Mgt Funds	Offset Mgt. Funds Spent	Offset Mgt. Funds Unspent
Klamath Cogeneration Project	1,197,697	1,197,697	958,158	1,036,120	1,036,120	0	161,577	61,827	99,750
2001 Batch:									
Hermiston Power Project	4,218,760	4,218,760	3,375,008	3,375,008	2,517,741	857,267	843,752	42,748	801,004
CoyoteSprings2	2,643,097	2,643,097	2,114,478	2,114,478	1,577,391	537,087	528,619	26,782	501,837
NW Natural	23,566	23,566	18,853	18,853	14,064	4,789	4,713	239	4,474
Klamath Expansion Project	261,478	261,478	209,182	209,182	156,049	53,133	52,296	2,650	49,646
Massachusetts	600,000	600,000	480,000	480,000	0	480,000	120,000	0	120,000

Statements of Activities

	2002	2001
Changes in net assets:		
Revenues		
Offset contract revenue	\$4,685,350	\$1,111,080
Other contract revenue	\$67,864	\$34,555
Interest income	\$113,182	\$103,232
Other income	\$17,532	\$1,600
TOTAL REVENUE	\$4,883,928	\$1,250,467
Expenses		
Program	\$4,884,345	\$1,187,434
Management and general	\$84,042	\$44,128
Fund Raising	\$31,237	\$24,446
TOTAL EXPENSES	\$4,999,624	\$1,256,008
Change in net assets	\$(115,696)	\$(5,541)
Change in temporarily restricted net assets:		
Contributions	\$43,045	\$5,000
Change in temporarily restricted net assets	\$43,045	\$5,000
Change in net assets	\$(72,651)	\$(541)
Net assets – beginning of year	\$236,646	\$237,187
Net assets – end of year	\$163,995	\$236,646

Unearned Contract Revenue

All offset contract revenues are restricted for selection and contracting, acquiring, and managing offset contracts. Offset contract revenues are recognized as revenue in the period the offset contracts are obligated and management and oversight services are performed. Offset contract funds received but not yet obligated are recorded as unearned offset contract revenue. Unearned offset contract revenue is summarized as follows:

	2002	2001
Balance at beginning of year	\$2,575,765	\$1,755,167
Funds received	\$5,618,573	\$1,931,678
Funds obligated and revenue earned	\$(4,685,350)	\$(1,111,080)
Unearned offset contract revenue	\$3,508,988	\$2,575,765



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