



The Climate Trust
2008 Annual Report



“The Climate Trust has helped establish Oregon as a leader in offsets and sustainability.”

—Ted Kulongoski,
Governor of Oregon

opportunity

Offsets create economic opportunity

The Climate Trust's offset funding helped Klamath County, Oregon, achieve its economic development goals by providing the incentive needed for Biotactics to move and expand its operations to geothermally heated warehouses in the county.

The Year of Voluntary Offset Programs

After a decade as the nation's leader in the compliance offset market and top-rated North American retail offset provider, The Climate Trust took another step in providing innovative leadership in the offset market in 2008. We expanded our services to include client-based offset programs. Much of our growth focused on helping other organizations design and operate voluntary offset programs.

Growing numbers of businesses and governmental agencies were striving to reduce their climate impacts in the absence of regional or federal climate legislation. Many wanted to offer offsets to their customers, but they lacked the tools and expertise to do so.

The Climate Trust is one of the most experienced offset providers in the world and pioneered many of the approaches now used in this billion dollar industry. Our in-depth understanding of market conditions, our experience developing and managing offset projects, and our consistently high ratings by organizations such as Clean Air-Cool Planet drew these clients to The Climate Trust.

Our first client-based voluntary market program was our collaboration with NW Natural on their Smart Energy program, which allows customers to offset their carbon footprint from natural gas by making a donation on their bill. We invest the funds in biogas projects in the Pacific Northwest. We helped NW Natural conceive, design, and gain regulatory commission approval for this program, and now manage the funds and acquire the offsets. In late 2008, we acquired the first project for Smart Energy, a manure-to-energy project with two participating dairy farms in Mount Vernon, Washington.

Also in 2008, we developed our second client-based voluntary offset program. We created the Colorado Carbon Fund, in partnership with the Colorado Governor's Energy Office, after winning a competitive bidding process. CCF allows individuals and businesses to invest in greenhouse gas reduction projects located in the state. Our roles include designing and managing the fund and locating, evaluating, and acquiring the projects.

In addition to providing quality offset programs, we continue to work to ensure offset quality through our policy initiatives, most notably the Offset Quality Initiative. This coalition of leading national nonprofit organizations got a strong start with the publication of a white paper, *Ensuring Offset Quality: Integrating High Quality Greenhouse Gas Offsets Into North American Cap-and-Trade Policy*, which outlined key offset quality criteria and offset design recommendations.

Looking forward, The Climate Trust plans to continue to excel in providing high quality offsets for our compliance customers in Oregon and Washington, and to expand our role by providing services to regulators elsewhere. In addition, we will continue to implement the NW Natural Smart Energy program and the Colorado Carbon Fund and to help other clients design and operate voluntary market programs. Finally, we also plan to continue to inform policy makers about important market lessons to ensure the development of climate legislation that protects both the economy and the environment. We are proud of all of our accomplishments in 2008 and we look forward to new challenges and opportunities ahead.


Sincerely,



Mike Burnett
Executive Director



Bob Therkelsen
Board Chair

A hiker with a large blue backpack is walking through a dense, lush green rainforest. The hiker is wearing a red shirt and grey pants, and is holding a trekking pole. The forest is filled with various types of plants, including large green leaves and ferns. The lighting is natural, suggesting a sunny day with some shade from the trees.

“Many of The Climate Trust’s projects promote biodiversity by restoring and preserving degraded habitats.”

—Fred Krupp,
President of the Environmental Defense Fund

habitats

Offsets conserve habitats

The Climate Trust’s Ecuadorian Rainforest Reforestation project has restored about 700 acres in the Bilsa Biological Reserve, which is considered one of the 25 most biodiverse places in the world.

Our Mission

Since our founding in 1997, The Climate Trust's mission has been to promote climate change solutions by providing high-quality greenhouse gas (GHG) offset projects and advancing sound offset policy. The Climate Trust fulfills this mission by providing the following services:

- › **Compliance offsets** — Selects, contracts, and manages offset projects for the compliance market
- › **Voluntary climate services** — Designs, implements, and manages voluntary offset programs customized for our clients
- › **Climate policy** — Provides education and expert advice to policymakers on incorporation of offsets into climate legislation and regulation
- › **Consulting** — Scopes out the opportunities, risks, and costs of offset programs and services for clients considering entrance in the voluntary market

2008 Highlights

Convene the Offset Quality Initiative

The Offset Quality Initiative (OQI), a coalition of six leading national nonprofit organizations led by The Climate Trust, provides leadership on offset policy and best practices. In 2008 the group began working in earnest, thanks to a one-year \$235,000 grant awarded by the Energy Foundation. OQI released its first paper, *Ensuring Offset Quality: Integrating High Quality Greenhouse Gas Offsets Into Cap-and-Trade Policy*, at a briefing held before a meeting of Western Climate Initiative stakeholders in July. The group also launched a new web site at www.offsetqualityinitiative.org.

Launch the Colorado Carbon Fund

In May 2008 the Colorado Governor's Energy Office selected The Climate Trust to design and implement the Colorado Carbon Fund, a program that provides the opportunity for individuals and businesses to reduce their footprint and offset the rest through high quality GHG offset projects in the state. The Colorado Carbon Fund is the first voluntary retail offset program designed by and for a state. The program was designed to reduce greenhouse gas emissions and to support new energy efficiency and renewable energy projects in Colorado.

Voluntary program consulting support

The New York/New Jersey Port Authority awarded The Climate Trust a consulting contract in which we serve on a technical advisory panel for its carbon-neutral efforts. We review and rank potential offset projects to meet the emission reduction needs of the port, as well as the needs of a possible retail program for port users.

Acquire first offset project for NW Natural Smart Energy

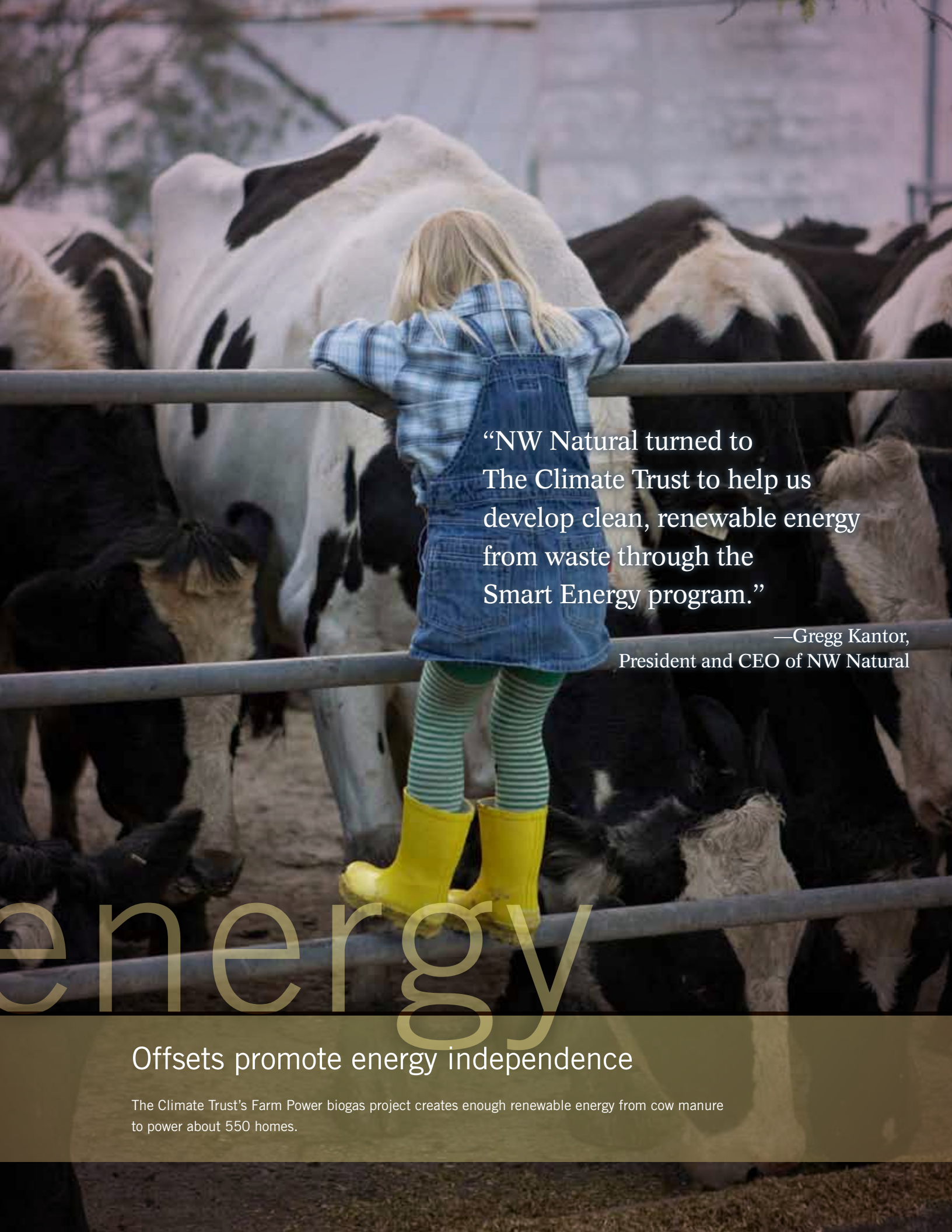
At year's end, The Climate Trust acquired the first project for NW Natural's Smart Energy, a program that allows customers to offset their natural gas use through offsets from biogas projects in the Pacific Northwest. The Climate Trust, which also helped design the program, contracted to buy methane emission reductions from a Farm Power biodigester project in Mount Vernon, Washington. Manure from two small dairy farms is being piped to a covered tank, which will capture and combust the methane.

Place second in ranking of U.S. offset providers

The Climate Trust placed second in a Carbon Concierge's 2008 ranking of the top U.S. retail offset providers in North America. Carbon Concierge evaluated and rated top North American offset providers based on industry standards and developed a customizable tool to allow for informed carbon offset purchasing decisions. The criteria included business and project transparency, offset quality, industry leadership, third-party evaluation, education, and social benefit.

Close retail offset programs

The Climate Trust closed down its retail offset programs in December 2008 to focus on client-based voluntary offset programs. Among the first of their kind, the CarbonCounter.org and Donate-to-Offset programs encouraged individuals and organizations to calculate and offset their carbon footprints. We were able to end the successful programs to concentrate on developing high quality offset projects and sound climate policy, confident that a variety of appropriate carbon calculators and offset programs are now available to consumers.



“NW Natural turned to The Climate Trust to help us develop clean, renewable energy from waste through the Smart Energy program.”

—Gregg Kantor,
President and CEO of NW Natural

energy

Offsets promote energy independence

The Climate Trust's Farm Power biogas project creates enough renewable energy from cow manure to power about 550 homes.

Our Portfolio of Offset Projects

By the end of 2008, The Climate Trust had placed \$8.8 million in a diverse portfolio of projects that are expected to offset 2.4 million metric tons of carbon dioxide—the equivalent of taking 478,088 cars off the road for a year.

PROJECT CATEGORY	PROJECT NAME	CONTRACT SIGNING DATE	PROJECT TERM (YEARS)	CO ₂ OFFSETS OVER PROJECT TERM (METRIC TONS)
ENERGY EFFICIENCY Changing technology or systems to use less energy while maintaining the same or increasing the level of output.	Duluth Steam Plant Upgrade	2006	15	210,328
	Blue Heron Industrial Efficiency Upgrade	2004	10	191,232
	Portland Building Efficiency Program	2002	5	327,776
	TOTAL			729,336
SEQUESTRATION Removal of CO ₂ , either through biological processes (e.g., plants & trees) or through geological processes such as CO ₂ storage in underground reservoirs.	Deschutes Riparian Restoration	2002	52	233,333
	Ecuadorian Rainforest Restoration	2002	99	58,890
	Preservation of a Native NW Forest	2001	99	263,159
	TOTAL			555,382
COGENERATION High-efficiency method of producing electricity from wasted steam after use in an industrial process.	Oregon State University Cogeneration	2007	20	338,790
	Newark Group Cogeneration	2006	15	114,259
	TOTAL			453,049
TRANSPORTATION EFFICIENCY Changing technology or systems to reduce CO ₂ emissions while maintaining the same or higher mobility. May also include reducing the need for transportation services.	Truck Stop Electrification	2005	16	90,000
	Traffic Signal Optimization	2002	10	178,674
	Internet-Based Carpool Matching	2001	10	1,021
	TOTAL			269,695
MATERIAL SUBSTITUTION Replacing a carbon-intensive material with one that is less carbon-intensive in industrial applications.	Cool Climate Concrete	2004	6	212,500
	TOTAL			212,500
RENEWABLE ENERGY Electricity created by renewable energy sources such as sun, wind, biomass, and other sources.	Innovative Wind Financing	2002	2	23,892
	TOTAL			23,892
FUEL REPLACEMENT Displacing the use of a higher carbon intensity fuel with a lower carbon intensity fuel.	Biotactics Geothermal Heating	2007	10	25,500
	Montana Fuels for Schools	2007	15	59,100
	TOTAL			84,600
BIODIGESTER Capturing and combusting methane emissions from cow manure.	Farm Power	2009	10	60,000
	TOTAL			60,000
	TOTAL CO₂ OFFSETS (METRIC TONS)			2,388,454



“We collaborate with
The Climate Trust because
they share our commitment
to environmental integrity.”

—Gary Gero,
President of the Climate Action Reserve

water

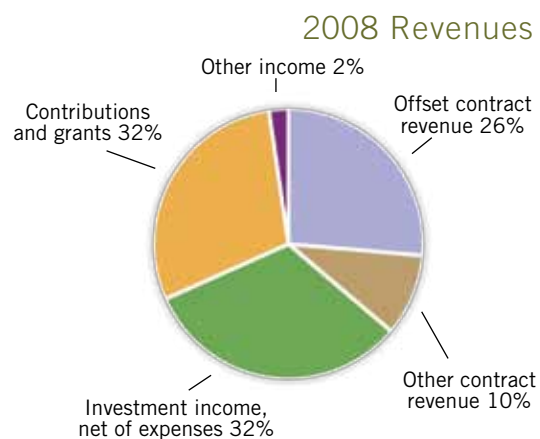
Offsets benefit water quality

The Climate Trust's Deschutes Riparian Reforestation project acts as a living filter that protects the water quality of the Deschutes River.

Financial Summary

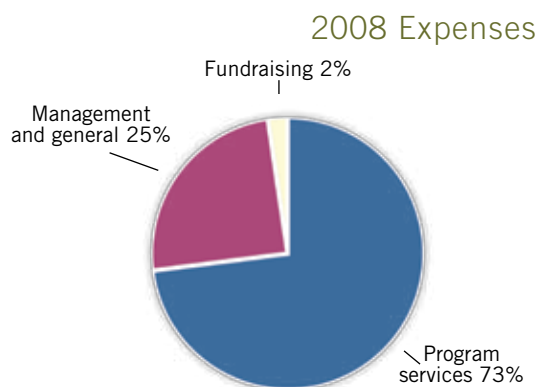
The Climate Trust has a perfect record of clean audits conducted by a professional auditing firm every year, including for calendar year 2008.

STATEMENT OF FINANCIAL POSITION	2008	2007
Total Assets	1,837,223	4,479,304
Liabilities	1,548,272	4,033,256
Net Assets	958,492	522,444
TOTAL LIABILITIES AND NET ASSETS	\$1,247,443	\$968,492

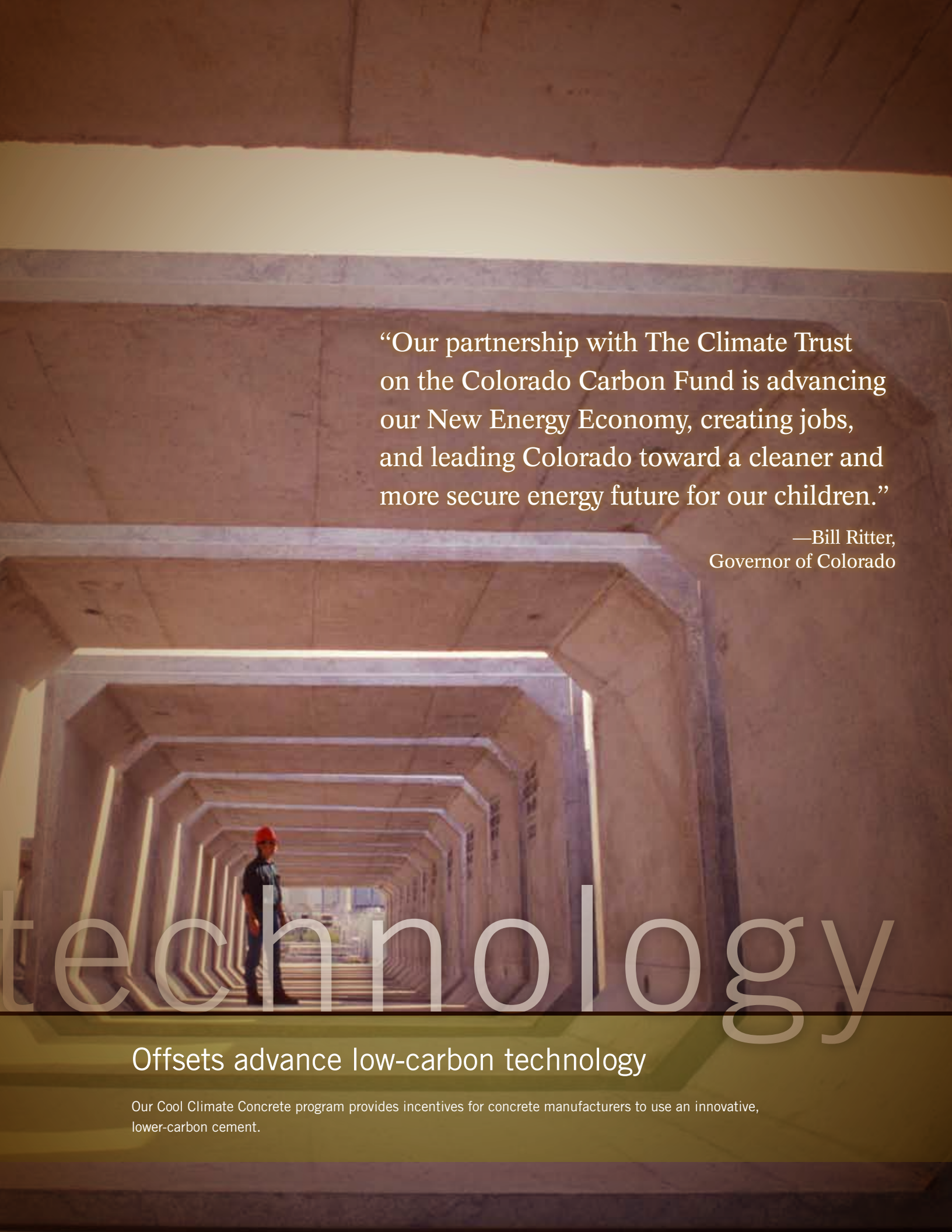


Offset Funds Tracking – December 31, 2008 (US \$)

New Oregon energy facilities can elect to comply with the Oregon Carbon Dioxide Standard by providing offset funds on a fee-per-ton basis to The Climate Trust. These funds are used to solicit and acquire offsets and manage offset contracts. Offset management includes monitoring, evaluating, administering, and enforcing offset contracts over the project lifetime. A breakdown of Oregon Program funds placed into offset contracts and expended on offset management is reported in the table below.



Offset Funding Source	Total Commitment	OFFSET PURCHASE AGREEMENTS			OFFSET MANAGEMENT
		Offset Contract Amount	Obligated Ccontracts	Balance Left to Obligate	Total for Offset Mgt Funds
Klamath Cogeneration	1,197,6978	958,158	766,557	191,601	239,539
Hermiston Power	4,218,760	3,375,008	1,578,725	1,796,283	843,752
Coyote Springs 2	2,643,098	2,114,478	1,446,123	668,355	528,619
NW Natural Mist	23,567	18,853	4,685	14,168	4,713
Klamath Expansion Project	262,537	210,029	5,532	204,497	52,508
Hermiston Power True-Up	434,142	347,313	260,485	86,828	86,828
Port Westward	5,400,565	4,320,452	3,502,919	817,533	1,080,113
Klamath Cogen True-Up	500,462	400,462	0	400,462	100,000
NW Natural Molalla	33,641	26,913	0	26,913	6,728
Klamath Cogen Shortfall	3,090,759	2,649,222	0	2,649,222	441,537
Massachusetts	551,162	450,000	450,000	0	101,162
Montana	475,785	360,000	360,000	0	115,785
NW Natural Smart Energy	235,377	198,085	0	198,085	37,292
Invenergy	284,496	234,430	0	234,430	50,066
Colorado Carbon Fund	179,891	179,891	0	179,891	0
Partners	568,093	464,699	434,699	30,000	103,397
TOTAL	\$20,100,032	\$16,307,993	\$8,809,725	\$7,498,268	\$3,792,039



“Our partnership with The Climate Trust on the Colorado Carbon Fund is advancing our New Energy Economy, creating jobs, and leading Colorado toward a cleaner and more secure energy future for our children.”

—Bill Ritter,
Governor of Colorado

technology

Offsets advance low-carbon technology

Our Cool Climate Concrete program provides incentives for concrete manufacturers to use an innovative, lower-carbon cement.

Funders and Clients

Oregon Power Plant Program

Avista Corporation
Calpine
City of Klamath Falls
Iberdrola Renewables
NW Natural
Portland General Electric

Large Emitter Offset Acquisition Program

Colorado Carbon Fund
American National Power
Basic Creek Power
Invenergy
Connectiv Energy Supply, Inc.
Seattle City Light
Dominion Resources Services, Inc.
Entergy Corporation
NW Natural Smart Energy Program
NRG Energy, Inc.
Public Service Enterprise Group
Sacramento Municipal Utility District
Seattle City Light

Offset Donations (>\$500)

Businesses:

7Group, LLC
Air & Waste Management Association
Ankrom Moisan Architects
Blue Box Group, LLC
v
Boora Architects, Inc.
British Embassy Washington
Broadcast Interactive Media
California League Services Corporation-
CUAO
Celilo
College of the Atlantic
Compton Foundation, Inc.
Global Partnerships
Hawthorne Auto Clinic
HDR, Inc.
Herrera Environmental Consultants, Inc.
I.H.S. Global Inc.
Insight Partners
MarketShift Strategies
Metropolitan Group, LLC
Northwest Environmental Conference
Oboz Footwear LLC
Portfolio 21 Investments, Inc.
Portland Energy Conservation
Portland General Electric
Residential Energy Services Network
Ross & Associates Environmental Consulting, Ltd.
Schwabe Williamson & Wyatt, P.C.
Second Nature, Inc.
ShoreBank Corporation
SRG Partnership Inc.
Stoll, Stoll, Berne, Loking & Schlachter PC
Strategic Energy Group

The Association of State Wetland Managers, Inc.
The Tesseract School
Transamerica Insurance & Investment Group
United Fund Advisors

Individuals:

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Caroline Bailey
Mr. and Mrs. Frederick Beckett
Claude Blackburn
Mr. and Mrs. Ken Champney
Shaun Church
Christine Ervin
James Fernow
Dr. Andrew Gunther
Peter Heymann
Joel Geeske
Michael Johnson
Dr. Walter Kwan
Richard Landers
Jean LeDem
Alan Linning
Bruce Maguire
Kelly Michel
Christopher Morgan, MD
Steve Motenko
Peter Murchie
William Reed & Ellen Lee Teare Reed
Roby Roberts
Mary Seabright
William Ury

Grant and Foundation Support

M.J. Murdock Charitable Trust
McKenzie River Gathering Foundation
Friends of Conservation
Laird Norton Family Foundation
The Energy Foundation

Leadership Circle

The following are individuals who contributed \$500 or more, and organizations that contributed \$1,000 or more to support The Climate Trust.

Individuals:

Sheryl Alstrin
A. Joseph Huerta
Payam Imani
John and Arlene McLaren
Talia Milgrom-Elcott
Jaclyn Skrivseth

Organizations:

Materium Fund of Schwab Charitable Fund
Northwest Core Collection
Threshold Foundation
True Now, LLC

National Board of Directors

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Zach Willey, *Economist, Environmental Defense Fund*

Non-Voting Certificate Holder Appointees

Arya Behbehani-Divers, *Manager, Environmental Services, Portland General Electric*
Tim Carlberg, *Construction Manager, Avista Corp.*
Rick Colgan, *Plant Manager, Hermiston Power Project, Calpine*
Bill Edmonds, *Director of Environmental Policy and Sustainability, NW Natural*

Staff

Mike Burnett, *Executive Director*
Sean Clark, *Director of Offset Programs*
Maggie Albertson, *Office Manager*
Lucy Brehm, *Senior Manager, Business Development*
Shanna Brownstein, *Policy Associate*
Erica Keeley, *Senior Offset Portfolio Manager*
Aurora Martin, *Offset Portfolio Associate*
Becky Ostrom, *Administrative Assistant*
Amy Phillips, *Marketing & Communications Manager*
Monica Thilges, *Offset Project Coordinator*
Peter Weisberg, *Offset Project Analyst*
Sheldon Zakreski, *Senior Program Manager*



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co-benefits

Offsets provide co-benefits

Carbon offsets are a cost-effective, market-based solution to reducing the greenhouse gases that cause global warming. Offsets also provide a host of additional environmental and economic benefits, from protecting biodiversity to creating jobs.