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Agreement No.: 40036135

OPG Pioneers Offset Trading and Accounting

Ontario Power Generation is the first company to register in all three tiers of VCR Inc.'s registry system, serving as an example of how emissions trading and a federally proposed covenants process can be made "transparent and effective."

"There's been a lot of discussion about this whole idea of covenants and offsetting, and accounting and reporting," says VCR president Bob Flemington. "It should give us some comfort that it isn't all hypothetical. The mechanics of setting a target and offsetting it, and accounting for everything in a public way is now in place."

While VCR has been registering greenhouse gas emission reduction action plans and progress reports in its Challenge Registry for nine years, in 2002 it began registering project-based emission reductions submitted by organizations that offset internal emissions by purchasing a GHG reduction from an external source. Registered emission reductions (RERs) are created after an offset is measured, calculated in tonnes of CO₂ equivalent (t CO₂e) and documented in accordance with the registry's RER protocol. RERs remain publicly documented in the Reduction Registry.

VCR also made its Credit Registry available in 2002. Documents filed here come from emitters choosing to retire offsets as a final step towards fulfilling emission reduction commitments. Ownership of the offset, which becomes identified with a serial number, is transferred to VCR, ensuring it will never be traded again. Ontario Power Generation is the only entity, thus far, to

do this.

"OPG stands out right now because it's advancing the concept of emissions trading and accounting, reaching for a target beyond what it can do within its own gates," says Flemington. "It's a pioneer in that process."

OPG's predecessor, Ontario Hydro, set this process in motion in 1994 with a letter of intent to VCR, one of the first documents to be filed in the Challenge Registry. A year later it set out to stabilize annual net GHGs at 1990 levels in the year 2000, which OPG achieved by purchasing about 10 million t CO₂e reductions from outside its operations. These offsets are documented in 85 entries in the Credit Registry.

"Our thinking was we wanted to demonstrate the value of emissions trading, and the need for a registry to ensure that we have access to this important tool for managing net emissions under any future regulatory framework. And I think we've done that now," says Anda Kalvins, OPG director of climate change strategy.

"We've bought credits since 2000 to continue to stabilize our emissions. We're okay for 2001, and we're almost there for 2002," she says.

In 2002, OPG contracted to purchase nine million t CO₂e to reduce GHG emissions. The emission reductions were created from geological sequestration

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projects in Texas, Wyoming and Mississippi, where CO₂ is piped to petroleum producers for injection into mature oil fields to enhance oil recovery. It would otherwise be vented to the atmosphere by natural gas processing plants, but is being sequestered in underlying bedrock.

Flemington believes the concrete example of OPG's documentation through VCR's Credit Registry will help any company that wants to follow in its path, but expects only a few will in advance of federal legislation that will define the individual GHG levels of emitters and the rules for credit trading and offsets.

"Those who have registered at VCR need to gain experience in what it would mean to have a more formal and standardized

approach to setting targets and reaching goals either internally or by investing externally," says Flemington. "The system is essentially built to accommodate corporations that have set a target either voluntarily or through the covenants process."

Canada's plan to reduce emissions includes a proposed mechanism for negotiating GHG emissions targets with large industrial companies. The targets will be enshrined in legally binding agreements, called covenants, with penalties for failure. It's likely, says Flemington, the VCR model will be utilized as a way to test the administrative systems that will be put into place to support a covenant and offsetting system.

"The VCR's Reduction Registry and Credit Registry work together with the

Challenge Registry to proof test a transparent and effective covenants process," he says.

The shape of legislation governing GHG emissions is now being worked out, though it's unknown how long the transition from an essentially voluntary reduction system to a more mandatory approach will last. A federally authored offset system design paper has been released for public comment, and Canada has set an emissions reduction target of 55 Mt for large industrial emitters in the oil and gas, electricity, mining and manufacturing sectors. The government has also promised companies will be able to meet their GHG reduction responsibilities in the first commitment period, 2008 to 2012, by capping the cost of offsets at a price no greater than \$15/ t CO₂e.

VCR "Raised the Bar" for Champion-Level Reports

Organizations receiving gold-, silver- or bronze-level status for their VCR action plans and progress reports must achieve higher standards this year, but their ranks are still expected to grow.

"The board felt because Canada has ratified Kyoto we should raise the bar right away, and raise it a little bit higher than we would have done otherwise," says VCR technical representative Evan Jones. "It's probably the biggest single jump because we changed all seven categories."

The seven categories of criteria, which reflect different facets of a VCR registrant's greenhouse gas emissions reduction documents, make up a champion-reporting checklist. Using the checklist, VCR employs a point system to quantify the depth of an organization's action plan. A reporter with 50 points is listed in the public registry at the bronze level, a 70-point score merits silver status, while 90 points must be attained for gold.

Effective from May of this year, all new reports to the Challenge Registry will be evaluated against the revised champion-level reporting checklist. The changes are designed primarily to address reporting at the gold and silver levels, but all three levels are affected. For example, to attain gold a registrant must now

report indirect emissions in its baseline and include a timeframe for its reduction targets. To reach silver, an employee GHG education program must be described. For all three levels, it's now mandatory to show reduction results for the reporting year, with first-time participants showing results within one year of registration. Also, for all three categories, points are assigned for including an evaluation of how emission offsets will be used in the reduction process, and for creating incentives for employees to reduce emissions outside of work.

With the volume of reporting across all economic sectors continuing to improve dramatically, Jones doesn't expect the list of 2003 champion-level reporters to diminish despite the elevated demands. Presently, 1067 registrants are listed in the Challenge Registry, with 118, 79 and 48 receiving gold, silver and bronze status respectively. The total number of registrants is more than ten-fold what it was in 1999, with roughly double the number of champion reporters.

"This is an evolutionary thing," says Jones, explaining that an assessment of 2002 action plans discovered only three companies would not have made gold status if judged against the new checklist. "I don't think it's going to be that onerous."

"This is an evolutionary thing"

Evan Jones, VCR Inc.

Powercomm Capitalizes on “Strategic Opportunity” Supply Chain Pilot Supports Alberta Company’s Ambition

Powercomm Inc., an electrical and instrumentation contractor, has evaluated its greenhouse gas emissions, registered an action plan with VCR, opened an internal GHG reduction office to make good on the plan and is now offering energy auditing and efficiency services to its clients – all in less than 12 months.

“We moved on this quite quickly and are very aggressive with our initiatives,” says Powercomm GHG reduction coordinator Craig Pilgrim.

Pilgrim was hired last January following a November 2002 workshop held by the Environmental Supply Chain Management (ESCM) Pilot, a project aimed at reducing greenhouse gas emissions in the suppliers of major Canadian corporations. As a supplier to Shell Canada, Alberta-based Powercomm gained an understanding of how to reduce GHGs by investing in energy efficiency measures, and it was convinced there were competitive advantages to be found by starting right away.

“Basically, I was given a binder from the November workshop,” says Pilgrim. “I was given some background information and a list of corporate goals. I was told ‘this is what we brought you in for, now go make it happen.’”

The ESCM pilot supplied software and information on how to spot opportunities and conduct an audit. It also gave Powercomm four free days of on-site assistance in establishing an energy savings program and GHG reduction plan.

Powercomm took advantage of the on-site support to provide energy efficiency and climate change training to the staff “to help them understand why this is important and how they’re related,” explains Pilgrim. The most valuable service provided, he says, was verifying

the numbers and methodology in his GHG inventory. Pilgrim also found VCR’s Challenge Registry, an online public catalog of action plans and progress reports, helpful.

“I went to early action plans going back to 1994 and 1995, and then picked more current ones to see if I could get an idea about trends and lessons learned,” he says. “I read some stuff that I thought was pretty ingenious, and I sat there and thought ‘I never would have thought of that.’ And there were some things I thought didn’t make much sense. There’s a wealth of information there.”

“This is an obvious
example of something
we should be doing”

Craig Pilgrim, Powercomm

PowerComm has 181 employees working in the field, at the head office in Edmonton and at six satellite locations around Alberta. Its action plan documents a GHG inventory derived from direct and indirect sources, with 2001 baseline emissions pegged at 1960 tonnes CO₂ equivalent, and 2212 t CO₂e for 2002. **The company’s initial goal is a five per cent reduction of 2002 emissions by the end of 2003. It’s also committed to an annual one per cent reduction from the previous year’s emissions from 2004 to 2010, which will decrease levels below the baseline, and a half-percent reduction in 2011 and 2012.**

The reductions will be accomplished through an upgrade of heating and compressed air systems in the company’s structural facilities. It is also looking at electrical systems - including panels, lighting and motors - and an incentive-based emissions reduction plan for employees with company vehicles. Replacing fleet vehicles with more fuel-efficient models will be done over the long term.

Pilgrim says, while Powercomm is behind schedule, he’s cautiously optimistic the company will reach its 2003 reduction objective in the last quarter of the year. The reason he’s behind schedule is that Powercomm has taken on the development of new services to offer its clients, identified through the ESCM initiative, in the area of GHG management and energy audits.

“There appears to be a business opportunity for Powercomm as well, and we’ve run with it,” says Pilgrim. “We’ve begun what we call our energy survey program, and that is intended to help both our clients and our competitors. Basically, we’re hoping others will be interested in taking steps towards becoming more energy efficient.”

The five-year ESCM program, which has taken root in Alberta, began in May 2001. It’s managed by VCR Inc. and is funded, substantially, by Industry Canada. Host corporations also support the work, and so far Shell Canada and Suncor Energy have signed on. The two companies invited 12 of their suppliers to the November workshop. Powercomm and four others attended, together with Alberta’s Climate Change Central, a publicly funded organization promoting GHG reduction strategies; the federal government’s Office of Energy Efficiency; the Pembina Institute and VCR. By the end of the pilot in 2006, it’s hoped 10 host corporations and 30 supply-chain companies will be involved.

“I look at this as capitalizing on a strategic opportunity for Powercomm to differentiate itself in the marketplace,” says Pilgrim. “This is an obvious example of something we should be doing. It makes sense on a number of levels, and it furthers our corporate reputation.”

VCR Inc. Shows the Way Small Emitters to Follow



A digester at Clear-Green Environmental's new Saskatchewan plant helps process liquid hog manure into energy, fertilizer and GHG reduction credits. Some of these reductions are helping VCR accomplish its net-zero-emissions plan.

By posting an action plan of its own, VCR Inc. is preparing to file its second annual progress report, and has acquired 97 tonnes of CO₂ equivalent (t CO₂e) to fulfill its 2002 reductions commitment.

Following up on an action plan filed in the Challenge Registry last October, VCR is working to reduce annual emissions to net zero. The organization has six full-time employees, four of whom work out of an 1100 square-foot office, and its annual operating budget is less than \$1 million. VCR president Robert Flemington says he hopes the organization's efforts will serve as both a "challenge and a template for other small and medium-sized enterprises (SMEs) to follow."

To that end, the VCR action plan and future progress reports model how a small company can calculate indirect emissions, from, for example, utility services. And a CO₂ calculation spreadsheet, available through the registry's Web site, assists in calculating fuel and electricity usage. Last year's action plan outlines office energy efficiency measures, transportation strategies and investments in offsets to reach the net-zero goal. Added to this year's report will be the ambition to reduce emissions from the annual VCR leadership awards ceremony,

starting in 2002. The October progress report will also outline the acquisition of 97 t CO₂e to offset last year's emissions. Technical representative Evan Jones estimates VCR's 2002 corporate footprint is 28 t CO₂e, plus 76 t CO₂e from the 2002 leadership awards ceremony, a total of 104 t CO₂e.

"Offsets are an important part of our strategy because there's only so much we can do with transportation and office energy use," says Jones, adding VCR wanted to ensure the offsets came from a Canadian-based project.

CO2e.com LLC, a multinational greenhouse gas brokerage firm, facilitated the offset deal, which demonstrates the potential of the Canadian GHG offset trading market. Saskatoon-based Clear-Green Environmental Inc. will provide the physical reduction of GHGs from a group of projects it is developing that capture methane and nitrous oxide gas from large-scale animal waste streams on agricultural sites in Alberta and Saskatchewan.

"Offsets are an important part of our strategy"

Evan Jones, VCR Inc.

Following a March VCR news release outlining the organization's offset acquisition, the registry received calls from several small companies interested in following the registry's example. SME's, says Flemington, are generally categorized as having fewer than 500 employees and make up the bulk of VCR's 1067 registrants.

"The whole process is about truing up," says VCR president Bob Flemington. "You ask what your emissions footprint was last year, what you have influence over and what you need to do to offset what you cannot reduce. It's about taking responsibility as a corporation for the things you do that generate greenhouse gas."