

Pacific Carbon Trust



Pacific Carbon Trust Service Plan 2009/10 – 2011/12

February 2009



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Message from the Board Chair to Minister Responsible

Welcome to the Pacific Carbon Trust!

The Honourable Colin Hansen
Minister of Finance and Minister Responsible for the Olympics
Government of British Columbia

Dear Minister,

On behalf of the Board of Directors and employees of Pacific Carbon Trust, I am pleased to present our **2009-2011 Service Plan** - the first one for the corporation.

This service plan is based on our mandate: *to deliver quality BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support growth of this industry in BC*. Our mandate evolves from the provincial Climate Action Plan's goal to reduce greenhouse gases by 33% from 2007 levels by 2020.

Offsets represent a reduction or removal of greenhouse gas emissions from the atmosphere. For example, when a company switches to a cleaner fuel to power its operations, the greenhouse gas emissions reduced can be measured in tonnes of offsets. Pacific Carbon Trust purchases these offsets (or carbon savings) for clients to pursue their own carbon reduction goals. PCT was established to offer this new approach to reducing emissions in a manner that ensures cost-effective bulk purchase of offsets for a carbon neutral public sector, investments for innovative answers to climate change, and a provincial focal point for a developing offset industry.

Over the next year, we will continue building on the strong foundational elements set for the corporation since its inception in March 2008. We will have a new CEO and eight experienced professionals working within the corporation's three core business functions – Procurement and Project Delivery, Business and Client Relations, and Strategy and Operations. We will continue breaking new ground with industry to develop offsets. In addition, we will have made considerable progress towards delivering our first order of quality, made-in-BC offsets to public sector organizations in time to meet their June 2009 carbon neutral commitments.

In subsequent years, the demand for offsets is forecast to grow quickly to 130,000 offsets delivered by 2010 and up to 1,000,000 by 2011, as the number of public sector organizations committed to carbon neutrality widens and more businesses and individuals become interested. For 2011, this represents 1,000,000 tonnes of carbon dioxide equivalents (CO₂e) reduced or removed from the atmosphere. That is comparable to taking 260,000 cars off the road for one year.

Our goals, measures and targets focus on PCT's ability to deliver quality offsets to customers using fiscally and environmentally responsible practices. Quality is important to ensure true greenhouse gas reductions are realized. Effectively managing the provincial government's \$24 million investment

PCT's Goals:

1. **An organization that delivers quality, cost-effective offsets.**
2. **An organization that is highly valued by its clients and industry.**
3. **An effective, environmentally responsible organization known for its industry expertise.**

is equally important to encourage ongoing innovations that address climate change and contribute to our economy.

In 2009/10, this will require working with industry to encourage wide-spread response to PCT offset opportunities and ensure that agreements with providers are consistent with the requirements of the Ministry of Environment Emission Offsets Regulation. PCT will also continue to develop its commercial practices and infrastructure.

Globally, carbon markets have grown exponentially. In 2007, they doubled in value to US\$64 billion, although we will have to watch this trend given the current economic conditions. There are also several climate change developments in North America such as the Western Climate Initiative, which includes B.C. This market and its developments present many opportunities for the emerging B.C. offset industry as well as for organizations and individuals eager to invest in a green economy by offsetting their own emissions. As with any new fast-growing market though, there are also challenges such as limited suppliers; lack of clarity around such things as terminology and standards; and ongoing developments in other jurisdictions. PCT will monitor developments and develop robust procurement processes to address these issues.

The future holds exciting opportunities as well as challenges for PCT. With our partners and employees, I believe that we are supporting development of B.C.'s growing offset industry and its entry into the emerging carbon market.

Accountability statement

PCT's 2009-2011 Service Plan was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. The board is accountable for the contents of the plan, including the selection of performance measures and targets.

All significant assumptions, policy decisions, and identified risks as of January 8, 2009 have been considered in preparing the plan. The performance measures are consistent with PCT's mandate and goals, and focus on aspects critical to the organization's performance. The performance targets in this plan have been determined based on an assessment of PCT's operating environment, forecast conditions, risk assessment and expected performance.



Chris Trumpy
Chair, Board of Directors

1. Organizational Overview

Overview

British Columbia has set a goal of reducing greenhouse gas emissions by 33 per cent by 2020, compared to 2007 levels. The provincial Climate Action Plan responds to this challenge, including a commitment to make the public sector carbon neutral by 2010, under the *Greenhouse Gas Reduction Targets Act*.

Pacific Carbon Trust (PCT) was incorporated as a provincial Crown corporation in March 2008 as part of this strategy, under the *Business Corporations Act*. Its mandate is to “*deliver quality BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support growth of this industry in BC.*” Budget 2008 provides \$24 million to PCT to set up operations – as an investment in our green economy.

Offsets represent a reduction or removal of greenhouse gas emissions from the atmosphere. For example, when a company switches to a cleaner fuel to power its operations, the greenhouse gas emissions reduced or removed can be measured in tonnes of offsets. Pacific Carbon Trust purchases these offsets (or carbon savings) for clients to pursue their own carbon reduction goals.

This is an innovative solution to climate change that benefits British Columbians in several ways - through less greenhouse gases in the atmosphere, cost-effective bulk purchases of offsets for a carbon neutral public sector, investments for innovative answers to global warming, and a focal point for developing a provincial offset industry.

The corporation is owned by the Province of British Columbia and reports to its shareholder – the Minister of Finance. It operates under a Shareholder’s Letter of Expectations that outlines the corporation’s and the shareholder’s responsibilities and is jointly signed by the Minister of Finance and Chair of the PCT Board.

Business Model

PCT’s business model centers on the procurement and delivery of offsets for its clients. To effectively carry out this activity, there needs to be an emphasis on business and client relations, as well as a strong supporting infrastructure. As a Crown corporation, PCT must also be transparent and publicly accountable in its operations and performance.

In keeping with this business model, PCT’s primary activities are aligned under the following three functions:

Core Business Functions for Pacific Carbon Trust		
Procurement and Offset Delivery	Business and Client Relations	Strategy and Operations
Technical Expertise	Business and Market Development	Corporate Governance
Project Development and Management	Client and Supplier Relations	Strategic Planning
Contract Negotiations / Monitoring	Portfolio Design	Finance and Accounting
Validation and Verification	Policy and Practices	Legal Services
Offset Inventory and Management	Knowledge Management and Research	Human Resources
Risk Management	Communications and Information Dissemination	Administration/Facilities
		Information Technology
		Performance Management and Reporting

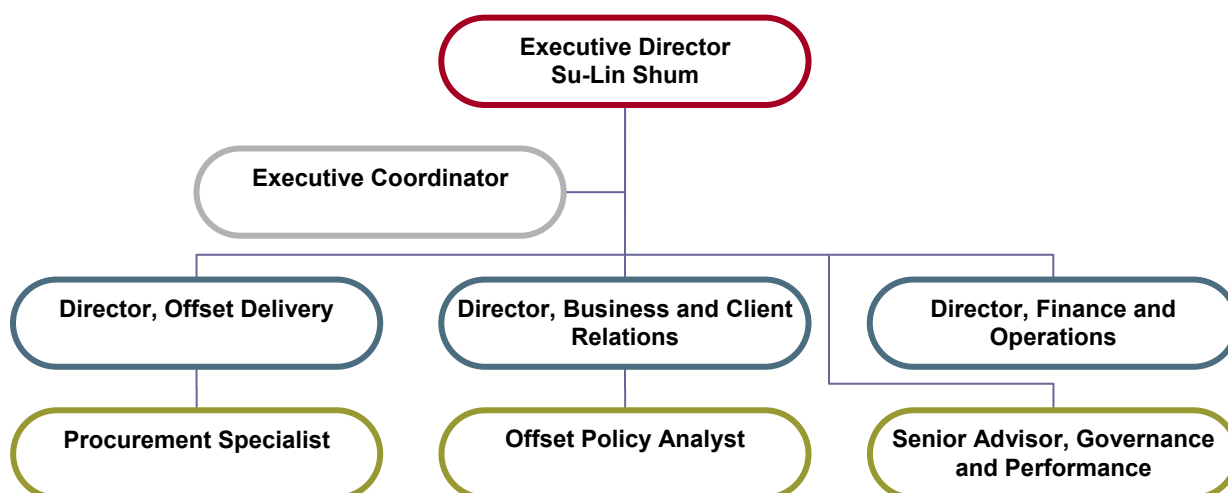
Procurement and Project Delivery is responsible for purchasing offsets from BC-based activities/projects that meet requirements set out in the Ministry of Environment's Emission Offsets Regulation. This will involve providing information related to potential projects, negotiating contracts, monitoring the validation of project plans against regulatory requirements, overseeing verification of reduced emissions, managing inventories, and providing other technical expertise.

Business and Client Relations will build and manage relationships with clients, suppliers and other interested parties, e.g. the public, partner ministries and others. This area will develop service delivery agreements with clients and manage the order, allocation and delivery of offsets. They will also work with industry to build awareness of PCT operations and offset opportunities and support development of this emerging marketplace.

Strategy and Operations will focus on strategic direction and the operations of the company to ensure an effective, accountable and environmentally-responsible organization. Key corporate activities will include financial and performance management, responding to the direction of our Board of Directors and shareholder, and managing our corporate carbon footprint.

Organizational Structure

PCT is located in Victoria, B.C., and is developing a staff of eight at the outset to carry out its mandate aligned with its three core business functions.



Our Stakeholders

PCT's stakeholders include those who have a significant interest in the corporation: our employees, our shareholder – the province of B.C. who represents the people of B.C. (and is represented by the Ministry of Finance), our clients and our partners within government and in the industry.

Clients

The corporation's current largest client is B.C.'s public sector. Starting in October 2007, ministries must counter all greenhouse gas emissions from business travel. By 2010, the commitment expands to cover not only all of government's broader operations, but also school districts, colleges, universities, health authorities, Crown corporations and other government agencies. These organizations are collectively known as Public Sector Organizations (PSO). PSOs are using offsets as part of a larger strategy to become carbon neutral.

Outside of the provincial public sector, PCT expects to acquire greenhouse gas offsets for clients, including businesses and individuals who are interested in reducing their carbon footprint.

Partners and Suppliers

A primary focus of the agency is to work with industry to develop credible, BC-made offsets. This will not only include the organizations that develop offset projects but also offset aggregators or wholesalers, third party validators and verifiers and related industry groups.

PCT also works in close partnership with the Climate Action Secretariat, which oversees the provincial Climate Action Plan as well as the Ministries of Environment, Labour and Citizens' Services, Agriculture and Lands, Transportation and Infrastructure, Forests and Range, and Energy, Mines and Petroleum Resources.

Corporate Governance

PCT is owned by the Province of British Columbia and reports to its shareholder – the Minister of Finance. As a Crown agency registered under the *Business Corporation Act*, it operates under the governance and accountability system set out by government.

This process includes a regular review of the corporation's mandate and activities, guided by a Shareholder's Letter of Expectations. The letter outlines the corporation's and the shareholder's responsibilities and is jointly signed by the Minister of Finance and Chair of the PCT Board. PCT also prepares key accountability documents such as Service Plans, Quarterly Financial Reports and Annual Reports.

Since its inception in March 2008, PCT has been led by an interim Board of Directors: Chris Trumpy (Chair), the Deputy Minister of Finance and Graham Whitmarsh, previously Head of the Climate Action Secretariat and currently the Associate Deputy Minister, Revenue, Ministry of Finance.

The Board is responsible for the overall direction of the company, including:

- Setting its strategic direction;
- Ensuring appropriate financial and operational controls are in place;
- Ensuring PCT has the appropriate resources to meet its mandate;
- Monitoring its key activities;
- Reporting to the Minister of Finance on activities, accountabilities and performance; and
- Providing the public with relevant and timely information about PCT's intentions and operations.

Additional board members will be established with the guidance of the Board Resourcing and Development Office and their guidelines. The board is in the process of developing governance principles and other governance practices for the new corporation.

The Executive Director of PCT is Su-Lin Shum who has been hired to establish all the foundational elements of the corporation, including its first business plan and implement many of its business practices. PCT expects to fill the position of a Chief Executive Officer in its first year of operations who will then oversee the day-to-day operations of the company.

Shareholder's Letter of Expectations

Government direction for the PCT is provided in the Shareholder's Letter of Expectations (SLE). This is an agreement between the Minister of Finance on behalf of government and the Board of PCT that establishes priorities and expectations for PCT. The chart below lists the expectations outlined in the most recent letter as well as PCT's response.

<i>Shareholder's Letter of Expectations</i>	<i>PCT Alignment</i>
Specific Government Direction to PCT	
Develop an approach to sell offsets to other entities and private citizens.	PCT is developing an approach for selling offsets to non-public sector organization clients, as part of the Client Service Delivery Strategy. The Strategy will clarify how services will be delivered to all clients, and enable private sector businesses, individuals and other entities to purchase offsets from PCT.
Continue to develop internal policies and procedures to meet the government's Crown Agencies Governance and Accountability Framework.	<p>PCT is working on internal policies and procedures to meet established guidelines, e.g. the development of service plans and annual reports. It is also working to meet requirements of the "Information Requirements and Events Calendar" for Crown Agencies. This includes a reporting timetable that allows government and Crown agencies to meet their collective statutory requirements for:</p> <ul style="list-style-type: none"> • Service plans and budgets; • Financial forecasts; • Monthly, quarterly and annual reports; and • Audited financial statements and public accounts.
<p>Acquire offsets in a transparent and competitive manner, using the following principles. Acquisitions will:</p> <ul style="list-style-type: none"> • Meet the requirements of the Ministry of Environment <i>Emission Offsets Regulation</i> while minimizing cost to the PCT; • Be made through contracts and contribution agreements with service providers that are designed to ensure that offsets meet anticipated requirements, and • Take into consideration other government priorities to the extent that doing so does not have a significant impact on credibility, efficiency or effectiveness. 	<p>PCT has initiated a competitive procurement process consistent with the acquisition principles.</p> <ul style="list-style-type: none"> • PCT released a Request for Information (RFI) on July 18, 2008 to identify the level of interest and market capacity to supply offsets needed by the PCT and to structure future procurement calls. • PCT released a Request for Qualifications on October 17, 2008 to pre-qualify respondents with the capability and capacity to provide all or some of the greenhouse gas (GHG) offsets needed to meet the government's legislated targets. • PCT is working to ensure that agreements with service providers are consistent with the requirements of the Ministry of Environment <i>Emission Offsets Regulation</i>. PCT will: <ul style="list-style-type: none"> • Evaluate respondent proposals; • Award letters of intent; • Ensure project plans are validated; • Award contracts; and • Ensure offsets are verified.

<i>Shareholder's Letter of Expectations</i>	<i>PCT Alignment</i>
	PCT is working with key public sector partners such as the Climate Action Secretariat, Labour and Citizens' Services, and the Ministry of Environment to clarify responsibilities, establish processes to achieve legislative requirements, and ensure consistency.
Develop and maintain a registry for verified offsets.	As the procurement process for verified offsets evolves, PCT is working on a registry system that will account for and effectively retire offset acquisitions in a transparent manner.
<p>Develop and maintain a risk management strategy that will include:</p> <ul style="list-style-type: none"> • Developing a diversified portfolio of GHG emission reductions and removals on an effective and efficient basis, and • Establishing adequate reserves and ensuring any verified offsets that are reversed can be replaced. 	<p>PCT's risk management strategy classifies risks as extreme, high, or medium; offers a mitigation strategy; and provides a progress report on actions underway. The strategy contemplates the future design of an offset portfolio and the use of self insurance techniques such as purchasing "extra" offsets that may be needed at a later date. PCT will manage its portfolio risk through a variety of actions including entering into both short- and long-term contracts and purchasing offsets which originate from a variety of project types and locations across B.C.</p>
Climate Change and Carbon Neutrality Initiatives	
Comply with the Shareholder's requirements to make the public sector carbon neutral by 2010, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the Corporation's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through its procurement activities; and	<p>PCT is working on a Carbon Neutral Action Plan. Given that PCT is a new Crown corporation, the organization will seek to minimize its carbon footprint (i.e., GHG inventory) as much as possible from the outset.</p> <p>Act as the government's agent in delivering GHG offsets to help achieve carbon neutral objectives.</p>
Encourage staff involvement to develop ideas and new solutions that meet government's climate change objectives, including energy conservation programs and fleet and traffic management initiatives, and report on results achieved.	<p>Participate in "green" transportation initiatives.</p> <p>Encourage staff to reduce, recycle and use alternatives to limit consumption of fossil fuels and other resources.</p> <p>Quarterly "Go Green" meetings to discuss best practices, innovative ideas, and new solutions to be a carbon-neutral organization.</p>

2. Strategic Context

Trends, Opportunities and Challenges

Carbon market

Carbon markets are a significant part of the worldwide response to climate change, and they are continuing to grow rapidly. In 2007, the market doubled in value to US\$64 billion. This follows on the heels of similar growth in 2006 when the market rose to US\$31 billion from \$US11 billion.¹ Despite recent economic turmoil, third quarter analysis for 2008 shows continued growth (to \$87 billion by end of Q3)² though this trend will be monitored.

Carbon market transactions can be grouped into two main categories:

- allowance-based transactions, in which buyers purchase emission allowances or credits issued by emitting members under cap-and-trade regimes; and
- project-based transactions, in which the buyer purchases credits from a project that can demonstrate additional greenhouse gas emission reductions.

PCT's offsets are considered project-based transactions. Requirements for the development of PCT offsets and the use of offsets for the BC public sector carbon neutral program are guided by provincial legislation and regulations.

The rise in the carbon market is being driven by regulatory initiatives at various jurisdictional levels and the voluntary efforts of individuals and organizations. This dramatic growth presents opportunities for the emerging B.C. offset industry. It also presents challenges for market participants as it is a new market with limited suppliers and lack of clarity around such elements as terminology and standards. In particular, there is some uncertainty in the short-term around the supply and cost of offsets in B.C. This could affect PCT's ability to deliver verified emissions reductions that meet B.C. standards by June 2009.

B.C. industries

British Columbia's broad resource industry may present specific opportunities for offset development, for example in energy development or forestry. Initial requests for interest provided proposed GHG reductions from several sectors including agriculture, energy generation, rail transportation, forestry, cement manufacture and commercial building management.

Labour market

The number of new carbon market systems developing in North America will require professionals and technical experts to provide market analysis, develop offset projects, and provide assurance in validating projects and verifying environmental benefits. Given the newness of this market in B.C., recruiting knowledgeable professionals and experts in this new area will be challenging.

Regulatory environment

The introduction of the *Greenhouse Gas Reduction Targets Act* will phase in about 150 public sector buyers of offsets in B.C. over the next two years. It is estimated that this will create a demand for at least 600,000 tonnes of CO₂e per year for PCT offsets by 2011. The public sector

¹ State and Trends of the Carbon Market 2008, The World Bank. Washington, D.C. May 2008

² Carbon Industry Intelligence Research Note, October 2008. New Carbon Finance

carbon neutral program allows PCT to obtain economies of scale to effectively manage bulk offset purchases for the public sector and to become a developed source of expertise for the industry. Revenues generated from offsets are expected to help fund innovative solutions to climate change and stimulate industry growth in the province.

Additional opportunities for PCT may be created by the more than 130 towns and cities that have signed the province's Carbon Neutral Local Governments Charter. They have made a commitment to reduce emissions from their operations as much as possible and, where emissions cannot be reduced, offset them by equivalent amounts to achieve carbon neutrality.

Future demand for offsets may also be driven by climate change developments in other North American jurisdictions. The Government of Canada aims to reduce Canada's total GHG emissions 20 per cent below 2006 levels by 2020. The proposed system allows the use of domestic offsets as an option for industrial installations to achieve compliance in reducing emissions. Other GHG reduction initiatives are also underway, such as the recent adoption of the *Global Warming Solutions Act* in California; the development of a regional cap-and-trade system by the Western Climate Initiative, which includes B.C.; and the east coast regional strategy to reduce emissions under the Regional Greenhouse Gas Initiative. It is not yet clear how these and similar developments will affect demand and supply in the B.C. carbon market. This level of regulatory activity is indicative of the growing awareness around climate change, and it will be important for PCT to monitor these developments and assess any potential implications.

Maximizing Opportunities and Minimizing Risks

PCT's first service plan includes several strategies to take advantage of new market opportunities and mitigate risks.

Opportunities	
<i>Growing Carbon Market</i>	<p>The establishment of PCT is a government initiative that will position B.C. to take advantage of the emerging carbon market. The market also provides an additional approach for the public sector to reach its carbon neutral goals.</p> <p>One of PCT's core business functions – Business and Client Relations – will focus on business development with suppliers. A key corporate strategy is to develop relationships with industry proponents to build awareness of PCT and offset development opportunities.</p>
<i>B.C.'s Greenhouse Gas Reduction Targets Act</i>	<p>The provincial act and its carbon reduction goals have created a sizable market for offsets in B.C. PCT has a core business area dedicated to Procurement and Project Delivery. It will work with industry to develop robust procurement strategies to meet the demand for offsets. PCT will also provide information on standards, offset development and retirement processes, and quality control systems.</p> <p>The "client" side of the Business and Client Relations division will develop effective service delivery relationships with clients and partners to help clients meet their carbon reduction goals.</p>
<i>Increasing Climate Change Developments</i>	<p>An increasing level of developments and regulatory activity around climate change in North America generates possible new markets for offsets. PCT will set up systems to monitor regulatory developments and offset market information, and its implications for PCT.</p> <p>It is also developing sales channels to provide offsets to local governments and others who are interested in offsetting their greenhouse gas emissions.</p>

Risks	
<i>New Carbon Market</i>	<p>There is some uncertainty in the supply and cost of high quality offsets in B.C., given the infancy of the offset industry. One of the immediate risks facing PCT is their ability to purchase required offsets in time for legislated deadlines, in particular by June 2009.</p> <p>PCT has developed short- and longer-term procurement strategies to address this risk. The first was a request to industry for proposals to supply 35,000 tonnes of realized and verified offsets for its first deadline in 2009. Work is underway to meet this deadline.</p> <p>The second is a strategy to develop a longer-term procurement strategy, which encourages a strong outreach program and development of a balanced portfolio of offsets, with respect to short- and long-term delivery schedules and diversification among project type and location.</p>

Risks

<i>New Carbon Market</i>	<p>Over the medium-long term, a major risk for PCT is not being able to source enough quality offsets because of failures during project development.</p> <p>The company has asked potential suppliers to provide proposed approaches for managing any risks that the offsets may not be delivered to PCT on time. PCT also plans to buy more offsets than required. The mitigation strategy also includes establishing a robust procurement process with strong contract terms and project oversight in developing a diversified portfolio of offsets.</p>
<i>Labour Market</i>	<p>One of the risks to PCT and the industry in general is a possible shortfall in offset industry professionals for the emerging carbon offset markets.</p> <p>The corporation plans to work with industry in developing strategies to attract assurance providers and other offset professionals to the province.</p>

Capacity Issues

PCT is hiring at least eight people within its first year of operations, two for each of its core business areas plus the executive director and coordinator positions. A Chief Executive Officer will also be recruited. These positions will form the foundation of PCT's organizational structure. Additional growth for the corporation depends on many factors, including the extent of PCT's mandate and how well it can be positioned to respond to the potential opportunities described. For forecasting purposes, the corporation has budgeted for 15-20 staff when fully operational to meet expanded client and offset volume demand. There will be an emphasis in the company to encourage personal development and training to prepare for this fast-growing sector.

3. Goals, Strategies, Measures and Targets

PCT's mandate is to *deliver quality BC-based greenhouse gas offsets to help clients meet their carbon reduction goals and to support growth of this industry in BC*. This direction evolves from the Climate Action Plan's goal to reduce greenhouse gases by 33% from 2007 levels by 2020 and the larger provincial goal to "lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none."

PCT has established three goals to guide fulfillment of its mandate:

- Goal 1: An organization that delivers quality, cost-effective offsets.
- Goal 2: An organization that is highly valued by its clients and industry.
- Goal 3: An effective, environmentally responsible organization known for its industry expertise.

The goals focus corporate efforts on three important areas required by the mandate – providing quality offsets cost-effectively, helping clients to meet their goals, and supporting growth in the industry. The goals also stem from the Stakeholder's Letter of Expectations, which directs the corporation "*to conduct its affairs to achieve its mandate...consistent with principles of efficiency, effectiveness and customer service.*"

This is the corporation's first service plan. The strategies reflect two realities: the immediate need to get the organization up and running as well as the longer term need to establish full operations to enable it to deliver the offsets needed by its clients. The performance measures emphasize outputs linked to basic operations and finances as well as outcomes tied to customer, industry and environmental metrics.

Demand for PCT's offsets is expected to increase significantly over the first three years: from 35,000 offsets required by end of June 2009 to between 700,000 and 1,000,000 offsets required by June 2011. This represents a phase-in of operations - from offsetting only travel operations of direct government ministries in the first year to offsetting carbon emissions from all operations of a broader public sector in 2011 as well as those from other businesses or individuals. As a result, it may take the first couple of years to collect baseline information and develop some of the targets.

The newness of the industry also presents challenges in benchmarking. There are several carbon offset markets, which are complex and quickly changing due to ongoing regulatory development and evolution of market forces. Developing systems to monitor industry performance and benchmarks as more reliable and comparable information emerges will be part of PCT's strategy to ensure robust evaluation of its own performance.

Goal 1: An organization that delivers quality, cost-effective offsets.

As the carbon offset industry develops, customers are being cautioned to purchase offsets that meet high environmental standards if they want to realize true greenhouse gas reductions. Most concerns for project-based offsets centre on the issue of “additionality,” which is a standard to ensure the environmental benefit from the offset project is in addition to business as usual. In fact, 2007 was seen as the year for development of carbon offset standards and registries in the voluntary carbon market by one industry report.³ BC’s own standards, by which PCT must comply, were only just set out in regulations in December 2007 through Ministry of Environment’s Emission Offsets Regulation.

Attaining this first goal – delivering quality, cost-effective offsets – directly relates to PCT’s mandate to provide BC-based offsets that help clients meet their carbon reduction goals. Providing cost-effective offsets is also important to ensure that the public sector obtains the benefits of PCT’s bulk offset purchases and customers can maximize their environmental purchasing power.

This first goal not only focuses corporate attention on the cornerstone of PCT’s operations – buying quality offsets - but also on an initial obligation that presents considerable challenges. These challenges include sourcing offsets from a small number of suppliers in this new industry and ensuring offsets meet the high environmental standards required in the proposed *Emission Offsets Regulation* and are verified or realized by the delivery deadline of June 2009. Furthermore, these offset delivery requirements are expected to increase significantly in the next few years. Therefore, the corporation must quickly ramp up operations to be positioned to meet these delivery requirements.

Strategies

- Meet government’s initial offset requirements. Establish procurement process to effectively meet government’s needs in a transparent, competitive manner, such as through public bids. Continue to work with pre-qualified suppliers to deliver 35,000 tonnes of realized and verified offsets by the end of June 2009.
- Implement a longer-term procurement strategy that includes developing criteria for a series of procurements that:
 - encourages wide-spread response and considers purchases from different suppliers, e.g. individual project proponents and industry aggregators (wholesalers); and
 - produces a balanced portfolio of offsets, with respect to short- and long-term delivery schedules and diversification among project type and location.
- Establish systems to monitor regulatory developments and offset market information, including prices of offsets comparable to those generated by BC-based projects.

³ Forging a Frontier: State of the Voluntary Carbon Markets 2008. Ecosystem Marketplace/New Carbon Finance

PERFORMANCE MEASURES		TARGETS		
	08/09 Forecast	2009/10	2010/11	2011/12
1. Meets offset purchase orders on time	N/A	100%	100%	100%
2. Average price paid for offsets per tonne	N/A	Less than \$25	Less than \$25	Less than \$25

Description and Rationale for Performance Measures and Targets

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Meet offset orders on time The first measure monitors the company's ability to deliver purchase orders for its clients. This requires that PCT not only provide enough offsets to meet clients' orders by their deadlines, but that they ensure delivery of offsets of high environmental standards as required by provincial regulations.</p> <p>Target: PCT has selected a target of meeting 100% of offset orders on time for next three years.</p> <p>Data: This information is available from PCT operations, and is collected through offsets accounting and registry information.</p>	<p>This measure was chosen because it directs corporate strategies towards ensuring PCT delivers enough offsets to meet client requirements at a time when supplies may be limited in an immature industry. At the same time, it ensures that the purchase of quality offsets is entrenched in basic corporate operations.</p> <p>This target sets high expectations for the corporation in an area that presents some risks to PCT, i.e., not sourcing enough quality offsets because of failures during project development. The company has asked potential suppliers to provide proposed approaches for managing any risks that the offsets may not be delivered to PCT on time. PCT also plans to "self-insure" by buying enough additional offsets to manage this risk and will try to ensure offsets originate from a variety of suppliers, project types and locations in B.C.</p>
<p>Performance Measure: Average price paid for offsets The second measure monitors average price paid by PCT for offsets.</p> <p>Target: PCT has selected a target of Less than \$25 for the next three years.</p> <p>Data: This information is available from PCT operations, and is collected from its purchase expense accounting information.</p>	<p>This measure was chosen because offset prices are a large component of expenses. Providing cost-effective offsets is an important part of managing public sector costs and helping clients to meet their carbon reduction goals. It also ensures PCT remains financially viable.</p> <p>PCT has set this target to ensure that the corporation does not purchase offsets at a price over the proposed client transaction price of \$25 per tonne of GHG offset. PCT will also be monitoring industry and market information for comparable pricing information. (Note: given the newness and complexity of the industry, it may be difficult to find reliable comparisons in the short-term.)</p>

Goal 2: An organization that is highly valued by its clients and industry.

Ensuring responsiveness to two of the corporation's key stakeholders – its customers and suppliers – is an integral part of the corporate strategy in meeting mandated objectives to help *clients to meet their carbon reduction goals and support growth in this industry in B.C.*

Short-term Strategies:

- Foster effective working relationships across the public sector. Clarify roles, responsibilities and processes in working with public sector partners, including the Ministry of Environment and Climate Action Secretariat.
- Develop effective service delivery relationships with clients, including Public Sector Organizations to deliver offsets in a timely manner and monitor client needs. Provide information to clients about offsets and their role in reducing emissions.
- Implement a broader client service delivery strategy that identifies how offsets can be delivered to businesses and individuals.
- Develop relationships with industry proponents including project developers, aggregators, verifiers and other industry groups. Provide information to the industry about B.C. offset opportunities, standards, development and inventory management processes, and quality control mechanisms.
- Create an industry development strategy to build awareness of PCT and offset opportunities across appropriate B.C. industry sectors.

PERFORMANCE MEASURES		TARGETS		
	08/09 Forecast	2009/10	2010/11	2011/12
1. % of customers and suppliers satisfied / very satisfied	N/A	90%	N/A*	90%

* PCT will conduct and report on the satisfaction survey every two years.

Description and Rationale for Performance Measures and Targets:

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Customer and Supplier Satisfaction This measure monitors satisfaction of PCT's services and activities from customers and industry suppliers. It will be conducted through a bi-annual survey.</p> <p>Target: PCT has selected a target of 90% as a satisfaction rate from customers and suppliers.</p> <p>Data: This information will be collected from a bi-annual survey of customers and suppliers.</p>	<p>Customer satisfaction is a basic way to measure the value of PCT to clients in helping them meet their carbon reduction goals. Throughout the next year, PCT will continue to develop customer relationships as it provides offsets to its clients.</p> <p>Supplier satisfaction is a way to measure how key industry players view PCT's role and activities in supporting an offset industry in B.C. Having PCT as a focal point in the province for offsets enables an easy-to-access organization to spur innovation and synergies in this sector. This central hub together with the increased demand for offsets from the public sector carbon neutrality requirements is expected to stimulate industry activity and growth. Industry growth is very important to shore up the supply of offsets for PCT and other aggregators as consumer and corporate demand increases. Industry growth is also important to support successful participation in the emerging low-carbon economy.</p> <p>This target was chosen to set high standards for the corporation's client and supplier support.</p>

Goal 3: An effective, environmentally responsible organization known for its industry expertise.

As PCT enters its second year of operations, it plans to increase its internal capacity, e.g. staff to fulfill its mandate in helping clients meet their carbon reduction goals. This third goal is designed to motivate employees in developing an organization built on sound business practices that incorporates fiscally as well as environmentally responsible behaviour and builds a wide breadth of knowledge capable of supporting industry innovation and growth.

The goal has identified three important characteristics that help to describe the type of corporation it aspires to become: effectively managing public sector resources as outlined in the SLE, environmentally responsible - a value that models the corporation's reason for existence, and industry expertise – a particularly important asset for development of a new, complex industry.

Strategies:

- Establish the organization to ensure effective operations. Build capacity and infrastructure to meet growing service delivery needs.
- Continue to ensure PCT's activities align with its strategic direction. Develop corporate vision and values. Ensure ongoing clear linkage with Climate Action Plan and other related government initiatives.
- Be transparent and accountable. Monitor performance and meet reporting requirements. Develop and manage a data collection system. Ensure policies and procedures meet guidelines and reporting requirements for Crown Agencies.
- Establish principles, facilities, and day-to-day practices that assist in reducing greenhouse gas emissions. Establish systems to monitor GHG emission in accordance with the *Greenhouse Gas Reduction Targets Act*.
- Develop relationships with leaders in the offset industry to ensure exchange of information and knowledge. Participate in important industry events.
- Ensure staff are given opportunity for personal development to promote greater expertise in this industry.

PERFORMANCE MEASURES		TARGETS		
	08/09 Forecast	2009/10	2010/11	2011/12
1. Administration and operation expense as a % of sales	N/A	Set baseline	TBD	TBD
2. Lower than average organizational carbon footprint (per FTE)	N/A	Lower than core government average	Lower than core government average	Lower than core government average

Description and Rationale for Performance Measures and Targets:

Description of Measure	Rationale/Benchmarks
<p>Performance Measure: Administration and operation expense as a % of sales This measures the administration and operation expenses or management costs of a company – those areas of expenditure that do not relate to developing an inventory of offsets.</p> <p>Target: Targets will be set in the coming year as more reliable industry information is obtained.</p> <p>Data: This information is available from PCT financial accounting information.</p>	<p>This measure was chosen to help monitor the company's effectiveness. Companies use this measure to help determine how low operating expenses can be reduced without significantly affecting the firm's ability to meet its mandate or compete with competitors.</p> <p>At the publication date, no industry benchmarks for this measure were found in the literature reviewed with respect to offsetting companies. Information in one report listed self-reported figures of a small number of companies; however, it is not clear how the companies arrived at these percentages.⁴ It is expected that as the industry develops, more reliable benchmark information will become available.</p>
<p>Performance Measure: Lower-than-average organizational carbon footprint This measure will monitor the organization's level of greenhouse gas emissions per Full-Time Equivalent.</p> <p>Target: PCT has selected a target for a level of corporate greenhouse gas emissions to be lower than the average in core government.</p> <p>Data: PCT is developing processes to collect this data from internal operations and compare with core government results reported out through requirements under the Public Sector Carbon Neutral Program.</p>	<p>The last measure is important in demonstrating PCT's leadership in reducing its own carbon footprint.</p> <p>The target of a lower average carbon footprint than core government was selected to demonstrate PCT's leadership in this area. Also, more information will be available about core government operations as they are the first public sector group to report out under the <i>Greenhouse Gas Reduction Targets Act</i>.</p>

⁴ Kollmuss A and Howell B. Voluntary Offsets for Air-Travel Carbon Emissions. Tufts Climate Initiative, December 2006. Revisions in 2007.

4. Summary Financial Outlook

Financial Outlook

	2007/08	2008/09	2009/10	2010/11	2011/12
000's	Actual	Forecast	Budget	Forecast	Forecast
Revenues					
Operating Grant from Province of BC	9,000	5,000	5,000	5,000	0
Offset Revenue		875	3,250	21,250	21,250
Interest on Investments		165	210	210	150
Total Revenues	9,000	6,040	8,460	26,460	21,400
Expenses					
Salaries and Benefits	0	200	1,685	1,885	1,920
Professional Services	0	800	490	435	355
Board and Committee Expenses	0	0	55	55	55
Administration and Rent	0	190	845	880	885
Sub-Total Operating Expenses	0	1,190	3,075	3,255	3,215
Offset Purchase Expenses	0	105	5,315	23,100	18,090
Total Expenses	0	1,295	8,390	26,355	21,305
Net Income	9,000	4,745	70	105	95
Capital Expenditures	0	75	75	50	25
FTEs	0	2	13	16	16

Key Assumptions

The financial statement is based on the following key assumptions.

Revenues

PCT has received funding of \$9 million (2007/08) and \$5 million (2008/09) as “seed” money to set up its operations. The government has committed a further \$5 million for each of the following two years.

Offset revenues are based on a transaction price of \$25/tonne of CO₂e and on the following estimated demand for PCT offsets. For each fiscal year, it has been assumed that revenues will be received for the previous calendar’s offset requirements by public sector organizations.

000s	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
PSOs (Government) Travel	35 ⁽¹⁾	30	30	30	30
PSOs (Government) Operations ⁽²⁾			615-895	615-895	615-895
Local Governments	--	--	--	--	-- ⁽³⁾
Non-regulated Companies and Individuals	--	100	100	100	100
Total Approximate Offset Demand	35	130	700-1,000	700-1,000	700-1,000
(1) In 2008, the value of CO2e in tonnes for PSOs travel emissions includes approximately 5,000 tonnes for the October-December 2007 period that PCT is liable for offsetting.					
(2) Provincial ministries and agencies, schools, colleges, universities, health authorities and Crown corporations.					
(3) Estimates of expected offsets have not been assessed at this time.					

Expenses

Employee costs are based on 2 FTEs in 2008/09, 13 in 2009/10, and 16 in subsequent fiscal years.

The Administration and Rent category includes expenses for rent, administration, information technology and travel. This includes an allowance for capital expenditures for computer equipment, furniture, and leasehold improvements.

Offset purchase expenses have been based on calendar year offset estimates and a build-up of inventory required to strategically manage risks related to delivering fully verified offsets. Offsets will be acquired through competitive bid processes that are expected to provide “best value” offsets. As noted earlier, the carbon market is relatively new in B.C. and obtaining an adequate supply of verified offsets remains a significant risk that PCT needs to manage in order to be able to meet the needs of its clients.

Pacific Carbon Trust

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