

Pacific Carbon Trust



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

September 2009 Update



Pacific Carbon Trust

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Message from the Board Chair to Minister Responsible

The Honourable Colin Hansen
Minister of Finance
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 updated **2009/10 – 2011/12 Service Plan**.

Pacific Carbon Trust'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*. We offer 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, and investments for innovations in reducing greenhouse gas emissions.

Since our inception in March 2008, we have sourced more than 300,000 tonnes of carbon offsets over five years and delivered our first 34,370 tonnes to government for its carbon neutral commitment. These BC-based offsets – generated from fuel switching and energy efficiency projects - mean real GHG reductions in greenhouses, hotels, care home facilities and a cement plant across the province. What is also exciting is that these innovations would not have happened without the additional revenue from the sale of offsets. This means new offset projects and economic opportunities for the province – important for a growing green economy.

With these initial offset contracts, PCT is positioned to exceed its first two years of estimated offset requirements. These new market developments are also helping to prepare our province for the emerging low-carbon economy, which is gaining momentum in North America. The U.S. is debating legislation that proposes a national economy-wide cap-and-trade system, and Canada has indicated a similar interest. Regional systems have developed in anticipation of larger carbon trading systems. Here in BC, our public sector carbon neutral program alone is creating demand for over 700,000 tonnes of offsets annually by 2011. These developments underscore the importance of a provincial carbon market presence.

This dramatic increase in annual offset requirements is an exciting opportunity for the industry. It will also require significant resources and creativity on the part of all market players to meet this challenge, especially given the infancy of the market and uncertainty around supply. As a result, while our first year was focussed on establishing the organization, researching market developments and meeting initial requirements, our second is turning to increased activity in purchasing offsets and supporting offset development. The corporation is growing and will soon have sixteen staff aligned across our three business units - Procurement and Offset Delivery, Business and Client Relations, and Strategy and Operations. We are in the middle of our second procurement process, targeted to forest offsets, and preparing to embark on several more procurement calls this fall. We are also working with government partners to develop a BC offset regulatory guidance document and industry workshops to support increased expertise and industry growth.

Our goals, measures and targets focus on this challenge and PCT's ability to deliver quality offsets to meet customer demands. They also focus on how we meet our goals to ensure the use of 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 is equally important to encourage ongoing innovations that address climate change and contribute to our economy.

The financial outlook for the corporation is stable, with the expectation that much of the initial "seed" money provided by government will support our formative years and the build-up of an offset inventory.

Working in this emerging market presents many opportunities for the BC 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 and expertise, and ongoing market developments in other jurisdictions. PCT will monitor developments and develop robust procurement processes to help address these issues. With our partners and employees, I believe that we are supporting development of BC'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 BC 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 July 31, 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 and help grow the offset industry – as an investment in our green economy.

Offsets represent a removal of greenhouse gases (GHGs) from the atmosphere or reduction of greenhouse gas emissions. PCT’s role is to acquire GHG reductions that clients can use to offset their emissions. For example, when a company switches to a cleaner fuel to power its operations, the greenhouse gas emissions reduced or GHGs removed can be measured in tonnes of offsets. Pacific Carbon Trust purchases these offsets (or carbon savings) for clients to pursue their individual 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 centres 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 core business functions:

Core Business Functions		
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, BC, and is developing a staff of sixteen to carry out its mandate, aligned with the three business functions - Procurement and Offset Delivery, Business and Client Relations, and Strategy and Operations. The corporation has hired its first Chief Executive Officer, Scott MacDonald, who is responsible for overseeing the day-to-day operations of the company. Su-Lin Shum is the company's Vice-President of Business Development and Corporate Services.

Our Stakeholders

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

Clients

The corporation's largest client is BC'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 Ministry of Environment's Climate Action Secretariat (responsible for the Climate Action Plan, *Greenhouse Gas Reduction Targets Act*, and government's Carbon Neutral Program); Ministry of Labour and Citizens' Services (Shared Services BC) who provide GHG emission measurement and reduction services; and climate change experts in the Ministries of 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 has also posted on its website (www.pacificcarbontrust.ca) key accountability documents such as its Shareholder's Letter of Expectations, first service plan and annual report, and financial statements.

During its first year, PCT was led by an interim Board of Directors: Chris Trumpy (Chair), who was Deputy Minister of Finance until March 31, 2009 and Graham Whitmarsh, previously head of the Climate Action Secretariat and now the Deputy Minister of Finance. On February 20, 2009, James Gorman, Deputy Ministry of Education, joined as the third member of the Board of Directors.

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.

The three-person board operates as a committee of the whole for required sub-committees. The board also started its transition to a permanent Board of Directors, which will include individuals who are independent from management and external to government operations. Additional board members are being established with the guidance of the Board Resourcing and Development Office and its guidelines. The board is also in the process of developing governance principles and other governance practices for the new corporation.

Information about the board members and their terms is posted on the PCT website and on the Directory of Agencies under BC's Board Resourcing and Development Office (BRDO) (www.lcs.gov.bc.ca/BRDO/currentBoards.asp).

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 has developed a model agreement for selling to non-public sector organization clients, as part of the Client Service Delivery Strategy. Helijet International Inc. became PCT's first corporate client in March 2009. The company is also developing an approach to sell to individuals.
Continue to develop internal policies and procedures to meet the government's Crown Agencies Governance and Accountability Framework.	PCT is meeting established guidelines and information requirements for Crown agencies, including requirements for service plans and budgets, financial forecasts, annual reports, and audited financial statements.
<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>To date, PCT has signed agreements to purchase over 300,000 tonnes of offsets over five years. This was the result of an open competitive procurement process. In April 2009, it released a Request for Information to identify the level of interest and capacity to supply forest based offsets, and intends to follow up with a Request for Qualifications.</p> <p>During the purchasing and offset delivery process, PCT oversees contract and quality assurance documents to ensure that the offsets meet regulatory and other anticipated requirements. This includes evaluating proposals, developing purchase agreements with project proponents, overseeing the validation and verification process, and ensuring delivery of verified offsets.</p> <p>PCT is working with key public sector partners to meet legislative requirements and ensure consistency with respect to government climate change objectives.</p>
Develop and maintain a registry for verified offsets.	PCT has recorded the corporation's Retired Offsets on its website to identify verified offsets that have been delivered to clients.
<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. 	PCT's portfolio strategy is designed to diversify offsets both with respect to short- and long-term delivery schedules and among project type and location. PCT's purchases in 2008/09 include projects from energy efficiency, renewable energy and fuel-switching projects, all with the ability to deliver offsets within five years. The second procurement process is targeted to forestry offsets, which is expected to lead to carbon sequestration projects throughout many areas of BC with an ability to deliver offsets over a

<i>Shareholder's Letter of Expectations</i>	<i>PCT Alignment</i>
	<p>longer time period.</p> <p>PCT will continue to manage its portfolio risk through a variety of actions including the use of self insurance techniques such as purchasing "extra" offsets that may be needed at a later date, and entering into both short- and long-term contracts and purchasing offsets which originate from a variety of project types and locations across BC.</p>
Climate Change and Carbon Neutrality Initiatives	
<p>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;</p>	<p>PCT acts as the government's agent in delivering GHG offsets to help achieve carbon neutral objectives.</p> <p>It also is developing its own Carbon Neutral Action Plan to reduce and offset emissions. The corporation has set a high bar in its service plan to be an effective, environmentally responsible organization known for its expertise. In tandem with this goal, PCT developed a performance measure to monitor the organization's level of greenhouse gas emissions in relation to the average organizational carbon footprint.</p>
<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>	<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>

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 2008, the overall market doubled in value to US\$126 billion, following on the heels of similar growth in 2007. The growth in 2008 is driven in large part by transactions of allowances and secondary market trading in regulated markets. The primary market for project-based emission reductions weakened in the regulated sector, given the global financial downturn and future market uncertainty.¹

The voluntary carbon market, which operates outside regulated carbon trading schemes such as Kyoto's Clean Development Mechanism and the EU Emissions Trading Scheme, plays an important role in offset project development. Although it is a small portion of the total market, its value more than doubled in 2008 to US\$705 million.²

Recent climate change developments in North America are creating further momentum and stimulating increasing demand of offsets in BC. For example:

- the government of Canada aims to reduce Canada's total GHG emissions 20 per cent below 2006 levels by 2020;
- regional systems have evolved, including Alberta's offset system, the Western Climate Initiative (which includes BC), the Regional Greenhouse Gas Initiative and the Midwestern Greenhouse Gas Initiative in the U.S.; and
- draft legislation in the U.S. proposes 80 per cent reductions in greenhouse gases from 2005 levels by 2050 through an economy-wide cap-and-trade system, which could pre-empt regional programs in the U.S.

2009 has also seen a strong involvement on the international stage to address climate change, which is expected to culminate at the United Nations Climate Change Conference in Copenhagen at the end of this year. This conference has been designed to shape an international response to climate change.

It is not yet clear how these and similar developments will unfold but it is expected they will present both opportunities and challenges for offset development. It is important for PCT and other BC organizations to monitor these developments.

BC Regulatory Environment

In BC, the government's commitment to make the public sector carbon neutral by 2010 through the *Greenhouse Gas Reduction Targets Act* is creating a large demand for carbon offset projects. PCT estimates that it will require 700,000 to 1,000,000 tonnes of carbon dioxide equivalent offsets by 2011 largely to meet BC's carbon neutral commitment. The public sector carbon

¹ State and Trends of the Carbon Market 2009, The World Bank. Washington, D.C. May 2009

² Fortifying the Foundation, Ecosystem Marketplace and New Carbon Finance, 2009

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. This presents a growing economic opportunity for British Columbians to be involved in the development, sale and management of carbon offsets.

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.

The dramatic growth in offset requirements in BC also presents challenges for market participants as it is a new market with limited suppliers, undeveloped but growing expertise, and evolving market conditions. Additionally, specific BC legislation designed to reduce GHG emissions, such as the requirement for zero net greenhouse gas emissions from all new electricity generating facilities or for landfill gas capture from municipal solid waste landfills by 2016, will in turn reduce potential offset supply in these sectors. As a result, a key market challenge is the uncertainty around the supply and cost of offsets in BC. This could affect PCT's ability to deliver the high volume of verified quality offsets required by 2011.

It is important for PCT and other BC organizations to monitor these regulatory and market developments, assess their implications for BC, and work together to develop creative ways to advance real GHG reduction opportunities through offsets.

BC 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. A recent procurement call for information about forest offsets generated responses related to afforestation, using select seed and fertilization projects.

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 BC, recruiting knowledgeable professionals and experts in this new area will be challenging.

Maximizing Opportunities and Minimizing Risks

PCT is pursuing 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 BC 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>BC's Greenhouse Gas Reduction Targets Act</i>	<p>The provincial act and its carbon reduction goals have created a sizable market for offsets in BC. 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 considerable uncertainty in the supply and cost of high quality offsets in BC, given the infancy of the offset industry. With initial purchase agreements, PCT is in a position to meet requirements expected for 2009 and 2010 and to begin building inventories for future years. The corporation will require a large increase in offset purchases to meet the over 700,000 tonnes target for 2011.</p> <p>PCT's ongoing procurement strategy and support for industry development is building interest and expertise in offset development in BC. This will help to build an increasing supply of offsets at competitive prices in future years.</p> <p>PCT's longer-term portfolio strategy is designed to diversify offsets both with respect to short- and long-term delivery schedules and</p>

Risks	
	among project type and location. PCT's first purchase includes projects from energy efficiency, renewable energy and fuel-switching projects, all with the ability to deliver offsets within five years. The second procurement process is targeted to forestry offsets, which is expected to lead to carbon sequestration projects throughout many areas of BC with an ability to deliver offsets over a longer time period.
New Carbon Market	<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 build up its offset inventory. 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>
Labour Market	<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>PCT plans to monitor results of accreditation programs (e.g. ISO's validator and verifier program) and other professional programs (e.g. Greenhouse Gas Management Institute), and participate in industry events to communicate the need for qualified professionals. 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 16 people within its first two years of operations to meet the challenge of large provincial offset purchase requirements and associated support for a local industry. This complement of staff will have to be re-evaluated from time to time to ensure adequate resources are in place to carry out PCT's mandate. There will also be an emphasis in the company to encourage personal development and build industry expertise 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.*"

The strategies reflect two realities for a new corporation: the immediate need to continue building the organization as well as the need 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. 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 through the purchase of real GHG reductions. Providing cost-effective offsets is also important to ensure clients benefit from PCT's bulk offset purchases.

This first goal not only focuses corporate attention on the cornerstone of PCT's operations – delivering quality offsets - but also on an initial obligation that presents considerable challenges. These challenges include uncertainty about the ability of the BC supply market to provide a large volume of offsets within a few years, sourcing offsets from a small number of suppliers, and ensuring offsets meet the high environmental standards required in the *Emission Offsets Regulation*. With its first purchase agreements in 2009, PCT is positioned to exceed its first two years of estimated offset requirements. It has accomplished this through a public, competitive procurement process. Strategies are now focused on longer term procurement to meet the target volume of over 700,000 tonnes by spring 2011.

Strategies

- Acquire offsets to meet multi-year offset requirements. Establish streamlined procurement processes to purchase offsets in a transparent, competitive manner.
- Implement a longer-term procurement strategy that:
 - encourages wide-spread response and considers purchases from different suppliers, e.g. individual project proponents and industry aggregators;
 - helps to remove barriers to offset development (e.g. education, resources, networks)
 - manages risks; and
 - results in a balanced portfolio of offsets, with respect to short- and long-term delivery schedules and diversification among project type and location.
- Develop a pipeline supply of potential offsets to meet our inventory needs.
- Monitor regulatory developments and offset market information, including prices of offsets comparable to those generated by BC-based projects.

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

³ Kollmuss A and Bowell B. Voluntary Offsets for Air Travel Carbon Emissions. Tufts Climate Initiative, December 2006. Revisions in 2007.

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 risks to PCT, e.g., 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. 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 BC.</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 diversity of the industry, it may be difficult to find reliable comparisons.)</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 BC*. The corporation is increasingly receiving queries from various industry and professionals involved or interested in becoming involved in the carbon market. PCT has been active in meeting and developing relationships with interested parties. The corporation plans to support industry growth through industry workshops and development of educational materials.

Strategies:

- Develop relationships with industry suppliers and professionals including project developers, aggregators, verifiers and other industry groups to support growth of the carbon market. Provide information to the industry about the BC offset market and opportunities.
- Develop an industry engagement plan to build awareness of PCT and offset opportunities across appropriate BC industry sectors. This in turn will help to develop the green economy.
- Support development of carbon market policy by working with public sector partners, including the Ministry of Environment's Climate Action Secretariat and other ministries.
- Manage client relationships, 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 long-term client delivery strategies that identify key markets and sales/delivery mechanisms.
- Retire offsets for our clients in an open and transparent manner.

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 BC. 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.

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:

- Run effective, streamlined operations and build the capacity to meet growing service delivery needs (e.g. information technology, human resources).
- Develop corporate vision and values to promote a high functioning organization. Ensure ongoing clear linkage with the Climate Action Plan and other related government priorities such as the low-carbon economy.
- Be transparent and accountable. Monitor and report on financial and corporate performance. Develop and manage a data collection system.
- Develop a Carbon Neutral Action Plan to establish principles 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*.
- Promote PCT as a centre of offset expertise. Encourage relationships with leaders in the offset industry to facilitate exchange of information and knowledge.
- Provide staff with opportunities 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 Bowell B. Voluntary Offsets for Air-Travel Carbon Emissions. Tufts Climate Initiative, December 2006. Revisions in 2007.

4. Summary Financial Outlook

Financial Outlook

000's	2007/08 Actual	2008/09 Actual	2009/10 Budget	2010/11 Forecast	2011/12 Forecast
Revenues					
Operating Grant from Province of BC	9,000	5,000	5,000	5,000	0
Offset Revenue			3,250	21,250	21,250
Interest on Investments	2	206	210	210	150
Total Revenues	9,002	5,206	8,460	26,460	21,400
Expenses					
Procurement and Offset Delivery	0	297	6,338	24,142	19,108
Client and Business Relations	0	46	600	661	647
Strategy and Operations	0	311	1,452	1,552	1,550
Total Expenses	0	654	8,390	26,355	21,305
Net Income	9,002	4552	70	105	95
Capital Expenditures	0	84	75	50	25

Key Assumptions

The financial outlook, based on the original 2009/10-2011/12 Service Plan, has been restated to reflect expenditures by core business area. The outlook 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. In 2008/09, PCT received \$859,261 from the delivery of 34,370 tonnes of offsets related to ministry travel emissions up to December 2008. This revenue was treated as deferred revenue in the March 31, 2009 year-end statements and recognized as revenue in June 2009 when the offsets were delivered.

	2008 Actual	2009	2010	2011	2012
Offset Estimates* (tonnes of CO ₂ e)	34,370	130,000	700,000 to 1,000,000	700,000 to 1,000,000	700,000 to 1,000,000

*The offset estimates are currently being revised. The number required for 2009/10 may be much lower given the recent economic downturn and reduced government travel. The large increase in subsequent years reflects the additional requirements of the broader public sector (required to become carbon neutral by 2010).

Expenses

Procurement and Offset Delivery includes relevant expenses for this core business area (e.g. staff and professional services) and all offset purchase expenses. Offset purchase expenses have been based on calendar year offset estimates and a build-up of inventory required to strategically manage risks related to delivery of verified offsets.

Client and Business Relations includes relevant expenses for this core business area (e.g. staff and professional services).

Strategy and Operations includes relevant expenses for this core business area (e.g. staff and professional services).

Equity and Debt

PCT's \$13.5 million in equity resulting from operating grants and net income over 2007/08 and 2008/09 will be invested to help fund future operations, particularly the significant volume of offsets required to meet client expectations. PCT has no outstanding long-term debt.

Future Outlook

The income statement on the previous page reflects the assessment of PCT's financial outlook (restated by core business area) as of last January when the service plan was initially finalized.

Since then, the offset estimates required by the public sector are being revised, and the number required for 2009/10 may be much lower given the recent economic downturn and reduced government travel. However, the significant increases in subsequent years are still expected as the carbon neutral commitment expands to the broader public sector. Additionally, PCT plans to make future offset purchases for calendar year requirements by March rather than June to better align revenues and offset deliveries to the fiscal year end.

The majority of PCT's expenses are related to offset purchases as it builds up its inventory of quality offsets. These expenditures are dependent on the actual volume of tonnes delivered. As outlined in the Risk Management Strategy, there are a number of supply risks that would affect the expenditures for offset purchases. The recent economic downturn, for example, increases the risk of fewer tonnes delivered. These estimates will be updated as PCT gathers more information from the industry and its ongoing procurement processes.

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