



E-TRECKINformation

Dear Treckin colleagues,

We welcome you to the last issue of the email version of the newsletter TRECKINformation, as the Treckin project, funded by the European Commission, finishes at the end of 2003.

We have been pleased to meet many of you at the meetings that were organised during the two years of the project. Both these and other forms of contact have helped make Treckin what it was: sharing experiences from across Europe and around the world and applying lessons learned both in countries setting up tradable renewable energy certificate (TREC) schemes and in countries that already have experience with TRECs. Your input throughout the two-year project has brought us surprising facts and sparked new ideas.

Looking back at the end of the project, we can see that many developments have take place across the world: new and existing TREC systems developed, the interaction between TRECs and the Kyoto mechanisms became more profound in discussions and the market, and a close co-operation was established between RECS and Treckin.

The public version of the Final Report of the Treckin project will give you more information on the overall results of Treckin, and will be available on our web site shortly (before the end of February 2004). For now, we wish you an enjoyable time with TRECKINformation.

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FUTURE EVENTS

18-19 March 2004, Lausanne, Switzerland

3rd European Conference on Green Power Marketing

The third European Conference on Green Power Marketing once again offers a practically oriented, scientifically-based programme featuring the following sessions:

- International policy trends
- International trends in green power markets
- Green power trading
- Products and pricing policy
- Customer requirements
- Panel discussion: The interaction of labelling and certification

For further information and registration, please visit the website

<http://www.greenpowermarketing.org>

TRECKIN STATUS

Guidance Packages

The compilation of Guidance Packages for Australia, Bulgaria, China, India, Mexico, Russia, South Africa and Ukraine have been finalised. These Guidance Packages are tailor-made guides for implementing renewable energy certificate systems, taking into consideration the social, economical and environmental circumstances of the country. A limited number of the Treckin Guidance Packages and case studies on existing TRECs systems has been printed, and is available and will be distributed to interested parties. The Guidance Packages will be also available on the Treckin website.

Salzburg meeting

19th September 2003, Salzburg, Austria

Demand for Renewable Energy Certificates

The discussions in Salzburg focused on whether trade of certificates could contribute to EU Member States' indicative targets, whether guarantees of origin would have to be traded with the physical electricity (rather than separately), and whether guarantees of origin should have a limited life. It was suggested that a way forward would be to:

- Inform Central and Eastern European countries of existing EU Member State experience, and advise organisations of the ways in which they could implement a (harmonised) TREC approach to fulfil the requirements of accession to the EU, including implementing guarantees of origin, establishing a disclosure system, and helping to meet their renewable energy targets.
- Continue to use TRECs in the voluntary market for renewable energy, to gain further experience as these markets evolve over time.



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- Support increased harmonisation of TREC systems European-wide, and disseminate experience to other parts of the world.

It was recognised that TRECs are a suitable tool for tracking renewable electricity, and that TRECs can be implemented so as to deliver guarantees of origin, disclosure, as well as mandatory policy mechanisms such as feed-in tariffs and obligations. Moreover, TRECs can enable national and international trade without physical limitations such as interconnector capacity.

Carthage meeting

25th September, Carthage, Tunisia

Trading Green Certificates across the Mediterranean

The Treckin event in Carthage was part of a series of events including UMET (the Mediterranean Summer University) organised by OME, ANER and ENEL Green Power, and CDMEDI. The aim of this series of events was to assemble high-level decision-makers to discuss the future of energy in the Mediterranean: objectives, opportunities, risks, and strategies for the future. UMET and CDMEDI were part of the overall Euro-Mediterranean partnership and a follow-up of the Johannesburg summit (WSSD). The objectives of CDMEDI were to launch and widely disseminate the CDM user's guide for the implementation of renewable energy CDM projects in the Mediterranean region, discuss how to implement and finance such projects in the region, and to present the results of the MED2010 projects. The final objective was to support the development of renewable energy projects in the Southern and Eastern Mediterranean region through the CDM and help European countries achieving their Kyoto targets.

During the first two days, many issues were discussed regarding economic development through emission reduction and renewable energy projects. Concrete projects in the Mediterranean region were presented and promotion of further development and financing mechanisms were discussed.

Norbert N. Vasen of ETA represented the Treckin consortium during the UMET and CDMEDI meetings and presented the idea of TRECs as an “adapter” between renewable energy projects and CDM, allowing the bundling of renewables projects and simplifying monitoring and verification, in order to reduce CDM transaction costs.

The main focus of the Treckin conference was to raise awareness of the potential uses of TRECs and consider how they could be used to stimulate development of renewable energy in the Mediterranean region. The following key issues were raised:

- While TREC systems are operating in some countries, there are no proven opportunities for selling TRECs from (or within) North Africa. Policy makers and developers, therefore, are not focusing their attention on utilising TREC systems to help finance projects.
- The relationship between TRECs and the Clean Development Mechanism (CDM) was of particular interest during the discussions. In particular, whether carbon dioxide emission reductions are included within the TREC, or whether electricity generated from renewables will be eligible for both CERs and TRECs.
- It was again pointed out that TRECs could be used for validation, monitoring and verification of CDM projects, and that the use of TREC systems would lower transaction costs and reduce complexity.



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- It was recognised that TRECs would offer many benefits over the CDM, including that TRECs generally have a higher market value per unit of output than Certified Emission Reductions produced under the CDM.

The discussions were very dynamic and focused on how to initiate a pilot project to generate and trade certificates in order to address some of these issues. R. Vigotti of Enel Green Power suggested organising a seminar in Morocco in early 2004 to bring together policy makers from North Africa and decision makers from Italy. He proposed to choose one renewable energy project to take forward as a CDM project, using the RECS process to simplify the validation, monitoring and verification of the project. Finally, these certificates would be sold to Italy as part of a pilot phase. There is a clear intention from ENEL and others to test this approach.

EMART conference

26th November 2003, Amsterdam, the Netherlands

The Treckin seminar was held as a parallel session of the EMART conference, and the programme was prepared in co-operation with RECS International. The main focus of the seminar was to consider green certificates as a mechanism for delivery of European policy directives such as disclosure, guarantees of origin and the indicative RES-E targets of the Renewable Directive. The following issues were discussed at the seminar:

- Does mandatory certificate demand kill the voluntary market?
- Will the Guarantee of Origin (GO) be harmonised in the future?
- Are the indicative targets production or consumption targets?
- Can indicative targets be met through import?

The Directive, in principle, allows import to contribute to indicative targets provided the import is from within the EU and accompanied by GOs. However, it does not require that imports be recognised as contributing to the indicative target. At present, the advice is mixed and it appears that individual countries may need to negotiate changes in indicative targets on a bilateral basis as a result of cross-border trade. The RES-E targets are countrywide targets, and can be delivered by companies and paid by consumers. Companies in countries with low RES-E development costs could profit from selling RES-E and GOs to companies in countries with high development costs. Governments may have little control over such trades, but would need to negotiate changes to the indicative targets to account for such trades.

There are still some uncertainties in the certificates markets. Governments are not clear on their policies, and carbon trading adds further confusion. The focus should now be on harmonisation of GO, ensuring redemption of GOs and accurate definitions of the indicative targets. In the long term the discussion on indicative targets should include burden sharing.

Milan event during COP-9

Treckin organised two side events during the Ninth Conference of the Parties (COP-9) to the UN Framework Convention on Climate Change, 1-12 December 2003, in Milan.

2nd December 2003, FIERA Milano, Milan, Italy

Renewable Energy Certificates and Greenhouse Gas Emissions Trading



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This event at the COP-9 venue was the fourth European TREC meeting. The event focused on the interaction between TRECs and the Kyoto mechanisms. It was pointed out that TRECs could simplify monitoring and verification of joint implementation and CDM renewable energy projects and reduce their up-front costs.

It was also discussed that TREC systems across Europe and the European emission trading system (ETS) may cause double counting. Problems and solutions in favour of co-existence of the two concepts were discussed. The discussions afterwards focused on several issues:

- The introduction of a world-wide TREC system would reduce the price of TRECs significantly. This discussion was particularly interesting in the light of the TRECKIN long-term goal for world-wide harmonisation of TREC systems.
- Solar water heating (SWH) systems would be greatly helped by TRECs. Indeed, in Australia SWH do receive TRECs.
- The need for a clear message about the exact content of TRECs, in particular when it co-exists with Kyoto mechanisms.

3rd December 2003, Edison, Milan, Italy

Tradable Renewable Energy Certificates - Corporate Demand for Clean Energy

This event was the second business meeting, focussing on the opportunities of TRECs for businesses. Also in this meeting it was pointed out that the overlap between the TRECs and the European ETS, and remaining uncertainties, would be a barrier for further business development, if these are not resolved. Further issues were presented and discussed:

- Several different examples of green certification were given.
- The success of RECS and relations with future developments such as Guarantees of Origin and Kyoto were discussed.
- The benefits for novice countries (with respect to green certification) of an exploration phase with Pilot Transactions and a Guidance Package were described, focusing on experiences with Russia and Ukraine.
- The role of TRECs for off-grid systems were investigated, based on experiences in China.
- The concept of assessing environmental footprints (impact of enterprise activity, events and other) as a voluntary approach for increasing renewables was explained.
- The market for TRECs world-wide was described as growing but fragmented in comparison with the emission markets.
- Swiss Re and ENEL presented their corporate initiatives in the field of renewable energy.

Discussions focused on (1) the fragmentation of the European renewable energy support mechanisms and the role of European regulation in harmonisation; (2) the benefits of renewable energy (and thus the green attributes contained by the TREC) and how these are spread out between local and global benefits; and (3) the need to link the local benefits to the interests of foreign investors in order to make them interested in importing TRECs.



EUROPEAN NEWS

RECS

Barriers Hamper Internal Market for Renewable Sources of Energy

Meeting in Amsterdam for a quarterly reunion, two international associations that have expert experience in the field of sustainable energy, call for enforced harmonisation of so-called “Guarantees of Origin” (GO) as a means for strengthening internal energy market. The associations are “RECS International” and the “International Association of Issuing Bodies” (AIB). They both offer their multi-year experience with tradable “green certificates” as a way to overcome handicaps on the road to operational renewable energy schemes. Members of 14 national teams have gathered in Amsterdam for an update of sustainable energy developments in the European Union. All teams represent individual and governmental members of RECS International and AIB, two institutions that facilitate renewable energy to be issued and traded efficiently among EU-countries.

RECS International and AIB have reviewed conditions for implementing GO requirements in the RES-Directive. It has been observed that almost no member countries have met the 27 October deadline for introducing GO-rules in national legislation. In addition, “mutual recognition” requirements are hampered by the existing variety of national systems for promoting the use of renewable sources of energy.

RECS International and AIB strongly call for increased harmonisation of GO systems in the European Union. No transparent trading of Renewable Sources of Energy is conceivable indeed, if imported and exported quantities are not properly identifiable. To allow for identification at all, GOs must not only be mutually recognised but data must be comparable as well. In this respect, the question of redemption of GOs when “consumed” by the end user, must be considered if “double accounting” is to be avoided. Only when GOs will be fully harmonised and can be redeemed, will markets find out where best to invest in terms of technology and country. The latter is a prerequisite for an efficient internal energy market, which includes competition and lower market prices for renewables. RECS International and AIB have come to the conclusion that the lack of harmonisation and redemption procedures are currently handicapping implementation of the RES-directive. They refer to their own experience in the field of “green certificates” and offer their expertise for overcoming thresholds on the road to efficient internal markets for sustainable energy.

For additional information contact Mr Peter Niermeijer +31 30 280 83 34.

Portugal Latest Member European Renewable Energy Certificate System

Portugal has joined the European platform for harmonisation of a European Renewable Energy Certificate System (RECS). Slovakia will follow soon.

In the past three years, RECS has proved that international trading of renewable energy via green certificates can be done on a reliable and cost effective way, on the basis of a harmonised system of renewable certificates.

So far, 14 European countries have joined the RECS organisation. Furthermore, RECS has 96 individual members, including energy companies, traders, trading platforms, energy consultants, governmental bodies, certification organisations and grid companies.



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At the moment RECS is promoting the RECS standard for Guarantees of Origin (GO) in order to get the GO systems in members states harmonised. By introducing the principle of redemption of the GO, imports and exports can easily be monitored and calculated for the indicative target set in the directive. This is the only way to avoid double counting in the reports of member states of the targets. In 2003, Guarantees of Origin (as mentioned in the European directive on renewable energy 2001/77/EC) need to be implemented by each EU member state.

For more information see www.recs.org.

Source: Greenprices.

The Netherlands

Green Certificates Replaced by Guarantees of Origin

The Dutch Upper Chamber agreed to a bill on introducing a system of Guarantees of Origin for renewable energy as of 1st January 2004. This system will replace the existing system of green certificates. A Guarantee of Origin is an exclusive proof of the production of renewable energy. By presenting a Guarantee of Origin the subsidy for green electricity (MEP) will be granted. TenneT, the supervisor of all grid operators in the Netherlands, will for 10 years be in charge of the system of Guarantee of Origin. As of the 1st of January the system of green certificates will disappear in the Netherlands.

Source: Ministerie van Economische Zaken (GreenPrices website).

Spectron Announces 'Significant' Dutch Green Certificate Trade

Spectron announced what it believes is one of the largest trades in the Dutch green certificate market. The London-based broker arranged the sale of 150GWh worth of green certificates generated by a hydro-electric plant.

The broker was tight-lipped on the counterparties to the deal, and the price at which the certificates changed hands, although the current bid-offer spread in the market is around €0.90-1.50/MWh. The certificates are to be delivered in tranches over three years, the broker says.

Under green certificate schemes, renewable energy generators are awarded certificates for each MWh of power they produce. These can be sold separately from the physical power, providing renewable generators with an additional revenue source, and allowing certificate buyers to prove that a certain amount of green power has entered the grid.

The Dutch scheme is a voluntary market, driven by customer demand. Customers can request that their suppliers provide green energy, with the suppliers using green certificates to prove that the equivalent amount of green power has been generated.

James Blunt, a green markets broker at Spectron, says that typical trades in the Dutch market are in the low tens of GWhs.

Source: www.environmental-finance.com.



UK

ROC Market Shaken by TXU

The UK's Renewable Obligation Certificate (ROC) market has been thrown into disarray by an announcement from Ofgem, its regulator, that there may be a £20 million (\$32 million) shortfall in the "smearback" paid to certificate holders. Brokers estimate that this could be equivalent to £3.50–4.00 per ROC, which traded at £46 each in late August.

"It's disastrous, frankly," says Chris Matthews, ROCs trader at energy trading firm Cinergy. "If this doesn't get fixed, the market will not deliver what [the government] expects it to deliver" – ensuring the UK meets a target of generating 10% of its electricity from renewable sources by 2010.

The problem arises from electricity supplier TXU Europe going into administration last October, owing £20 million in unpaid ROC penalties. An Ofgem spokesman says it is only a potential shortfall at this point, and that the regulator is "exploring what action we can take" to recover the money from TXU's administrators. Traders note that it will join a long list of creditors.

Source: www.environmental-finance.com.

UK Government raises Renewables Obligation

London, 5 December: The UK's Department of Trade and Industry has increased the level of the Renewables Obligation (RO) on power suppliers. They are now required to buy 15% of their power from renewable sources by 2015, up from 10% by 2010.

The RO was previously capped at 10% in 2010-11, at which level it was to remain until 2027. As a result of the extension, it will rise another 1% each year until 2015-16. Meeting the new target will require the installation of an additional 5,000MW of renewable capacity, on top of the 2,905MW currently installed or consented, according to the British Wind Energy Association (BWEA).

The renewable energy industry reacted enthusiastically to the extension, which they say will give developers greater certainty over the longer-term. "Today's announcement will be seen as a key stepping stone to making our 20% by 2020 renewable aspiration a working reality," said Marcus Rand, the BWEA's chief executive.

Energy minister Stephen Timms cautioned that achieving the government target is still "far from straightforward and will not be plain sailing".

Source: <http://www.environmental-finance.com>.

Italy

European Directive EC/77/2001 is Adopted

The Italian Government has adopted during the Council of Minister of the July, 25 the Legislative Decree to receive the European Directive EC/77/2001 on the promotion of Energy from Renewable Sources. The art. 6, 7 specifically mention the use of green certificates as a means to stimulate, respectively, the production of renewable electricity from photovoltaic and hybrid plants. Moreover, art. 9 introduces the Guarantee of Origin of the electricity produced from renewable and mixed plants. The producers of renewable energies can require the indication, on the GoO, of the obtained Green Certificates. The Guarantee of Origins released in other EU Member States in consequence of the Directive acknowledgment are recognised in Italy.



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The Marzano Decree (the Decree that will reorganize the energetic sector in Italy) has been approved by the Chamber of Deputies and is now under discussion in Senate (the other branch of the Italian Parliament). The Decree has important consequences for Green Certificates: it increased the mandatory quota of renewable in the portfolio of 0.35% per year, and introduces a “small size” Green Certificate only for micro-plants (plants with a capacity at most equal to 1MW): the value of these Certificates is quantified in 0.05 GWh or multiples. It is likely that Parliamentary discussions will take very long, given the six hundred amendments proposed.

Belgium

Flemish Government Discusses Green Certificates for Waste

The Flemish government plans a meeting next week to discuss if the combustion of the organic part of municipal solid waste can be eligible for green certificates. In the Netherlands, energy producers of energy via combustion municipal solid waste can obtain green certificates for the organic part of the municipal waste. Until now, this is not the case for Flemish energy producers.

Source: 3E (*GreenPrices*).

Spain

Spanish Green Energy Market Taking Off

The Spanish energy company Iberdrola already contracted 2350 green energy customers. In total 2100 consumers, and 250 businesses and institutions applied for "Iberdrola Green Energy", for an annual electricity use of over 35 million kWh. For the supply of "Iberdrola Green Energy", Iberdrola uses renewable energy certificates issued by the Spanish RECS member REE (Electrica de España, the Spanish national grid operator).

In addition, the large Spanish energy company Endesa recently launched a media campaign to gain green energy customers.

The environmental organisation Greenpeace is objecting to the green energy campaigns of these companies, as according to them the green energy sales are supplied from existing installations and are not necessarily leading to additional renewable energy production.

Source: *Greenprices* / www.energias-renovables.com / www.greenpeace.org/espana_es.

INTERNATIONAL NEWS

Australia

The Renewable Energy Regulator released details of Renewable Energy Certificates (RECs) surrendered under the *Renewable Energy (Electricity) Act 2000* for the years 2001 and 2002.

Most wholesale purchasers of electricity are required to demonstrate each year that they are purchasing more renewable electricity. The renewable electricity requirement for 2001 was 0.24 percent of electricity purchased, for 2002 the target was 0.62 percent. The wholesale purchasers of electricity who are liable parties under the Act demonstrate their compliance with the targets by surrendering RECs. There is a penalty payment of \$40 per REC for non-compliance. A REC



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represents one megawatt hour (MWh) of eligible renewable energy, generated from renewable sources such as solar, wind, hydro and landfill gas.

"We have seen a marked increase in companies choosing to meet their targets by using RECs rather than through making shortfall payments. In fact, many who had shortfalls for 2001 have chosen to redeem these shortfalls through the surrender of additional RECs [in 2002]," Mr Rossiter, the Renewable Energy Regulator, said.

"Initially, just over 92 percent of compliance in 2001 was met through surrender of RECs, but with retrospective purchase of RECs this has now risen to over 96 percent. In 2002, over 99 percent of compliance has been through the surrender of RECs and the industry is to be congratulated on its very strong performance and clear support for renewable electricity generation." The number of companies carrying over REC shortfalls from 2001 has fallen from 19 to 10, with a total shortfall of 11,243 RECs for that year. For 2002, REC shortfalls totalled 2,757 RECs.

"If this year's trend is anything to go by, I expect even more shortfalls to be redeemed from the purchase of RECs. Wholesale electricity generators have up to three years to redeem shortfalls by surrendering additional RECs," Mr Rossiter said. With over 2.45 million RECs currently available for compliance, the industry looks well positioned to meet its target 0.88 percent of electricity, or 1.8 million RECs, for 2003.

The Office of the Renewable Energy Regulator is a statutory authority established to oversee the implementation of the Government's mandatory renewable energy target.

Media contact: David Rossiter +61 2 6274 2192.

Source: <http://www.orer.gov.au/about/mr21oct03.html>.

Amended Renewable Energy (Electricity) Regulations 2001 (incorporating Amendment Regulations 2003 (No. 2)) are now available.

The amended regulations include:

- additional eligible solar water heaters under the measure;
- eligible commercial solar water heaters;
- eligible domestic solar water heaters;
- the renewable power percentage for 2004; and
- an administrative amendment relating to the eligibility of solar water heaters.

USA

Companies Purchase RECs

Sterling Planet, Inc. announced that it has entered into agreements to supply renewable energy certificates (RECs) to corporate partners of the World Resources Institute's (WRI) Green Power Market Development Group, including Alcoa Inc., Delphi Corporation, DuPont, Interface, Pitney Bowes and Staples. Collectively, Sterling Planet will supply the companies with 795 million kWh of RECs from wind and bioenergy resources over the next several years.

Sterling Planet Contact: Mel Jones +1 404 513 0259.



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Green-e Certified TRC's Now Available from 15 Providers

The Center for Resource Solutions (CRS) announced that six new suppliers have earned Green-e certification for their Tradable Renewable Certificate (TRC) products. Green Mountain Energy, Big Green Energy, EAD Environmental, Wind Current, Mainstay Energy, and People's Power and Light join a list of 15 marketers now selling Green-e certified TRCs. Another company, Sterling Planet, has also expanded its TRC services to include commercial customers.

To learn more about EPA Green Power Partnership, visit its website www.epa.gov/greenpower.

EPA Laboratory Buys Wind Certificates

3 Phases Energy Services announced that it has signed a deal with the U.S. Environmental Protection Agency (EPA) to supply EPA's Region 6 Houston Laboratory with wind energy certificates procured from the 204MW New Mexico Wind Energy Center. The certificate purchase amounts to 10 million kWh over a three-year period.

Source: www.eere.energy.gov/greenpower.

Oregon State University Purchases Green Tags

The Bonneville Environmental Foundation (BEF) announced that Oregon State University (OSU) has committed to purchase 5 million kWh of green power over the next four years. Under the agreement, the university will purchase "green tags" from BEF representing the energy output of wind and solar facilities in the Pacific Northwest. The purchase was made possible through a state policy that allows large customers, like OSU, to self-direct a portion of their state-mandated public purpose charge payments to support specific renewable energy and energy efficiency programs. The university and BEF also plan to site a small renewable energy project, such as a solar photovoltaic array, on the campus.

Source: www.eere.energy.gov/greenpower.

The Importance of Tracking Systems

In an article which appeared in the September issue of the magazine "Environmental Finance", Anna Giovinetto (director of Evolution Markets, an American enterprise specialised in environmental finance) underlines the importance of having an efficient tracking system in a Green Certificates system. In fact, "to support the trading of RECs, system are needed to track and verify their creation and transfer. A well-designed certificate-tracking system can reduce compliance costs and increase liquidity in the market. At present, two regions in the US have certificate-tracking systems. Both were developed by APX of California and are called Generation Information Systems (GIS)." In practice they function in this way: "generators are allocated one certificate for each MWh of electricity produced, and each certificate has a unique serial number. When a generator sells certificates, it transfers them into the buyer's GIS account with the click of a mouse. At the end of a compliance period, certificates can then be retired, and regulators can easily verify compliance."

The first GIS went on-line in Texas in June 2001, the second was implemented in the New England Power Pool (Nepool) in 2002 and covers six states. Several other states are evaluating the feasibility of implementing certificate tracking systems.

Source: "Environmental Finance", September 2003.



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Whole Foods Buys Wind

Whole Foods Market, Inc. announced that it is purchasing wind energy for 10% of the electricity used at all of its Mid-Atlantic stores. Under an agreement with Community Energy, the company will purchase 6 million kWh annually of Green-e certified wind energy certificates supplied from the 66-MW Mountaineer Wind Energy Center in West Virginia. The initiative was implemented through a unanimous vote by team leaders representing the company's 24 Mid-Atlantic stores.

Source: GreenPower Network.

Connecticut College Doubles Annual Renewable Energy Certificate Purchase

Connecticut College students and administration have helped solidify the College's ongoing support for the generation of green power by purchasing wind power energy certificates that equal approximately 44 percent of the College's annual electricity consumption.

The college has committed to purchase wind energy certificates, which financially support the renewable energy industry, for the next two years from EAD Environmental, a New York-based renewable energy credit and greenhouse gas marketer.

Source: <http://www.enviroactiondesk.com>.

SPECIAL: COP-9 (MILAN)

Milan, Italy, December 1-12: Negotiations at COP 9 in Milan, Italy, produced modest progress on a handful of largely technical issues but remained essentially deadlocked on issues touching on the broader question of next major steps in the international climate effort.

The talks, known formally as the Ninth Session of the Conference of the Parties to the UN Framework Convention on Climate Change, came against the backdrop of continued uncertainty over the fate of the Kyoto Protocol. During the first week of the COP, there emerged from Moscow another round of conflicting signals on the prospects for Russian ratification of the Protocol and, thus, its entry into force. In Milan, nevertheless, most parties reaffirmed their strong support for Kyoto and remained publicly hopeful that Russia will ratify.

With the Protocol not yet up and running, and most parties not prepared for formal discussions of steps beyond 2012 (the end of Protocol's first commitment period), the formal agenda in Milan was perhaps the lightest ever for a COP. Among the few important outcomes were decisions on the technical rules for sinks projects in the Clean Development Mechanism and on guidelines for the operation of two funds to assist developing countries: the Special Climate Change Fund and the Least Developed Countries Fund.

Nearly 100 ministers attended the high-level segment of the conference and participated in three loosely framed roundtable discussions that served largely as an opportunity to restate familiar positions. Ministers spoke gingerly, if at all, on the looming questions of further action under the Framework Convention, seeking to avoid the kind of rancorous political debate that erupted last year at COP 8 when the European Union and some other industrialized countries called for a process to consider future steps, only to be rebuffed by developing countries, supported by the United States.



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Still, strong differences over the question of next steps continued to shape the negotiating dynamic at the technical level. On issues such as consideration of the Third Assessment Report (TAR) of the Intergovernmental Panel on Climate Change (IPCC), attempts to frame decisions in ways that could lead to formal discussion of next steps, led largely by the EU, were consistently resisted by other parties, including to one degree or another the United States, Saudi Arabia, China, and other developing countries. The result in most cases was continued stalemate, with decisions only to discuss the issues further in future negotiations.

With the formal negotiations so uneventful, many felt that the greatest value at COP 9 was the very full slate of side events highlighting national efforts and presenting new research and thinking on future approaches. Many events drew standing-room-only crowds and delegates welcomed the infusion of fresh ideas.

The United States, having rejected Kyoto, sought primarily to persuade other parties that its science and long-term technology initiatives represent a genuine effort to address climate change. While some parties welcomed the U.S. initiatives, most remained unconvinced. On negotiating issues, the United States was most active on sinks in the CDM (in order to ensure that the decision did not disadvantage genetically-modified organisms), the budget for the climate Secretariat, and the consideration of the IPCC TAR. As in New Delhi, the United States was frequently aligned with Saudi Arabia and other developing countries, and against the EU, in opposing proposals that could lead in the direction of future commitments.

Sinks in the CDM

In the Marrakech Accords at COP 7, the parties agreed to allow afforestation and reforestation projects under the CDM, but did not agree on the detailed rules for such projects. In Milan, the parties adopted a decision setting forth the modalities and procedures for sinks projects in the first commitment period (the treatment of sinks projects under the CDM for the second commitment period will be decided as part of the second commitment period negotiations). The decision completes the last remaining issue relating to the Kyoto Protocol under the Buenos Aires Plan of Action.

The main issue has been how to address the non-permanence of sinks projects. In particular, if a sinks project is destroyed – for example, a forest burns down – and the carbon that had been sequestered is re-released into the atmosphere, who should be liable: the project developer, the host country, or the holder of the CERs? The COP decision adopts the latter approach, by making CERs generated from sinks projects of limited duration. The decision defines two types of sinks CERs: tCERs (temporary CERs), which are valid for only one commitment period; and ICERs (long-term CERs), which are valid for the project's full crediting period. (Sinks projects can have a crediting period of either 20 years, with the possibility of two renewals up to 60 years total, or 30 years with no renewals.)

Both types of CERs must be used for the commitment period for which they were issued (i.e., they cannot be banked) and both must be replaced by another credit (an AAU, ERU, or CER) prior to their expiration. Project participants can choose which of the two approaches to use. In practice, the two approaches are similar. On the one hand, tCERs will be reissued if a sinks project is still in existence; on the other hand, ICERs will need to be replaced before the end of the crediting period if monitoring indicates that the sequestration from a sinks project has been reversed.



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The COP9 decision also addresses the issues of additionality, leakage, uncertainties and socio-economic and environmental impacts. The latter was the most controversial, in particular due to efforts of some European states to exclude sinks projects involving genetically-modified organisms (GMOs). Rather than ban projects involving GMOs, the decision requires that they be evaluated in accordance with the host country's national laws, and that information on the species used be identified in the project design document (PDD). The United States, concerned about the precedent of singling out GMOs, indicated it would file a statement with the Secretariat expressing its views on the decision.

The agreement also defines small-scale projects, which are eligible for fast-track approval, as those that result in net anthropogenic sequestration of less than 8 kilotonnes of CO₂ per year, and are developed or implemented by low-income communities or individuals. Modalities for small-scale projects, are to be considered at COP 10.

IPCC Third Assessment Report

Last June, the Subsidiary Body on Scientific and Technology Advice (SBSTA) agreed to complete its work on the TAR and initiate two new agenda items on scientific, technical and socio-economic aspects of (1) adaptation and (2) mitigation. For this session, parties submitted detailed views on the elements, scope and priorities of the work to be undertaken under these two new agenda items. However, due to fears by a number of countries (including the United States, China and Saudi Arabia) that some of the proposed elements were directed at negotiating new mitigation commitments, the SBSTA was unable to agree on any detailed elaboration of the new agenda items. Instead, it simply agreed to hold a workshop on each of the new agenda items at its next session to explore the themes of "sustainable development, opportunities and solutions and risk."

Special Climate Change Fund

After contentious negotiations, the COP adopted a decision providing guidance to the Global Environment Facility (GEF) on its administration of the Special Climate Change Fund (SCCF) – one of the two new Convention funds created by the Marrakech Accords (along with the least developed countries fund, discussed below). The decision allows the GEF to make the SCCF operational. The main controversy concerned funding for economic diversification to countries adversely affected by mitigation measures. OPEC countries continued to press strongly for such funding, while the EU resisted. The COP decision provides guidance only with respect to funding of technology transfer and adaptation activities. The decision provides for the SCCF to also fund mitigation and economic diversification activities, but calls on countries to submit further views on these areas with a view to taking a decision at COP 10, effectively delaying actual funding of these activities for at least another year.

Least Developed Countries Fund

The COP also adopted a decision providing further guidance on the operation of the Least Developed Countries Fund. The decision provides for supporting national implementation of adaptation plans on a "full-cost" basis, taking account of the level of funds available.

Program budget for 2004-2005

The Parties approved nearly US\$35 million for program activities for the 2004-2005 biennium, and an interim allocation of nearly \$5.5 million for Kyoto Protocol-related activities to be added to the



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2005 budget if the Protocol enters into force. The \$35 million represents a 6 percent increase over the previous funding period, well below what the Secretariat had originally requested, and includes \$3.3 million for Kyoto Protocol preparatory activities. Because of its objection to funding any Kyoto-related activities, the United States indicated that it would reduce its contribution by its proportionate share (21 percent) of the \$3.3 million.

Non-Annex I Communications

Developed countries continued to press for specific requirements on the timing and frequency of reporting by developing countries on their emissions and ongoing climate efforts. The Framework Convention specifies the timing only of the first communication and leaves for a future decision the timing of subsequent communications. The parties were unable to resolve the issue and carried it over to the next SBI meeting.

Date and Venue of COP 10

The COP accepted Argentina's offer to host COP 10 in Buenos Aires. Some parties advocated postponing the meeting until sometime in 2005 to allow additional time for Russian ratification, but the COP, adhering to the practice of annual conferences, scheduled it for late 2004.

Source: www.pewclimate.org.