STAFF REPORT
ACTION REQUIRED
with Confidential Attachment

Revised Carbon Credit Policy and Revenue Opportunities

Date:	April 9, 2013
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer Chief Corporate Officer
Wards:	All
Reason for Confidential Information:	This report involves the security of property belonging to the City or one of its agencies, boards, and commissions.
Reference Number:	P:\2013\Internal Services\E&E\Ec13001e&e- (AFS 16700)

SUMMARY

The purpose of this report is to propose revisions to the City of Toronto's carbon credit policy in order to help safeguard public ownership of carbon credits and potentially realize a new revenue stream.

Various types of activities – from improving energy efficiency in City facilities to collecting and utilizing methane gas at City landfills – can result in fewer greenhouse gases being released into the atmosphere. Where a tonne of those greenhouse gas reductions satisfies certain eligibility requirements, a carbon credit results that has monetary value and should be considered a financial asset and managed accordingly.

To achieve consistency across all City administrative units, it is recommended that the City Manager be authorized to require common administrative procedures on the part of the City's divisions, agencies and corporations regarding the management of carbon credits.

It is also recommended that the City engage in the sale of a limited number of carbon credits to parties acting on a voluntary, non-regulatory basis. Although not subject to any regulatory obligations, Canadian banks, accounting and legal firms are active in purchasing carbon credits to reduce their carbon footprint and demonstrate positive environmental values to their customers and employees. The City would play a role in supplying carbon credits to these types of buyers while in turn earning revenues to support energy and environmental initiatives.

Any sale of carbon credits would be conditional upon:

- prohibiting a purchaser from reselling carbon credits purchased from the City to a third-party;
- requiring a purchaser to retire carbon credits purchased from the City; and
- prohibiting the sale of carbon credits to any organization seeking to purchase carbon credits for the purpose of meeting regulatory obligations.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer, and the Chief Corporate Officer recommend that:

1. City Council rescind the Carbon Credit Policies adopted in 1999 and 2005.

2. City Council adopt the Carbon Credit Policy attached as Appendix A to this report.

3. With respect to the applicability of this policy to City divisions, agencies and corporations:

   a. Council direct City divisions and service agencies to adopt the Carbon Credit Policy and apply it to their operations;

   b. Council request the Toronto Board of Health, the Toronto Police Services Board and the Toronto Public Library to adopt a policy that is consistent with the Carbon Credit Policy in order to ensure a city-wide application of the policy objectives; and

   c. Council direct City corporations to adopt a policy that is consistent with the Carbon Credit Policy adopted by City Council in order to ensure a city-wide application of the policy objectives.

4. City Council authorize the Chief Corporate Office to:

   a. Determine and implement an appropriate method of transferring carbon credits and other environmental attributes in accordance with the policy in Appendix A;

   b. Negotiate and enter into agreements for the sale on voluntary markets of up to 50,000 tonnes of carbon dioxide equivalent offsets per year, on terms and conditions and in a form satisfactory to the City Solicitor, that is generally consistent with the sample term sheet (attached as Appendix B); and

   c. Include in sales agreements, provisions to prevent a buyer from reselling carbon credits purchased from the City of Toronto to a third-party and provisions to ensure the retirement of carbon offsets by the purchaser.

5. City Council authorize the Deputy City Manager and Chief Financial Officer to:

   a. Establish a discretionary reserve fund called the "Carbon Credit Reserve Fund" to finance energy and environmental capital initiatives as outlined in Appendix C; and

   b. Amend Municipal Code, Chapter 227 [Reserves and Reserve Funds] by adding the "Carbon Credit Reserve Fund" to Schedule No. 7 – Corporate Discretionary Reserve Funds as part of the Climate Change Reserve Fund Group.

6. City Council direct the Director of the Environment and Energy Office to report back to City Council on the outcome the City's effort in marketing and selling carbon credits, and impacts on the City of Toronto arising from inclusion of the Province of Ontario or the Government of Canada in a cap-and-trade partnership, such as the Western Climate Initiative, or other related public policy or regulatory measures.

7. City Council receive the information in Confidential Attachment D of this report from the Deputy City Manager concerning the estimated value of the City of Toronto Carbon Credit Portfolio, pursuant to Section 190 (2) of the City of Toronto Act.

8. City Council direct that the contents of Confidential Attachment D of this report be kept confidential in its entirety after the consideration of this report by Council for reasons involving the security of the property belonging to the City, pursuant to Section 190 (2) of the City of Toronto Act.

9. The City Solicitor submit the necessary bills to City Council required to implement the above recommendations.

Financial Impact

The proposed policy would authorize City staff to engage in commercial transactions to realize value from carbon credits and other environmental attributes, when certain conditions are met.

The City of Toronto's marketable carbon credit portfolio consists of approximately 325,000 tonnes of carbon dioxide equivalents with an estimated value of $2.5 million to $4.1 million (*See Appendix D – City of Toronto Carbon Credit Portfolio*). Based on a potential price range from $5 to $10 per carbon credit (based on estimates from industry consultation), it is anticipated that the sale of up to 50,000 tonnes of carbon credits could generate $250,000 to $500,000 in revenues per year.

It is recommended that the proceeds of sale from projects undertaken by City divisions and service agencies would be allocated to fund new or enhanced corporate energy and environmental capital initiatives as outlined in Appendix C. It is also recommended that a new Carbon Credit Reserve Fund be established for this purpose. City corporations will manage the collection and investment of carbon credit sales independently.

The Environment and Energy Office will be responsible for marketing the City's carbon credit portfolio with support from various divisional staff. Any incremental costs that may arise in preparing credits for sale (such as third-party verification and broker fees) would be recovered on or around the execution of any such commercial transactions.

A follow-up report will be submitted to City Council that will contain a financial analysis of sales on the voluntary markets once transactions are complete.

An outline of the basic terms under which the City of Toronto would sell carbon credits to a prospective buyer under a purchase agreement is attached as Appendix B.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

City Council referred EX23.11 Revised Carbon Credit Policy and Revenue Opportunities to staff for further consideration at its meeting on October 30, 2012.

Link to staff report (September 20, 2012):
http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-50428.pdf

At its meeting of June 20, 2011, the Executive Committee considered a staff report that included recommendations to revise the City's carbon credit policy. Consideration of the report was deferred until October 3, 2011, when the Executive Committee adopted a recommendation to receive the report for information.

Link to staff report (June 6, 2011):
http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-41129.pdf

City Council at its meeting of October 24 and 25, 2011, referred the report to the Deputy City Manager, Cluster B, for further consideration and requested a revised staff report be submitted to City Council via the Executive Committee.
Link to City Council decision (October 24, 2011):
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX11.2

ISSUE BACKGROUND

Toronto City Council adopted a policy in 1999 to allow trading of carbon credits associated with greenhouse gas emission reductions so long as the activity did not compromise the City's goal of improving the local environment, particularly air quality, and the trading partner had a voluntary cap on greenhouse gas emissions in the absence of a regulatory cap.

Toronto City Council adopted a policy in 2005 to update the 1999 policy to:

(i) allow the City of Toronto to sell offset credits only to the then announced, but never implemented, Government of Canada Climate Fund on the condition that the offset credits be retired by the Federal Government;

(ii) require the City to take immediate steps to ensure that new contracts with suppliers secure the City's ownership of carbon credits; and

(iii) ensure that any funds raised through the sale of credits were directed to supplementing funding for environmental initiatives such as transit.

Link to Staff report and City Council Decision (2005):
http://www.toronto.ca/legdocs/2005/agendas/council/cc050928/pof8rpt/cl027.pdf

To date, the City has never marketed or sold any carbon credits attributable to projects it has undertaken.

Since 2005, various developments in climate change mitigation, cap-and-trade programs, and carbon markets, including a carbon credit ownership dispute between the City and a major external service provider, have made it necessary to undertake a policy review.

In 2009, the City Manager directed the Director of the Toronto Environment Office to establish a Carbon Credit Working Group with representatives from key City of Toronto agencies, corporations and divisions to review the current policy, consult with stakeholders and bring forward recommended changes.

COMMENTS

What is a 'carbon credit'?

A 'carbon credit', also referred to as a 'carbon offset credit', is created when an eligible tonne of greenhouse gas is not released into the atmosphere. Greenhouse gases include carbon dioxide, methane, nitrous oxide, chlorofluorocarbons, and hydrofluorocarbons.

Numerous types of activities – from improving insulation in City facilities to collecting and utilizing methane from City landfills – can result in fewer greenhouse gases being released into the atmosphere. Where a tonne of those greenhouse gas reductions satisfies certain eligibility requirements, a carbon credit results that has monetary value in select marketplaces. Carbon credits are therefore a financial asset and should be managed accordingly.

A common unit of measurement known as the carbon dioxide equivalent or CO_2e is used to determine carbon credits because each greenhouse gas has a different global warming potential. To obtain carbon dioxide equivalent tonnage of each greenhouse gas, the amount of emissions reduction of that particular greenhouse gas that result from a given undertaking -- such as improving insulation in City facilities -- is multiplied by the global warming potential of that greenhouse gas. The carbon dioxide equivalent tonnage is then used to determine the amount of carbon credits.

For the purposes of this report, a carbon credit is one type of environmental attribute. Environmental attributes include a wide range of reduction activities such as water conservation and reduction of pollutants in industrial processes such as sulphur dioxide.

Is there a public interest to protect?

Due to their potential value, carbon credits should be considered as public assets that need to be protected.

The need for increased diligence regarding claiming credits was brought to light in a report from the Auditor General (March 4, 2011) who highlighted instances where the current City policy was not broad enough to include grant and loan arrangements and resulted in lost opportunities for the City to claim ownership of carbon credits.

The current policy is focused on generation of carbon credits from a limited set of emission reduction activities. As new technologies and emission reduction projects emerge, it is important for the City to understand the broad range of activities that might result in emissions savings and to be in a better position to assert carbon credit ownership, where possible.

In order to reduce the risk of ownership disputes and claims by contractors, suppliers and other service providers, the City has posted on its website a public notice table of City projects that may be eligible for carbon credits to notify residents and businesses of these City assets.

Link to Public Notice: City of Toronto Carbon Offset Credits –
http://www.toronto.ca/environment/pdf/cot_carbon_credit_listing.pdf

What City activities generate carbon credits and what are they worth?

The City's portfolio of carbon credits spans a variety of project types including:

- energy efficiency retrofits at City-owned facilities
- landfill gas collection, combustion and electricity generation, and
- grants and loans (e.g. Better Building Partnership).

Preliminary work by City staff and stakeholder feedback suggests that the City has many high-quality carbon credits in its possession. The quality of a carbon credit is a function of several variables including: clear and unique ownership, and evidence to support the real, quantifiable, additional, surplus, verifiable, permanent nature of the GHG reductions. Not all GHG emission reductions will qualify as carbon credits. Also, there may be projects and other commercial arrangements (i.e. Ontario Power Feed-in Tariff Program) where parties negotiating with the City have a greater interest in obtaining any associated or resulting carbon credits. In these cases, City staff should be prepared to negotiate a reasonable commercial benefit in return for giving up such carbon credits.

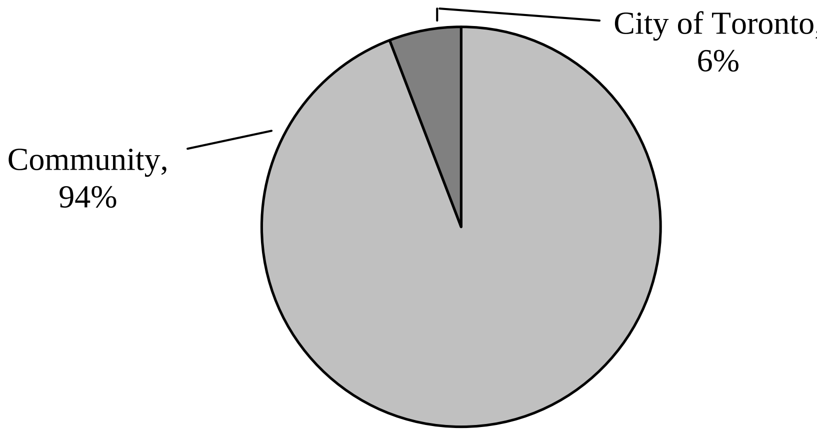
Appendix D provides a sample of City-led projects that have generated carbon credits. For the period covering 2007-2020, City staff has assessed the carbon credit portfolio at approximately 325,000 credits that are currently valued between $2.5 million to $4.1 million.

Will selling carbon credits adversely affect the City’s ability to meet its corporate greenhouse gas emissions reduction targets?

The revised carbon credit policy would allow for commercial transactions to be undertaken only if it does not compromise the City's ability to meet its greenhouse gas emissions reduction targets, renewable energy targets, and other environmental goals.

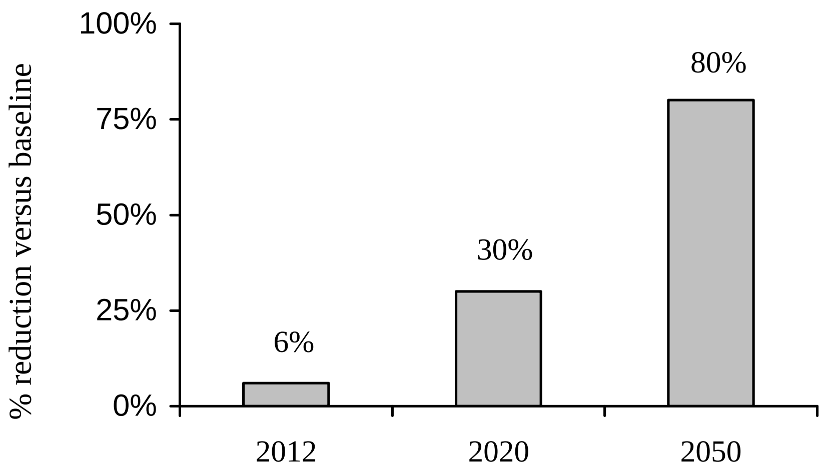
Of the total greenhouse gas emissions across the entire Toronto urban area 6% stem from the City corporation itself, as shown in Figure 1.

Figure 1 – Total Greenhouse Gas Emissions for the Toronto Urban Area



In 2007, City Council adopted the *Climate Change, Clean Air and Sustainable Energy Action Plan* and, in doing so, established the greenhouse gas emissions reduction targets shown below (see Figure 2).

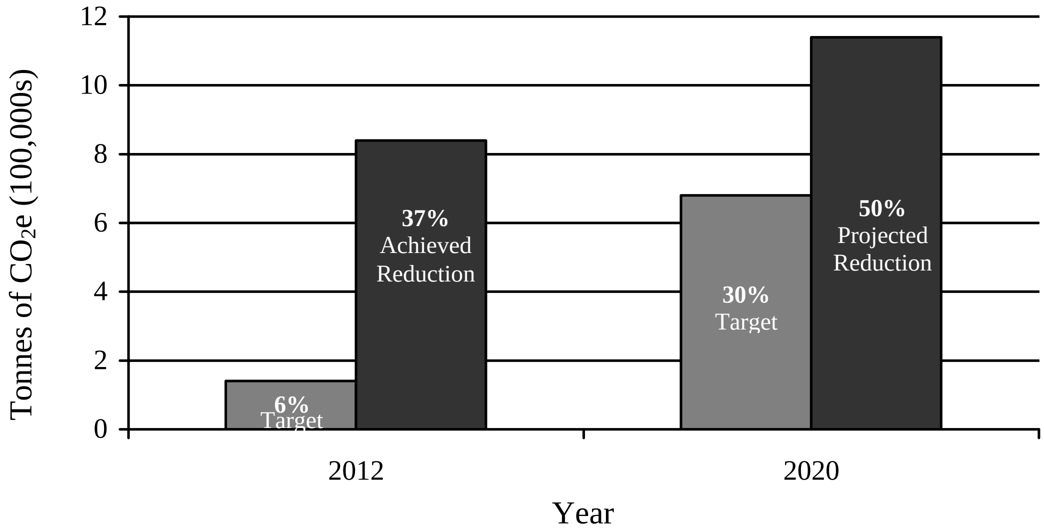
Figure 2 – Greenhouse Gas Emissions Reduction Targets[1]



The City has achieved considerable success in reducing its corporate greenhouse gas emissions vis-à-vis the City Council adopted targets, as displayed in Figure 3.

[1] Greenhouse gas emission reduction targets versus 1990 emissions level (baseline).

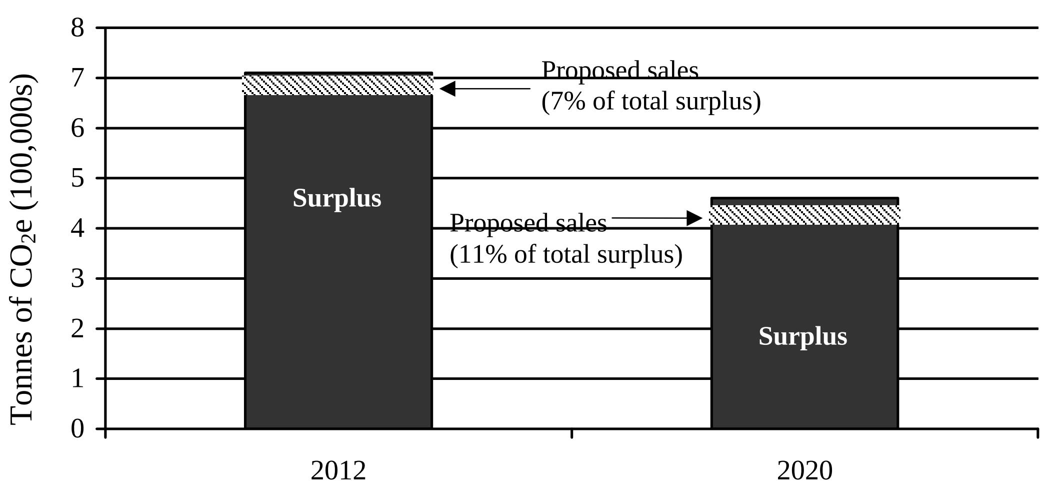
Figure 3 – City Corporate Emissions Reductions & Projections, 2012-2020[2]



As of 2012, the City is on-track to reducing corporate greenhouse gas emissions by 37% below 1990 levels. A reduction of 50% is anticipated for 2020. The corporation is currently in a surplus position relative to the emissions targets for 2012 and 2020, which are 6% and 30% below 1990 levels, respectively.

If the City were to sell 50,000 carbon credits annually until 2020, this amount would represent an average of 9% of the total annual reduction surplus (refer to Figure 4 below). Selling this amount would not impede achieving the 30% reduction target for 2020 (under current projected 2020 emissions levels).

Figure 4 – Impact of Selling Carbon Credits



[2] Projected reduction based on continued energy efficiency and conservation activities across City operations. This includes the phase-out of coal-fired electricity generation by the Province of Ontario.

What are 'voluntary markets' for carbon credits?

There is a reasonably active voluntary carbon market in Canada involved in the purchase and sale of carbon credits. Buyers include corporations and individuals interested in reducing their carbon footprint to demonstrate environmental leadership. They are not responding to regulatory measures or obligations; actions are therefore characterized as voluntary. In 2011, carbon credit suppliers with headquarters in Canada transacted 3.2 million tonnes of CO_2e from domestic projects with an estimated value of $25.4 million.[3]

The Greening Canada Fund (GCF), for example, is a voluntary carbon fund that acts on behalf of its investors, which include TD Canada Trust, Bank of Montreal, Stikeman Elliot LLP and Deloitte. These firms are actively engaged in reducing their carbon footprints and seek carbon credits to assist in their efforts.

The Toronto District School Board (TDSB) recently sold $1.7 million in carbon credits to the GCF. These credits were generated by energy efficiency improvements undertaken by the TDSB across its building portfolio. The revenue earned from this transaction has been reinvested in similar projects, producing further energy cost savings and carbon emission reductions. Similarly, the GCF also invested over $1 million in the expansion of a landfill gas collection and utilization project owned by the City of Guelph.

How can the City be protected from sales to industrial polluters or speculative investors?

Concerns have been raised regarding the City potentially enabling certain groups, such as industrial polluters or speculative investors, to purchase City-owned carbon credits. In response to this concern, the proposed policy stipulates that no sale would be made to an organization seeking to purchase carbon credits for the purposes of meeting regulatory obligations. During the negotiation of a potential sale, the City would require the buyer to represent in the written contract that such use will not occur. If the City subsequently learns that such use has occurred, the City would have grounds for a breach of contract action against the purchaser.

Can Carbon Credits be prevented from resale and retired?

The proposed policy stipulates that any sale of carbon credits by the City require a no-sale clause and a retirement clause agreed to by the purchaser. This would prevent any resale option on the part of a purchaser. If the purchaser breached the provision, the City could take appropriate legal action.

[3] Sustainable Prosperity: Environmental Markets 2012 (November 2012) 17.

What is the rationale for inclusion of the City's agencies and corporations regarding the management of carbon credits?

An updated carbon credit policy and Council authorized direction will provide clarity and consistency across the City's agencies and corporations and help protect a public asset.

Generally, City service agencies, including The Toronto Transit Commission, are local boards of the City and the policy should apply. The three agencies operating as local boards with restricted definitions under provincial special legislation can be requested to adopt a consistent policy. These three agencies are: the Toronto Board of Health; the Toronto Police Services Board; and, the Toronto Public Library.

City corporations operate independently of the City but can be directed to adopt a consistent policy that fits within their mandates. These actions to include all city agencies and corporations will ensure a city wide application of the policy intent.

How will the City proceed to market carbon credits?

The Environment and Energy Office will coordinate the marketing of the City's carbon credit portfolio with advice and support from the Purchasing and Materials Management and Legal Services divisions. The City will target organizations who are demonstrating environmental leadership, as per the criteria detailed in Appendix A.

What is the 'Western Climate Initiative'?

The Western Climate Initiative is a regional collaboration of Canadian provinces and U.S. states working together to identify, evaluate and implement emissions trading policies to address climate change. It is a comprehensive effort to reduce greenhouse gas pollution, spur investment in clean-energy technologies that create green jobs and reduce dependence on fossil fuels.

Ontario, alongside other Canadian provinces and the state of California, is a partner in the Western Climate Initiative. California implemented a cap-and-trade regulation as of January 2012 that covers 85% of state emissions. Cap-and-trade is a market-based approach for managing greenhouse gas emissions in which the government imposes a cap, or limit, on the quantity of emissions release from certain facilities and creates the ability to trade emissions permits or offset credits to foster compliance.

Quebec has followed California's lead and British Columbia is currently consulting with stakeholders on the matter. Should Ontario introduce a cap-and-trade regulation, it may have an impact on the City of Toronto's major public works facilities.

Has the City consulted with stakeholders in preparation of the policy?

On May 3, 2011, the Toronto Environment Office hosted a half-day workshop to consult with the non-profit, academic and business sectors regarding a carbon credit policy for the City of Toronto.

Consultation highlights include:

- consensus that the City's policy should encompass a broad definition so as to include all existing, emerging and future carbon credits and environmental attributes;
- acceptance that the monetization of City-owned credits, on certain conditions, is justified; and
- importance of re-investing the sales proceeds to support new environmental projects.

A copy of the Carbon Credit Policy Review – Workshop Report can be found at: http://www.toronto.ca/environment/pdf/carbon_credit_policy_review_workshop_report.pdf

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ATTACHMENTS

Appendix A – City of Toronto Proposed Carbon Credit Policy

Appendix B – Sample Term Sheet for Carbon Emissions Reductions Purchase and Sale Agreement

Appendix C – Carbon Credit Reserve Fund

<u>Confidential Attachment:</u>

Appendix D – City of Toronto Carbon Credit Portfolio

Appendix A – Proposed City of Toronto Carbon Credit Policy

POLICY

1. The terms set out below have the following meanings:

Carbon Credits or *carbon offset credits* or *offset credits* or *offsets* refers to quantified and verified reductions of greenhouse gas emissions from a given facility, operation or project that is additional to any existing voluntary or regulatory requirement, where such greenhouse gas reductions have been verified by an independent third party verifier, and may be serialized and listed through a greenhouse gas registry. Usually, one carbon credit represents all rights and benefits associated with one tonne of greenhouse gas emissions reductions. Carbon credits generally can be banked, retired or transacted.

> *Banking a carbon credit* generally refers to holding a carbon credit or other environmental attribute in the context of a regulated trading system for future compliance use, perhaps in anticipation of using it to comply with future regulatory requirements.
>
> *Retiring a carbon credit* refers to permanently taking a carbon credit out of use and rendering it (and the underlying greenhouse gas reductions) or other environmental attributes of no further force and effect, thereby removing it from any and all voluntary or regulatory systems.
>
> *Transacting a carbon credit, or Transaction*, refers to encumbering, claiming, retiring for another party's benefit, or otherwise transferring legal and/or beneficial ownership of a carbon credit or other environmental attribute in consideration for value.

Environmental Attributes refers to a broad range of rights and benefits associated with greenhouse gas emissions reduction, renewable electricity and energy efficiency activities including, but not limited to the environmental rights and benefits that may take the form of carbon credits, renewable energy certificates, green tags, white tags, labelled/certified "green" power, negawatts, water conservation credits, and related attributes.

Greenhouse gas emissions (GHG emissions) refers to the dissemination in the air of gases – including carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorcarbons, perfluorocarbons, and nitrogen trifluoride and related gases or any other contaminant prescribed as a greenhouse gas by government regulation or international treaty - which contributes to the warming of the earth’s atmosphere.

Cap-and Trade is a market-based system for managing greenhouse gas emissions in which the government imposes a cap, or limit, on the quantity of emissions emitted from defined facilities and creates the ability to trade emission permits or quota in order to foster compliance.

2. City divisions, agencies and corporations claim ownership of all environmental attributes, including carbon credits, as a general provision in its procurement processes. City staff will take all reasonable steps to safeguard the City's ownership of environmental attributes in any contract, procurement document or other arrangement.

3. Staff will review projects and activities that result in the reduction of greenhouse gas emissions, the generation of renewable energy, the conservation of electricity, natural gas, or water, or any other environmental attributes to determine whether such attributes are eligible for designation as carbon credits, renewable energy certificates, conservation credits, or other similar attributes and products, respectively.

4. Staff will keep current the City’s table of projects and activities for which carbon credits or other environmental attributes exist or potentially exist and that the City owns or potentially owns, in whole or in part. This table will be posted on the City’s website and periodically updated.

5. Staff may sell carbon credits or other environmental attributes in order to realize cash value or sell such attributes in exchange for a reasonable commercial benefit (e.g. higher royalty rate or lease rate, etc.) by considering sections 6 and 7 below. In the case of a procurement process, such determination should take place prior to the issuance of the procurement call. If a procurement call is in process and City staff determine that such attributes should not be retained, City staff will take proper steps to ensure the offering of such attributes is made to all bidders/proponents in a fair and transparent manner.

6. Staff may take steps to realize value from carbon credits or other environmental attributes only if:

   i. the transaction would result in a net benefit to the City; and

   ii. realizing value from transactions will not compromise the City's ability to meet its greenhouse gas emissions reduction targets, renewable energy targets, and other environmental targets.

7. Staff may determine that in order to enter into certain funding arrangements or other agreements with the province or federal authorities, the City may be required to cede its rights to carbon credits or other environmental attributes as a condition of entering into such an agreement (e.g. the Ontario Power Authority's Feed-in Tariff agreements).

8. Any realization of value from transactions shall be guided by the following:

   i. contracts will only be entered into with organizations generating emissions from their operations in Ontario with the majority of emissions coming from sources within the City of Toronto;

ii. carbon credits or other environmental attributes may be banked for future use; and

iii. any organizations seeking to purchase City carbon credits or other environmental attributes for the purpose of meeting cap-and-trade regulatory obligations will not be considered as eligible parties for any transaction.

9. Any sales agreements involving purchasers of City-owned carbon credits or environmental attributes must include provisions to prevent a buyer from reselling offset credits to a third-party and provisions to ensure the retirement of carbon offsets by the purchaser.

10. Proceeds of sale from City divisions and service agencies will be allocated to a reserve fund for allocation towards financing corporate energy and environmental capital initiatives, including, but not limited to, energy efficiency retrofits, conservation demand management and renewable energy production.

Appendix B – Sample Term Sheet for Carbon Emissions Reductions Purchase and Sale Agreement

This document provides an outline/example of the basic terms under which the City of Toronto could sell carbon credits to a prospective buyer under a purchase agreement.

1. *Seller* – City of Toronto

2. *Buyer* – An entity voluntarily seeking to purchase carbon credits and not to fulfill any regulatory obligations or government mandates.

3. *Product* – Carbon emissions reductions (‘carbon credits’) from a given facility, operation or project undertaken by the City during a given time period (e.g. energy efficiency retrofits at City-owned facilities; landfill gas collection, combustion and electricity generation; renewable energy projects).

5. *Price* – A negotiated price will be paid on a per tonne basis for an agreed upon volume of carbon credits.

$_______ x # ________ of CO_2 equivalents = $ _________ Total Value

6. *Cost and Expenses of Carbon Credit Creation* –

Quantification: The City will bear the cost involved in preparing the negotiated volume of carbon credits consistent with industry standards and protocols.

Verification: The [City or the buyer] will bear the cost of third party verification consistent with a mutually agreed upon verification standard (e.g. Voluntary Carbon Standard, ISO 14064-3).

The parties shall otherwise bear their own costs and expenses.

7. *Representations* - The City will make representations that the carbon credits have clear and unique ownership, support the real, quantifiable, additional, verifiable, permanent nature of the emissions reductions and associated carbon credits, and any other necessary and customary representations.

8. *Conditions* – The execution of a definitive purchase agreement described in this term sheet is conditional on the successful negotiation of a definitive purchase agreement and the completion of due diligence to the satisfaction of the purchaser. Additional clauses, such as the mandatory retirement of carbon credits by the purchaser and provisions to prevent resale to third parties, will also form provisions within the agreement, as per the Toronto City Council adopted policy.

The transaction described in this term sheet is subject to the quantification of the applicable carbon emission reductions in accordance with one or more carbon emission reduction creation protocols each in a form acceptable to the purchaser, acting reasonably, as soon as practicable and in any event prior to the initial delivery date.

9. *Documentation* – Prior to each delivery date, the City will provide to the purchaser the Carbon Emission Reduction Creation Protocol for such Carbon Emission Reductions in a form acceptable to the purchaser.

10. *Expiration* – This term sheet expires on [MM/DD/YYYY]

Appendix C – Carbon Credit Reserve Fund

1. Location within the Consolidated Reserves/Reserve Funds Schedule

This account will be included in Schedule #7 – Corporate Discretionary Reserve Funds as part of the Climate Change Reserve Fund Group.

2. Statement of Purpose

The monies are to be used for the purpose of financing new or enhanced corporate energy and environmental capital initiatives, including, but not limited, to the following areas:

- Energy Efficiency Retrofits
- Conservation Demand Management Initiatives
- Renewable Energy Production

3. Service Area or Beneficiary Program

The City Division assigned responsibility for the Carbon Credit Program by the City Manager, currently the Environment and Energy Office, shall have primary responsibility for the reserve account.

4. Contribution Policy

All funds realized from commercial transactions involving carbon credits or environmental attributes, less any administrative, third-party verification and/or legal costs, will be deposited into this reserve account.

5. Withdrawal Policy

Funds may be withdrawn for the purpose of financing new or enhanced corporate energy and environmental capital initiatives, as cited above in the Statement of Purpose.

6. Review Cycle

The account will be reviewed a minimum of once every five years.