Sylvera

Sylvera's answers to the consultation document: Questions for structured call for inputs on recommendations for activities involving removals (17 July 2023)

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2.1 Monitoring and reporting

5. Should the activity proponent be required to periodically update its monitoring plan every five years and/or at the end of the crediting period?
Whatever is shorter. For those projects with long crediting periods, requiring monitoring plan updates in between the crediting period could be helpful to ensure they are still suitable (in terms of potential new standard requirements regarding monitoring) and in terms of ensuring the best available approach is used.

6. Should monitoring reports be submitted within the first [2] [5] [X] years of activity implementation? After the first report, at least once every [2] [5] [X] years?
The more often monitoring reports are required, the bigger the pressure for activity proponents to have better ongoing control of the project and the most likely to anticipate reversal risks. Thus, requiring monitoring reports every 2 years (and the first monitoring report 2 years after activity implementation) seems like the most secure option.

7. Do the "reversal notification" reports referred to in SB 003 recommendations involve, e.g. digital notification of an observed event that could lead to a possible reversal of removals; submission of notification within [90] [120] [X] days of the observation; follow-up submission of a full monitoring report within [6 months] [1 year] [X timeframe]?
It should be required that the activity proponent informs of any observed event that could lead to a reversal as soon as it is noticed or a few days (e.g. 10 days after it is noticed), instead of waiting until the next monitoring report. Then, in the monitoring report, the activity proponent can provide all the quantification/mitigation details. Also, the activity proponent should indicate if it is avoidable or unavoidable. This will be key to properly identifying intended reversals and being able to penalise them (see the answer to question number 14).

8. To ensure and demonstrate the continued existence of removals, are activity proponents required to undertake monitoring and address reversals:

a. Only during active crediting period(s) or
b Also [15] [X] years after the last active crediting period?
c. The longer of [9(a)] [9(b)] or a timeframe specified by the host Party (e.g. communicated in LoA or earlier)

Option B, the number of years during which reversals need to be addressed should be based on project type (i.e. depends on required permanence and the typical timescale that type of project is modelled on). Allowing the host Parties to define the timeframe should be avoided, as it would add an extra layer of complexity; especially for buyers that try to compare projects in their sourcing processes.

9. Is simplified annual reporting required to ensure and demonstrate the continued existence of removals? In what cases and how long?

If a notification system for potential reversals is put in place, requiring annual reporting as well would be duplicating efforts towards the same goal (i.e. keeping track of the existence of removals on an ongoing basis).

10. Are measures required to address the residual risk of reversals beyond the monitoring timeframe? If so, for how long, and what are the options for, e.g. the mechanism(s), responsible entity(ies), oversight?
Please refer to question 8. It could be seen as an expansion of the monitoring period and follow a similar approach (i.e. activity proponent monitors reversals, VVBs are responsible for approving monitoring).

2.2 Addressing reversals

2.2.1 General

11. What type of risk rating is used to calculate an activity's buffer contributions?
    a. The results of an individual activity's risk assessment;
    b. A standard rate determined by the 6.4SB;
    c. Either measure could be appropriate, depending on the circumstances (in this case, what factors should determine the use of an activity-specific or standard risk rating)?

Design a risk tool that (1) provides a standardised way of calculating buffer pools while (2) captures specific risks faced by a project type (leveraging independent data and making sure that this measurement is standardised is key). An idea is to provide a default buffer pool that can be lowered if certain mitigating factors exist. Another idea is to perform a project-specific risk assessment as it would provide an incentive to control risk at the design phase (e.g. through optimal site selection and design of preventative controls) which may reduce the likelihood and impact of loss events.

12. What are the options for circumstances/triggers and/or periodic milestones for reviewing and possibly updating activity baselines, risk assessments (so, risk ratings), and monitoring plans, including in relation to:
    a. Verified reversals of removals; and
    b. The stages of activity cycle implementation?

Singular significant events such as:

- political (e.g. new government with different sentiments on activity implementation),
- physical (e.g. risks have materialised i.e. significant loss of carbon stock), or
- governance (i.e. project has changed hands / is at risk / there are disputes etc)

13 On what basis could requirements provide for the use of simplified / standardized elements or mandate the use of more frequent, full, or activity-specific elements and what are the requirements that may be relevant?
    a. Activity type or category;
    b. Risk rating level (e.g. above versus below a given %-based threshold);
    c. Risk assessment contents (e.g. nature, number, variety of risk factors);
    d. Monitoring plan (e.g. complexity, frequency, responsible entity).

14. Should procedures take the same or different approaches to instances of reversals that are (a) intentional/planned versus (b) unintentional / unplanned?
Different approaches.

- Buffer pools are suitable measures to compensate for unintentional reversals (e.g. due to wildfires). Beyond cancelling credits from the buffer pool, the activity proponent should not be penalised for reversals that are not in its hands and that are unavoidable.
- But buffer pools were not designed to tackle intentional reversals. There is no place for planned reversal and we need a mechanism to penalise that behaviour with the aim of correcting it.

a. How/would other tools to address reversals involving direct credit replacement (including use of insurance / guarantees) be used in combination with a buffer pool?

Direct replacement guarantees/insurance could be used for reversals beyond the buffer. An idea is for the risk tool to provide a risk profile based on aggregated probability specific to the project. You could then have a probability threshold set by the SB where the above threshold probability is considered "likely" and should be planned for directly with buffer pools allocated to cover the magnitude of likely loss events specific to the project. Below threshold (lower probability) loss events could then be covered by direct replacement guarantees and/or insurance.

2.2.2 Reversal risk tools—General: Buffer pools, direct credit replacement, insurance /guarantees

15. Regarding reversal risk buffer pools, direct credit replacement, and insurance / guarantees:
    a. What is the current practice with these reversal risk tools, including the extent and nature of their use (respectively and in combination), transaction costs and how these are financed, and potential roles of the Host Party in multi-decadal compensation requirements;
    b. The circumstances under which the use of a given tool may be required or supplemental—for example, for intentional versus unintentional reversals, or during versus beyond the last active crediting period—and rationales.

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2.2.3. Reversal risk tools: Specific

16. What are options for robust buffer pool design, including conditions and procedures for its use, ER composition, replenishment, and administration.
The buffer pool should be determined on a risk-adjusted basis by the project with minimum thresholds. This could be adjusted every crediting period based on results of non-permanence risk assessments, carried out during each monitoring period.

One important design question is whether there is a common buffer pool for all 6.4 projects or whether buffer pools are kept separately. In terms of the size of the buffer pool, one can use VCM examples as a reference point. As of the end of November 2022, Verra's VCS currently has 65 million credits available in the buffer, just over 6% of the 1 billion credits issued. There have not been many instances where the buffer pool has been drawn on (although there have been several instances where credits are released, despite ongoing risks).

Last, defining what happens if the buffer pool is used up, would be necessary. There are several alternatives to cancelling credits from the buffer pool that could be considered (even in the situation in which a buffer pool still exists):

- Future sales of credits can be correspondingly reduced
- Unsold credits can be cancelled
- An "equivalent" (challenge to ensure they are interchangeable) number of carbon credits can be purchased from within the same registry but may be from a different project

17. The need for additional procedures and guidance for the 6.4SB, PPs, insurers/ guarantors to implement options for direct ER replacement, including for insurance or guarantees.

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2.2.4. Treatment of uncancelled/unused buffer ERs

18. Are uncancelled ERs in the buffer pool returned to the activity proponent to incentivize performance and/or automatically cancelled, and is this done periodically throughout activity cycle or only after the end of the activity lifecycle or the host Party NDC timeframe?
It depends on the buffer pool model. For example, if a multi-project pool model is utilised, no returns should be done. Compensating activity proponents for avoiding reversals and not using the buffer pool could be done in a different way than by returning ERs.

19. Whether the options for treatment and timing are mutually exclusive or could be applied in combination (e.g. returning some but not all ERs to proponent).
In case the decision of applying returns is taken, returns should only happen if there is not a net loss of carbon stock at the next crediting/permanence (or monitoring period), once the non-reversal is guaranteed over the right timeframe.

20. Possible basis for periodically returning ERs to proponents (e.g. metrics for activity performance, activity cycle milestones).

21. Procedures for the SB's periodic review and ongoing management of buffer contributions (e.g. buffer composition, stress-testing the sufficiency of risk coverage).