Coal-to-Clean Credits Initiative (CCCI) Methodology

Zurich Carbon Market Association Just Transition presentation
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The Rockefeller Foundation | south pole | *Inputs from:* RMI | Climate Policy Initiative | TWG

Emissions from existing coal plants, if run to the end of their technical lives, would represent two-thirds of the world's remaining 1.5°C budget

Over

70%

of power emissions stem from coal

and around 80% of these power emissions stem from rising fossil fuel utilisation in emerging markets.

Over

90%

of coal plants

are shielded from competition due to regulation or long-term contracts that guarantee their returns. As a result, many coal plants have no financial incentive to retire early.

Coal to Clean Credit Initiative (CCCI)

South Pole and partners are developing and piloting the CCCI methodology to **accelerate the decommissioning of coal power plants** through carbon finance, and thus advance the energy transition.

Government backing

Funded by the Rockefeller Foundation, the CCCI has already secured a high-level partnership with the Monetary Authority of Singapore (MAS) to help accelerate the retirement of coal plants in Philippines and other countries in SEA.

Ensure high-quality

The methodology is being developed according to the highest standards of environmental integrity. This includes having buyer criteria rules in place to ensure coal-to-clean credits are a complementary tool for tackling climate change. The pilot project in the Philippines could avoid up to 19 million tons of CO2 emissions.

Just transition

Through collaboration with coal plant workers and local communities, the methodology will require robust 'just transition' plans that help mitigate against the socio-economic risks associated with this transition.

The methodology focuses on a subset of CFPPs globally

Market & ownership structure

Applies to :

- grid connected CFPPs
- CFPPs with a long-term power purchase agreement (PPAs)

Additionality: *CFPPs that are not subject to direct competition from cleaner and cheaper energy, where carbon credits likely to add greater value*

Plant & project proponent requirements

- Demonstrated **utilization over 5 most recent years at the time o**f validation and prior to the accelerated retirement date
- **Positive free cash flow to equity** (each yr over 3 yrs prior to validation and prior to accelerated retirement date + **positive fair value** at validation
- Demonstrate the **construction of the CFPP began prior** 31 December 2021
- Proponent committed to **no new coal**

Moral hazard: *Avoid incentivizing new CFPPs with the expectation of carbon revenues in future*

Coal transition pathway

- Plants **decommissioned**
- Plant equipment **properly disposed** of (disposal, recycling, retooling for low-carbon)

Permanence: *Ensuring ultimate retirement of the CFPP*

CFPPs must be at least partially "paired" with replacement renewable energy, demonstrated through:

Contractual pairing

CFPP PPA renegotiated to RE PPA

Engie Energia + AMSA

Financial pairing

RE inv. & CFPP ret. linked under financing mech.

Engie Energia / IDB Invest

On-site pairing

RE built on CFPP site

Komati CFPP

Regulatory pairing

New reg. approval for replacement resources

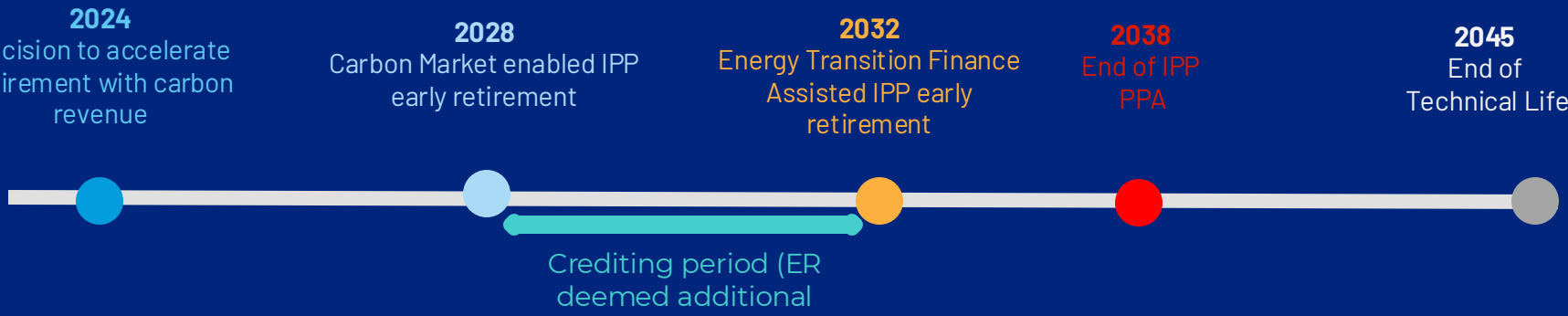
PNM securitization

Counterfactual planning

Integrated resource planning shows RE brought forward

- Does not require 100% replacement, but **leakage emissions** due to grid dispatch must be accounted for and the final methodology may include **minimum thresholds** for RE replacement
- **Does not allow for direct crediting of coal-to-gas replacement**, but methodology may also require applicability conditions to ensure CFPP retirement does not incentivize investments in power generation incompatible with 1.5ºC outside of the project boundary

Example – Baseline Scenario / Additionality determination (for illustrative purposes only)



‘Leakage’ due to grid dispatch to replace the retired CFPP generation is accounted for

Leakage:

- Emissions resulting from the electricity that is sourced from the grid that is not generated from paired RE
- **More RE pairing** = **less leakage** = more emissions reduction = more carbon revenue.

Leakage is addressed by:

1. Requiring project sponsors to commit to not building new coal plants

2. Disincentivizing CFPP mothballing and coal generation in reserve by requiring a high OM emissions factor to be applied in situations where this is the case

3. Recognizing that gas has role to play as a transition fuel, but penalizing for the emissions that result from methane that is lost to atmosphere

4. Quantifying in a conservative manner (overestimating) the emissions associated to the electricity that has to be dispatched to make up for the electricity that the paired RE sources are not able to provide

All projects will be required to develop, implement, and finance a just transition plan

Minimum requirements for a just transition plan

- **Consultation:** Advanced notice (6 months), advanced consultations with local communities and stakeholders, mechanism for communication and grievances during implementation
- **Socio-economic and environmental impact assessments:** Disaggregated data across affected groups
- **Implementation plan:** Including site remediation and reclamation and addressing social impacts
- **Governance mechanism:** Including clear communication of stakeholder responsibilities

Earmarking carbon revenues to finance the just transition plan

- A **minimum of 2%** of the net revenues expected from the sales of carbon credits must be allocated to the **implementation of the JT Plan**

KPIs to be **Monitored, Reported and Verified** for compliance

Determined based on local context, but could include:

- # or % **workers** re-reskilled, # alternative jobs provided
- $ **financial support**, % total financing allocated to JT
- # **consultations**, #/% attendees (public availability of consultation results)

Contact

Frederic Gagnon-Lebrun

Global Senior Director

Policy & Strategy, South Pole

f.gagnon-lebrun@southpole.com

Offices and representations worldwide:

Amsterdam, Bangkok, Beijing, Bogotá, Brussels, Hanoi, Jakarta, London, Madrid, Medellín, Melbourne, Mexico City, Milan, New Delhi, New York, Paris, Singapore, Stockholm, Sydney, Zurich.