

MOU on Sale of Carbon Credits to BP

Through retro commissioning and increases in efficiency, Facilities and Services (F&S) has generated considerable reductions in campus' carbon emissions. Reduced emissions have financial value as carbon offsets. The Institute for Sustainability, Energy, and Environment (iSEE), working through a non-profit intermediate, Second Nature, has sold these carbon credits, either to be retired on behalf of the environment or to offset emissions generated by the purchaser. Revenues generated from the sale of carbon credits are then reinvested in accordance with Illinois Climate Action Plan to further reduce campus' carbon emissions. Using funds generated from carbon sales, iSEE pays Second Nature to identify future clients and negotiate transactions. In the event that the entity purchasing campus' carbon credits will use them offset their own emissions, iSEE will purchase carbon offsets on the open market to mitigate the negative effect on the atmosphere. This MOU describes how the sale of campus' carbon emissions will be managed and how funds from these sales will be allocated.

The signatories to this Memorandum of Understanding hereby agree to the following points, in the context of the historical background provided as an appendix to this MOU:

1. The campus will provide a 50% match to the BP Target Neutral (BPTN) sale and future carbon credit sales if budget is available, as determined by the Provost.
2. Proceeds from the BPTN sale and future carbon credit sales under the "Carbon Credit and Purchasing Program" (C2P2), along with campus matching funds, will again be held in the Office of the Provost. With the exception of required offset purchases as described in #4 below, the Sustainability Working and Advisory Teams may propose projects using these funds. Additionally, the Director of iSEE or the Executive Director of F&S may propose projects using these funds. In all cases proposed expenditures will be evaluated on a case-by-case basis and must be mutually agreed upon by the Director of iSEE and the Executive Director of F&S, as was the case with the Chevrolet funds. Such expenditures will be reasonably expected to reduce current and/or future campus greenhouse gas emissions, but expenditures do not need to offer a financial payback. These funds will thereby complement other funding mechanisms (such as Rapid-Payback and the Revolving Loan Fund), and will help satisfy Financing Objective 3 of the 2015 Illinois Climate Action Plan.
3. The Office of the Provost will provide regular statements to both F&S and iSEE about expenditures in these funds and the remaining balances.
4. iSEE is charged with conducting regular RFP processes as needed to purchase offsets on the open market, in order to preserve the campus's ability to report a reduction in total emissions. The purchase of these offsets will be funded by the proceeds of the BPTN and future carbon credit sales, and this will represent the top priority for the use of such funds.

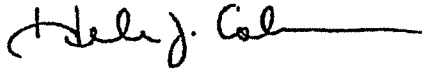
July 6, 2106

Signatories:

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Helen J. Coleman
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Peter E. Schiffer
Vice Chancellor for Research



Edward Feser
Provost (or designee)

Appendix: Historical Background

- In late 2013, iSEE began the development of a “project,” which was ultimately registered with the Verified Carbon Standard, to enable verification and sale of carbon credits resulting from energy efficiency measures across campus, largely led by F&S. This effort was spurred by the desire of Chevrolet to purchase, and retire on behalf of the environment, carbon credits generated by U.S. college and university campuses. The project validation and verification costs were paid by Chevrolet.
- In May 2015, emission reductions for the period of 1 July 2011 to 30 June 2014 (FY12-14) were verified, in the amount of 166,577 tons of CO₂. These were sold to Chevrolet (through Bonneville Environmental Foundation) for \$5/ton, for a total of \$832,885.
- An agreement was made between the Provost’s Office, OVCR, F&S, and iSEE that campus would provide a 50% match to the sale of carbon credits, and the total pool (\$1,249,327.50) would be held in the Provost’s Office. These funds would be dispensed upon mutual agreement of the Director of iSEE and the Executive Director of F&S, for expenditures that could reasonably be expected to lead to further emission reductions.
- The Director of iSEE and the Executive Director of F&S agreed that \$750,000 of the \$1,249,327.50 would be allocated to the Revolving Loan Fund, and that iSEE would play a larger role in the Revolving Loan Fund, including having representation on the allocation committee.
- Shortly after the conclusion of the Chevrolet sale, the many campuses involved in that transaction began lobbying Second Nature (the non-profit that administers the Climate Commitment) to initiate a “Carbon Credit & Purchasing Program” (C2P2) to facilitate future sales of carbon credits from this collection of campuses. Second Nature agreed to do so, but only if the campuses would provide start-up funds to initiate the program. Specifically, the C2P2 would recruit new carbon credit purchasers, provide technical support for both existing and new campuses, identify and secure verification services, and set up a registry account to support carbon credit sales. All campuses (except UIUC, so far) agreed to contribute a portion of their Chevrolet proceeds to set up this program. The requested contribution from UIUC was \$0.40 per Chevrolet ton, or \$66,630.80.
- F&S and iSEE met to discuss participation in this program, and decided that we should participate in principle, but that we would need to carefully review the contractual terms. One key condition that both units agreed to is that if new buyers did not agree to retire credits on behalf of the environment as Chevrolet did, and instead the new buyers use the credits to offset their own emissions, UIUC would then need to purchase offsets to replace the carbon credits we sell. This would permit UIUC to continue to claim credit for reduced emissions in our Second Nature (formerly ACUPCC) reporting, and to meet iCAP targets. F&S and iSEE agreed that iSEE would explore options for entering the C2P2 program with purchasing and legal counsel, and that iSEE would consult with F&S before entering into any contracts.
- iSEE consulted with Purchasing, and was informed that a Sole Source review would be appropriate in this case, given that the amount exceeds the bid limit and that Second Nature is uniquely positioned to provide these services since all the other campuses have agreed.

[Bundled purchases of credits from many campuses are more attractive to buyers, as they offer greater publicity.] Purchasing further advised iSEE that contractual terms should not be negotiated until after the Sole Source review was completed.

- In October 2015, iSEE submitted requisition R0337960 in order to enable the Sole Source review to proceed, so that contractual terms could then be discussed (this discussion will include F&S). Because of misunderstandings, this requisition was held up for approval in OVCR, but the situation was clarified in a December 10, 2015 meeting with Peter Schiffer, Vicky Gress, Evan DeLucia, and Ben McCall.
- During the period while UIUC was evaluating how to engage in the C2P2 program, Second Nature decided to launch it with the funds it had received from other campuses, and fronting the expected contribution from UIUC. iSEE participated in discussions about the process, with the expectation that UIUC would eventually formally join the program.
- In October 2015, the C2P2 program identified a potential opportunity to sell credits to BP Target Neutral. BPTN was planning to issue an invitation-only RFP for carbon credits to fill a gap in their portfolio, and the timeline to secure an invitation to participate was extremely short. iSEE, with consent from F&S, allowed Second Nature to include our expected credits for the period 1 July 2014 – 31 December 2015 in its request to be invited to respond to the RFP.
- In early December 2015, BPTN invited Second Nature to respond to the RFP, with a deadline of 18 December. Second Nature informed UIUC that we could not participate without a contract in place with Second Nature. It was decided that a short-term contract to facilitate only the potential BPTN transaction would fall below the bid limit, and staff from F&S, iSEE, Purchasing, and Legal Counsel worked with Second Nature to craft an appropriate contract. Because of the short notice, the requisition R0337960 (which was intended for the C2P2 startup costs) was used to execute this contract. This contract provided for UIUC to reimburse Second Nature for the verification costs (~\$6k), and committed to a commission to Second Nature of \$0.40/ton.
- In January 2016, iSEE and F&S worked to prepare a monitoring report, and to pursue verification in the event that BPTN selected our credits for purchase. In February 2016, BPTN communicated to Second Nature that they would likely take all of the C2P2 credits. iSEE worked with Purchasing to execute a series of deeds related to registering the carbon credits, in order to enable the sale to take place. In early March, the verification process was completed, with a total of 102,991 tons of CO₂ verified.
- Also in early March, iSEE learned that BPTN would purchase the carbon credits directly from Second Nature, and Second Nature would then pay UIUC \$7/ton (after taking its commission out of the funds it receives from BPTN), for a total of \$720,937. UIUC would only need to pay Second Nature its reimbursement of the verification costs, as agreed to in the December contract.
- During the intense period of preparing materials for verification, the issue of securing the broader contract with Second Nature was put on the back burner. Given that the commissions are being paid directly by buyers, it now appears that the total funds UIUC will pay Second Nature will be below the bid limit. iSEE is therefore now exploring the possibility of preparing this broader contract, which will be done in consultation with F&S.

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- In February 2016, ISEE was informed that credits BPTN purchases will most likely go to offsetting emissions.

