

PERFORMANCE SHORTFALL GUIDELINES

Gold Standard[®]

Version 1.1
April 2020

TABLE OF CONTENTS

1.	DEFINITIONS.....	3
2.	BACKGROUND	4
3.	PERFORMANCE SHORTFALL SCENARIOS.....	4
4.	COMMUNICATION WITH BUYERS AND REGISTRY NOTE	8
4.1	COMMUNICATION WITH THE BUYERS.....	8
4.2	REGISTRY NOTE	8

1. DEFINITIONS

- 1.1 **Adjusted ex-ante CO₂-fixation model:** refers to an updated version of validated ex-ante estimations for CO₂-fixation prepared to account performance shortfall scenario
- 1.2 **Ex-ante CO₂-fixation model:** refers to the project's validated ex-ante estimations for CO₂-fixation.
- 1.3 **Force majeure:** Any cause constituting force majeure i.e., an event beyond the control of the project developer and not involving the developer's fault or negligence and not foreseeable. Such events may include, but are not limited to;
- any act of war (whether declared or not), invasion, revolution, insurrection, terrorism, or any other acts of a similar nature or force, that prevents DOE travel to project site
 - Natural disaster like flood, earthquake, etc.
 - Change in Governmental requirements, policy, etc that affect the project implementation and operation
 - Any other situation which meets the definition above

An event may qualify as "Force majeure" while it was assessed as no or low risk for project implementation under "Risk and Capacities" and/or "Safeguarding Principles and Requirements" section 4.3.2 "Vulnerability to Natural Disaster" assessment.

Force majeure does not include shortage of personnel, industrial action, economic downfall, sickness of personnel, breach of contract by subcontractors and liquidity or solvency problems.

- 1.4 **Loss event:** Any situation where there is a significant loss (more than 5%) of previously verified GS-VERs as a result of losses of carbon stocks in pools accounted for the project.
- 1.5 **Non-Force majeure:** Any other cause that is not covered under force majeure.
- 1.6 **Performance shortfall scenario:** A performance shortfall scenario represents the situation when the issued planned emission reductions (PERs) are less than the project's ex-post carbon stocks for a given vintage or verification period.
- 1.7 **Planned emission reductions (PERs):** A Planned Emission Reduction represents the expected (i.e., future) sequestration of 1 tonne of CO₂eq but does not represent an actual sequestration and accordingly shall not be used for carbon neutral claims until its conversion to a Verified Emission Reduction takes place.

PERs may be issued to the Projects following the Land-use & Forest Activity Requirements. If the project has been issued Planned Emission Reductions (PERs) regardless of the fact that the issued PERs are in the

project registry account or not the actions to address the performance shortfall are mandatorily required.

- 1.8 **Reversal event:** A situation where net carbon stocks are negative as a result of a loss in carbon stocks

2. BACKGROUND

- 2.1 According to the [GHG emissions reductions sequestration product requirements](#) (Section 7.0), the Project Developer must ensure that the project carbon stocks are aligned with the number of issued PERs and GSVERs over time. The requirement states that

"At any time during a crediting period, the Project Developer shall ensure that the quantity of the PERs with respect to the project is equal or less than to the project's expected carbon stocks."

"At any time during a crediting period, the Project Developer shall ensure that the quantity of GSVERs with respect to the project is equal or higher (not less) to the project's expected carbon stocks."

- 2.2 If compliance with this requirement is not maintained, the project falls in a performance shortfall scenario. The Project Developer shall follow the performance shortfall guidelines to address the performance shortfall and recover appropriate levels of carbon stocks to comply with the requirement.
- 2.3 This document "performance shortfall guidelines" presents a set of requirements and follow up actions to address the performance shortfall scenario associated a Gold Standard Land-Use and Forests project. A variety of causes - force and non-force majeure may lead to performance shortfall and should be addressed differently. These guidelines present likely shortfall scenarios and the follow up actions for project developer to address the shortfall situations.

3. PERFORMANCE SHORTFALL SCENARIOS

3.1 **Scenario 1: Force majeure**

It represents a reversal and/or performance shortfall situation caused by the force majeure. In this scenario, depending on the level of the loss and/or under performance happened in the project boundary, the VERs may have reversed partially or completely and/or not all issued PERs converted in VERs for a given monitoring period.

3.2 **Scenario 2: Non- Force majeure**

This scenario represents a reversal event and/or performance shortfall caused by non-force majeures. In this scenario, underperformance of a project results from other factors, for example, but not limited to, poor

project management and overestimation of the ex-ante CO₂-fixation model. In this scenario, there is a reversal of GS VERs and/or an underperformance that prevents a project from converting all issued PERs into VERs for a given monitoring period.

3.3 The steps to be taken to address reversal and performance shortfall scenarios are:

3.3.1 **Step 1: Notification to Gold Standard:**

In the case of a reversal event or performance shortfall, the Project Developer shall notify SustainCert no more than 30 calendar days after the discovery of the reversal event. If the performance shortfall is identified during the certification process, the project developer and/or VVB shall notify SustainCert immediately upon discovery. SustainCert will derive the assessment of all performance shortfall scenarios to Gold Standard's Secretariat.

Outcome:

Upon receiving the notification, Gold Standard will freeze the project Registry account and no activity including issuing/transferring/assigning/retiring of PERs and/or GSVERs from the project registry account will be allowed until a decision or resolution is reached by GS Secretariat. In case the project developer has more than one project under the same Registry account, then Gold Standard will discuss with the project developer options for preventing the transfer/assignment of units from the affected project.

3.3.2 **Step 2: Preparation of assessment report and follow-up actions**

The Project Developer shall prepare and submit an assessment report within three months of initial notification date. In the case of an event identified during the certification process, the Project Developer shall prepare the required information with VVB's opinion and the assessment shall be included in the verification report. The report shall provide information on the incident including but not limited to its causes, supporting evidence, written or otherwise, to assess and determine the nature of event, the magnitude of the loss of carbon stocks and a mitigation measure, where possible, to avoid occurrences of similar incidents in future. In the case of a performance shortfall, the assessment report shall clearly explain the causes of shortfall.

3.3.3 **Scenario 1:** In the case of a reversal event that affects individual Modelling Units (MUs), the Project Developer shall submit, as part of the assessment report, the adjusted CO₂-fixation model with revised ex-ante estimates for the affected MUs to assess the effect on the remaining crediting period. The ex-ante CO₂-fixation model shall be adjusted (downsized) for the affected MUs to reflect the loss in above and below-ground biomass as well as in soil carbon, where applicable. The adjusted model for the affected MU must start from the date of the reversal event until the end of the crediting period. The crediting period of the project cannot be altered. In the case of a performance shortfall in which it is not

possible to identify with certainty the affected MUs, the Project Developer shall conservatively adjust the ex-ante CO₂-fixation model for all the MUs constituting the project.

3.3.4 **Scenario 2:** the ex-ante CO₂-fixation model shall be adjusted (downsized) for ALL the MUs in the project to reflect the loss in above and below-ground biomass as well as in soil carbon, where applicable. The adjusted model must start from the date of the reversal event until the end of the crediting period. The crediting period of the project cannot be altered.

3.3.5 To adjust the ex-ante CO₂-fixation model, the project shall refer to the verified reversal event or performance shortfall, as applicable. The adjusted model is the result of reducing the ex-ante CO₂-fixation model by the shortfall:

$$\text{Ex-ante CO}_2\text{-fixation model} * (\text{ex-post/ex-ante})$$

Note: this adjustment is done and reported at the vintage level.

3.3.6 The GS Secretariat shall carry out an initial assessment of the reversal/performance shortfall report and decide if external expert's opinion and/or a site visit by an Objective Observer is required to substantiate information on incident and assess the magnitude of the reversal/performance shortfall. The Gold Standard Secretariat will ultimately decide, in consultation with LUF TAC, on: i) the need for involving an Objective Observer, and; ii) the level of adjustment of the ex-ante CO₂-fixation model. The project developer may be requested to provide further information and or evidences on incident during the review process.

3.3.7 Any future PER issuance will be based on the adjusted ex-ante CO₂-fixation model.

3.3.8 If a future performance shortfall event occurs, the PD shall repeat the same steps described above, as applicable.

3.3.9 The following shall be noted for revisiting an adjusted ex-ante CO₂-fixation model:

- A project developer can request to reinstate the validated ex-ante CO₂-fixation model at the time of renewal of crediting period only if there are consistent evidences (i.e., at least three year verified growth performance) that confirm that the project is outperforming the adjusted ex-ante CO₂-fixation model.
- The revision will be conducted by the GS Secretariat during a certification renewal assessment to determine if returning to the validated ex-ante CO₂-fixation model is a conservative approach given the risk profile of the project and the effectiveness of the implemented mitigation actions.
- Upon a satisfactory decision on the revised ex-ante CO₂-fixation model, the GS Secretariat might unlock PERs from the project's

registry account (previously locked to address a performance shortfall) for the remaining crediting period (issuance will follow current PERs issuance rules).

3.3.10 The Option D of section 7.5 of Gold Standard's GHG Emissions Reduction & Sequestration Product Requirements "planting of new areas to generate further CO₂-fixation" doesn't apply in the case of a performance shortfall in Scenario 2¹.

Outcome:

Upon successful closure of the review, an action plan ("Action Plan") will be prepared by the Gold Standard Secretariat and discussed with the project developer to compensate the loss occurred due to reversal event.

3.3.11 Step 3: Compensation/Retirement of lost emission reduction units

The following actions shall be taken:

3.3.12 In the case of a reversal event, the GS Secretariat shall lock the equivalent volume of issued PERs and/or GS VERs units lost due to the reversal event. This also applies to the corresponding units in the compliance buffer account of the project.

3.3.13 In the case of a performance shortfall, the GS Secretariat shall lock all PERs above the accepted adjusted ex-ante model. This also applies to the corresponding units in the compliance buffer account of the project. Issuance of PERs will be limited by the adjusted ex-ante CO₂-fixation model estimates (following current PERs issuance rules).

3.3.14 To compensate transferred/assigned lost VERs and performance shortfall PERs, the following preferential order shall be followed:

- Compensate using an equivalent number of GS VERs that were not affected from the reversal event and are available in project's registry account **(Scenarios 1 and 2)**
- Compensate using an equivalent number of GS VERs purchased from other Gold Standard project **(Scenarios 1 and 2)**
- Compensate using an equivalent number of GS VERs available in the compliance buffer pool **(Scenario 1)**
- All Active PERs and VERs get locked. Compensate using an equivalent number of GS VERs purchased from other Gold Standard project **(Scenario 3)**

¹ Aiming to recover ex-ante levels of carbon stocks via adding a New Area will generate additional carbon units to the project, but doesn't solve the underperforming of the original areas due to mismanagement or an overestimated CO₂-fixation model

3.4 **Scenario 3: De-certification/De-registration**

3.4.1 This scenario represents the reversal/performance shortfall resulting from discontinuation of the project, for example due to de-certification or de-registration resulting from non-conformity, bankruptcy or project withdrawal.

3.4.2 To compensate the loss caused by the de-certification of the project, the following order shall be followed:

- The project's registry account gets frozen
- All Active PERs and VERs get locked
- The Project Developer shall compensate all transferred/assigned PERs and VERs using an equivalent number of GS VERs purchased from other Gold Standard project.

4. COMMUNICATION WITH BUYERS AND REGISTRY NOTE

4.1 Communication with the buyers

4.1.1 The Project Developer shall immediately and in writing notify buyers of the affected PERs and/or GS VERs who are holding these units in their Gold Standard registry account at the time of the discovery of the shortfall. The notice shall include the cause of the shortfall and the follow-up actions from the Action Plan.

4.2 Registry Note

4.2.1 The Gold Standard shall amend the project's entry on The Gold Standard Registry to include a note to record the reversal event, volume of PERs and/or GS VERs affected due to the reversal event/performance shortfall, origin of the units used to compensate the loss, and follow up actions. The language and format of this entry on The Gold Standard Registry shall be determined in the sole discretion of the GS Secretariat.