

Parhelion California ARB Offset Credit Invalidation Insurance

Background

The Parhelion California ARB (Air Resources Board) Offset Credit Invalidation Insurance is a new product which underwrites the risk of invalidation associated with ARB Offset Credits (Offsets). The risk of invalidation has created a price differential between Offsets where the invalidation risk remains with the buyer ('Buyer Liability') and those where the risk is transferred to another party ('Seller or other Third Party Liability').

The risk of invalidation is unattractive to many buyers, especially those who are seeking compliance certainty combined with least costs. Equally many sellers are unable or unwilling to assume the invalidation risk given their limited balance sheet capacity and credit-worthiness.

The insurance product developed by Parhelion is designed to remove the risk of invalidation for both Offset sellers and buyers.

Product Summary

The **Insured** is the underlying project entity with the owner of the Offset being the **Loss Payee**. This allows the Offset to be traded without limitation in the future.

The **Policy Period** will cover the risk of invalidation for up to 3 years from date of Offset issuance. (Second Verification is required within 12 months of issuance.)

The **Insured Risks** are the reasons for invalidation as set out in section 95985(c) of the California Cap & Trade Program Regulations being:

- The Offset Project Data Report contains errors that overstate the amount of GHG reductions or GHG removal of enhancements by more than five per cent;
- The offset project activity and implementation of the offset project was not in accordance with all local, state, or national environmental and health and safety regulations during the Reporting Period for which the ARB Offset Credit was issued; or
- ARB determines that offset credits have been issued in any other voluntary or mandatory program within the same offset project boundary and for the same Reporting Period in which ARB Offset Credits were issued for GHG reductions and GHG removal enhancements.

The **Policy Limit** is determined by the volume of Offsets insured and the monetary limit per Offset required. This monetary limit per Offset should be set based on the expected replacement cost of the Offsets (which may be up to 3 years in the future).

The **Basis of Indemnity** is the market price at date of determination by ARB that Invalidation has taken place or the actual replacement cost of Offsets. Additional costs such as acquisition costs (legal fees, broker commissions etc.) may also be included. The policy is **settled in cash** but, subject to agreement, replacement Offsets may be provided instead.

The **Insurer Security** supporting the policy will be investment grade with a minimum S&P rating of 'A'.

Likely Premiums

Premiums are likely to be +/- \$1.00 per Offset depending on insured limit per ARBOC. Premiums will be payable on inception.

Covered Protocols

Currently we are only considering ODS & Livestock projects. Other protocols may be added subject to demand and coverage requirements.

Information Requirements

To receive full policy details and pricing please submit project details for underwriting consideration. These should include:

- Full project information
- Verification reports (including details of proposed 2nd verifier & anticipated 2nd verification date)
- Registry listing details
- Details of the insured legal entity
- Off-take agreement
- Details of Offsets to be insured including volumes, reporting periods, anticipated issuance dates and required limit per Offset.

Next Steps

The policy has been standardised as far as possible to keep premiums low, but designed to be flexible to meet the particular needs of project developers and their off-takers. By working closely together we can formulate the most cost effective coverage for the particular project concerned.

**Contact us to discuss how best to remove Invalidation risk from your transactions:
Info@parhelion.co.uk**

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