BeZero Carbon Rating

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BeZero

BeZero Carbon Rating Definition
The BeZero Carbon Rating (BCR) of voluntary carbon credits represent BeZero Carbon's current opinion on the likelihood that a given credit achieves a tonne of CO_2e avoided or removed.

BeZero Carbon Rating Scale
The BCR is conveyed using a seven point alphabetic scale across three categories:

Rating Symbol	Definition
BeZero Carbon Rating **AAA**	The credit issued by the project has a **high** likelihood of achieving 1 tonne of CO_2e avoidance or removal.
BeZero Carbon Rating **AA**	The credit issued by the project has a **moderate** likelihood of achieving 1 tonne of CO_2e avoidance or removal.
BeZero Carbon Rating **A**	The credit issued by the project has a **low** likelihood of achieving 1 tonne of CO_2e avoidance or removal.

BeZero Carbon may apply '+' (plus) or '-' (minus) signs for 'AAA' and 'AA' ratings to reflect comparative standing within the category.

This section outlines the information and data required for a project to be eligible for a BeZero Carbon Rating. It also contains elements recommended as best practice for project reporting.

Primary Criteria

A project must fulfill the following criteria to be eligible for a BeZero Carbon Rating:

A. The project must have applied an additionality test or provide sufficient information on how it is deemed additional (see below for more details).
B. The project must have sufficient publicly available information to enable BeZero Carbon to assign a rating (see below for more details).
C. The project must be audited by a recognised third party auditor in order to ensure the robustness of the data and information published.

It is pertinent to note that BeZero Carbon Ratings are based on publicly available information on the project and the underlying credits being issued.

Test for Additionality

A project must apply an additionality test as part of the accreditation process in order to be eligible for a BeZero Carbon Rating. There must be sufficient information available to assess how the test is applied and subsequent results. In the case where a project has been deemed automatically additional, there must be sufficient information on the criteria for this assessment, available either through the accreditation agency or from the project documentation.

Minimum public information

In order for sufficient information to be gathered to rate a project, the following data elements must be available in the public domain for ex-post vintages:

- Change in project carbon stocks
- Baseline assumptions
- Leakage assumptions (if any)
- Risk buffer allocation (if any)

Any retrospective changes to these data elements must be published, with the justification for any amendments and its impact on the credits issued clearly defined. Examples include but are not limited to any loss events, exceptions to leakage or buffer accountancy and credit cancellations.

Further public information

Transparency on project related information is a critical pillar of our analytical approach. It follows therefore that projects sharing more information in the public domain will be viewed more favourably in the ratings process as compared to those publishing the minimum information. The following additional information will contribute to a positive view on the transparency of the project developer:

- Any assumptions and calculations used to derive the data elements listed in the minimum public information
- Reconciliation between published calculation and assumptions and final total issuance
- Ex ante data for the elements listed in the minimum public information
- Data available at a reasonable frequency and presented on an annual basis
- Data on credit retirements available from a single source and at a reasonable frequency.

The BeZero Carbon Rating follows a robust analytical framework involving detailed assessment of six critical risk factors affecting the quality of credits issued by the project:

Additionality: The risk that a credit purchased and retired does not lead to a tonne of CO_2e being avoided or sequestered that would not have otherwise happened.

Over-crediting: The risk that more credits than tonnes of CO_2e achieved are issued by a given project due to factors such as unrealistic baseline assumptions.

Non-permanence: The risk that the carbon avoided or removed by the project will not remain so for the time committed.

Leakage: The risk that emissions avoided or removed by a project are pushed outside the project boundary.

Perverse Incentives: The risk that benefits from a project, such as offset revenues, incentivise behaviour that reduces the effectiveness.

Policy and Political Environment: The risk that the policy environment undermines the project's carbon effectiveness.

BeZero's risk factor definitions, and the analytical framework for their application, are detailed in Appendix.

A BeZero Carbon Rating (BCR) is derived using a four stage process.

Stage 1: macro factor assessment
A top-down assessment is made according to each of the following characteristics of a project's credits:

- **Country:** BeZero makes an assessment on the country-specific risks a project faces, including the strength of the property rights in a project's location and how supportive the policy environment is to the success of the project's credits.
- **Sector:** there are three levels to the BeZero sector classification: sector group, sector and sub-sector. BeZero makes an assessment of the general risks a project is exposed to at each sector level. For example, we assess the relative cost-competitiveness of solutions in different sectors.
- **Methodology:** BeZero makes an assessment on how the accreditation methodology followed by a project impacts its risk exposure. For example, we assess the different ways a project baseline can be set through a given methodology.

Once complete, BeZero assigns initial scores for each of the six risk factors facing the project.

Stage 2: project specific assessment
The next step is to make an assessment of project-specific risks.

All publicly available information relevant to the project's credits are taken into consideration including, but not limited to:

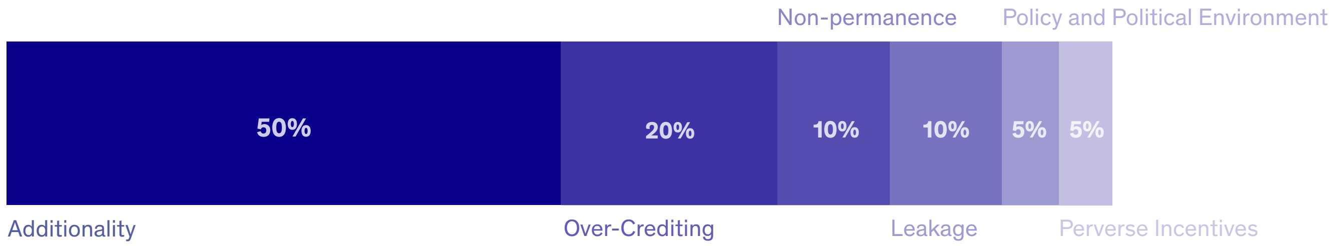
- An assessment of all accreditation documents
- Any additional documents published by the project
- Peer reviewed research papers
- Industry literature
- Social and economic data
- Location specific research or documentation
- Any other relevant indices and metrics

Considerations made at this stage include, but are not limited to:

- The additionality test applied
- The baseline set by the project
- The time period committed to by the project
- The change in carbon stocks and any leakage considerations
- Any additional risks accounted for by the project

Once complete, the risk factor scores arrived at in stage 1 may be adjusted up or down to reflect both the macro and project specific risks.

Stage 3: risk factor weighting
Each risk factor is assigned a specific weighting and the product of these are summed. The weightings are based on the team's assessment of a risk's relative importance to the overall rating. The individual risk factor weightings are presented in the chart below:



A minimum of 80% of total risk factor weighting must be accounted for in order for a project to be given a provisional rating.

In the event that insufficient evidence has been found to assign a score to a risk factor, that factor receives a weighting of zero. The weight of this score is then re-distributed across the remaining risk factors, in proportion to their risk weighting. This approach ensures that the overall rating is assigned based on an aggregate risk weighting of 100%.

Stage 4: BCR committee review

The Rating Committee formally reviews all provisional ratings. The committee is made up of all BCR Analysts, and is chaired by a senior member of the ratings team. At the committee, BCR Analysts present their analysis and rating recommendations. The Rating Committee's role is to interrogate their recommendation by asking questions and/or seeking clarifications.

If the Rating Committee requires additional information or clarification which cannot be addressed at the meeting, the rating remains provisional until all outstanding issues are deemed as resolved by the committee.

Unanimous approval by the Rating Committee is required for a final BCR to be assigned.

Monitoring and "Watch" Process
All BeZero Carbon Ratings (BCR) are valid at all times and are monitored on an ongoing basis. The assigned lead analyst is responsible for reviewing all new information pertaining to the project, sector and methodology. Such information includes, new research, new project documents including new monitoring reports, new/changes in regulations, changes in methodology and other information deemed relevant to the project or the rating. The analyst also monitors the continuing availability of information in the public domain, an essential criteria for a project to be eligible for a BeZero rating. The analyst takes note of these developments and assesses its implications (if any) on the rating.

Rating Reaffirmation
The publication of a monitoring report is typically a trigger for a detailed review of the rating. At this point, the lead analyst will collate all the new information published since the last Rating Committee Meeting, including those they have reviewed during their ongoing monitoring. They will reconfirm that the project continues to meet the eligibility criteria and that all information regarding the project remains available in public domain.

A detailed review report is prepared and follows the same process of independent peer review before being presented at a forthcoming Rating Committee, along with the analyst's recommendation on the rating. The Rating Committee discussions and deliberations are similar to the process followed for assigning a new rating.

If the new information or changes to information is not considered to have a material impact on the rating, following unanimous approval of the Committee, the rating is reaffirmed. All reaffirmations, along with their rationale, are published on the BeZero Website and the BCM platform.

Rating Watch
If as part of the monitoring process, the lead analyst is of the opinion that the new information could potentially have a material impact on the rating, or that the publicly available information has been withdrawn/compromised, the lead analyst prepares a report with a recommendation to place the rating on "watch". This note goes through independent peer review and then presented and discussed at the Rating Committee Meeting (similar to the process involved in assigning a new rating or a rating review). If the Rating Committee unanimously believes that the new information (or the withdrawal or publicly available information) could affect the rating, the rating will be placed on 'watch'. All ratings placed on 'watch' are published on the BeZero website and the BCM platform.

The Committee could also disagree with the analyst recommendations and conclude that no action needs to be taken.

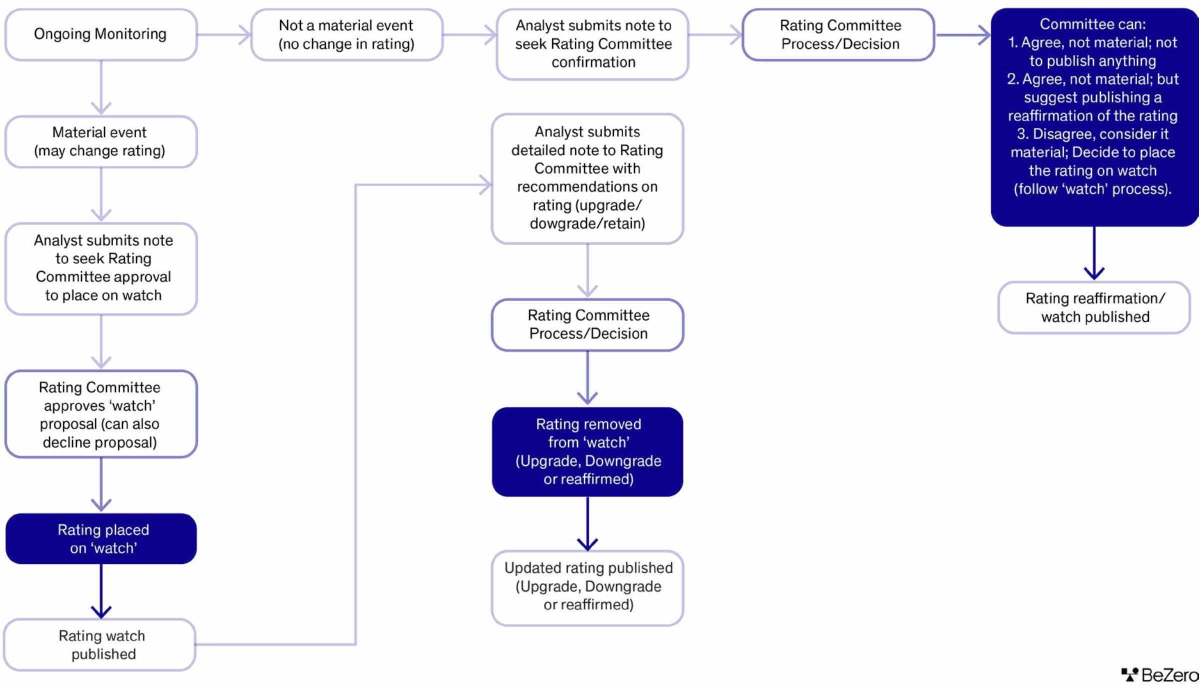
Once a decision has been made to place a rating on 'watch', the analyst will collect and analyse all new information, conduct additional research as required and prepare a detailed report for Rating Committee consideration. This note will be independently peer reviewed before it is presented and discussed at the rating committee. The Rating Committee could unanimously decide to:

- upgrade the rating to a level higher than at present
- downgrade the rating to a level lower than at present or
- reaffirm the rating at current levels.

Simultaneously, the rating will be 'removed from watch'. The revised rating/reaffirmation along with 'removal from watch' is published on the BeZero website and the BCM platform.

BeZero's ongoing monitoring and rating watch process is summarised in the diagram below.

Ongoing Monitoring and Rating 'Watch' Process



Rating Withdrawal
BeZero Carbon Ratings are assigned only to projects meeting a predefined eligibility criteria. These include documented tests on additionality, formal audit processes and continued public availability of all relevant information. BeZero Carbon Ratings may be withdrawn in case there is a material impairment in the project's ability to meet any of the eligibility criteria including partial or complete withdrawal or unavailability of relevant information in public domain. BeZero may also withdraw its ratings in case BeZero Carbon becomes aware of any risks with respect to the ownership of the project and/or usage rights. All rating withdrawals are published on the BeZero website and the BCM platform.

Analytical Independence
All members of BeZero's analytical team, including the committee members are commercially independent of the assigned ratings - i.e. their compensation, benefits or performance measures are not in any manner linked to the ratings assigned. Further, all BeZero staff, including all members of the ratings team, adhere to strict compliance procedures, including prohibition from holding and/or dealing in carbon credits, annual reporting etc. These standards are akin to standards practised by financial market rating agencies.

Risk factor definitions and analytical framework matrix

RISK FACTOR	Risk Scoring Bucket				
	Significant risk	**Notable risk**	**Some risk**	**Little risk**	**Insignificant risk**
Additionality: The risk that a credit purchased and retired does not lead to a tonne of CO_2e being avoided or sequestered that would not have otherwise happened.	Balance of evidence suggests that projects face significant risks of non-additionality because few barriers exist (e.g. practises are common, offset credit finance represents a tiny proportion of overall revenue, activities are legislated for).	Balance of evidence suggests that a) projects are marginally additional; b) projects are additional in certain cases or c) contradictory evidence exists regarding additionality.	Balance of evidence suggests that a) projects are additional; b) projects are mostly additional except in some limited cases.	Balance of evidence suggests that the project is highly additional because significant barriers exist to prevent project activities (e.g. political, financial, technological etc).	The sole purpose for such projects is carbon removal or reduction and without carbon finance, projects are entirely unviable.
Over-Crediting: The risk that more credits than tonnes of CO_2e achieved are issued by a given project due to factors such as unrealistic baseline assumptions.	Balance of evidence suggests that inflated baselines or significant over-crediting risks exist.	Balance of evidence suggests that a) notable over-crediting and/or non-conservative baselines risks exist or b) significant risks that are somewhat mitigated by methodology.	Balance of evidence suggests that a) baselines are mostly conservative and there are some over-crediting risks or b) that the methodology effectively mitigates these risks.	Evidence suggests that over-crediting risks are minimal.	Evidence indicates that there are insignificant over-crediting risks.
Leakage: The risk that emissions avoided or removed by a project are pushed outside the project boundary.	Balance of evidence suggests that significant instances of leakage exist.	a) Balance of evidence indicates notable instances of leakage or b) significant instances of leakage that are somewhat mitigated by methodology.	Balance of evidence suggests that leakage risks exist but are a) low or b) effectively mitigated against by methodology.	Evidence suggests that leakage risks are minimal.	Evidence indicates that there are insignificant leakage risks.
Non-permanence: The risk that the carbon avoided or removed by the project will not remain so for the time committed.	Balance of evidence suggests that significant instances of non-permanence risks exist.	a) Balance of evidence indicates notable examples of non-permanence or b) significant non-permanence risks that are somewhat mitigated by methodology.	Balance of evidence suggests that non-permanence risks exist but are: a) low or b) effectively mitigated against by methodology. For example, the project has already accounted for land-tenure rights or set up channels for stakeholder consultations.	Evidence suggests that non-permanence risks are minimal.	Evidence indicates that there are insignificant non-permanence risks.

Continued

Risk factor definitions and analytical framework matrix (Continued)

RISK FACTOR	Risk Scoring Bucket				
	Significant risk	**Notable risk**	**Some risk**	**Little risk**	**Insignificant risk**
Policy and Political Environment: The risk that the policy environment undermines the project's carbon effectiveness.	Balance of evidence suggests that a) policy/political environment is highly supportive (e.g. measures are already legislated for, thereby undermining the project's carbon effectiveness).	Balance of evidence suggests that a) policy/ political environment is supportive (e.g. some measures are already legislated for, somewhat undermining the project's carbon effectiveness).	Balance of evidence suggests that a) policy/political environment may be supportive in some cases.	Evidence suggests that a) policy/political environment has minimal influence on projects; b) that the policy environment is decidedly not supportive of the project type, enhancing the project's carbon effectiveness.	Evidence indicates that there are insignificant policy risks to carbon effectiveness (i.e. the project demonstrates success in the face of an unsupportive policy environment).
Perverse Incentives: The risk that benefits from a project, such as offset revenues, incentivise behaviour that reduces the effectiveness.	Balance of evidence suggests significant risk of perverse incentives that considerably impact the efficacy of a project.	Balance of evidence suggests that a) notable risks of perverse incentives exist, or b) perverse incentives exist but are somewhat reduced by methodology.	Balance of evidence suggests that a) some perverse incentives may be created by offsetting activity or that b) perverse incentives exist but are effectively mitigated against by methodology.	Evidence suggests that perverse incentive risks are minimal.	Evidence indicates that there are insignificant risks of perverse incentives.

Updates and Reviews

Version number	Date	Description
1.00	01/06/22	Initial release

Disclaimer

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