PROPOSED UPDATES TO THE VCS *METHODOLOGY APPROVAL PROCESS*

31 August 2022

1   INTRODUCTION

As the Verified Carbon Standard (VCS) Program evolves, requirements are updated periodically to strengthen, clarify or expand the program's scope and ensure that projects deliver real, additional emission reductions and removals. The current VCS *Methodology Approval Process* is being updated to improve the efficiency of the methodology development and review processes while enhancing the transparency and quality of VCS methodologies.

We invite feedback from stakeholders to ensure that the proposed changes achieve their intended impact and do not have unintended consequences.

This document presents the following proposed updates to the VCS Program:

- Addition of a **methodology idea note** to facilitate the submission of proposals for the development of new and revised methodologies, tools, or modules and determine the development pathway;

- Establishment of a formal **option for Verra to lead methodology development** by hiring an expert consultant to manage the development of the methodology, tool, or module;

- Introduction of a requirement for **developers to collaborate** on concept notes, methodologies, and methodology frameworks under certain circumstances;

- Updates to the process and requirements for **methodology revisions**, including a more streamlined process for minor revisions;

- Enhanced **review process** for approved VCS methodologies (e.g., conducting a regular review and potential update every five years);

- Updates to the **grace periods** for methodology versions that are replaced, become inactive, or are excluded from the VCS Program;
- General improvements to, and clarifications of, the **methodology development and review process**;

- Modification of the **use of external experts** for certain assessment responsibilities; and

- Elimination of the **methodology compensation rebate mechanism** due to evolving market conditions and available funding, and to avoid counterproductive incentives for developing new methodologies over updating approved methodologies.

Updates to other VCS Program documents are also proposed to reflect these updates. Any associated changes to template documents, agreements, and forms will be made after the public stakeholder consultation. All VCS Program documents referenced herein can be found on the Verra website at https://verra.org/project/vcs-program/rules-and-requirements/.

1.1   Consultation Process and Timeline

The planned timeline for the consultation and update process is set out in Table 1 below.

Table 1. Tentative timeline

Tentative Date(s)	Activity
31 Aug – 30 Sep	Public consultation
8 Sep	Consultation webinar
1 Oct – 23 Nov	Review comments and finalize proposals
7 Dec	Publish VCS Program rule changes

Please provide comments using the public consultation comment template. We would especially appreciate responses to questions in the 'Requested Feedback' sections. Comments may be submitted to programupdates@verra.org by 30 September 2022. After the consultation, we will use the input provided on these proposals to finalize the proposed updates.

We look forward to your feedback. Please let us know if you have any questions as you engage in this consultation.

2   METHODOLOGY DEVELOPMENT AND REVIEW PROCESS

2.1   Background

In recent years, Verra has seen growing interest from stakeholders to develop new or revised methodologies, tools, and modules. The number of methodology concept note submissions from external developers has significantly increased, with substantial variability in the quality of submissions. Further, proposals from different developers often have overlapping scopes and approaches. Therefore, Verra requires to establish new mechanisms and pathways to streamline methodology development and ensure methodologies meet the broader market needs.

Verra has also identified a need to provide a clear process for the regular review of previously approved VCS methodologies, tools, and modules to ensure they continue to reflect best practices, scientific consensus, and evolving market conditions and technical developments in a sector. The current VCS *Methodology Approval Process* also requires a general overhaul, including restructuring sections to improve document flow, clarity, and usability.

2.2   Proposal Summary

To address these issues, Verra is proposing to replace the VCS *Methodology Approval Process* with an updated *Methodology Development and Review Process* to facilitate the submission of ideas for new and revised methodologies, prioritize methodologies with higher value and lower risks, increase the efficiency and transparency of methodology development and reviews, streamline guidance for the process, and clarify roles and procedures. The complete draft of this new VCS Program Document is available for stakeholders' review:

- VCS *Methodology Development and Review Process, v.4.2*.

The most relevant changes introduced and modified are described below.

2.2.1   Addition of a methodology idea note

Step 1: Methodology Idea Note Submission is introduced to facilitate the submission of proposals for new or revised methodologies, tools, or modules. The methodology idea note can be submitted by any stakeholder and does not require in-depth expertise and experience or availability of funding for methodology development. The important additions to the procedures are:

1. A stakeholder prepares and submits the methodology idea note using the VCS *Methodology Idea Note Template* (to be developed by Verra). The methodology idea note includes a high-level summary of the proposed methodology or revision, analysis of the climate change mitigation potential, contribution to sustainable development, and potential risks and how they can be mitigated.

2. Verra evaluates the methodology idea note. Preference and priority to proceed with the development process (i.e., develop the concept note) will be given to proposed methodologies that are broadly applicable, have high climate change mitigation potential, support sustainable development, and are not associated with unmitigable social, environmental, legal, or regulatory risks.

3. As a result of Verra's review, methodology idea notes may proceed to the concept note stage, be put on hold, or be rejected.

4. Verra proposes to publish a high-level summary of the idea note, the status of Verra's review, and the name of the stakeholder on the Verra website to increase transparency and enable coordination of efforts amongst stakeholders.

2.2.2 Addition of mechanisms to determine the most appropriate pathway for methodology development

Verra proposes mechanisms to prioritize and determine the most efficient pathway for the methodology development process, including additional guidance and procedures, in **Section 2: General Guidance** and **Section 3: Procedure for Development of New Methodologies**:

1. Verra proposes to determine whether a third-party developer or Verra leads (i.e., manages and funds) the methodology development process. Where Verra leads the process, Verra will hire a consultant to prepare documentation and manage the development process, and Verra will fund the VVB assessment.

2. Verra may require third-party developers to collaborate for methodology development where multiple related methodology idea notes are received or complementary experience or expertise is required.

3. Verra may require the establishment of a working group or engagement with third-party experts to provide technical inputs while developing the concept note and/or methodology.

4. Verra may put a methodology development process on hold where the methodology does not reasonably progress. In such instances, another third-party developer or Verra may subsequently continue the development process.

2.2.3 Streamlined procedures for proposed revisions to methodology, tools, and modules

Verra proposes the following changes to **Section 4: Methodology Revisions** to streamline procedures for major and minor revisions:

1. Verra will determine whether a revision is major or minor during the evaluation of the methodology idea note.

2. Verra improved the distinction between a major and minor revision and removed the options for limited modifications, edits, or clarifications. A major revision entails significant impacts on the methodology, whereas a minor revision entails a limited or no impact on the methodology.

3. Minor revisions are exempt from the submissions of a concept note, public stakeholder consultation, and VVB assessment. Verra reviews minor revisions to ensure that the revisions are of sufficient quality and meet all VCS Program rules and requirements.

2.2.4 Enhanced review process for approved VCS methodologies

Verra consolidates Sections 9 and 11 of the prevailing VCS *Methodology Approval Process* into **Section 5: Review of Approved VCS Methodologies Process**. This proposed update streamlines the guidance for reviews of approved VCS methodologies, including standardized methods. Major changes are as follows:

1. Verra will conduct a review of each methodology, module, and tool at least once every five years.

2. Verra clarifies the trigger for a review of a methodology and outlines the possible outcomes of a review.

2.2.5   General improvements to, and clarification of, the methodology development and review process

Verra improved and restructured the prevailing VCS *Methodology Approval Process* to clarify and streamline procedures for the methodology development and review process. Key changes include:

1. Addition of **Section 2: General Guidance** to provide general guidance, overarching rules, and requirements for the methodology development and review process.

2. Clarification of possible statuses of proposed and approved methodologies in **Section 2: General Guidance**.

3. Clarification of potential outcomes of Verra's evaluation for each step of the methodology development and review process in **Section 3: Procedure for Development of New Methodologies**. This section includes the complete procedure from methodology idea notes to final methodologies.

4. Addition of a requirement to provide a draft project description alongside new methodologies in **Section 3: Procedure for Development of New Methodologies**. Verra may also request a draft project description for new tools and modules and major revisions.

5. Removal of grace periods for methodology versions that are replaced, become inactive, or are excluded from the VCS Program. Grace periods are added to Section 3.20 of the VCS *Standard*.

6. Combination of the scope of VVB assessment for new methodologies, tools, and modules, and major revisions in **Section 6: Scope of VVB Assessment**.

2.2.6   Modification of the use of external experts for certain assessment responsibilities

Verra enhanced the engagement of independent experts for the review process of certain new and revised methodologies in addition to the Verra review and VVB assessment if Verra deems that it would increase the quality of the methodology. The requirement to use non-ARR AFOLU and standardized methods experts for the assessment is removed and the responsibility shifted to the VVBs and Verra. Verra has increased its in-house capacity to review these specific aspects.

2.2.7   Elimination of the methodology compensation rebate mechanism

Verra eliminated the methodology compensation rebate (MCR) mechanism. The MCR was established in 2010 to encourage methodology developers to submit methodologies and compensate for their development costs. Stakeholders have indicated that evolving market conditions, available funding, and increased interest in methodology development no longer require a compensation mechanism.

Methodology development should not be driven by financial interest, but by the need to enable climate finance for new projects. The MCR mechanism for the original developer is also no longer fit for purpose because it creates a counterproductive incentive for developing new methodologies over updating approved methodologies (e.g., broadening the scope or improving the methodological approach).

2.3   Associated updates to other VCS documents

The proposed changes outlined in Section 2.2 has prompted associated updates to other VCS documents. These updates are summarized below.

VCS *Standard*

Verra proposes to add **grace periods** in the VCS *Standard* for using a methodology, module, or tool after the prevailing version is revised, becomes inactive, or is excluded from the VCS Program. These requirements are not only relevant for methodology developers, but also other stakeholders such as project proponents. The requirements have been updated to provide further clarity, and a grace period has been added for methodologies of an approved GHG program that are replaced by a VCS methodology:

3.2.7   …

Baseline projections for deforestation and/or degradation, land conversion, forest management plans, wetland hydrological changes, and agricultural land management beyond the baseline reassessment period defined above are not likely to be realistic because rates of change in land-use and/or land or water management practices are subject to many factors that are difficult to predict over the long term, hence the need for periodic reassessment of the baseline. The following shall apply with respect to the baseline reassessment:

1) …

2) The latest approved version of the methodology or its replacement shall be applied at the time of baseline reassessment. The grace periods for using the previous version of a methodology are set out in Section 3.20.

3.20   Methodology Grace Periods

Concept

A methodology grace period is the amount of time in which projects may issue a validation report or baseline reassessment report using a methodology, module, or tool after the prevailing version becomes inactive or a previously accepted methodology from another GHG program is excluded from the VCS Program. Grace periods are only granted to projects that are listed or registered on the Verra Registry when the prevailing methodology version becomes inactive or a methodology is excluded from the VCS Program.

Requirements

3.20.1   The requirements of this Section 3.20 apply to projects for the process of registration, renewal of the project crediting period, and baseline reassessment.

3.20.2   Projects may use a methodology for the grace period set out in Section 3.20.3, provided the project has been listed or registered on the VCS project pipeline by the date a methodology version becomes inactive or a previously accepted methodology is excluded from the VCS Program.

3.20.3   The grace periods are set as follows:

1)   Where a methodology is revised, the prevailing version of the methodology may be used for up to six months from the approval of the new version.

2)   Where a methodology of an approved GHG program is newly excluded from the VCS Program and replaced by a VCS methodology, the previously accepted methodology of the approved GHG program may be used for up to six months from the approval of the VCS methodology.

3)   Where a previously approved methodology becomes inactive during the review process, it may be used for up to six months after it becomes inactive.

4)   In exceptional circumstances, Verra retains the right to set a different grace period.

VCS *Program Guide*

Verra proposes adjustments to the VCS *Program Guide* following the related updates:

2.4   **Program documents**

In addition to the VCS Program Guide, the program documents currently include the following:

1)   Requirements Documents

b)   *Methodology Requirements.* Provides the requirements for developing new, revised, and consolidated methodologies, tools, and modules.

2)   Procedural Documents

d)   *Methodology Development and Review Process.* Provides the procedures and rules for the development and review of VCS Program methodologies, tools, and modules.

3) Templates and Forms

c) F*orms.* Forms such as for submitting methodologies under the methodology development and review process.

2.5 Roles and Responsibilities

2.5.2 Methodology Developers

Methodology developers are entities that develop new or revised methodologies that are subject to the methodology development and review process.

6 Methodology Development and Review Process

The detailed procedures for methodology development and review process are set out in the VCS *Methodology Development and Review Process* document. This document outlines the process by which new and revised methodologies, modules, and tools (collectively referred to as "methodologies") are developed and reviewed under the VCS Program.

The *Methodology Development and Review Process* document also provides procedures and requirements for reviews of previously approved methodologies. Verra will periodically review methodologies approved under the VCS Program to ensure they continue to reflect best practices, scientific consensus, and evolving market conditions and technical developments in a sector. Verra will conduct these reviews at least once every five years, or when otherwise triggered. This includes ensuring that methodologies approved under the VCS Program are consistent with any new requirements issued by Verra and that methodologies have appropriate criteria and procedures for addressing all VCS Program requirements. As a result of the review, the methodology may become inactive and need to be revised to be reactivated.

The stages of methodology development and review include a methodology idea note, a concept note, a draft methodology and draft project description, a public comment period, updates to address comments, assessment by a Verification and Validation Body, and a final review and decision by Verra. Verra may also require a technical working group or external expert assessment where justified. All comments received in stakeholder consultation are addressed in writing with a summary published with the final methodology for transparency. A methodology may be rejected or put on hold at any stage of the process if it does not meet Verra's requirements.

~~6.2   Compensation for Methodology Developers~~

~~Methodology developers are eligible to receive compensation for methodologies approved under the VCS Program.~~

~~Compensation will be paid according to the number of VCUs issued to projects using the methodology or a revision of the methodology, at the rate and in accordance with the payment terms set out in the VCS Program document Program Fee Schedule. Compensation is payable~~

~~with respect to VCUs issued on or after 15 June 2010. Methodology developers may elect not to receive compensation by notifying Verra at any time.~~

~~Where Verra sanctions the consolidation of a number of methodologies, the compensation due to the developer of the consolidated methodology and the underlying methodologies respectively will be determined on a case by case basis by Verra.~~

~~Where an eligible methodology is withdrawn or put on hold, compensation remains payable in respect of continuing issuance of VCUs to registered projects that have applied the methodology or a revision of the methodology.~~

~~Only methodologies developed under the VCS Program methodology approval process are eligible for the compensation mechanism. Developers of methodology revisions, modules and tools are not compensated under the mechanism.~~

~~*Note   Project proponents pay the same VCU issuance levy regardless of the methodology applied to the project. Verra pays any compensation to the methodology developer out of the VCU issuance levy it receives.*~~

2.4   Requested Feedback

Feedback may be provided on any specific section of the proposed documents in the sheet "Section specific comments" of the feedback template. In addition, Verra requests feedback on the following high-level topics:

1. Do you think that "Step: 1 Methodology Idea Note Submission" will encourage submissions of new ideas for methodology development or revision from stakeholders?

2. What do you think about Verra's proposed approach to publish high-level summaries of methodology idea notes for stakeholder and market awareness and to increase the transparency of Verra's pipeline of methodologies under development?

3. Do you have any other recommendations on dealing with overlapping or competing methodology proposals from stakeholders?

4. Are the outcomes of each step of the procedure for methodology development in Section 3 clear? If not, could you specify which outcomes need further clarification?

5. The proposal includes an option for Verra to lead (i.e., manage and fund) certain high-priority methodology development processes. For instance, where no adequate third-party developer is available or methodology ideas are complementary and the third-party developers do not want to collaborate, Verra will hire an independent consultant. The methodology review process is subject to the same rigor as for third-party developers (i.e., including Verra review, public consultation, and VVB assessment). Do you have any concerns with this approach?

6. Are the proposed procedures for major and minor revisions of methodologies clear? If not, could you specify where improvements should be made?

7. Step 5 of Section 3 and Section 6 of the Methodology provide the procedures and scope for the VVB assessment. What additional guidance, clarification, and requirements for VVBs would help to further strengthen the VVB assessment process?

8. Should VVBs take a more proactive role and have the authority to provide specific directions to methodology developers? For example, could the VVB's perspective as an assessor and expert in project validations and verifications contribute to a more streamlined methodological approach for application to projects and validation/verification when giving certain guidance?

9. The Integrity Council for the Voluntary Carbon Market (ICVCM) is currently consulting on its draft Core Carbon Principles, Assessment Framework, and Assessment Procedure. Criteria 2.1 of the Assessment framework relates to methodology approval processes. Do you recommend any adjustments to Verra's *Methodology Development and Review Process* based on the draft ICVCM criteria? For example, 2.1 c) requires "approval of new quantification methodologies and major revisions of quantification methodologies [to] undergo review by a group of experts."

10. Do you have other general comments on the proposed VCS *Methodology Development and Review Process*?