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**VIA ELECTRONIC FILING**

**TO:** Mr. Greg Mayeur, Ms. Yachun Chow
California Air Resources Board, 1001 I Street, Sacramento, CA 95812-2815

**FROM:** Victoria Evans, Chief Scientist; Carbon Venture Partners, LLC

**DATE:** June 29, 2014

**RE:** **Comments to the California Air Resources Board (ARB): Informal Discussion Draft, Rice Cultivation Carbon Offset Protocol Updated 6/20/2014**

## 1.0 INTRODUCTION

Carbon Venture Partners ("CVP") appreciates the opportunity to provide comments to the California Air Resources Board ("ARB") regarding its Updated Discussion Draft of the Compliance Offset Protocol for Rice Cultivation (the "Rice Protocol"). These comments were prepared on behalf of CalAg, LLC and CalAg Aggregator, LLC ("CalAg").

CalAg LLC is a manufacturer intending to utilize its patented process to produce medium density fiberboard ("MDF") while using rice straw, replacing wood fiber, as a feedstock. CalAg's rice straw-based MDF is an engineered composite panel which meets or exceeds all American National Standards Institute (ANSI) standards for wood-based MDF.

Plans and financing are being finalized to build their MDF manufacturing facility near Willows, California, in Glenn County within the California rice growing region. The plant would employ an estimated 250 to 300 full-time construction workers, 85 full-time employees at the plant, with an annual payroll of approximately $10 million. An estimated 400 to 450 workers will be employed by the baling and transportation companies during the 5-month straw collection season.

CalAg, as the manufacturing and operating entity, will sell the manufactured fiberboard product for use in various applications, including green building materials (since rice straw replaces the need for feedstocks of virgin wood fiber).

We believe if the final version of the ARB Rice Compliance Offset Protocol includes credit for rice straw removal and the protocol is commercially viable, CalAg's process could

represent the largest commercial offset project under the Rice Protocol and also serve as a substantial source of compliance offsets under California's Cap and Trade Program.

## 2.0 OVERVIEW

CalAg is committed to support ARB to develop a rice compliance offset protocol to reduce GHG emissions consistent with goals of the AB32.

We are concerned for ARB and for carbon offset project developers, since we believe there are 3 issues that still stand in the way of the ARB Board adopting a commercially viable rice compliance offset protocol in September.

1. **ARB's Exclusion of Credit for Rice Straw Baling -** ARB's position is reliant upon a limited field study and inconsistent with that of sister California agencies and incentives currently provided by states in the Mid-South rice growing region.

2. **Lack of Provision for Aggregation** – ARB rules do not allow aggregation of multiple fields into a single project unless all fields have the same owner and homogenous conditions. Instead, current ARB provisions in the protocol provide that each offset project must developed on an individual field basis with identical water, fertilizer, and crop residue management across each individual, participating rice field within each reporting period.

3. **Lack of Transparency of DNDC Model Streamlining –** To date, ARB staff has not provided any detailed information to the public or the Rice Technical Working Group, about the actual DNDC Model improvements being made and when or if the streamlined model version might be available for Beta testing.

## 3.0 EXCLUSION OF CREDIT FOR RICE STRAW BALING

We remain concerned that excluding offset credit for rice straw removal is detrimental to ARB's program for at least six reasons below. We urge ARB to include offset credit for removal of rice straw and flooding, to avoid greenhouse gas emissions from this current cultivation practice.

1. ARB is relying upon one study, a limited scientific study by PBCS, to use as the scientific basis for excluding offset credit for rice straw baling. Our points of issue with this study were documented in our previous public comments to ARB dated April 1, 2014; we continue to be concerned. Our primary concern is that several co-variables were not included in the study to address the differences in use of migratory waterfowl versus and game birds on a field by field basis, on a species by species basis, and registering the flood water depth in the rice field.

2. Methane and other GHG emissions from the existing cultivation practice of decomposing rice straw by flooding rice fields will continue unabated. This will be inconsistent with meeting the goals of AB32 to reduce statewide emissions of

greenhouse gases. These GHG emissions essentially replaced the air pollutants avoided after ARB banned burning of rice straw in the 1990's.

3. The elimination of credit for baling reduces the offset revenue by about 30% and could create an implicit disincentive for growers to practice baling. Rice straw provides a valuable biomass feedstock that can be sold for several end uses: compost, livestock feed and bedding, natural building materials and for erosion control.

4. ARB's position is the opposite of sister California agencies. The following California agencies listed are on record formally supporting the CalAg project and are in fact, providing incentives to use California rice straw in manufacturing:
    - Governor's Office of Business and Economic Development (GO-Biz), (Letter to CalAg dated October 25, 2012)
    - California Pollution Control Financing Authority (California PCFA) (Final Resolution dated November 17, 2010, with extensions)
        - The California PCFA in November 2010 first approved Final Resolution 511 authorizing the issuance of tax-exempt revenue bonds in an amount not to exceed $175,300,000 to assist in the financing of the CalAg Project.

    In addition, historically California had a tax incentive for the use of rice straw under the California Department of Food and Agriculture's State Tax Credit Program. This program provided a tax credit of $15 per ton of rice straw to taxpayers who purchased California grown rice straw during the taxable year. The program applied to rice straw purchased for 11 years between January 1, 1997 and December 1, 2008.

5. ARB's position is inconsistent with state tax credits and other incentives currently provided for rice straw uses by states in the Mid-South rice growing region.

    The state agencies listed are providing economic incentives to use rice straw in Mid-South rice growing region states. Note that in Arkansas where twice as many acres are planted in rice, the state produces about double the total tons of rice as compared to California, there is a tax credit for the purchase of rice straw.
    - State of Arkansas Department of Finance and Administration - Rice Straw Tax Credit[1] ($15.00 for each ton of rice straw over 500 tons that is purchased.)
    - State of Louisiana - Tax credit for "green job industries" [2] including manufacturers that produce sustainable products using environmentally sustainable processes.

[1] http://www.dfa.arkansas.gov/offices/exciseTax/TaxCredits/Pages/BusinessIncentivesandTaxCreditPrograms.aspx
[2] http://nationalaglawcenter.org/wp-content/uploads/assets/biofuels/statutes/louisiana-47-6037.pdf

6. ARB's position is also contradictory to the fact that there are already existing productive economic uses of rice straw in manufacturing of construction materials in California and the Mid-South rice growing region.

    - Structural and nonstructural panels and composite products of straw, including rice straw, are manufactured currently by Agriboard Industries at their Texas plant located in the Mid-South rice growing region. Both rice and wheat straw are used as feedstocks.
    - The direct use of rice straw bales for home and other building construction currently already occurs in both California and the Mid-South states.

## 4.0 LACK OF PROVISION FOR AGGREGATION

We do appreciate that ARB has proposed several provisions for managing project costs, including allowing the Authorized Project Designee to group together multiple projects for economies of scale when negotiating the verification project cost. However, without allowing for meaningful aggregation, it will be too expensive to file for offset credits for each rice field; CalAg projects it will not be commercial to develop a rice offset project under these terms, that is, a subsidy or grant of funds would be needed. Thus, this protocol may not produce offset credits in quantities that will be meaningful in the carbon marketplace.

For example, ARB rules do not allow aggregation of multiple fields into a single offset project unless all fields have the same owner and homogenous conditions. Instead, current ARB provisions in the rice protocol provide that each rice offset project is developed on an individual rice field basis. In addition, ARB requires that each field utilize identical water, fertilizer, and crop residue management across each individual, participating rice field within each reporting period.

Hence, current ARB provisions disallow aggregation of multiple individually owned rice fields to be 'bundled' into an offset project, avoiding the economies of scale that would otherwise be available. Thus, the individual or corporate owner of numerous large rice fields will be provided a distinct advantage and incentive by ARB's current provisions.

Provisions for meaningful aggregation need to be inserted so that the ARB Rice Compliance Offset Protocol can be cost-effective and allow all rice farmers and project developers to engage in generating compliance rice offsets. There are three comments from C-AGG posted with ARB on 6/27/2014 that CalAg specifically agrees with and heartily encourages ARB to fully consider in this proceeding:

**(1) Allow rice offset projects to include fields with different baselines and practices**

"…C-AGG suggests that ARB allow any eligible project activities to be employed on fields, as long as all other reporting requirements are met by the APDR and OPO. In other words, different fields within a project should be allowed to have different baselines and employ different (eligible) emission reduction management practices. "

**(2) Compare rice verification practices in first three years**

"…strongly encourage ARB to consider comparative verification approaches during the first three years of use of the protocol, such that sampling methods based on risk-based and randomized verification approaches are compared to more labor-intensive and costly approaches that ARB might be considering. Such a comparative analysis would be a valuable and worthwhile endeavor, and would provide for sound information on which to base the development of updates to the Rice Cultivation Protocol, as well as the development of additional agricultural protocols."

**(3) Avoid 'bad apple' invalidation of entire rice offset project**

"However, C-AGG believes it is important that invalidation of offset credits from a single farm or field within a project should not invalidate the entire project. Project-wide invalidation should only occur if the APD has acted in a fraudulent or negligent manner or there is a systemic error across all fields in the project."

## 5.0 NO DISCLOSURE OF DNDC MODEL STREAMLINING

To date, ARB staff has not provided any detailed information to the public or the Rice Technical Working Group, about the actual DNDC Model improvements being made by contractors and when or if the streamlined model version might be available for Beta testing.

It is of concern that the streamlined DNDC model and tools have not been available for review by the Rice Technical Working Group, or by the public during the comment period associated with the two ARB Rice Offset Workshops (March and June 2014). Also ARB staff indicated at the June 2014 Workshop that the streamlined DNDC model and tools will not be available for public review during the planned 45-day comment period for the rice offset protocol. Without a chance to review and test these rice offset quantification tools, we are unable to determine whether the changes made will in fact respond to concerns expressed to ARB earlier on behalf of CalAg.

Thus, the costs of modeling to quantify offsets will also be high until this streamlining is truly meaningful. We are concerned that this is another feature of the rice offset program that could likely render this offset protocol non-commercial.

## 6.0 COMPLIANCE OFFSET PROTOCOL PROCESS

Representatives of CalAg have participated in and filed comments in response to every Technical Working Group Meeting ("TWG Meeting") and Public Workshop addressing the Rice Protocol that has been hosted by ARB to date. We would like to recognize ARB's diligence and for taking the time to meet with representatives for CalAg to discuss issues relevant to developing a scientifically sound and commercially viable Rice Protocol.

We appreciate the effort that ARB staff is making on this topic and progress to date. We suggest that if ARB's materials for the March 17 and June 20 Public Workshop sessions would have been circulated in advance, so that all parties could review the documents, the

public workshop meetings could have afforded an opportunity for a more productive discussion and exchange of perspectives and ideas with stakeholders.

This is especially important since the time periods were so short in each case. In the prior review period on the Discussion Draft of the Rice Compliance Offset Protocol, 15 days were provided by ARB staff for comment from the public. In this review period for the Updated Discussion Draft, the timeframe for providing public comments is very short, only 5 working days.

## 7.0 CONCLUSION

CalAg is committed to support ARB to develop the basis for its first land-based agricultural offsets, the rice compliance offset protocol, which are intended to reduce GHG emissions consistent with the goals of the AB32.

Again, CalAg believes if the final version of the ARB Rice Compliance Offset Protocol includes credit for rice straw removal, adequate provisions for aggregation and the offset quantification model is properly streamlined, then the protocol should be commercially viable for rice farmers and project developers.

Going forward, CalAg's process could represent the largest commercial offset project under the California ARB's Rice Protocol and would also serve as a substantial source of compliance offsets under the Cap and Trade Program. We hope to have the opportunity to participate in ARB Rice Compliance Offset program that is scientifically credible and can meet commercial terms.