



Comments on Proposed Revisions to Compliance Offset Protocol for U.S. Forest Projects

California Air Resources Board
Honorable Members of the California Air Resources Board
1001 I Street
Sacramento, CA 95812

September 9, 2014

Dear Members of the California Air Resources Board:

Blue Source, LLC (“Blue Source”) appreciates the opportunity to provide comments on the California Air Resources Board’s (“ARB’s”) proposed Quantification Methodology Updates to the Compliance Offset Protocol for U.S. Forest Projects (“Protocol”) under AB32 that were proposed on July 29, 2014 (“Quantification Methodology Updates”). This effort is extremely important given the state’s and ARB’s leadership in climate policy design and implementation. In addition, the need for a sufficient supply of offsets to “bridge the gap” while low-carbon energy and industrial solutions are further deployed makes it even more critical to have a well-designed regulatory framework that fosters market development and implementation of multiple project types.

In general, Blue Source strongly supports the proposed changes to the Quantification Methodology Updates as furthering these important goals. However, there are two aspects of the proposed Updates that should be delayed so as to allow for more discussion with the stakeholder community. For this reason Blue Source submits these comments, as we also strongly believe that the broadly shared goals set forth above will be served by providing for the transparent and participatory stakeholder process for the development of compliance offset protocols that has been a hallmark of ARB’s Cap-and-Trade Program to date. In sum, we encourage the Board to not move forward with these two specific proposed changes in order to allow more time for them to be considered by the stakeholder community.

Established in 2001, Blue Source has developed the largest portfolio of carbon credits and projects in North America. We continue to be a tireless advocate for landowner participation in California’s groundbreaking program.

Introduction

Blue Source broadly supports ARB’s proposed Quantification Methodology Updates with two important exceptions: the changes to the Assessment Area Data File, and the associated shift in “high” vs. “low” site class designation.

Taken together, these two changes are of critical significance to the forest program, as they are central components in establishing common practice levels for all Improved Forest Management (“IFM”) projects. Unfortunately, at this stage, the underlying method by which ARB established

the new Assessment Area Data File values – which is also the basis for modifying the high/low class definitions – has not been provided to the public and, therefore, is not fully understood by the stakeholder community. This appears to have been an unintended oversight and not consistent with ARB’s practice to date, which has generally been in accordance with the process set forth in its *Process for the Review and Approval of Compliance Offset Protocols in Support of the Cap-and-Trade Regulation* (May 2013) (the “Protocol Process Guidance”).¹ The Protocol Process Guidance sets forth a “full stakeholder process” (*id.* at page 5), and in our experience ARB has typically adhered to it, but unfortunately the critically important material upon which the proposed changes are based apparently fell through the cracks. Thus, these particular changes are before the Board without the benefit of the normal “full stakeholder process.” Additional time to understand these complex materials and an opportunity to provide informed comments upon the proposed changes is necessary.

Due to the complexity and importance of determining representative common practice values, Blue Source requests that the Board not move forward with the proposed changes to the Assessment Area Data File and site class designation system at this time, but instead allow them to be included in ARB’s upcoming Regulatory Review Update for the Protocol. Inclusion in the Regulatory Review Update would allow for appropriate public involvement and interaction, consistent with ARB’s normal process for adopting and modifying offset protocols. The Board has the authority to decline to move forward on these two discrete portions of the Quantification Methodology Updates now before it while approving the rest. *See, e.g.*, Protocol Process Guidance at page 6.

Proposed Actions

Blue Source specifically proposes that the Board not move forward on two elements of the proposed Quantification Methodology Update to the Protocol – *i.e.*, that they in effect be removed – so that ARB can instead incorporate them into the upcoming Regulatory Review Update process:

- High/Low site class definition– The change to this definition (which is on page 109² of the proposed Quantification Methodology Updates) modifying the High/Low classifications, should be postponed and the definition remain unchanged pending the Regulatory Review Update process.
- Assessment Area Data File– ARB’s proposal to modify the data file should be delayed pending the Regulatory Review Update process and the current values should remain unchanged pending further review.

We believe this requested modification to ARB’s process is justifiable for a number of reasons:

1. **Changes to baseline methodology and classifications are complex and go beyond simple quantification updates:** Sufficient stakeholder review is needed to ensure that

¹ The Protocol Process Guidance is available on the first page of ARB’s Cap-and-Trade Program webpage (<http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>). The Protocol Process Guidance provides that, “Information related to new offset protocols will be shared in a transparent and public process so as not to give any one entity a potential market information advantage over another entity.” *Id.* at page 5.

² The proposed changes would re-define a “high” site class as the average of site class productivity codes I-IV, and a “low” site class as the average of site class productivity codes V-VII.

the most accurate approach to determining common practice baselines is adopted and calculations are correct. The proposed changes to determining baselines and site classifications involve methodological revisions that go beyond simple quantification changes and, therefore, are more appropriately considered under the broader Regulatory Review Update process.

- 2. There has not been sufficient review of Assessment Area Data File changes by stakeholders:** The actual changes in the Assessment Area Data File were not sufficiently included in ARB announcements or publically released documents, and, to this day, have not been published anywhere on the ARB website. In addition, no redline or explanation of specific changes to the Assessment Area Data File has been provided. Further, the changes to the Assessment Area Data File are not mentioned in the formal Description of *Quantification Methodology Changes – US Forests* document released on July 29th, and therefore, have not been subject to the meaningful public review appropriate for such an important component of the forest carbon program.

- 3. Beyond the particular changes that are currently proposed, even simple updates to common practice figures have significant market impact and must be made following a transparent process developed with stakeholder input:** Projects developed under this Protocol have extremely long lead times. Sufficient notice as to when critical Protocol updates are going to be adopted is needed in order to avoid the sudden ‘shifting of goal posts’ and corresponding erosion of market confidence in the program by landowners, buyers and other market participants. It is our understanding that the time intervals at which baseline updates will be carried out is already slated as a component to be addressed in the upcoming Regulatory Review Update process. Therefore, the current proposed changes to site class designation and common practice baseline determinations should be included in the broader Regulatory Review Update process.

We appreciate the opportunity the Board has given us to comment on this proposal. With the exception of the items described above, we strongly support the currently proposed Quantification Methodology Updates and ARB’s efforts in this matter. We do strongly urge the Board to not move forward on the two elements of the Quantification Methodology Updates described above and instead allow ARB to incorporate them into its upcoming Regulatory Review Update for the Protocol so as to ensure that they benefit from the normal full stakeholder process. We look forward to working with ARB during that Upcoming Review, and to providing ongoing support to ARB on forestry and other project types, as well as broader cap and trade initiatives. Please contact us if there is any clarification or additional information we can provide.

Sincerely,



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