



Blue Source[™]
A Leading Climate Change Portfolio

To: California Air Resources Board Staff

From: Blue Source LLC

Date: March 6, 2015

RE: Post Forestry Workshop Commentary

Blue Source appreciates ARB staff's efforts to refine the Regulatory Review Update to the Forest Protocol in response to the comments and concerns expressed by the stakeholder community last November. We were pleased to have the opportunity to participate in the February 20th workshop, but would like to take this opportunity to reiterate some of our persistent concerns relating to four specific components of the protocol update.

1. Modified method for establishing minimum baseline level (MBL) for IFM projects with initial carbon stocking (ICS) above Common Practice (CP)

We acknowledge ARB staff's intention to maintain compliance protocol standards at least as stringent as those implemented by the voluntary carbon registries; however, in this case adjusting the MBL establishment language to mirror that used in version 3.2 of CAR's forest project protocol will not strengthen the integrity of the ARB program and will in fact be detrimental to the program's effectiveness. This is because the new MBL language will unjustifiably prevent the establishment of forest projects that would otherwise produce meaningful climate benefits. Please consider the following example of such a situation:

A forest owner holds a large forest property that has been managed primarily for timber revenue for many years. Stocking across the property varies substantially as some areas of the forest have been harvested more recently than others. Based on the high conservation value of the landowner's most mature acres, he/she would prefer to maintain the high stocking levels across this section of the forest, but, due to financial pressures, he/she cannot afford to leave these prized acres unharvested. The establishment of a carbon project on these acres would provide the forest owner with the financial means to maintain the forest in its current, mature state, thereby preserving meaningful habitat and providing substantial climate benefits.

Under the current protocol language, this desirable scenario is permitted and not uncommon. Unfortunately, the proposed updated language would force the forest owner to include his/her lower stocked acres in the calculation of the MBL, thereby increasing the project's baseline to

the point that it may no longer be financially viable. In this case, the mature forest acres will be harvested and both the climate and conservation benefits of the would-be project will be lost.

To avoid this perverse outcome, we encourage ARB to maintain the active Protocol's method of establishing MBL for IFM projects with ICS above CP (equation 6.5 of the active Protocol).

2. New language on harvest unit requirements for minimum basal area and modified buffer rules (Protocol Section 3.1(4)(A-C)).

We appreciate that ARB has been working to revise the proposed protocol language ensure 100% harmonization with the California Forest Practice Act. However, based on the limited information provided in the workshop slides, it is largely unclear how the revised language will look. It would be very helpful if ARB could provide the actual wording of the modified Protocol Section 3.1(4)(A-C) to stakeholders prior to the full release of the revised Regulatory Review Update Protocol. We hope this language will consider the varying nature of sound forest management in different regions of the country and avoid the blanket application of California-centric management restrictions.

3. The Common Practice (CP) values update for private IFM projects and the "high" vs "low" site class designation under the updated Assessment Area Data File.

We wish to reiterate our concern that the proposed new CP values do not accurately reflect forest stocking resultant from truly "common practice" forest management. The new CP values are based exclusively on FIA data collected over a very brief window of time (~2007-2012) largely in the midst and wake of the recession, when housing starts, and the associated timber demand, were at historic lows. The effect of capturing CP values during this time period constitutes an unrepresentative collection of high stocking levels for assessment areas across the country. We encourage ARB staff to maintain the current CP levels being applied under the active protocol, until a more representative CP value update can be executed.

Even if the modified CP value data is accepted, we believe the cutoff point dividing "high" vs "low" site productivity has been set inappropriately low (i.e. the "high" category is too expansive). This is because IFM projects (the only project type the site productivity cutoff effects) are located on lands suitable for timber management activities, and, while the Forest Service (USFS) uses 7 forest productivity classes, only classes 1-6 are designated as "Timber land". Furthermore, class 6 forests (20-49 ft³/acre/year growth) are generally too low in productivity to be managed as a "working forest." Taking into account that virtually all IFM projects will fall between productivity classes 1 and 5, having the new cutoff designate classes 1-4 as high does not serve to parse the forest productivity spectrum in a reasonable manner. If adopted, this new site class cutoff will mean the vast majority of IFM eligible projects will fall in the "high" site class category. We suggest the site class cutoff be adjusted such that USFS classes 1-3 are considered "high" and class 4 is returned to the "low" productivity designation.

This will have the effect of more proportionately dividing IFM projects between the two productivity designations.

Regardless of ARB staff's perspective on our proposed solutions in this area, we feel the establishment of CP values is too central a part of the compliance program to be undertaken in a vacuum. While we acknowledge the time and energy ARB staff has dedicated to the establishment of these figures, we believe a designated working group, made up of a broad spectrum of forest carbon stakeholders, should be convened to take part in the CP value update process.

4. The prohibition on removing acres from a forest project following initial registration.

Though this issue was not addressed in the workshop, we feel it is important to identify, as it has proven to be a significant barrier to entry for many potential program participants. On several occasions, we and other stakeholders have provided this feedback to ARB (along with suggested simple fixes and an offer to help develop these fixes), yet ARB has not appeared to reflect this constructive engagement in its update to the protocol.

A mechanism should be put in place to allow Forest Owners to sell or otherwise transfer a portion of a Project Area, without obligating the new owner to the 100 year project commitment (or what remains of it). Such a provision would not hurt the program's integrity as measures could be put in place to ensure that any credits generated from the portion of a project removed from the program were replaced. This could be done by requiring that the project OPO or APD undertake an additional verification prior to the sale to (i) update the Project baseline (ii) confirm the amount of ARBOCs attributable to the portion of the Project Area being withdrawn and (iii) if the number of ARBOCs exceed a materiality threshold (5%), ensure the retirement of a sufficient number of ARBOCs to account for those attributable to the divested property.

Incorporating such a provision into the protocol would allow for greatly increased program participation from large-scale forest landholders. This would lead to considerably more acres enrolling in the program and a large net gain in CO₂e sequestration/emissions avoidance.