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A Leading Climate Change Portfolio

California Air Resources Board Members and Staff
Air Resources Board, California Environmental Protection Agency
1001 I Street
Sacramento, CA 95812

June 3, 2015

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

Dear Members of the Board,

Blue Source, LLC ("Blue Source") appreciates the opportunity to provide comments on the California Air Resources Board's proposed 15-day draft of the Regulatory Review Update of the Compliance Offset Protocol for U.S. Forest Projects ("Protocol"). We recognize ARB staff invests considerable time and effort in the Protocol update process, and we sincerely hope that our comments here will be viewed in the constructive manner in which they are intended. Our goal is to help refine the Protocol update such that it will have the greatest climate impact, while containing program costs and fostering the host of environmental co-benefits provided by forest projects.

Blue Source has been a carbon market leader for the past 14 years and is dedicated to supporting the development of sound carbon policy across the US. We have been an early and active developer of forest carbon projects within the California program, having registered the highest amount of forest carbon credits in the ARB program to date, and we are committed to bringing high quality emission reduction projects to ARB's program throughout its duration.

While we recommend that the Board follow the suggestion proposed in the Pacific Forest Trust (PFT) comment letter, our experience and dedication to the success of ARB's program compels us to provide the Board with additional rationale concerning the negative ramifications of the proposed changes. As such, we request that the Board direct staff to organize a technical working group process to allow for a more robust discussion concerning three significant components of the proposed update to the Protocol. These three proposed changes as they stand will result in reduced environmental and ecological benefits, dramatically reduced offset supply, higher compliance costs and increased ARB staff time.

1. **Modified Even-aged Management and harvest buffer requirements – Chapter 3.1(a)(4)(A-E)**

   Though the new Even-aged Management requirements are an improvement from those suggested in the previous iteration of the Regulatory Review Update of the Forest Protocol, there are still significant problems with the language defining Even-aged Management and the processes involved in confirming stocking levels and buffer size.

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The current Even-aged Management definition is incongruous with accepted silvicultural practices in many areas of the country, where larger scale regeneration cuts are necessary for promoting healthy forest regeneration. As the program is designed to encourage forest participation around the country, promote healthy forests and galvanize support for cap-and-trade expansion in other states, it is counterproductive to enshrine rules that would impede the enrollment of forests outside of California or that are *less* environmentally beneficial for many forests.

Beyond definition issues, the updated Protocol's processes outlined for verifying a forest's adherence to stocking and buffer standards are not sufficiently explicit and lack the clear guidance required by verifiers to make confident determinations about a project's compliance. This will lead to potentially dramatic increases in verification time and cost. ***This ambiguity will also require a significant commitment of ARB staff time***, as staff will need to respond to verifiers' questions as they attempt to carryout verifications in conformance with these new standards.

Proposed Solution:

Direct ARB to convene a working group to establish harvest and buffer restrictions appropriate for forests nation-wide.

Avoid area based buffer calculations, which can be difficult to establish and verify, instead opting for linear buffer distances where necessary. In the context of the proposed protocol, the language - "Even-aged harvest units shall be separated by an area that is at least as large as the area being harvested or 20 acres, whichever is less, and shall be separated by at least 300 ft. in all directions;" should be revised to simply require that even-aged harvests be separated by at least 300 feet in all directions.

2. Modified Minimum Baseline Level determination process for IFM projects with initial stocking above common practice – Chapter 5.2.1

The new method for determining minimum baseline level (MBL) for IFM projects with initial carbon stocking (ICS) above common practice (CP) will run counter to the program's climate goals. If a landowner is forced to use a MBL above CP, due to lower stocking levels on other holdings in the same assessment area, a carbon project may not be feasible. This approach disincentivizes landowners from establishing forest projects on their most highly stocked (and likely to be harvested) acres and thereby forgoes the meaningful climate benefits that would have been associated with preventing aggressive harvesting on these acres for the next 100+ years.

In addition, this rule change will be impractical for implementation and extremely difficult to verify. At the center of the problem is the concept of the logical management unit (LMU), which defines the bounds of the geographic region over which a landowner must consider stocking levels on their other holdings outside the Project Area. Unfortunately, the method prescribed for determining the LMU requires extensive additional data collection on the part of the landowner (which will often be cost prohibitive) and necessitates an excessive number of subjective judgments. Once the LMU is established, the process of verifying the bounds, stocking, and management on the LMU will cause the cost and time involved in project verification to balloon, and may make verification practically impossible. Indeed, in cases where the LMU extends over an acreage many times the scale of the project area itself, the cost and difficulty of verification will likely compel landowners to abandon any consideration of participating in the program. **In addition to dramatically increased costs, verifiers and project participants will need to frequently ask for ARB staff's guidance and approval given the subjective nature of the new requirements.**

A technical issue of particular concern in the MBL establishment process can be found in the Protocol's methodology for utilizing the "stratified vegetation-type analysis" approach to calculating weighted carbon stocks across an LMU. In order to utilize this approach, Table 5.2., Vegetation Classes for Stratification, (page 60) must be applied. However, the Carbon Rating column of the table, which is supposed to list average CO2e/acre for various DBH classes, appears to list carbon/acre values instead, which are less than a third of the weight of the CO2e values that should be present. Additionally, even if the CO2e values were corrected, the table would still not provide appropriate values for highly stocked stands. For instance, for most redwood and Douglas-fir stands in the Pacific Northwest the average CO2/acre can be well over 250 tonnes CO2/acre, whereas the maximum carbon rating of 175 mt CO2/acre (assuming the table units are converted to CO2e/acre) is much too low to accommodate this high CO2/acre forest type. Ultimately, these problems make the "stratified vegetation-type analysis" process completely unworkable.

Proposed Solution:

The previous Protocol's method of establishing MBL for IFM projects with ICS above CP (equation 6.5 of the October 2011 Protocol) should be maintained and incorporated into the revised Protocol in place of equation 5.5. As both the existing and proposed protocols already require "sustainable long-term harvest practices" (certification, renewable long-term management plan, etc.) be maintained on all land holdings controlled by a Forest Owner, concern over potential for ecologically irresponsible management outside a project's bounds should be adequately addressed without the introduction of further regulatory hurdles and complexity.

If the new MBL requirement is maintained, we support the modification of the definition of LMU suggested in the Climate Action Reserve's comment letter– "Logical Management Unit" or "LMU" means all landholdings or any subset of landholdings managed explicitly as a defined planning unit that the forest owner(s) and its affiliate(s) either own in fee or hold timber rights on, in which the landholdings or subunit of landholdings are within the same assessment area(s) where the project is located. An LMU may be characterized by its unique biological, geographical, and/or geological attributes, delimited by watershed boundaries and/or elevational zones, and/or unique road networks; by an area impacted by a natural disturbance such as a wildfire or windstorm; by distinct forest types (as defined in the USFS FIA program) that fall within the same assessment area; and/or by a distinct woodshed.

3. Modified Common Practice figures and the associated shift in "high" vs "low" site class delineation - Assessment Area Data File associated with the Regulatory Review Update of the Forest Protocol and Appendix F(d), [With the exception of the addition of Alaska]

As we have stated in previous comment periods, the proposed new CP values do not accurately reflect forest stocking resultant from truly "common practice" forest management, as the values do not take into account cyclical components of the timber market which contribute to spikes and troughs in wood product demand and forest stocks. 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 Great 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.

Setting CP values based on forest stocking levels at isolated points in time will lead to less than optimal forest carbon sequestration and reduced climate benefit. This is because when baselines are set artificially high based on periodic market fluctuations, and demand for timber surges, there will be even less incentive for landowners to implement a carbon project and stocks will be harvested instead of locked in for 100+ years. Following such market conditions, many forest carbon projects would not be attractive to landowners again until general stocks had subsided and baseline values were sufficiently lowered to allow for project viability.

Proposed Solution:

In order to better represent truly "common" stocking resultant from business-as-usual forest practices, CP values should be based on average stocking levels over an extended time horizon. Stocking averaged over a time period of up to 25 years (i.e. the same length as a project crediting period) would account for timber market fluctuations and avoid disincentivizing projects during times when the motivation to harvest is highest.

To establish a method of determining appropriate CP values, we recommend a technical working group, much like the one gathered for drafting the Rice Cultivation Protocol, be assembled.

Once the method for calculating CP values is agreed upon, a set process, including a timetable for the release, public review, and eventual implementation of proposed changes, should be adopted for the regular update of these values. This will avoid unpredictable shifts in baseline levels and market uncertainty.

Given the nascent state of the California Program, it is crucial that carbon market participants feel secure that the rules underpinning the ARB offset system are stable and will not be subjected to frequent and unpredictable modification. The current Protocol has been in use for less than three years, and, during that time, has provided a foundation on which only a small group of forest offset projects have been established. The introduction of the significant changes proposed in the protocol update will unnecessarily shake this foundation and deter forest landowners from participation in the program.

Beyond the premature nature of these substantial protocol revisions, the method through which protocol modifications were established is problematic. The protocol update process has largely been carried out behind closed doors and is inconsistent with ARB's typical standard for stakeholder involvement. In the course of the Protocol update process, only a single workshop was held that touched on the Forest Protocol update, and during this workshop (which also addressed the rice protocol and a series of other topics) only ~30 minutes were dedicated to forestry issues. While we recognize ARB staff limitations and applaud the substantial effort staff has committed to the protocol revision process, we believe a more robust consultation within a technical work group process will 1) result in a better set of enhancements to the forest protocol and 2) ultimately reduce ARB staff time that we anticipate will be needed to clarify points of confusion for landowners, project developers, verifiers, and registries if the existing language in these 3 areas of concern are not removed and placed in a work group process.

If implemented in their current form, the three proposed protocol changes mentioned above will render many strong forestry projects unviable, thereby eliminating the significant climate benefits these

projects would have produced and profoundly diminishing the forest offset supply. Our estimates, and those of other forestry-centered project developers', project a 40%-60% reduction in future forest offset supply.

To avoid a loss of program confidence, an increase in ARB staff workload, and a significant decline in offset supply, we encourage ARB to adopt our proposed solutions for addressing the three key issues discussed in this letter.

Thank you for your consideration. We look forward to continuing to work with the ARB to help ensure that the California forest offset program, and cap and trade system as a whole, provide the model for how other states and nations can effectively curb emissions while fostering a vibrant economy. Please contact us if there is any clarification or additional information we can provide.

Sincerely,

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