



Re: Terra's Informal Comments on the "Workshop on Proposed Compliance Offset Protocol for Rice Cultivation Projects" presented February 20th, 2015

March 6, 2015

Dear Air Resources Board,

Thank you very much for the effort undertaken to provide the draft 15-day language for the proposed new Rice Cultivation Projects Compliance Offset Protocol made available at the workshop February 20, 2015. We appreciate the amount of work that went into drafting these modifications to ensure that the protocol delivers real, permanent, quantifiable, verifiable, enforceable, and additional offsets to ensure that California's cap-and-trade program remains in place and is not subject to criticism and further legal action.

As background to our responses, Terra Global Capital was founded in 2006 to facilitate market and results-based payment approaches for forest and land-use emission reductions. Terra is now the leader in forest and land-use GHG analytics and finance, providing technical expertise and investment capital to our global client base in a collaborative and innovative manner. Terra has been a leader in the development of new protocols for low emission rice as the author of the approved American Carbon Registry (ACR) protocol *Voluntary Emission Reductions in Rice Management Systems*.

We are also working directly with the first group of rice growers who are adopting low emission practices in California and the Midsouth to prepare their project to produce verified emission reductions under voluntary and compliance markets. This work has provided us with a deep understanding of the issues that catalyze or inhibit farmer adoption and the economics of producing emission reductions under agricultural offset protocols. We are one of the first organizations to partner with extension agents and industry groups to actually help growers collect practice and baseline data, estimate the costs of operationalizing protocols, and perform GHG emission calculations using the DNDC model in accordance with the ACR protocol.

As our previous public comments on the protocol have indicated, Terra is committed to supporting rice growers' participation in the compliance market and assisting ARB with the development of the Rice Cultivation Protocol with integrity and efficacy.

Please accept Terra's following comments on the draft 15-day modifications:

Early Adopters

ARB has responded to previous comments with regards to the two alternative suggestions proposed in Appendix B in the 45-day language presented in December 2014. It is very encouraging that ARB has accepted the ACR rice protocol as early action projects eligible under the ARB protocol. However, it is specified that modifications in the quantification must occur before those early action projects will be accepted. There must be greater clarity on what specific modifications in the quantification would need to occur in order for an existing ACR project to be eligible as an early adoption project under ARB. For



instance, in order to exclude ineligible practices from the emission reductions, would all carbon calculations have to be redone, thereby putting a significant financial burden on the growers wishing to participate? In addition, the language is inflexible in the listing of ineligible sources or practices, rendering the ACR methodology unusable in its current form. It would be a shame to not include growers who are innovators and eager to participate in emission reduction projects, as they are well into the development process for verifying emission reductions.

Quantification

The modified language is demonstrating a true effort to reduce the quantification burden through a more streamlined quantification process. In the presentation it was stated that the latest version of the DNDC model must be used in the quantification, which demonstrated no bias. In order to be fully transparent, please specify the latest version number of the DNDC model and all of the materials used to assess the fixed structural uncertainty value of 0.052 metric tons/acre, including the DND input files used in running the DNDC model. The requirement of 5000 acres per project in order for the structural uncertainty value to be valid does not correspond to the requirements under the Early Adoption projects under ACR; please provide clarification on that requirement.

Project Consolidation

Although project consolidation was not addressed in the draft 15-day modifications, it is still a key open issue raised by Terra during the December public comment period. The current proposed system of allowing Authorized Project Designees (APD) to consolidate projects from multiple Offset Project Operators (OPO) and submit a consolidated OPDR is an improvement. However, it does not support the level of consolidation necessary to make the rice protocol economically viable for growers to adopt. This protocol must allow multiple growers to be registered under "one consolidated project" that is represented by one APD, listed as one unique project identification number and should be treated as such in verification. The protocol specifies that each project within a consolidated OPDR must be independently verified and an offset verification statement issued for each project, which undermines the potential cost-savings of consolidating projects. We look forward to seeing modifications addressing this issue in the final 15-day modifications.

Conclusion

Terra, along with other market leaders, innovative farmers, and conservation organizations, has worked for years to build voluntary market programs that produce real, permanent, quantifiable, verifiable, and additional offsets as a way to build a "proving ground" for future adoption into California's compliance market.

We encourage ARB to not go forward with the existing protocol without including a stronger and clearer early adopter strategy. If growers currently engaged in approved methodologies cannot be included, and the process to transfer them to the compliance market is too arduous, farmers will not have the economic incentive to participate and will become discouraged from entering the market, thus dropping out of the active pilot programs. Investors will lose interest in providing the financial resources needed to build a supply of compliance offsets, and service providers (project developers and verifiers) will stop making the investments need to facilitate an efficient market.

We would be happy to productively engage with ARB in any way possible to make the necessary changes to the protocol to have it be viable for producing offsets under California's compliance market.



Thank you,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

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