



California Council for Environmental and Economic Balance

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June 4, 2015

The Honorable Mary Nichols
Chairman
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: 15-day Notice of Public Availability of Modified Text and Availability of Additional Documents for the Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Chairman Nichols:

On behalf of the members of the California Council for Environmental and Economic Balance (CCEEB), we wish to provide you with comments on the proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms. CCEEB is a non-profit, non-partisan association of business, labor, and public leaders, which advances balanced policies for a strong economy and a healthy environment.

CCEEB strongly supports a number of the proposed 15-day modifications, including the incorporation of Alaska into the Compliance Offset Protocol for U.S. Forest Projects and introduction of the Compliance Offset Protocol for Rice Cultivation Projects. The Board should vote to approve these two items during its June 25, 2015 Board Hearing. Doing so will support the continuation of a robust offset market that not only delivers greenhouse gas reductions and supports cost containment within the Cap-and-Trade program, but also delivers substantial ecological benefits and demonstrates California's role as a global leader in climate action.

However, CCEEB has significant concerns with a number of the other proposed changes to the Compliance Offset Protocol for U.S. Forest Projects and requests that consideration of certain language be extended. The Board should not vote to approve these modifications at this time. Specifically, the change to common practice (CP) values, as proposed in this amendment, could have serious implications to offset supply and introduce additional regulatory uncertainty, thereby substantially undermining confidence in California's market.

At the end of October last year, and as part of the regulatory review update to the compliance offset protocol for U.S forest projects protocol, the ARB proposed new CP values. Those proposed CP values could result in a significant decrease (40%-60%) in the volume of forestry credits in an already thin offset market. The ARB chose to delay adoption of the new CP values in order to seek stakeholder involvement in reviewing the proposal. Unfortunately, CCEEB and many other stakeholder organizations do not believe that an appropriate engagement process was pursued. As a result, numerous unresolved and highly technical issues with the proposed changes, both in terms of clarity and substance, remain.

CCEEB has two chief technical concerns. The first relates to ARB's proposed CP values used to determine baseline timber stocking levels against which carbon removals are measured for individual projects. The proposed protocol change relies on data from an excessively narrow window in time that corresponds with California's unprecedented economic recession. During this period (2007-2012), housing starts and associated timber demand fell to historic lows. The new CP values generate baseline timber stocking levels that are artificially high (due to a temporary market fluctuation in the demand for timber), resulting in significantly lower volumes of ARBOCs being issued for many forestry projects and rendering other projects completely unviable. The second issue is that the proposed even-aged management provisions could disadvantage out-of-state forestry projects relative to in-state projects¹, dividing the forestry offset developer community, discouraging investment in out-of-state projects and further limiting the pool of offsets that would otherwise be derived from forestry projects. Again we see inequity as an unintended consequence that will likely have a negative impact on the offsets market by creating uncertainty and undermining reasonable expectations.

To address these concerns, CCEEB asks that ARB staff hold a workshop to receive and consider stakeholder comments with regards to the CP value changes. Additionally, the potential economic and compliance impacts of new CP values should be analyzed and presented publically. In order to avoid some of the supply concerns with ARB's proposal, CCEEB suggests that CP values be based on average stocking levels over a 25-year period in order to account for market changes, such as a recession, that the newly proposed CP values are based on.

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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. 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.

Periodic review and update of the protocols is essential to ensure the continued environmental integrity of the offset program. Moving forward, we urge CARB to carry out these activities in a predictable, planned, and transparent manner that is clearly communicated to stakeholders well in advance and that takes into account the input of experts, regulated parties, and other stakeholders. To limit the regulatory uncertainty inherent in such activities, ARB should establish a clear process and timeline for such activities. As part of the process, we also ask that ARB thoroughly evaluate the impacts of proposed changes to avoid unintentionally and unnecessarily jeopardizing offset supply. Changes without sufficient notice or within compliance periods should be avoided in order to allow supply and demand balances within phases to be predicted with reasonable confidence.

We believe the process and timeline for updating the assessment area data file and site classification groupings could be clearer. Without transparency in the process, analysis, and trade-offs considered by staff in formulating these protocol updates, the market may be confused regarding the objectives that ARB is pursuing.

Thank you for allowing us the opportunity to comment. Please contact me or Jackson R. Gualco, Kendra Daijogo or Mikhael Skvarla, CCEEB's governmental relations representatives at The Gualco Group, Inc. at (916) 441-1392, if you have any questions regarding our comments. We welcome the opportunity to discuss any climate change-related matter of significance to the CCEEB membership.

Sincerely,

A handwritten signature in black ink that reads "Gerald D. Secundy". The signature is written in a cursive, flowing style.

GERALD D. SECUNDY
President

cc: Honorable Members of the California Air Resources Board
Mr. Richard Corey
Ms. Rajinder Sahota
Mr. Greg Mayeur
Mr. William J. Quinn
The Gualco Group, Inc.