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Gavin McCabe
Chair
Compliance Offset Task Force
California Air Resources Board
OffsetTaskForce@arb.ca.gov

November 6, 2020

Re: Comments regarding the Compliance Offsets Protocol Task Force Initial Draft Recommendations

Dear Chair McCabe and Compliance Offsets Protocol Task Force Members:

Thank you for the opportunity to comment on the Compliance Offsets Protocol Task Force's Initial Draft Recommendations. Finite Carbon (Finite) appreciates all of the resources, time, and energy that went into this thorough and thoughtful set of initial recommendations and thanks each member of the Compliance Offsets Protocol Task Force (Task Force) for their contributions to this report. Finite strongly supports the California Air Resource Board (CARB) efforts to reduce GHG emissions through a market-based Cap and Trade Program (Program), including the use of high-quality carbon offsets, and believes these recommendations will help the Program deliver even greater environmental benefits through expansion, improvement, and continued support of well-managed forests and natural landscapes.

Finite has been an active participant in the California compliance offset market for over a decade and is currently developing or managing 42 improved forest management projects for the Program, including 8 projects with Tribes or Alaska Native Corporations and 9 projects with land trusts. Finite's comments on the Task Force recommendations are made with an eye towards three critical objectives: (1) increasing accessibility of the Program to a broader cross section of landowners through prioritizing disadvantaged communities, Native American or tribal lands, and rural and agricultural regions and reducing the long-term costs of compliance obligations; (2) increasing offset demand and utilization to support the influx of new entrants into the market; and (3) ensuring the continued long-term success of existing projects within the Program with a particular emphasis on changes to the Compliance Offset Protocol for US Forests (Protocol) that will allow landowners to efficiently maintain their 100-year commitment while upholding the Program's standards of environmental integrity.

Finite's comments on the Forestry Subgroup's recommendations are outlined below.

<u>Recommendation 3: Definition of Forest Owner</u>

Finite supports the Task Force's recommendation to clarify the current definition of Forest Owner that is in the Protocol and specifically change the definition to include only fee title owner(s) and owner(s) of timber so that responsibility and liability for offset projects is clearly assigned to parties that have direct title to (or control of) the property and its forest and land management. The definition of Forest Owner should specifically exclude conservation easement holders, access easement holders, mineral rights holders, and other third parties who have limited rights and have no impact on the offset project. These

third parties should not be liable for project reversals over which they have no control, but the current joint and several liability for Forest Owners deters project participants with easements or other third-party rights holders on their properties from engaging in carbon offset projects. Exceptions should be allowed for third parties who affirmatively want to participate in a carbon project as a Forest Owner, such as a third party who holds an easement including carbon rights.

Recommendation 5: Invalidation Guidance

Finite strongly supports the Task Force's recommendations to reduce the invalidation period for all projects to 3 years for multiple reasons. First, the CCO3 "double verification" presents a significant cost burden for all projects but is especially difficult for smaller landowners who must bear the additional cost of a CCO3 verification without significant added benefits -- the price differential between a CCO3 and CCO8 is usually not enough to justify the additional verification costs. However, offset buyers often demand CCO3s in their contracts because they are perceived as less risky. Second, the double verification process places an additional burden on CARB staff time, which may be unnecessary given the highly comprehensive review completed by CARB staff following the initial verification and Offset Project Registry reviews. Third, per the Task Force report, less than one tenth of one percent of all offsets have been invalidated to date, suggesting that current requirements around invalidation are dampening market demand without generating additional environmental benefits. Finally, the Task Force has cited that lack of demand for offsets, especially from small and medium entities, is due, in part, to the relatively low cost savings of offsets when considered in light of the invalidation risk associated with them. Shortening the invalidation period to 3 years for all issued offsets would likely increase utilization and, therefore, offset demand, which is critically important to support the increased participation and supply from new landowners that is anticipated and encouraged by AB 398.

In addition, Finite supports the Task Force's recommendation to provide further clarity on the regulatory guidance on invalidation. The current regulatory language is too vague and creates the perception of risk and uncertainty for landowners, which prevents new landowners, especially smaller landowners, from entering the market and developing projects.

Recommendation 6: Verification Guidance

Finite supports all the Task Force recommendations that will create more efficiency and certainty around the process, time, and cost of forest inventory verification. Streamlining and reducing verification costs is critical to both reducing barriers to entry and encouraging greater participation in the program from a wider variety of forest landowners, and for reducing the long-term burden of maintaining carbon offset projects for over 100+ years. Some of these recommendations that we think will improve verification efficiency include evaluating the appropriateness and application of sequential sampling (Recommendation 10), allowing aggregation by small, non-industrial landowners (Recommendation 13), allowing new technologies for inventory and modeling (Recommendation 9), and reducing the required frequency of verification (Recommendation 11). FC has commented further on the latter two below.

Finite believes that improving CARB guidance to Verification Bodies (VBs) is also a critical recommendation that could help improve verification efficiency. Finite supports the Task Force recommendation that CARB should prepare, publish and, as necessary, update written guidelines for verification to guide VBs so that all parties know exactly how each aspect of project compliance will be

evaluated. The issues that each VB chooses to focus on vary widely, creating significant uncertainty for landowners regarding the length and scope of the verification process. Updated and consistent guidance should help reduce the significant variability seen across VBs.

Recommendation 7: ARB Guidance

Finite agrees with the Task Force statement that it is important for CARB to be more transparent and to regularly communicate its guidance and decisions to stakeholders. Too often, CARB provides guidance to stakeholders on an ad hoc basis (i.e. CARB will give guidance to a particular landowner, VB or developer that has asked a specific question, but it will not be shared with anyone else). This has created an opaque system where different stakeholders are operating under incomplete and inconsistent sets of information, leading to confusion and inefficiency. ARB should create a transparent, systematic way of delivering guidance to all stakeholders at the same time, either by distributing it through the Offset Project Registries, publishing it to the CARB website, or finding some other way to ensure that all stakeholders receive the same guidance at the same time.

Recommendation 9: New Methods for Inventory and Modeling

Finite supports the Task Force Recommendation of supporting new and alternative methodologies for inventory and modeling of forest carbon projects. Because forest projects have a 100+ year project life, it is critical that the Protocol anticipate that significant changes in technology will occur over that time and prioritize adaptability. ARB has already recognized that technological developments around measurement and monitoring forest carbon have continued to progress since adoption of the last Protocol by calling out the use of new technology in the Regulation. Methods such as remotely sensed data (e.g. LiDAR, satellite and drone-collected data), data aggregation, cloud-based processing and machine learning have the potential to reduce the cost of project development while increasing the precision and accuracy of forest carbon estimates. However, because approvals for new technologies are on an interim basis and can be rescinded, stakeholders may be reluctant to invest the money and resources needed to allow these new developments to reach their potential. The Protocol should be modified to provide greater assurance for project proponents who want to innovate and improve the efficiency and accuracy of the inventory and modeling processes over the long term.

Finite Carbon also recommends removing the language from the protocol (Chapter 6 e. page 77) that states that "modifications to inventory methodologies must achieve an equal or greater accuracy relative to the original sampling design." There are already confidence deduction calculations in place that penalize projects that do not achieve a certain level of accuracy, and requiring that any new inventory achieves a higher level of accuracy may place an undue burden on projects, especially smaller ones. It is highly possible that a well-designed inventory may not achieve higher levels of precision merely through statistical variability, but that fact will only be determined after the field work has been completed. This may require additional plots to be added until a level is achieved greatly increasing the time and cost of this work. Also, increasing levels of precision in inventories every 6 years over the lifetime of the project may lead to unachievable results several decades in the future.

Recommendation 11: Verification: Projects with few offset accruals

Finite Carbon strongly supports the Task Force's recommendation of reducing verification frequency and intensity for projects with small annual offset issuances or for projects not seeking credit issuance. Currently, the Regulation requires that all offset projects undergo third-party verification with site visits at least every six years for the duration of the 100+ year project life. These site visit verifications are one of the costliest aspects of project development and maintenance. Finite supports the Task Force recommendation that projects generating 10,000 or fewer credits in a reporting period should be able to defer a site visit verification for up to 12 years, or until 120,000 credits have accumulated, whichever comes first. Reducing the required verification frequency for forestry projects would accomplish multiple goals including (i) removing a significant barrier to entry for small landowners and smaller sized projects; (ii) reducing the long term cost burden associated with maintaining projects for 100 years or more; and (iii) creating more parity between the Compliance Offset Protocol for U.S. Forests with protocols for livestock, rice, and mine methane capture projects, which currently allow smaller projects below a certain credit threshold to defer verification. These goals can also be accomplished while maintaining the critical permanence standard for offsets.

Recommendation 12: Project Boundary Changes

Finite Carbon agrees with the Task Force's recommendation of amending the Protocol to allow for the sensible subtraction of land from carbon projects. Currently, the Forest Protocol does not allow forest area to be subtracted from a project once the project is registered but over the course of a 100+ year project life, project lands will require sometimes minor but necessary adjustments. In particular, we would like to see a streamlined process for project area adjustments that were the result of mapping errors in the original project boundary, the necessary sale or conveyance of part of the Project Area to a state or county agency or other third party, or any new evidence coming to light regarding the correct placement of project boundaries. An analysis would be required to confirm the adjustment to project stocks and the number of credits attributable to the portion of the Project Area being withdrawn that should be compensated on a one-to-one basis. If the project area reduction did not cause a reversal, these removals could be handled similarly to harvesting or other stock depletion events, and a landowner could use net accumulated growth on the balance of the property since last issuance to compensate for the subtracted areas.

Recommendation from the Programmatic/Overarching Subgroup on Offset Utilization

Finally, Finite strongly supports the recommendations from the subgroup focused on overarching and programmatic considerations regarding options for expanding offset utilization. While AB 398 codified the use of offsets in the Program through 2030 and encouraged greater participation in the offset program via new offset protocol development, AB 398 also reduced the offset utilization limit, decreasing from 8% to 4% for the period from 2021-2025 and then to 6% from 2026-2030. These forthcoming constraints established by AB 398 present deterrents to future investment and growth of the program. Therefore, an increase in demand is critical to support the desired influx of new landowners and additional supply into the market.

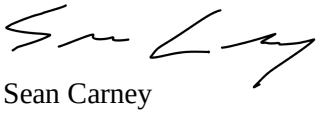
Finite agrees with the Task Force that one way to increase demand would be to allow offset usage limits to be traded among compliance entities. According to the Task Force Report, only 16% of compliance

entities used their full allowance of offsets. If small and mid-sized firms are not able or do not wish to use their full offset usage limit, they should be able to trade any unused portion of their offset usage limit to other compliance entities as long as the total usage limit does not exceed the maximum limits established under AB 398. This market-based approach would allow the maximum benefits of offsets as both a cost-containment mechanism and a market signal for further investment in offset project development.

Finite also agrees with the suggestion that ARB Offset Credits should be recognized and used as tools in other systems, including CEQA mitigation, airlines emissions trading (CORSIA), and other state and federal climate policy initiatives. To that end, CARB should pursue additional linkages with jurisdictions that have recently passed or are considering their own climate change legislation. This would also provide a great opportunity for CARB to continue its outreach and educate other states and countries on the tremendous benefits of California's program in the pursuit of further climate diplomacy.

Finite looks forward to working with CARB and the Task Force in its efforts to grow and improve the Compliance Offset Program. Please do not hesitate to reach out to us if you have any questions on our recommendations.

Sincerely,



Sean Carney
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