California Air Resources Board

Honorable Members of the California Air Resources Board

1001 I Street

Sacramento, CA 95812

September 19, 2016

Re: Proposed Amendments to the Cap and Trade Regulation

Dear Members of the California Air Resources Board,

Blue Source, LLC (“Bluesource”) appreciates the opportunity to provide comments on the California Air Resources Board’s (“ARB’s”) proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (“the Regulation”). The Board’s consistent dedication to the refinement of the Regulation and their incorporation of stakeholders in the process has been a great boon to the state’s groundbreaking climate program. We would like to thank the Board in advance for the time and effort it will invest in considering this new body of stakeholder comments.

**1.** (§ 95977. (c)) “For offset projects that do not renew their crediting period, verification must still be conducted at least once every six years for the remainder of the project life. However, after a successful verification of an Offset Project Data Report indicating that Actual Onsite Carbon Stocks (in MTCO2e) are at least 25% greater than the Actual Onsite Carbon Stocks in the final Offset Project Data Report of the final crediting period, the next full offset verification service may be deferred for twelve years. An offset project that has deferred verification for twelve years must resume conducting a full verification at least once every six years if it receives an Adverse Offset Verification Statement.”

Bluesource appreciates that ARB is making an effort to improve efficiency in forest project monitoring in the post-crediting phase of a project’s life, but the requirement that “Actual Onsite Carbon Stocks [be] at least 25% greater than the Actual Onsite Carbon Stocks in the final Offset Project Data Report of the final crediting period,” in order to trigger the 12 year full verification provision, sets the stocking level bar too high to be attainable for many forest carbon projects. This is because projects on mature forests that have been making significant strides in carbon stock accumulation over the course of an entire crediting period will frequently be approaching a climax state under which stocking levels will naturally plateau.  In these circumstances, a 25% stocking increase would not be biologically possible.

To make this 12-year full verification provision a viable tool for forest owners, Bluesource would recommend that the stocking increase required to trigger the 12-year provision be adjusted to 10%. Increasing Actual Onsite Carbon Stocks 10% above those seen in the final Offset Project Data Report of the final crediting period should provide ARB staff with the confidence that stocks will not unexpectedly decrease below those for which credits were issued, while making the 12-year full verification provision attainable for forest owners.

**2.** Bluesource supports ARB’s amendment to limit the period for which a livestock or MMC project would be ineligible to receive offset credits for being out of regulatory compliance to the precise time period during which the project was actually out of compliance, as opposed to the entire Reporting Period; however, we believe this amendment should be expanded to apply to forestry projects as well. While page 56 of ARB’s Statement of Reasons document states that “Other project types cannot be included in this proposal because there is no quantification mechanism within the applicable protocols to identify and remove crediting of partial Reporting Periods,” we disagree with this conclusion, and contend that credits associated with a particular period of non-compliance could be readily and accurately calculated.  Specifically, if a forestry project was found to be out of regulatory compliance, the carbon sequestration represented in the forest growth and the wood products generated (if any) during the period of non-compliance could be subtracted from the reporting period. This can be accomplished to a high degree of accuracy by accounting for the precise growth and harvesting activities that took place during the period of non-compliance. Given this ability to quantify and remove crediting of partial Reporting Periods for forest projects, and ARB’s general policy that all offset project types should be give the same regulatory treatment wherever possible, we believe forestry projects should be included with livestock and MMC in the amendment to the regulatory compliance rule.

**3.** (§95985(h)(3)) – “The Offset Project Operator, identified in section 95985(e)(3), of an offset project that had ARB offset credits removed from the Forest Buffer Account pursuant to section 95985(g)(1)(A)3. or (g)(1)(B) must replace 50 percent of the ARB offset credits removed from the Forest Buffer Account, rounding up to the next whole number, with a valid ARB offset credit or another approved compliance instrument pursuant to subarticle 4, within six months of notification by ARB pursuant to section 95985(g)(2)”

Bluesource recognizes that ARB is suggesting this amendment to address the perceived risk that invalidation of carbon credits could lead to the elimination of buffer pool credits that had already been retired to compensate for unintentional reversals from other projects; however, we believe there is a better approach to addressing this issue than a blanket 50% buffer replacement requirement:

We recommend the number of buffer account credits required to be replaced in the case of an invalidation be calculated on a project by project basis, based on the total percentage of buffer pool credits that have been retired to compensate for reversals up to the date of the invalidation. For example, if 5% of the total tonnes collectively contributed to the buffer pool had been retired at the time an invalidation occurred, the OPO responsible for the invalidated credits would be required to replace 5% of the buffer account contribution associated with the invalidated tonnes.  This approach would ensure the integrity of the buffer pool, the primary goal, and is a justified amount instead of an arbitrary 50%.