

July 30, 2010

Climate Acton Reserve
523 W. Sixth Street, Suite 428
Los Angeles, CA 90014

RE: Comments on Climate Action Reserve (CAR) Proposed Amendments to Forest Project Protocol (FPP) Version 3.1

Equator LLC is an integrated timberland and environmental asset management company. Our environmental markets division specializes in the generation and management of high quality carbon credits and other environmental assets derived from reforestation, forest conservation and improved forest management projects. Equator co-manages the Eco Products fund which is primarily invested in domestic forest carbon and wetland mitigation investments. We have structured and executed some of the world's most innovative emission reduction and eco-products transactions, and have extensive experience in asset management, financial structuring, carbon finance, derivatives, conservation, forestry and environmental science and policy. Equator works closely with large industrial land owners and conservation organizations in California and throughout the United States.

As a stakeholder and investor, Equator appreciates the opportunity to offer these comments to CAR regarding the June 24th Proposed Amendments Relative to Baseline Determination Forest Project Protocol Version 3.1. Equator commends CAR for its commitment to creating rigorous standards for generating high quality offsets. We appreciate CAR's efforts to encourage feedback regarding these proposed amendments.

We respectfully submit for CAR's consideration the following comments and strategies regarding the proposed amendments.

- i. Support the use of a baseline calculation method which includes only **active Timber Harvest Plans (THPs)** as legal constraints.
- ii. Endorse a baseline calculation method which **includes only legally binding Habitat Conservation Plans (HCPs) and Safe Harbor Agreements (SHAs) for consideration as legal constraints.**
- iii. Encourage increased carbon storage by **eliminating lost credit as a result of anomalies created by the Entity-Adjusted Common Practice.**
- iv. Promote **coordination between CAR and the Air Resources Board (ARB) to harmonize protocols.**

Exclusion of Option A Agreements from Consideration as Baseline Legal Constraints

We strongly support and commend CAR's decision to exclude Option A agreements from consideration as legal constraints in the baseline calculation under Section 6.2.1.1. Option A agreements are voluntary whereas only active THPs are legally binding and appropriate to include in baselines calculations. Since Option A agreements are revocable-at-will by the landowner, only legally enforceable THPs provide an accurate assessment of business as usual scenarios. **Include Only Legally Binding HCPs in Baseline Calculation**

While we support CAR's decision to include Habitat Conservation Plans (HCPs) and Safe Harbor Agreements (SHAs) in baseline modeling, we strongly urge a clarification of language to emphasize inclusion of only those HCPs and SHAs that are in fact legally binding. There exist both legally binding and voluntary HCPs and SHAs. Only those that are legally binding, however, can accurately be considered as legal constraints for baseline calculation purposes. Clarification that differentiates between voluntary and legally binding agreements would serve to enhance program participation. Further, it would harmonize CAR's treatment of

HCPs and SHAs with its renewed affirmation that baseline calculation should only include legal constraints, as illustrated by the inclusion of only legally binding THPs in baseline calculations.

Abandon Entity-Adjusted Common Practice

We strongly oppose CAR's Entity- Adjusted Common Practice method for baseline modeling, as it results in numerous anomalies discussed below which result in both over and under crediting projects. For purposes of reference, Common Practice is abbreviated as "CP," Project Initial Stocking is abbreviated as "ICS" and Entity-Adjusted Common Practice *may* be referred to as "CPa."

- a. *Anomaly 1*: Where the Entity Average is less than the Common Practice (CP), but the Project Initial Stocking (ICS) remains greater than the Entity Average, a project developer would be awarded early action credits despite the fact that their ICS is lower than the CP. Version 3.1, on the other hand, would not award any credits.
- b. *Anomaly 2*: Where the Entity Average is less than the CP, but the project ICS is greater than the CP, all Version 3.1 early action credits are lost, despite the fact that the ICS is greater than the CP.
- c. *Anomaly 3*: Where the Entity Average is greater than the CP, and the ICS is also greater than the CP, Version 3.1 early action credits are not defensible because they can be both greater and less than the difference between the ICS and CP. Under Version 3.1, however, early action credits are always equal to the difference between the ICS and CP.
- d. *Anomaly 4*: Where the Entity Average is greater than or equal to the ICS, and the ICS is less than the CP, no credits are generated until the ICS grows above the Entity-Adjusted Common Practice. This arbitrarily penalizes land owners with low site class forests, and produces a significant impediment in terms of the time it will take to grow stocks up to either the Entity-Adjusted Common Practice or CP before any credits can be generated. Additionally, it results in the failure to recognize sequestered tons between the ICS and CP, even though they result in the same atmospheric impact as any other registered tons.

Coordination between CAR and ARB to harmonize protocols

We strongly encourage CAR to continue and enhance its coordination with the ARB in an effort to harmonize their protocols. Protocol coordination between ARB and CAR would eliminate the risk that offset credits obtained under CAR subsequently fail to qualify for compliance under ARB's protocols. This is crucially important to credit buyers and all market participants. The greater the divergence between CAR and ARB protocols, the greater the chance that CAR offsets will not be approved by ARB as useable compliance instruments. Considering the enormous effort put forth by CAR in the creation of this program, it would be unfortunate for such ineligibility to threaten the role of CAR in any future regulatory system.

We applaud the ongoing work of CAR in its continued effort to create thorough standards to increase confidence and participation in the carbon market. We appreciate your consideration of our comments and value the opportunity to participate in the development of this rule making process. Please feel free to contact us if you have any questions.

Sincerely,

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