

May 21, 2010

Derik Broekhoff  
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cc: policy@climateactionreserve.org

Dear Derik:

Thank you for the opportunity to offer comments on the Proposed Guidelines for Aggregation released on April 22. We strongly support the Reserve's commitment to facilitate carbon market access for the average forest owner. We believe that these aggregation guidelines take a significant step in that direction while maintaining the high technical and environmental standards for which the Reserve is well known.

We would like to make the following comments and suggestions related to the proposed aggregation guidelines:

- *Aggregate entry.* The guidelines state that "Once the Aggregate Entry form is submitted, projects must undergo an on-site verification before they will be allowed to join the aggregate" (page 5).
  - **Comment:** The Forest Project Protocol typically requires on-site verification only every six years. We suggest that, by this standard, the most recent on-site verification should be sufficient for entering an aggregate. Under the Protocol and the PIA, CAR will have been appraised of any intentional or unintentional reversals since the most recent site verification. Projects that join an aggregate should be required to undergo site verification at the next batch of site verifications for the aggregate, but they should not be required to have a site verification immediately prior to entering an aggregate if they have had a site verification within the last five years.
- *Aggregate exit.* The guidelines state that "Projects may only leave an aggregate if there have been a sufficient number of new entrants to maintain the overall targeted standard error for the aggregate . . . at the level used during the aggregate's most recent verification. For example, at the time of its last verification an aggregate with 10 projects had a targeted standard error (TSE) of 15 percent . . . One of the projects in the aggregate applies to leave. The application will only be accepted if one or more projects have recently joined the aggregate, such that the TSE for next year's verification will remain at or below 15 percent" (page 5).

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- **Comment:** This rule, designed to address issues related to fluctuating confidence deductions and therefore quantified carbon stocks, would likely prove unworkable and deter any participation in aggregates. Landowners already face a considerable commitment in choosing to enter into a CAR offset project with the 100-year PIA and the penalty rates on buy-out with any exit from the project in the first fifty years. This provision would lock small landowners into projects unless they or the aggregate manager could find a replacement – it exposes small landowners to a host of new risks. Every small landowner with whom we have spoken with about this proposed provision has opposed it. We are convinced that retaining this provision would preclude almost all participation in aggregates.

We definitely agree that the underlying issue needs to be addressed, however. In a worst-case scenario, an increased confidence deduction could cause a reversal for a member of an aggregate. As a hypothetical, consider an aggregate of 10 landowners with a TSE of 15%. Two landowners leave the aggregate in a given year, leaving 8 landowners with a TSE of 13%. One of those landowners has a carbon stock of 10,000 tonnes, with a baseline at 7,000 tonnes and sold CRTs representing 3,000 tonnes – a total of 10,000 tonnes in obligated reductions. Their actual sampling error at the 90% confidence interval is 15%. Under the aggregate prior to the departures, they faced no confidence deduction, while they could face a confidence deduction of 2% in the new aggregate, reducing their quantified carbon stocks below their obligated reductions and triggering a reversal.

In many cases this type of reversal would be unlikely – for example, if the aggregate is above 15 landowners and one or two leaving would not alter the TSE, or if the average landowner in the aggregate had an actual sampling error significantly lower than the TSE – but it is theoretically possible. Regardless, landowners with whom we have spoken would prefer managing the risk of changing confidence deductions over the risk of being unable to exit an aggregate.

We would recommend that CAR consider an alternative mechanism for addressing this issue, one that would:

- Enable landowners to enter and exit the aggregate at will, subject to filing the required forms and meeting the requirements of a stand-alone project if they wish to retain a project on exit.
  - Enable remaining landowners to have a grace period before the target sampling error is changed due to a change in aggregate membership. This will give the landowners and aggregator time to find replacement members, or landowners time to invest in additional inventory plots to reduce their sampling error should they desire to avoid any possible confidence deductions.
  - Use additional alternative approaches if necessary to reduce any remaining possibility of reversals caused by shifting TSE and changing confidence deductions.
- *Privacy of contract.* The aggregation guidelines state that a landowner seeking to enter an aggregate must supply “Copies of any contract(s) between the Forest Owner and the Aggregator” (page 5).

- **Comment:** We support the Reserve having clear visibility into contractual relations between the Aggregator and the landowners, but we suggest that the Reserve clarify that any such contracts will remain confidential and will not be publicly disclosed. Aggregators and landowners must invest time and money into developing contractual arrangements; if these are publicly disclosed they can simply be copied by others, reducing the incentive for aggregators in particular to invest in the development of such contractual arrangements in the first place.
- *Geographic restrictions on participation.* The aggregation guidelines seek input on whether projects should be required to be from the same geographic region or assessment area (page 3).
  - **Comment:** We suggest that there should be no geographic restriction. In practice, we expect that most aggregates will be grouped by geography, as it would lower project development and verification costs to work with a group of projects that are geographically proximate to each other. However, there may be situations where it would be cost effective to aggregate projects from a broader geographic area, and we see no technical or policy reason to prevent that.
- *Limitations on the number of participants in an aggregate.* The aggregation guidelines seek input on whether there should be a limit on the number of participants in an aggregate (page 4).
  - **Comment:** We suggest that there is no policy reason to limit the number of participants in an aggregate. If experience shows that there is a practical reason to limit the number (perhaps administrative complexity rises prohibitively over a certain number of participants and the Reserve experiences problems over time in dealing with very large aggregates) then the Reserve could place a limit on the number of participating landowners in an aggregate at a later date.
- *Per-account fees.* The aggregation guidelines do not discuss any possible alteration of CAR's fee structure for aggregates apart from the transfer fees between the accounts of aggregate members and the aggregate account.
  - **Comment:** We suggest that CAR consider a reduced annual fee for landowners with accounts enrolled in an aggregate. The aggregator should significantly reduce costs for CAR – creating homogenous and streamlined document submissions, responding to many landowner questions, etc – and it would be reasonable to offer a reduced annual account fee to small forest owners who are enrolled in an aggregate due to the reduced expected cost.
- *Requirements in case of aggregator bankruptcy or other failure.* The aggregation guidelines do not discuss any requirements should an aggregator go bankrupt or otherwise cease to be a viable aggregation service provider.

- **Comment:** In the event of bankruptcy of an aggregator or other event that prevents the aggregator from providing aggregation services per its contractual obligations to the participating Forest Owners, we would recommend that the Reserve require the participating Forest Owners to indicate their association with another aggregator within one calendar year. Not all participating Forest Owners would have to associate with the same replacement aggregator, and the replacement Aggregator(s) could be a participating Forest Owner or any other individual/validly incorporated business entity.

Thank you again for your work to facilitate carbon market access for family forest owners.

Sincerely,

Brian Shillinglaw  
Manager, Policy & Regulatory Affairs