



THE PACIFIC FOREST TRUST

Working Forests Work Wonders For Us All.

May 21, 2010

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

Re: Comments on the Draft Reserve Forest Project Aggregation Proposal

We are pleased to have the opportunity to provide comments to the Climate Action Reserve (CAR) on the Draft Reserve Forest Project Aggregation Proposal and applaud you for having provided this for public review.

The Pacific Forest Trust has a long history advocating the careful but comprehensive accounting of GHG emissions reductions from forest projects and the recognition of these climate benefits by policy makers, greenhouse gas (GHG) emitters, the carbon market and the public. The recommendations made here are intended to improve the draft proposal in ways that will ultimately increase the likelihood of participation in the Reserve by smaller forestland owners, as well as improve clarity of the requirements and guidance provided within the proposal in anticipation of issues that may arise during the development of aggregates as well as in the midst of the lifetime of each aggregate.

I. General Comments

In general, PFT believes that the Draft Reserve Forest Project Aggregation Project Proposal represents a critical component that will increase the overall accessibility of the Climate Action Reserve's Forest Project Protocols (FPP) to small landowners, while maintaining comparable high standards for accounting and verification. Nonetheless, in our view the current draft proposal would benefit greatly from further refinement to ensure it is not only strong from the Reserve's point of view, but is sufficiently fair and equitable in a manner acceptable to an array of small landowners who may otherwise be unable to participate in the Reserve due to the initial and long-term costs associated with project registration. In particular, we recommend the Reserve more fully consider the likely future realities of aggregate projects, in particular with reference to fluctuations in the composition of aggregates and with reference to verification issues.

II. "Need for Input" Items

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"The Reserve is seeking input on the following options for specific eligibility rules:

- 1. All three forest project types can be enrolled under a single aggregate.*

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2. *Only one type of project can be enrolled under a single aggregate.*
3. *In addition to the above, projects could be required to be from the same geographic region as defined by the ecoregions or assessment areas in Appendix F of the FPP."*

While the FPP and this proposal require each forest owner within a given aggregate is required to provide an independent and accurate assessment of his/her project's carbon stocks, we believe that for clarity of understanding the composition of each aggregate and for the aggregate's own operational efficiency, we would recommend that aggregates composed of only one project type. However, we don't believe there is a value in restricting projects in an aggregate within a single geographic region as long as the other project requirements are achieved.

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"Should there be a limit on the number of participants in an aggregate?"

There should not be a need for a limit on the number of participants in an aggregate. The upper limits of the number of participants in any given aggregate will likely be self-selecting as the logistics of effectively managing an aggregate will become prohibitively difficult as the number of participating projects it accepts increases (especially if the projects are dispersed geographically).

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"The Reserve welcomes any feedback on the feasibility of this type of arrangement, as well as any administrative or contractual issues that might arise." (This is in reference to Aggregators being sole entity capable of transacting CRTs for projects within each aggregation, and the only account into which Forest Owners within an aggregation are allowed to transfer CRTs is the Aggregator account with which it is associated)

This arrangement seems feasible, but CAR should require evidence of approval by each project owner for any transfers from the underlying project account to the Aggregator account. While the private contract terms will vary between each Aggregator and its participating Forest Owners, CAR should require that such a contract stipulate contingencies in the case of the demise of the Aggregator. Further, we recommend that the Reserve establish a procedure in this situation wherein the Forest Owners within an aggregate be allowed a timeframe, say up to a year, in which they may select a permanent replacement Aggregator while account activity is temporarily suspended under no penalties.

"The Reserve welcomes any feedback or critiques of the statistical underpinning for this approach. Are any issues likely to arise from the use of different inventory designs among participating projects, for example?"

No feedback at this time, however we recommend that CAR assure thorough review by biometricians competent to provide such critique prior to consideration of the adoption of these Guidelines.

III. Other Specific Comments

Acreage Limitations (p. 4)

The requirement that no single project comprise more than 50 percent of the total combined acreage in an aggregate makes it virtually impossible for a two-project aggregation to be eligible

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since the likelihood of two projects having identical acreages is miniscule. Perhaps there can be an exception for aggregates of only two projects, such that no single project can comprise more than 60 percent of the total combined acreage. Otherwise, aggregates may as well be required to have at least three projects.

We support a 5,000-acre limit for the size of each project enrolled in an aggregate. But we recommend that forest owners be allowed to enroll multiple projects in aggregates but with a higher acreage limit for the ownership's total size, as long as they are able to provide sufficient justification for dividing their forests into independent projects. Appropriate justification may include, but not be limited to, projects being geographically independent or being registered in different years.

Nonetheless, we do want to voice some concern that while 5000 acres seems sufficient to enable an economically viable project in less carbon rich forests such as the drier interior conifer forests of California, we are not certain this same metric would apply in other forest types around the country. We urge CAR to review the carbon stocking and productivity data it has to better assure that this is a reasonable size in other regions.

Regarding the ownership size limit, it is unclear why the total ownership of a participating Forest Owner is also proposed to be limited to 5,000 acres. Although placing such a limit on the size of any individual project may seem reasonable, placing the equivalent limit on the total ownership of the entity wishing to enroll multiple projects makes less sense, especially given the cost efficiency reasons stated in the footnote to this section in the draft proposal. If a forest owner wanted to enroll three 2,500-acre projects that are each located in different regions of the country, why should he/she be limited to only enrolling two of them? The costs for each project would be similar (if not identical) to the case where the forest owner only owned and developed a project on a single 2,500-acre forest.

However, we do believe that large commercial ownerships are not the intended users of this Aggregation option for project development. Having an upper limit in ownership size such as 10,000 acres is important to ensure that the aggregation option is limited to ownerships that have less resources available for investment in project development and maintenance. Larger commercial ownerships that generally have significant investments in inventory and management infrastructure can avail themselves of the current Protocol.

Qualifications and Role of Aggregators (p. 4)

We recommend this section be cross-referenced to the "Accounts on the Reserve, Transfers and Sales of CRTs" section below, which states that the forest owner must transfer CRTs to its aggregator before such CRTs can be sold or transacted. This section states that the aggregator must manage transactions of CRTs generated by the project participating in its aggregate. But explicitly stating here that such transactions can only take place after a forest owner has transferred his/her CRTs to the aggregator will help eliminate any ambiguity concerning the timing of CRT transfers and transactions.

Forming an Aggregate (p. 4)

Although the previous section states that individuals and municipalities may be aggregators, the language in this section needs to be broadened to make sure they understand what they are to provide as a part of their Aggregator Document in order to satisfy the requirement for "Proof of incorporation and good standing of corporate entity" which, as it stands, would exclude these entities.

Joining and Leaving an Aggregate (p. 5)

It should be stated whether Aggregate Entry forms will be publicly posted documents. If they are to be made available to the public, the statement of the forest owner's desire to join a specific aggregate and the description of services the aggregator will provide on behalf of the forest owner seem reasonable for public disclosure. However, it seems safe to assume that many forest owners and aggregators would prefer to have their contractual agreements remain private.

To prevent any potential confusion, it should be stated in the second paragraph that the on-site verification required prior to entry into an aggregate would be based on the inventory standards required for aggregated projects and not on those required for independent projects.

Our greatest concern with this section is in regard to the level of detail spelled out in the requirements and guidance provided for a project entering and leaving an aggregate. This relatively cursory section should provide a much more thoroughly detailed process for a forest owner to follow, especially in the case of leaving an aggregate, rather than leaving it to private contractual agreements between aggregators and participating forest owners to handle. The guidance provided in the draft proposal tends to ignore the likely realities of projects entering and leaving individual aggregates and establishes too rigid and simplistic a requirement. Aggregates are more likely than not going to have shifting composition over the lifetime of the composite projects, whether due to business disputes pertaining the management of the aggregate, conditions leading to an intentional termination of a participating project, or other factors. Yet this shifting composition threatens the accounting accuracy and permanence of the CRTs issued to the aggregated projects.

The requirement proposed in the draft Guidelines is to require a replacement project in place before a project may leave in order to maintain the overall targeted standard error for the aggregate. This seems to be an onerous requirement that is both unnecessary and likely difficult to fulfill. In the alternative, a more robust but flexible requirement that deals directly with the likelihood of shifting composition of projects within an aggregate would be to require each aggregate to maintain its own internal CRT reserve for instances when a project leaves before another project is able to take its place. This would provide the necessary and available means to fund any reversals resulting from the change in composition of the aggregate. The CRT reserve would be tapped into in order to compensate for any increase in the confidence deduction that would be required if the standard error requirements are no longer met by the participating projects (which may or may not be the case). The size of the CRT reserve can be pegged to the number of projects in the aggregate and the actual sampling error of the constituent projects.

Furthermore, the Reserve could levy a penalty fee on the departing owner for opting out that would be distributed amongst the remaining participating forest owners of the aggregate in order to defray any costs associated with having to increase their sampling intensity to achieve the aggregate's new target standard error. The parallel situation is that in a private partnership those who need to liquidate their investment prior to the termination of the partnership are paid out at a discount to fair market value to discourage early termination and to compensate the remaining partners for the costs of the liquidation.

Further, in the event that a project leaves the aggregate and triggers a Reversal, the costs of this should also be addressed more explicitly so that participants have a clear understanding of the full range of implications. In particular, it would help to state that a terminated project leaving an aggregate is still subject to the project termination requirements specified in the Forest Project Protocol, including funding the Intentional Reversal.

Inventory Standards for Participating Projects (p.6)

The Reserve should provide more guidance regarding appropriate methods for calculating sampling error, even if simply providing references that may be good sources for forest owners to use. Although the statistical standards used for conventional timber inventories serve their purpose adequately, the statistical methods—and proof of their proper application—required for forest carbon inventories has been a significant focus of verification activities, likely due to the fact that the commodities being transacted are based on estimated stocks rather than easily measured units, such as cubic feet of wood fiber or the simple weight of a log. Thus, the more guidance the Reserve is able to provide on the matter, the better prepared forest owners—especially the small forestland owners that are likely to comprise the projects enrolling in aggregates—will be when it comes time to register their stocks and CRTs.

Monitoring and Verification (p. 8)

The statement that the aggregator is responsible for selecting a single verifier for all enrolled projects needs to be clarified in several respects. First, since not all enrolled projects are audited in each year, it is unclear whether this requirement means that the aggregator selects a verifier for all projects being audited during a given year or to audit all participating projects during a more significant portion of the verification cycle (e.g., six years).

Second, the statement is not entirely inconsistent with the previous statement regarding the role of the aggregator described on p. 4 of the draft proposal, which says aggregators *may assist* in facilitating verification activities on behalf of the Forest Owner. Stating that aggregators are *required* to select a single verifier, which is an important component of facilitating verification activities, is different than saying they have the option of facilitating verification activities.

We recommend the insertion of a table on p. 4 outlining the required and potential roles and responsibilities of aggregators and forest owners. At a minimum, the “Qualifications and Role of Aggregators” section could be rewritten in a way that more clearly separates the required responsibilities of an aggregator from those responsibilities that are optional or subject to negotiation / contractual agreement between the forest owner and aggregator.

The second paragraph in this section, which discusses on-site verification scheduling, also raises some concerns. If on-site verifications can be distributed through the six-year interval, the verifier should randomly select half of the projects for on-site verification not in year six, but simply prior to the first project verification within an aggregate (i.e., by year 6). All projects selected at that point would undergo on-site verification prior to year 6, whereas the remaining half of the projects would undergo on-site verification prior to year 12.

Furthermore, it is unclear what is meant by the final statement that on-site verifications may be “spread out randomly” during each six-year interval. Does this refer to the exact date of each verification, the order in which projects are verified, or the year in which each selected project is verified?

Regardless, we do not fully understand the requirement that site visits be random. It seems as though requiring random ordering and timing of site visits could prevent potential cost savings. For example, an aggregate with geographic clusters of projects could benefit by having projects within each cluster verified at the same time, thus limiting verifier travel expenses and perhaps allowing the simultaneous review of projects. Unless this requirement can be more adequately justified, the Reserve should consider modifying it to allow reasonable flexibility or eliminating it all together.

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Along similar lines, it may be advisable to notify Forest Owners of an on-site verification prior to the year in which verification is to take place in order to allow adequate time for the Forest Owner to conduct sampling of carbon stocks so as to ensure project stocks reported during verification are based on recent sampling rather than modeled/projected stock estimates.

Clarification should be provided for cases where an aggregate comprises an odd number of projects. Thus, when the total number of projects within an aggregate is odd, the number of projects required to undergo on-site verification during the first six-year interval is half of the total number, rounded up to the nearest integer. The remaining projects would then undergo on-site verification during the second six-year interval. For example, an aggregation made up of 9 projects would have 5 projects undergo on-site verification by year 6, whereas the remaining 4 projects would undergo on-site verification during the second six-year interval.

It would also be useful to clarify how this section relates to the Reserve's conflict of interest policy, specifically with respect to the requirement that a verifier relinquish its verification duties to another verifier after verifying a project for six consecutive years. Aggregates are obviously different since a single project is not necessarily verified in consecutive years. Nonetheless, it would be helpful to state whether a single verification body may conduct all verifications within a given aggregate during each six-year (or twelve-year?) verification cycle.

The second to last sentence of the third paragraph should be changed to state, "Each year, projects to be audited must be selected randomly, and Forest Owners will not know when their annual monitoring reports will require verification." This makes it clear that the random selection occurs every year, in contrast to the random selection process for on-site verification, which presumably occurs once per twelve-year cycle.

This section also is lacking an outline of the process for projects that do not have their annual monitoring report verified in a given year. Although they are not audited, is there some form of a modified desk review conducted by the verifier or the Reserve in order to ensure there are no unusual results reported, such as a significant and unforeseen spike in CRTs? A process should be provided here to indicate how non-verified annual monitoring reports would be accepted and posted.

The last paragraph in this section needs to be expanded in order to provide guidance for what happens if the total number of successful verifications satisfies the audit requirement for a given year, but a verification issue is not resolved for a project that triggered an additional project to be verified. The language proposed here suggests that CRTs could still be issued in this situation.

For example, an aggregate consisting of 16 projects has 4 projects audited in a given year, with one of them unable to resolve a verification issue. Another project from the aggregate is verified to replace the unsuccessfully verified project so that 4 projects from the aggregate are then successfully verified. After 12 months, the verification issues are still unresolved for the one unsuccessful verification. However, since the number of successful verifications was achieved, would crediting proceed for the aggregate as a whole? It is unclear what the true intent of the Reserve is.

Additionally, guidance for what happens to a project that is unable to resolve its verification issues is warranted. It seems as though this may trigger project termination and the project would be required to leave the aggregate. According to the language in the draft proposal, this in turn would require the project to be replaced to maintain viability/eligibility of the aggregate as a whole. Based on the Forest Project Protocol and the proposed aggregation language, the project would no longer be eligible for participation in the Reserve but its application to leave

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the aggregate would be rejected if one or more projects did not join the aggregate in order to maintain the target standard error for the project. Adoption of the aggregate CRT loss reserve described above would prevent this kind of situation from occurring.

Lastly, the timeframe in which verification issues must be resolved (as referenced in the last sentence of the last paragraph) needs to be clarified. It is stated that resolution must be attained within twelve months. However, there is no specific indication of when that timeframe begins. Presumably, resolution must be achieved within twelve months after the verification issue(s) are identified and documented, but this section should clearly state this.