Submitted to David Ford, Chair Forestry Subgroup on September 8, 2020 by Michael Newman, Chief Operating Officer, Parhelion Underwriting Inc.

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FINAL REGULATION ORDER CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS
Amend Subchapter 10 Climate Change, Article 5, sections 95802, 95830, 95833, 95852, 95852.2, 95890, 95892, 95895, 95920, 95921, 95973, 95975, 95976, **95983**, 95985, and 95990, to read as follows:

§ 95983. Forestry Offset Reversals. For forest sequestration projects, a portion of ARB offset credits issued to the forest offset project will be placed by ARB into the Forest Buffer Account. The amount of ARB offset credits that must be placed in the Forest Buffer Account shall be determined as set forth in the applicable version of the *Compliance Offset Protocol U.S. Forest Projects, October 20, 2011in section 95973(a)(2)(C)4.*

The buffer pool is basically a form of insurance implemented in ARB's Cap-and-Trade Regulations, a holding account administered by ARB, in which forest offset credits are deposited from each project to buffer against losses caused by unintentional reversals.

An unintentional reversal is defined as any reversal, including wildfires or disease that is not the result of the forest owner's negligence, gross negligence, or wilful intent. Only trees identified as dead or dying, in the post-event inventory, as a result of the wildfire or disease will be removed from the project's inventory and compensated from the Forest Buffer Account minus any salvage harvest accounted for under long-term storage.

The buffer pool tons are used to compensate for the loss and the landowner has no additional obligation. ARB requires the landowner to enter a qualified conservation easement that provides ARB with the right to enforce the easement against the landowner if the carbon goals are not met. For IFM or afforestation projects, recording a qualified conservation easement may help reduce project risk and, in turn, the level of required contribution to the buffer/reserve pool. This "reserve" amount will potentially be less if a qualified conservation easement is entered into on the theory that a conservation easement better assures the project's permanence. Credits are removed from the buffer and sold as the risk of the forest not meeting its sequestration targets declines.

At end-2018, the total volume of CCO3s was just over 32 million, with over 3 million in the buffer pool. Additionally, there were over 18 million CCO8s, with a further 1.7 million credits in the buffer pool. Credits in the buffer pool account for 16% of all credits issued to forestry projects so far.

The buffer pool is a 'bank' of credits to which project developers submit some 10 to 20 percent of their credits. The amount of credits required to be deposited from each project will inevitably reduce the total number of credits received and monetized by the project. 10-20% of all CCOs generated has a significant impact on a project's revenue.

Our Proposal: CARB allows offset project developers to submit an insurance policy or bond (or similar) as an alternative to the buffer pool.