

# CLARIFICATION OF ENHANCEMENT CREDIT TERM LENGTH

## Finding

Enhancement credit terms of less than 30 years are needed to facilitate the CCS administration and the planning efforts of credit producers. On December 11<sup>th</sup> the Council approved a prorating concept allowing enhancement project terms to match existing stewardship project terms. Clarification on how terms for enhancement credits are assigned is needed.

## Improvement Recommendation

- Assign prorated enhancement credit term lengths equal to the time remaining on the original stewardship contract.

## Summary

Current policy mandates that debit and credit term lengths match. When enhancement credits are generated on a 30-year stewardship project, the credits are released partway through the term of the contract. This policy results in minimum credit project lengths of 30 years. The possibility of these credits have caused a concern that multiple areas in the same project boundary may have different management expectations and will expire in different years. This complicates the administration of projects and presents significant complexity in planning for Credit Developers. Prorating enhancement credits to enable credit terms of less than 30 years was a concept approved by the Council at a previous meeting. This improvement modifies the previously approved improvement by assigning term lengths as the amount of time remaining on an associated stewardship project, which will allow a simple calculation of enhancement term.

## Specific Improvement Recommendation

In order to provide flexibility in enhancement terms and prevent multiple projects expiring at different times than the associated stewardship project, the concept of prorating credits with varying terms has been approved. Prorating allows the CCS to match disparate terms. Under this concept, the greater the disparity between terms, the more credits will be required to offset an equal amount of debits. For example, 10 enhancement credits may offset 10 debits if the term lengths between debits and credits are equal. If enhancement credits have a term of only 20 years (in an effort to have them expire at a certain time), and the debit term to which they are being applied is 30 years, the resulting credits available for offset will be 6.66. The reserve account contribution for enhancement credits remain similar to the associated stewardship project.

The prorating equation, a figure illustrating the concept, and suggested changes to the manual can be found in the appendix. Enhancement credits will be assigned a term length equal to the time remaining on the original stewardship project contract, and will be maintained for the remainder of the term. Half of the time from enhancement implementation to quantification will be added to the enhancement credit term. Figure 1 illustrates this concept.

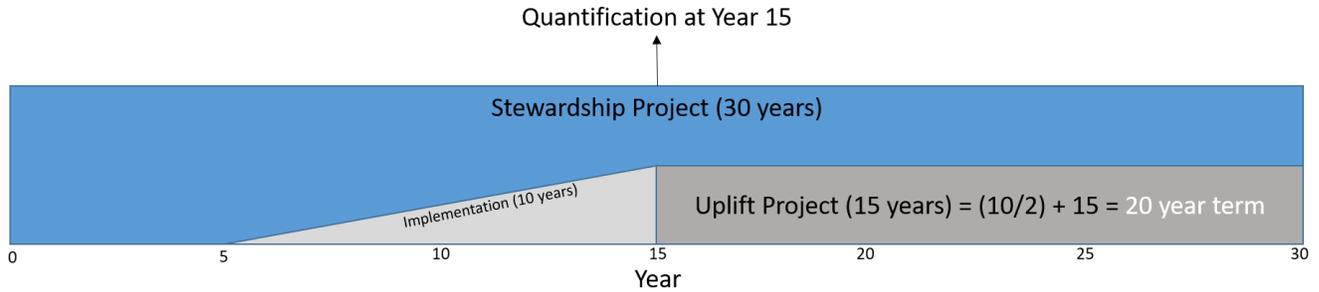


Figure 1: A timeline illustrating how terms for enhancement credits are assigned. Half the value of the implementation time is added to the time remaining on the stewardship contract at the time of enhancement verification.

The possibility of entering enhancement credits into a contract that matches debit terms and may extend past the expiration of an existing stewardship project would always be a possibility, and would provide the best value for enhancement credits as they would not require prorating.

In the above example, quantification happened at year 15, which is the year of the regularly planned verification for the stewardship project. The SETT plans to allow quantification of enhancement at any point in order to provide maximum flexibility in addressing varying success rates of enhancement actions. However, if enhancement quantification efforts become too numerous the SETT may establish limits on how often the HQT may be run. The SETT anticipates that year 15 may be a common year in which the majority of credit developers will assess enhancement.

### Rationale Supporting Recommendation Details

Habitat improvements in the Great Basin remain challenging while habitat is being lost at an alarming rate to both man-made and natural disturbance. Threats to the sagebrush ecosystem are growing, and the options to confront those threats are limited. This improvement, allowing enhancement credits to expire with an associated stewardship project, will facilitate and improve landowners' ability to plan and develop credits that result in habitat improvements. The SETT recognizes that the greater sage-grouse requires intact, undisturbed habitat for long periods of time and that shorter term credits may be inferior to the ecological value of the standard 30 year credit. Accordingly, enhancement credit terms of less than 10 years will not be allowed. The prorating formula may, at least in part, offset the diminished ecological value of shorter term credit by requiring more credits to be purchased to offset the same disturbance and perhaps driving a higher volume of enhancement actions.

Balancing long term durability of habitat improvements with reducing the activation energy of implementing enhancement projects is a delicate act, and this improvement is in part a response to low interest shown in uplift thus far. This balance will be revisited annually during a council meeting where the SETT anticipates providing regular updates to the council on the status of CCS credits in general, and will provide an overview of uplift credits at that time which will include credit ratios. If the average ratio of uplift term: debit term is too high, the council may determine at that time to further restrict the minimum term allowed. The intent of this improvement is to increase the prevalence of restoration and enhancement activities on credit projects enrolled in the CCS.

## Appendix:

Equation 1:

$$C_p = \frac{T_c}{T_d} * C$$

Where:

$C_p$  = Number of prorated credits available for offsetting disturbance

$T_c$  = Term of uplift credits (Time remaining on original contract)

$T_d$  = Term of debit project

$C$  = Number of uplift credits generated

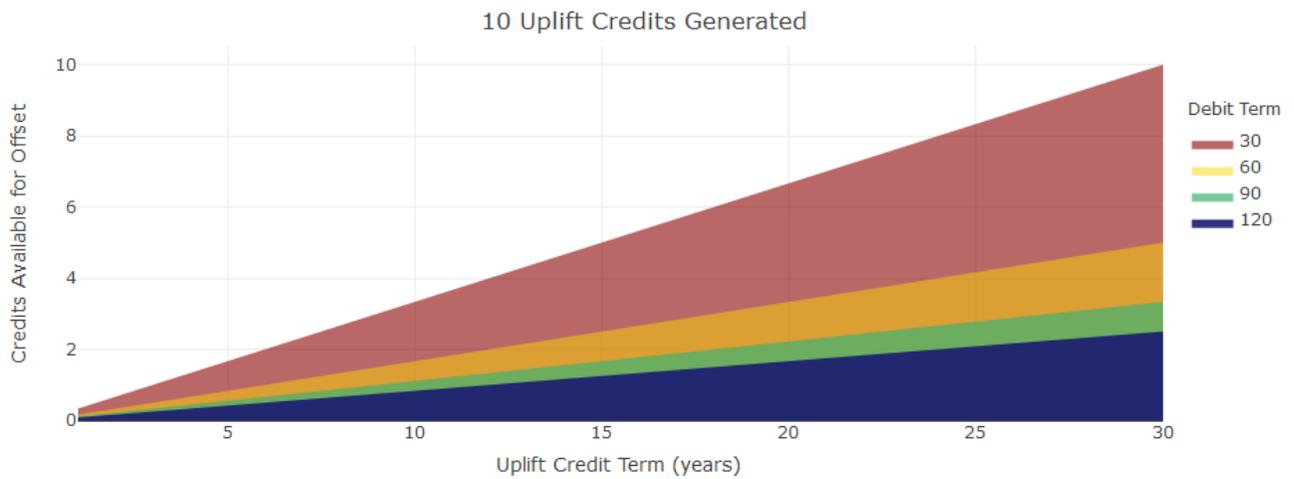


Figure 5. Credits available for offset relative to the difference between credit term and debit term. The greater the disparity between terms the less credits are available for offset.

## Proposed changes in the CCS Manual:

### 2.4.1 Credit Release

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The CCS uses credit release schedules to manage risk and uncertainty by releasing credits only when specific performance standards are met. Credit releases occur when a new milestone of performance standards, in terms of habitat function, is achieved on the credit site that warrants an increase in the amount of credit generated on that project site. Credit releases require a third-party verification, defined in [Section 2.4.5: Credit Project Quantification, Monitoring, Qualitative Assessments, and Verification](#). Specific performance standards are defined in each credit project's Management Plan, and each credit project will have a unique credit release schedule based on those performance standards. A credit release schedule is different than credit payment schedules described in [Section 2.4.6 Financial Assurances](#).

If a credit project is unable to achieve performance standards defined in the credit project's Management Plan in order to release credits, the Credit Project Proponent will work with the Administrator to adjust the performance standards and release schedule. A decline in habitat function outside of the tolerances defined in [Section 2.4.5: Credit Project Quantification, Monitoring, Qualitative Assessments, and Verification after credits are released](#) will require the credit site to be remedied, or the credit site's financial assurances may be used to replace the invalidated credits. See [Section 2.4.6: Financial Assurances](#) for additional information on financial assurances.

#### Stewardship Management Actions

For credit projects based on stewardship management actions, credit release occurs when conservation actions defined in the credit project's Management Plan are implemented and associated HQT scores are achieved. Credit projects that primarily maintain pre-project habitat function are likely to have a single credit release. If a credit project based on stewardship management actions includes multiple credit releases, the portion of credits released at each milestone must be less than or equal to the percent increase in habitat function relative to the total increase in habitat function expected to be achieved by the project. A credit release schedule associated with specific performance standards in the credit project's Management Plan can include multiple credit release intervals; however, each release must require at least a 5% increase in site-scale habitat function. Credits are released at the point when a third-party verifies an achieved performance standard. Credits released are valid for the full duration of the project's life, provided that the Credit Project Proponent continues to meet that performance standard as confirmed by third-party verification and annual management and monitoring reports. Verification requirements are defined in [Section 2.4.5: Credit Project Quantification, Monitoring, Qualitative Assessments, and Verification](#).

#### Uplift Management Actions

The term "uplift" is meant to serve as an umbrella term which serves to refer to any efforts expended to improve habitat. The term uplift includes enhancement actions which are meant to capture habitat improvements associated with stewardship credit projects and includes a wide variety of actions. The term uplift also includes restoration actions, which in the CCS will be narrow in scope and targeted to a few prioritized actions not associated with a stewardship project.

#### Enhancement Management Actions

For credit projects incorporating enhancement actions, the resulting enhancement credits will be issued upon quantification of uplift. Quantification of enhancement credits may be calculated at any time (within reason) using certified verifiers. See [Section 2.4.5: Credit Project Quantification, Monitoring, Qualitative Assessments, and Verification](#) for more information on mandatory re-verification of credit projects. Uplift credits may be matched with debits that have disparate terms. Prorating will be used to match uplift terms of less than 30 years with debit terms that have a 30 year minimum. This will allow uplift credit terms the ability to expire concurrently with the associated stewardship project. If prorating is desired at the time of sale, the time remaining on the stewardship

project at the time of quantification will set the assigned credit term, and the enhancement credits will be maintained for the term of the stewardship contract. If notification/evidence of the implementation of actions is given to the SETT then ½ the time of project implementation will be added to the assigned term. There is no requirement to prorate uplift credits, they may be sold as a conventional offset. Any uplift plans subsequent to the signing of the original management plan will be included as an addendum.

The reserve account contribution will be identical to the associated stewardship project.

A prorating formula will be used to match enhancement credits with debits is as follows:

$$C_p = \frac{T_c}{T_d} * C$$

Where:

$C_p$  = Number of prorated credits available for offsetting disturbance

$T_c$  = Term of uplift credits (Time remaining on original contract)

$T_d$  = Term of debit project

$C$  = Number of uplift credits generated

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