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STATE OF NEVADA
Sagebrush Ecosystem Program

Nevada Conservation Credit System (CCS) for Greater Sage-grouse Habitats

Credit Project Proponents Frequently Asked Questions

More information can be found in the CCS Manual, User’s Guide, and Habitat Quantification Tool at: <http://sagebrusheco.nv.gov/CCS/ConservationCreditSystem/>.

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1. What is the Nevada Conservation Credit System and how does it function?

The Nevada Conservation Credit System (CCS) has been created to preserve, enhance, and maintain greater sage-grouse habitats, while preserving and maintaining multiple-uses.

The CCS is a tool developed to quantify anthropogenic disturbance impacts to sage-grouse habitat and conservation actions to off-set these impacts. This mitigation approach has been developed to ensure a net conservation benefit to sage-grouse. Impacts to sage-grouse habitat (debits) are defined as new anthropogenic disturbances such as mines, geothermal facilities, energy development, transmission lines, and other temporary or permanent developments that are proposed on federally managed land. Ranching and farming activities are not considered impacts within the CCS. Conservation actions (credits) include activities that maintain high quality habitat, and enhancement or restoration activities that improve the value of habitat to sage-grouse and may occur on private or federally managed lands.

Landowners will have an opportunity to participate in the CCS by creating, preserving and maintaining habitat. This can create credits that can be sold to Debit project proponents that are required to offset their disturbance to sage-grouse habitat.

Disturbance projects are evaluated for the number of debits incurred. Credit projects are evaluated for the number of credits conserved. Those creating debits will need to purchase or generate credits in an amount necessary to offset their impact. For a given project site, the quality (function) of habitat is multiplied by the quantity of habitat (acres) – this results in a determination of functional acres for the project. Functional acres are then translated into credits or debits. Credit Project Proponent can make a profit on the credits that they sell.

2. Why is the CCS necessary?

The ability to objectively quantify the improvement or reduction in habitat quality from disturbance or through mitigation efforts has been historically difficult. Not all acres within sagebrush ecosystems are equal nor do they necessarily provide high quality habitat for sage-grouse. As such, mitigation discussions have been conducted on a case-by-case basis and often have been a subjective process that can result in long negotiations based on multiple sets of information. The CCS brings an objective process, based on best available sage-grouse science in Nevada, to consistently quantify quality, or function, of sage-grouse habitats at several scales.

On the credit side, using the concept of credit projects that have a requirement for maintaining habitat function over time is an improvement from previous strategies that attempted to put the improvement on the landscape, but may have lacked long-term commitment to maintain the mitigation site. In addition, giving Credit Project Proponents the incentive of profit to engage in conservation actions provides the opportunity for conservation actions on private lands.

While many of Nevada's most significant threats are something other than anthropogenic disturbances (e.g. fire, invasive plants, pinyon/juniper expansion, etc.), the need exists to sufficiently address fragmentation and other degradation caused by large scale human disturbances. This need was the impetus for the development of a robust tool that could adequately measure enhancement and protection activities (credits) that would offset

anthropogenic disturbances (debits) in order to maintain a net benefit to sage-grouse and their habitats.

3. What is a credit and how is it derived?

Credits are determined by the number of functional acres within the project site above general regional conditions (baseline). This can be achieved by committing to maintain the current functional acres over time (referred to as “stewardship project”) or by enhancing or restoring the project site and committing to maintain the additional functional acres achieved over time (referred to as “uplift” projects).

A functional acre is represented by the assessed habitat functionality above baseline multiplied by the total number of acres being considered for enrollment. In general, functionality incorporates three separate scales:

- Landscape Scale – Desktop analysis
 - Management importance factor* (Priority, General, and Other Management Areas)
 - Abundance vs. limited availability of seasonal habitats (breeding, late brood rearing, winter)
 - Proximity factor* (distance between the credit site and the debit site – Debit projects only)
- Local Scale – Desktop analysis
 - Habitat Suitability Index (HSI; provided by US Geological Survey analysis in Nevada)
 - Anthropogenic impacts (field review – Debit projects only)
- Site Scale – Field data collection
 - Canopy cover – Sagebrush and other shrubs, perennial grasses, perennial forbs, invasive annual grasses
 - Sagebrush Height

*For more information on different factors that affect the credit calculations, see Section 2.2.2 of the Conservation Credit System Manual, located on our website at http://sagebrushco.nv.gov/CCS/Program_Documents.

The following demonstrate a simplified version of the concepts of functional acres, functional acres above baseline, and credits generated.

Figure 1: Functional acre concept

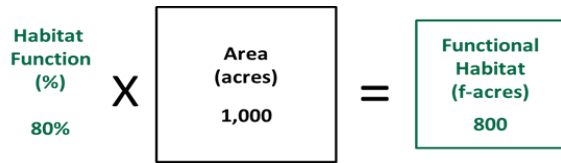


Figure 2: Functional acres above baseline for a credit project

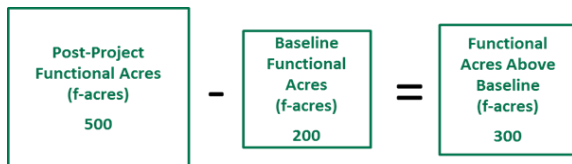
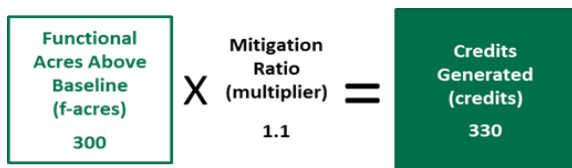


Figure 3: Credits generated from a credit project



Note: Debits are calculated in a similar way; however, the post-project functional acres are subtracted from the baseline (pre-project conditions) functional acres to determine the loss in habitat value.

4. Who can develop credits and where?

Credits can be developed within sage-grouse habitat on private, tribal, and public lands. However, credits on public lands can only be developed by the industries developing the debits that need to be offset. Check the property location on the maps on the website to see if a certain property is eligible: <http://sagebrusheco.nv.gov/Resources/Maps/>.

Private landowners, on a voluntary basis, may be eligible to participate in the program. A project validation checklist has been developed to provide a quick, preliminary determination of project eligibility. A downloadable form can be found on the CCS website: http://sagebrusheco.nv.gov/CCS/Program_Documents/.

An active list of credits available for potential purchase are also maintained on this website with contact information available upon request so that debit project proponents seeking to buy credits can initiate contact with potential Credit Project Proponents.

5. How much is a credit worth?

Credit prices are market-driven and may be sold for any price that a Credit Project Proponent and a credit buyer agree to. There is no set value for a credit. Considerations that should go into the price of a credit should include repayment of seed funds, if relevant, the costs

of initial and future verification, management plan commitments, and annual monitoring over the term of commitment. Financial assurances will also need to be set aside to ensure ample funds are present to steward credit projects throughout the commitment term. Expect 18-30% of sale price to go into financial assurances. Additional resources to assist with setting a credit price are located on the CCS website: http://sagebrushco.nv.gov/CCS/Program_Documents/.

6. What is the contract period for credits or debits?

Credit project durations are a minimum of 30 years (some rare instances can be 10 years) with 5-year term increments, up to perpetuity. Credit Project Proponents may set the contract period for their project. A credit buyer must purchase credits that are equal in duration to the life of the disturbance being offset plus 10 years for rehabilitation.

7. Do I need to alter my business, my ranch, or my grazing plan in order to participate?

Ranching and farming activities are not considered anthropogenic disturbance impacts and some activities can provide beneficial conservation actions. Certain actions may be required to be adopted for the benefit of the sage-grouse, but they are also designed to be beneficial to the ranch itself and include a defined adaptive grazing plan, riparian management, and noxious weeds plan. For more information, see the question on the Management Plan.

8. Is a Credit Project Proponent locked-in at the number of credits initially established?

A Credit Project Proponent must maintain, at a minimum, the number of credits that they have committed to in the participant contract for the duration stated within the contract. Additional credits may be generated over time. If at the time of the initial contract, the Credit Project Proponent agrees to perform enhancements or restoration (e.g. pinyon/juniper removal, meadow/riparian enhancement, livestock grazing practices, etc.) that indicate measurable habitat improvement over a period of years, s/he may be entitled to sell these additional credits over time.

9. What happens if a credit site or a portion thereof is destroyed by an act of nature, such as fire?

The simple answer is when credits generated by a credit site are invalidated by an event or circumstance beyond the control of the Credit Project Proponent, such as wildfire, the Credit Project Proponent will not be held fully liable. The Credit Project Proponent and CCS administrator will discuss if it is possible to restore the project site to recoup the lost credits. If agreed, restoration activities will be initiated. If the likelihood of success for restoration is low, the remaining credit obligation will be fulfilled from a reserve account maintained by the CCS Administrator, which acts as an insurance policy for the overall CCS and the contract with the Credit Project Proponent is cancelled without penalties. For more information regarding

Intention vs Unintentional Reversals and the recourse of each, please see the Participant Agreement on the website at: http://sagebrusheco.nv.gov/CCS/Program_Documents/.

10. Are there restrictions to participation if land is already under an easement or other types of conservation contracts?

Yes and no. If there are current contracts on land being considered for enrollment into the CCS, the source of the funding and terms of any contract agreements will influence any restrictions or limitations. This will need to be determined case-by-case but does not necessarily preclude the property from being enrolled. Potential restrictions may include reducing the amount of credits available for entry or eliminating those lands from inclusion until the current contract expires. Conservation easements that specify general habitat conservation or sage-grouse conservation cannot be entered into the CCS, except under certain scenarios such as uplift projects that go over and above the requirements of the easement. Contact the Sagebrush Ecosystem Program, kmcgowan@sagebrusheco.nv.gov or kpetter@sagebrusheco.nv.gov, for specific guidance.

This concept is discussed as “additionality” in mitigation banking. The intent is to make sure that the conservation action that is off-setting impacts goes above and beyond previously committed conservation actions. The intent is to ensure that credit projects are providing uplift to sage-grouse habitats to off-set the impacts from habitat disturbance and loss. In addition, some funding sources have restrictions on earning a profit on top of their funding. “Double dipping” is not allowable under the CCS.

11. Do irrigated fields count as meadows?

If the area’s vegetation consists of riparian obligate plants, then it can be considered a meadow. Single crop agriculture (i.e., alfalfa pivots) and pivots in general are not eligible to generate credits. If other irrigation methods are used to maintain meadow characteristics, that field should be irrigated consistently throughout the project length, because if the area begins to change to more upland vegetation and the value of credits for that area declines then that may be considered an intentional reversal and the invalidated credits would need to be recovered by the project proponent.

12. How do I sign up to enroll in the CCS?

If a landowner (or other authorized agent) is interested in participating in the program, they can download and complete the **Validation Checklist** from the website http://sagebrusheco.nv.gov/CCS/Program_Documents/ and submit it to the Sagebrush Ecosystem Program, kmcgowan@sagebrusheco.nv.gov or kpetter@sagebrusheco.nv.gov. Once the someone has reviewed the validation checklist and discussed the potential of the project with the landowner or authorized agent, a more formal dialogue will take place to establish the next steps needed to be taken to begin the credit development process.

13. My project has been approved for the CCS, now what? What do I need to do throughout the project life?

The next step is to **hire a CCS Certified Verifier** to complete the field work and desktop analysis that establishes your habitat function. The annual list of certified verifiers is located on the website at http://sagebrusheco.nv.gov/CCS/Program_Documents/. Initial verification of the habitat function must be completed between April 15th and June 30th, or when the plants are at their peak growth. The costs for verification vary with the consulting company, project size, and ease of access. Generally, assume around \$15/acre cost for field work and an additional cost (\$10,000 - \$20,000) for creation of the management plan should the Verifier be hired to assist with that as well.

Throughout the process, it is strongly encouraged to work closely with the Verifier to ensure the accuracy of the data and the mapped areas, especially when working on the required Management Plan. Once the field work has been submitted, the **Management Plan** can be developed. After the Management Plan is approved and signed, the credits are locked in and can be put up for sale. Once an offer from a Debit Project has been verbally agreed upon a **Credit Purchase/Transfer Agreement** must be completed and signed. The final documents include a signed **Participant Contract** and a **Credit Purchase/Transfer Form** to finalize the transaction.

Credits must be maintained at the same functionality as originally determined over the length of the contract. A few processes are in place to meet this need for durability each year through the life of the project, **Annual Monitoring** needs to be completed across the project area between April 15th and June 30th. This can serve as an early warning system for any increase or decrease in habitat function. Every fifteen years throughout the project life, complete verification is required to be completed on the project area to ensure the required habitat function has been maintained. This will require the same amount of workload, and essentially cost, as the initial verification of the habitat function, and will inform on any changes in habitat function, whether positive or negative.

14. What are the costs associated with maintaining credits?

Credit projects require management and maintenance throughout the life of the project. Each project will require a bond or other financial instruments to ensure solvency of the system and protect against avoidable reversals throughout the life of the project. Expect 18-30% of sale price to go into financial assurances. At a minimum, costs associated with future verification, management plan commitments, and annual monitoring over the term of commitment will need to be set away into the financial assurances.

For information on what should be considered when establishing a sale price as well as financial assurances for the life of the project, see the Pro-Forma Checklist and the Financial Assurances Guidance document at: http://sagebrusheco.nv.gov/CCS/Program_Documents/.

Additionally, the Program offers a Pro-Forma, available upon request, that can assist with calculating both a proposed sale price and the required finance assurances. *Note: the assumptions within this document are for planning purposes only and are not meant to predict future rates.*

15. What is the Management Plan and what does it entail?

The Management Plan is a document that records the results of HQT outputs and defines specific restoration and management actions committed to over the life of a credit project. The plan includes ongoing maintenance and monitoring requirements. It will include existing project site information such as maps, current management practices, proposed management or restoration practices, start and end dates, and any management limitations.

Within this plan, all current maintenance of infrastructure must be upheld. Several required elements (if applicable) include a defined grazing plan, wildlife friendly haying, a noxious weeds or annual grass treatment plan, a riparian plan to achieve or maintain PFC, ranch waste management, and pinyon-juniper removal.

The Management Plan template can be found on the website at http://sagebrusheco.nv.gov/CCS/Program_Documents/.

16. What is Annual Monitoring and what do I have to do?

Annual Monitoring is required to be conducted each year and submitted in an Annual Management and Monitoring Report by Credit Project Proponents. This report demonstrates that specifications of the Management Plan and annual monitoring requirements have been fulfilled. It consists of a series of photos taken at points established in the Management Plan, along with a summary of activities throughout the last year, including changes in management or plant composition as well as any new habitat improvement projects.

While the Annual Monitoring report is made to be done by the Project Manager over a day or two depending on project size, it can be hired out to a hired worker or a verifier. The photo portion of the Annual Monitoring must be completed between April 15th and June 30th, and the monitoring report along with associated monitoring photos is due to the Sagebrush Ecosystem Technical Team by July 30th of each year.

The Annual Monitoring template can be found on the website at http://sagebrusheco.nv.gov/CCS/Program_Documents/.

17. What is the Reserve Account?

A percentage of total credits generated by a credit project are set aside and not made available for sale. When a mitigation offset is completed and credits are transferred to a Credit Buyer's account, this percentage of the credits sold or transferred are transferred into the reserve account. The Sagebrush Ecosystem Technical Team typically communicates with Credit Project Proponents in terms of how many sellable credits they have upon signing of the management plan, which is the remainder of the credits once the reserve account credits have been removed. The percentage planned for and transferred to the reserve account for each mitigation offset is determined by the probability of the credits on that site becoming invalidated, which creates an incentive for the Credit Project Proponent to reduce the risks that could invalidate those credits. Contributions made to the reserve account at the time of each mitigation offset are held in a pool to serve as insurance that all mitigation offsets are maintained even when credits become invalidated. In a case of intentional reversal (such as failure of a credit producer to adhere to

commitments) or unintentional reversal (from an act of nature like wildfire or outside the landowner's control), invalidated credits can be replaced, typically temporarily, with credits from the reserve account to ensure a mitigation offset can be maintained over the project duration. The credits transferred to the reserve account begin upon sale or transfer and expire when the term of commitment for credits sold or transferred ends. Protection of sellable credits (credits with a signed Management Plan) prior to a sale or transfer through the reserve account is limited to those invalidated by anthropogenic disturbance outside the control of the landowner.

Reserve account credits contributed by credit projects will be tracked according to their land ownership (public land vs private land). Use of reserve credits will match (to the extent possible) the land ownership of the reversal that necessitated the use of the reserve credits.

As illustrated in Equation 1 below, the total reserve account contribution percentage consists of a standard base contribution and additional contributions related to the probability of adverse impacts from wildfire and competing land uses. As shown in Equation 2, the total reserve account contribution percentage is multiplied by the total number of credits transferred to a Credit Buyer's account to determine the total reserve account contribution amount for each credit transfer.

Equation 1: Total reserve account contribution percentage equation

Total Reserve Account Contribution Percentage = Standard Base Contribution Percentage + Probability of Adverse Impacts from Wildfire Percentage + Probability of Competing Land Uses Percentage

Equation 2: Total reserve account contribution percentage equation

Total Reserve Account Contribution Amount = Credits Transferred to Credit Buyer * Reserve Account Contribution Percentage

As an incentive for Credit Project Proponents to reduce the risk of credit invalidation from wildfire, a reserve account rebate of up to 2% of the total project credits is available to the Credit Project Proponent if the Credit Project Proponent provides proof that the credit project has been included in a formal wildfire risk assessment (state, federal, local level) and wildfire risk reduction recommendations have been implemented. If the original Reserve Account contribution for the Probability of Adverse Effects is 1%, then the maximum potential rebate is 1%. The rebate program is only available within the first five years following transfer of the credits to a Credit Buyer.

When anthropogenic disturbances are removed on public lands rights of way to generate credits, a contribution of three times the standard reserve account calculation will be required. The reserve account contribution for credits on public land will be set at a flat rate of 25%.

For more information on the reserve account, see Section 2.4.3 of the Conservation Credit System Manual. And for more information on reversals, see Section 2.1.9 and Section 2.4.6 of the Conservation Credit System Manual. This document can be located on our website at http://sagebrushco.nv.gov/CCS/Program_Documents.

18. Can I increase my habitat function to earn more credits?

Of course! The area improved can be verified whenever the Credit Project Proponent feels the habitat has improved sufficiently to determine the increase in credits. The Sagebrush Ecosystem Program has an uplift packet to guide you towards increasing your habitat function. Talk to the Sagebrush Ecosystem Technical Team for more information.

19. What happens if my habitat function decreases between verifications?

Unintentional Reversal

When credits have been sold or transferred for use in mitigation offsets and are invalidated by an extraordinary event or circumstance beyond the control of the Credit Project Proponent, such as wildfire, the Credit Project Proponent is not liable. Financial assurances may be used in these cases by the Administrator to replace the invalidated credits. In cases where the credit site can be fully or partially recovered within a reasonable amount of time and cost, the Credit Project Proponent may develop a remedial action plan that is approved by the Administrator and paid for with the financial instruments secured for long-term management and unintentional reversals.

Though not considered an unintentional reversal, when habitat values generating credits are lost through an extraordinary event such as a wildfire prior to sale or transfer of credits for use in a mitigation offset, credits within the footprint of significant disturbance will in most cases be invalidated and no longer salable or transferrable. Credits could later become available through uplift efforts and again quantifying credits through implementation of the Habitat Quantification Tool.

Intentional Reversal

In the case of an intentional reversal, such as not implementing management activities to achieve habitat quality as defined in the Management Plan or intentional mineral development, all payments to the Credit Project Proponent immediately cease. The Credit Project Proponent is responsible to the Administrator for the entire cost of acquiring replacement credits from a different credit site, any associated legal fees, and an additional 10% administrative fee (i.e. contract penalty). When evaluating whether the site-specific Performance Measures have been maintained and the potential for Credit Project failure, the Administrator will take into account natural climate variability and will work with Participant to consider whether adaptive management measures can be implemented to salvage a Credit Project prior to concluding there has been a Credit Project failure.

For more information on reversals, see Section 2.1.9 and Section 2.4.6 of the Conservation Credit System Manual, located on our website at http://sagebrusheco.nv.gov/CCS/Program_Documents.

20. What happens if I sell all or part of my property in the middle of the project term?

A sale of all or part of the property, unless the new owner agrees to take on the remainder of the contract, is considered an intentional reversal. The Credit Project Proponent is responsible to the Administrator for the entire cost of acquiring replacement credits from a different credit site, any associated legal fees, and an additional 10% administrative fee (i.e. contract penalty). If there is a time lag between the intentional reversals and when the Administrator secures new credit contracts, the Administrator will withdraw from the reserve account for a limited duration to prevent any gaps in coverage for sold credits. The credit withdrawal from the reserve account reverts back to the reserve account as credits are acquired to cover the remainder of the contract.

21. Can I put in a pivot or a tower or other structure on my property during the contract term?

While most ranching and farming-related structures are not considered impacts, certain structures are considered harmful and should be avoided (towers, powerlines, etc.), lest it count as an intentional reversal and the invalidated credits would need to be recovered by the project proponent. Center pivots are also not allowed to be included within the boundary of a CCS project due to the attraction of predators. The list of additional structures that are considered anthropogenic disturbances is located in the Conservation Credit System User's Guide, located on our website at http://sagebrushhco.nv.gov/CCS/Program_Documents.

22. A mine has moved in near my property. Now what?

There may be cases where verification shows that competing land uses on sites adjacent to enrolled credit project sites have occurred. These occurrences are out of the direct control of the Credit Project Proponent. Therefore in cases of unintentional reversals on private lands due to impacts from adjacent sites, credits which have been sold and are invalidated by those activities will be not be invalidated for the credit producer, but will instead be required to be replaced by the debit project proponent prorated for the remaining term. Credits which have been entered into the system and are awaiting sale (i.e. have a signed management plan) and are invalidated will be replaced by the public lands reserve account at the time of sale. If the SEC is made aware of impacts occurring from adjacent sites which are not required to mitigate (i.e. private land), reserve credits from private lands will be used to offset those impacts.

23. A mine has purchased the mineral rights on my property and wants to lease the land. Now what?

In the case of an unintentional reversal due to competing land uses on-site, such as split estate minerals development, the Administrator will withdraw credits from the reserve account to cover the invalidated credits at no additional cost to the Credit Project Proponent. Similar to the policies described for force majeure events, if the impact of the competing land use reduces credit generation on a credit site, payments are reduced according to the amount of credits

actually being generated. The Administrator uses the remaining funds in the project site's financial instrument to purchase credits elsewhere to the extent feasible. If the impact of the competing land use results in the credit site not being able to generate or maintain credits as expected, the contract can be canceled without penalties. If the contract is canceled, payments to the Credit Project Proponent cease immediately and the Administrator uses the remaining amount in the project site's financial instrument to acquire credits from a different credit site.

24. Can I work with a Debit Project to generate credits?

Yes. A landowner may work with a Debit Project Proponent prior to entering land into the CCS. A Debit Project Proponent may offer to pay for the quantification of credits, or the landowner may offer a discount for a promised sale. The negotiations are private and up to the landowner and the Debit Project Proponent.

25. Can I generate credits on public lands? What type of projects can go on public lands?

If you are a debit project that will be directly using and not selling the developed credits, then yes, credits can be developed on public lands. Credits can be generated by removing unused anthropogenic disturbances, removing invasive pinyon/juniper trees, or enhancing meadows. For more information on developing credits on public lands, see Section 2.3.5 and Section 2.3.6 of the Conservation Credit System Manual, located on our website at http://sagebrushco.nv.gov/CCS/Program_Documents.