

# Wildfires Burn Carbon Offsets

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The Western United States is in the middle of one of the biggest wildfire seasons to date. Not only have these wildfires significantly impacted surrounding communities and ecosystems, but they have threatened carbon offset projects. As forest owners grapple with these fires, they also may need to contend with reporting requirements, a re-accounting of the carbon offsets, and additional reporting to offset registries and the California Air Resources Board (CARB).

For example, in Central Oregon, the Lionshead Fire burned approximately 190,000 acres of forest. The Confederated Tribes of Warm Springs owned 24,000 of the 190,000 acres that burned and operated the forest as a carbon offset project. California previously issued more than 2.6 million offset credits for the carbon stored in those 24,000 acres. However, now that there are no longer trees to sequester carbon, the offsets from that forest are no longer viable. This is just one example of the impact that this year's fires are having on forest carbon offset projects across the American West.

## **Immediate Reporting Requirements for Forest Offset Project Operators**

Under forest carbon offset methodologies, including those approved under California's Cap-and-Trade Regulation, if an unintentional reversal, such as a wildfire, occurs, then the

project operator must provide the CARB and the Offset Project Registry with written notice of the reversal. They must provide an explanation for the nature of the unintentional reversal within 30 calendar days of its discovery. The project operator also must complete a verified estimate of current carbon stocks within the offset project boundary within 23 months of the unintentional reversal, again reporting that data to the relevant registry and CARB. Failure to comply with these reporting requirements can risk the imposition of penalties by CARB.

### **CARB Re-accounting**

Prevailing offset methodologies—including compliance methodologies approved by CARB—employ a Forest Buffer Account to act as a reserve of offset credits that is deployed in situations when offset credits that were previously issued are later unintentionally “reversed”, resulting in a release of that carbon back into the atmosphere. Reversals may occur for a number of reasons, including pest infestations and wildfires.

If CARB (or the registry, for non-compliance projects) concludes that an unintentional reversal occurred, and it has already issued offset credits to the offset project, then CARB or the relevant registry will withdraw an appropriate number of credits from the Forest Buffer Account. In this way, the Forest Buffer Account acts as an insurance policy against losses from natural disasters. When projects are initially registered, they conduct an analysis based on the localized risk of reversal and contribute a percentage of offsets issued from the project into the Forest Buffer Account, with the idea that these contributions will, in

whole, balance out any reversals that occur across all forest offset projects. This year's unprecedented fires are putting that concept to the test.

Currently, the Forest Buffer Account has roughly 25 million credits. In the context of the Lionshead Fire, if the fire burns all 24,000 acres of the Confederated Tribes of Warm Springs' forest offset project, then CARB would need to withdraw 2.6 million credits from the buffer account. That consists of approximately 10% of the current Forest Buffer Account expended, for a single fire and a single project.

### **Broader Impacts**

If wildfires like the Lionshead Fire continue to consume large swaths of forest land, carbon offset project owners have the additional requirement of reporting any losses to CARB. Additionally, wildfires could potentially have long term impacts on the carbon offset accounting scheme, leading to a reassessment of the risks wildfires pose to a given carbon offset project. Will this ultimately result in changes to the way that CARB and offset registries manage their forest buffer accounts? Only time will tell. But in the meantime, the fires burn on.

*Beveridge & Diamond's Air and Climate Change practice group helps clients navigate all aspects of carbon markets and climate change programs, including forest offset projects and compliance with California's cap and trade program rules. For more information, contact the authors.*

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