

To: California Air Resources Board (CARB) Staff

Date: March 6, 2026

CC: Chair Lauren Sanchez, Executive Officer Steven Cliff, Emily Wimberger, Chief of Staff to Chair Sanchez, and Board members

Thank you for the opportunity to comment on the Board's Cap and Invest Regulatory proposal. The purpose of our comments is to highlight the opportunity California has to support the continued development of high quality and impactful carbon offset projects and to underscore the importance of taking immediate action to modernize and update compliance offset protocols in California and elsewhere.

INTRODUCTION

Chestnut Carbon is dedicated to advancing nature-based climate solutions by developing and implementing high-integrity carbon offset projects. As a recognized project developer committed to rigorous standards and best practices in the carbon market with experience in Improved Forest Management (compliance and voluntary) and Afforestation, Reforestation and Revegetation (ARR), we bring extensive experience navigating protocol requirements and addressing measurement, reporting, and verification (MRV) challenges. Our interest in this issue stems from the belief that robust, science-based compliance offset protocols are essential for unlocking the full potential of private sector contributions to California's ambitious climate mitigation goals. This background uniquely positions Chestnut Carbon to contribute a valuable perspective on the development and improvement of compliance offset protocols.

The California State Legislature gave significant direction in the Cap and Invest reauthorization legislation to encourage the development of effective, transparent, and verified offset projects to meet the State's climate goals. As discussed below, Assembly Bill 1207 recognized that there is a need to use offset protocols to achieve the State's carbon neutrality goal, but also to support critical natural and working lands needs, including supporting sustainable agricultural practices, improving both water and air quality, supporting healthy forests and urban greening, and achieving nature-based climate solutions that are needed to sequester carbon.

Unfortunately, we are concerned that a business-as-usual approach to updating offset protocols will be insufficient to achieve the important needs in California. As explained below, it is our view that CARB needs to act urgently and with purpose to tackle important changes to the offset protocol process to sustain the State's leadership in thoughtful and effective carbon removal solutions. As CARB begins the processes laid out by the Legislature, staff should consider two important guiding principles in doing this work.

First, the work should be guided by science, not existing processes. There have been many advances in offset project development, in the voluntary market, as well as technology improvements related to forest monitoring that could, and should, be incorporated into the

approval process in California to make it faster and easier for protocols to be approved, thus allowing for more rapid deployment of carbon removal. Second, CARB's ambition should be consistent with the statutory targets. For the State to achieve carbon neutrality by 2045, it needs to ensure that the State experiences Direct Environmental Benefits and it needs to ensure reductions in anthropogenic emissions. All of those directions mean that offset protocols will continue to be an important part of the overall climate strategy, but if they cannot be developed and deployed quickly and at the appropriate scale, they will fail to meet the goals laid out in the statutes. As a result, staff should look for ways to improve the compliance offset protocol process to achieve the targets.

PROCESS RECOMMENDATIONS FOR ADDRESSING THE LEGISLATIVE GOALS

In order to begin incorporating new science and progress, as well as moving with the appropriate urgency, we request that CARB staff include in the resolution adopting the Cap and Invest amendments a proposed timeline for implementing Legislative direction regarding offset protocols. As CARB's recent natural and working lands inventory showed, nature-based solutions are a critical tool for meeting California's mandate to achieve carbon neutrality by 2045. The sooner the offset protocol review processes are commenced; the sooner private investment will be unlocked at scale to achieve significant greenhouse gas reductions by 2045.

Legislative direction compels CARB to immediately improve Compliance Offset Protocols. Both Cap and Invest reauthorization bills, Assembly Bill 1207 and Senate Bill 840, gave CARB significant direction to increase ambition for removing carbon through nature-based solutions. These bills directed CARB to increase opportunities for new types of offset protocols, examine ways to modernize offset protocols to ensure that they reflect the latest science, and to convene a Compliance Offset Protocol Task Force to provide for robust collaboration on these complex issues. CARB should begin these processes as soon as practicable.

First, Senate Bill 840 requires immediate action. Specifically, CARB is required to conduct a study that would evaluate the contribution of offset projects towards California's climate goals, evaluate the potential for changes to the definition of "direct environmental benefits in the state", recommend how instate offset projects could be more attractive for development, and recommend alternative valuation methodologies or criteria for instate offset projects that support the State's nature-based climate solutions targets. (Cal. Health and Safety Code section 38562.3.)

We encourage the work to begin on an expedited and administratively feasible timeline. CARB's mandate is to update all existing compliance offset protocols to ensure that they reflect the best available science, academic research, crediting mechanisms, and best practices by January 1, 2029. (Health and Safety Code section 38562.3.) This work will set the stage for immediate introspection on the current state of offset protocols and begin to consider how to develop

opportunities for improvement in both the scope of potential offset protocols and the process for developing those protocols.

Second, Assembly Bill 1207 provides substantial substantive direction for what CARB needs to consider to modernize the Compliance Offset program going forward. Specifically, AB 1207, directs CARB to “[d]evelop approaches to increase offset projects in the state considering guidance provided by the Compliance Offsets Protocol Task Force, established pursuant to Section 38591.1.” Cal. Health and Safety Code section 38562 (c) (2)(F). This direction includes considering the development of additional compliance offset protocols to address sectors that are not covered by the current market-based compliance mechanism but are identified in the scoping plan as necessary to achieve climate targets, including nature-based solutions targets. (Cal. Health and Safety Code section 38562(H).) AB 1207 explicitly recognized the importance of ensuring that the cap and invest program supports key climate goals, including sustainable agricultural practices, water efficiency, and improved air quality, healthy forests and urban greening, and nature-based climate solutions, as defined in Health and Safety code Section 38561.5. (Health and Safety Code section 38590.1. (a).)

The need for nature-based solutions is particularly critical. In 2024, the Legislature directed the Natural Resources Agency (CNRA) and CARB to develop nature-based solutions targets to harness the opportunity to use natural and working lands to sequester carbon and achieve the state’s climate targets. (Cal. Health and Safety Code section 38561.5.) CNRA and CARB engaged in an extensive science-based stakeholder process to develop nature-based solutions targets.

<https://resources.ca.gov/-/media/CNRA-Website/Files/Initiatives/Expanding-Nature-Based-Solutions/Californias-NBS-Climate-Targets-2024.pdf>

These targets cannot be achieved with public funds alone, and creating the right incentives to draw in private capital is paramount. We emphasize that mobilizing private capital can and must occur alongside strong integrity safeguards, transparent governance, and continued prioritization of direct environmental benefits to California communities. Now that the Legislature has confirmed that Cap and Invest will remain a pillar of California’s climate ambition, this is a perfect time to expeditiously update the Compliance Offsets Protocol process to encourage and incentivize investment in a broader array of nature-based carbon removal solutions.

To accomplish this goal, the Legislature emphasized the importance of a participatory process. AB 1207 directed the formation of the Compliance Offsets Protocol Task Force to provide guidance to CARB in approving new offset protocols for the purposes of increasing offset projects with direct environmental benefits in the State “while prioritizing disadvantaged communities, Native American or tribal lands, and rural and agricultural regions.” (Cal. Health and Safety Code section 38591.1.) It is CARB’s responsibility to appoint members to the

Compliance Offsets Protocol Task Force to include a representative from a broad range of stakeholders. The Task Force will play a critical role in helping CARB modernize the compliance offset protocols. As a project developer committed to transparency and continuous improvement, Chestnut Carbon supports a Task Force process that is inclusive, evidence-based, and oriented toward durable climate outcomes.

The Legislature clearly understood the importance of ensuring the opportunity for more offset protocols that could reap the full suite of potential benefits of nature-based carbon removal. The legislation specifically called out “protocols for the enhanced management or conservation of agricultural and natural lands, and for the enhancement and restoration of wetlands.” The Legislation further mandated the Task Force to develop recommendations “on the inclusion of methodologies to allow groups of landowners to jointly develop natural and working lands offset projects under the approved offset protocols.” (Cal. Health and Safety Code section 38591.1.)

Importantly, the Legislature recognized the benefits of making the offset protocol process more accessible. The legislation explicitly mandated that the Task Force make recommendations to “address how to lower project transaction costs for participants and enable a greater number of landowners to participate in those projects while protecting the integrity and transparency of those projects.” (Cal. Health and Safety Code section 38591.1) In keeping with an abundance mindset, the Legislators were clear eyed in their goal that the development of a broader suite of offset protocols should address the need for these protocols to be easier to develop, easier to attract investment, and unlock the potential for simpler monitoring, reporting, and verification processes that still protect the integrity of the carbon removal project.

We suggest that one way to elevate these critical state goals early in the process is to run some modeling that might help indicate what a successful nature-based program would look like in terms of the number and size of carbon projects as well as what clearing prices are required for the market to support this scale. Staff can use that modeling to analyze what potential project development could be achieved in California. That could be an actionable first step CARB could conduct immediately. The resulting data could help effectively orient the Task Force towards finding solutions to project development barriers.

REQUEST FOR FURTHER REVIEW OF THE CURRENT PROPOSED AMENDMENTS

We are optimistic that if CARB acts immediately to begin this complex process, it will reap significant benefits for California. That said, we maintain some concerns about several of the proposed procedural amendments in the current regulatory proposal related to offsets. We request staff to review those changes once more in light of the Legislative direction and consider whether those changes will effectively encourage the development of more projects in California. For instance, we were surprised to see the removal of remote sensing as an option for alternative methods. While we agree that remote sensing should only be used if feasible,

there have been many technological and data product updates over the last several years that could make this approach economical and applicable for MRV. The deletion of remote sensing and its categorization as an alternative method sends the wrong market signal - essentially conveying a message that bringing forth new technological developments is discouraged and should be referred to an uncertain approval process.

Without a clearer definition of what remote sensing would require additional approvals and what would be permitted, the amendment lacks sufficient clarity. Staff should review these changes with fresh eyes to ensure that they are not unintentionally limiting the opportunity for DEBs in California.

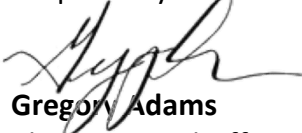
SUMMARY

What we have outlined above will be detailed and time-intensive work. The benefits of updating both the approval process and science for compliance offset protocols cannot be achieved unless this work begins as soon as practicable. We request that staff specifically state in the resolution the anticipated time frame and process for selecting the Task Force members, how the Task Force will be staffed, and the timeframe for beginning the substantive work directed by the Legislature.

We acknowledge that at times Legislative deadlines can be difficult for administrative agencies to meet. In this case, however, the benefits of this work need to start as soon as possible. There is no time to waste in meeting the 2045 mandate to achieve carbon neutrality. This is an example where immediate administrative activity can result in a host of new offset protocol development that will attract meaningful capital to projects with direct benefits to Californians. A modernized and updated offset protocol framework can build on the successes of the existing program and bring those increased direct benefits to life - including improved forest health, wildfire mitigation, cleaner air and water, sustainable agriculture and land management projects that incorporate cultural land practices, wetlands restoration and other new opportunities for verified carbon removal in the State.

We urge the Board to provide clear and specific direction in the resolution adopting the Cap and Invest Program regulatory amendments ensuring that staff begins the process of complying with these Legislative mandates as soon as possible. We are eager to work together to make a lasting impact and achieve significant climate benefits.

Respectfully submitted,



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