

NON-PERMANENCE RISK REPORT



Blue Source LLC

Project Title	Bethlehem Authority IFM
Version	5.0
Date of Issue	August 8, 2014
Project ID	1060
Monitoring Period	01-01-2013 to 31-12-2013
Prepared By	Blue Source LLC
Contact	1935 E. Vine Street, Suite 300, Murray, UT 84121

1 INTERNAL RISK

Project Management		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a) Species Planted	Planting within the project area will not be extensive and all species planted will be native or proven to be adapted to the same or similar agro-ecological zone(s) in which the project is located. Additionally, the Pennsylvania Department of Conservation and Natural Resources (DCNR) will approve all planted trees species.	0
b) Ongoing Enforcement	No history of illegal activities exists in the region. No supplemental enforcement is required to protect forests within the project area.	0
c) Management Team	The management team has significant experience conducting forest carbon projects and possesses the skills necessary to successfully undertake all project activities. Blue Source been involved in carbon project development since 2002 and has staff with expertise in all areas of forest project development. Staff capabilities include: project evaluation, project description document drafting, geospatial analysis, carbon modeling, forest mensuration, project financial analysis, and ghg offset marketing. TNC is an internationally respected NGO that has been active in environmental management for over 60 year. TNC's Pennsylvania chapter has a staff of qualified natural resource managers and is responsible for Pennsylvania's Working Woodlands forest conservation program designed to protect the states forests while improving private forest management, providing revenue for forest landowners, and fighting climate change. Woodland Management Services (WMS) specializes in forest management, timberland investment, and land conservation services. WMS staff holds professional degrees in Forestry, Environmental Management, Biology, and Environmental Studies, and collectively bring 45 years of forest management experience to the organization.	0
d) Management Team Location	All three organizations comprising the management team have offices in the US and both TNC and WMS have offices in the vicinity of the project area. WMS - 308 Egypt Road, Tafton, PA 18464 TNC - Hauser Nature Center, Long Pond Road, Long Pond, PA 18334	0
e) Mitigation: AFOLU/Carbon expertise	Blue Source has deep experience in forest carbon project development and has more publicly registered third-party verified GHG offsets than any other company in North America. TNC has a long history working with forest based carbon projects and has been the Project Proponent for two of the four VCS AFOLU projects to be completed in the US to date. A list of Blue Source and TNC carbon projects has been provided separately for verification purposes¹.	-2

¹ See BlueSoucre_TNC_ProjectList.xlsx

f) Mitigation: Adaptive Management Plan	The project's Adaptive Management Plan outlines the various processes associated with addressing issues to forest health on Bethlehem Authority lands. Processes include: 1) risk assessment and prioritization; 2) identification and implementation of risk mitigation actions; 3) risk monitoring; and 4) feeding monitoring information back into planning and implementation. Forest health based management activities are carried out year round and are predicated on changing circumstances within the project area. <i>[The Adaptive Management Plan is provided separately for validation and verification purposes (see Management folder)]</i>	-2
Total Project Management (PM) [as applicable, (a + b + c + d + e + f)] Total may be less than zero.		-4

Financial Viability		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	Project cash flow breakeven point is greater than 10 years from the current risk assessment	N/A
b)	Project cash flow breakeven point is between 7 and up to 10 years from the current risk assessment	N/A
c)	Project cash flow breakeven point between 4 and up to 7 years from the current risk assessment	N/A
d)	Project cash flow breakeven point is less than 4 years from the current risk assessment. Based on the cash flow analysis provided for validation and verification purposes (See the RiskTool_Financials_2013_updated2, <i>Breakeven</i> tab in the <i>Calculations</i> folder), the Bethlehem IFM project achieved breakeven in year one. Forest carbon offset prices were based on Blue Source's pre-existing sales agreements and the Forest Trends' <i>State of the Carbon Market 2013</i>². Data on stumpage prices for pulp and timber was retrieved through a request to the Penn State Extension covering the Southeastern region of Pennsylvania since 1992. Stumpage price trends were adjusted for inflation using data from the consumer price index. An average stumpage price for hardwoods as well as softwood was calculated and weighted based on the unique harvest mix by volume of timber species from the property analysed including both timber tracks, Wild Creek and Tunkhannock. The property's hardwood timber species mix consisted of 57% oak species, 11% cherry, 1% ash, 23 % maple, and 8% other hardwoods. Hardwoods made up 67% of the timber while softwoods contributed another 36% of the timber. For this unique timber mix, the real stumpage prices adjusted for inflation fell by an average of -1.1% per year from 1992-2012. This decrease in real stumpage prices from a 20-year dataset was projected into the future for the next 100 years. The average 2012 stumpage price for the property's hardwood and softwood mix was \$329 per thousand board feet (mbf) and \$72 per mbf, respectively. As the local	0

² <http://www.forest-trends.org/documents/files/SOFCM-full-report.pdf>

	estimates consider around 54% of the current timber in the pallet/tie log class at an estimated stumpage price of \$69 per mbf, the adjusted average stumpage value for all qualities and hardwood species equalled \$189 per mbf. Hardwood pulpwood was converted from cubic feet to green short tons at a rate of 51 pounds/cubic foot based on the average density of hardwoods in the Northeast (USDA 2008). An average pulp stumpage price at \$2 per green short ton in 2012 based on Pennsylvania-specific data from Penn State Extension was assumed. Management costs, estimated at \$50 per mbf, were obtained from property management staff. The property has a good internal road network which would not create any extraordinary costs of access or infrastructure beyond what would be included in the management costs. The real discount rate was set at 5% resulting in a nominal discount rate of around 7.5% which is a conservative estimate as it only slightly above the average 10-year US Treasury rate since 1992 of 4.93% and would therefore only includes a low risk premium.	
e)	Project has secured less than 15% of funding needed to cover the total cash out before the project reaches breakeven	N/A
f)	Project has secured 15% to less than 40% of funding needed to cover the total cash out required before the project reaches breakeven	N/A
g)	Project secured 61% (\$75,932) of funding needed to cover the total cash out required before the project achieved breakeven. At this point breakeven has already been reached.	1
h)	Project has secured 80% or more of funding needed to cover the total cash out before the project reaches breakeven. Blue Source and The Nature Conservancy have supplied sufficient funding to cover all project costs prior to breakeven.	N/A
i)	Mitigation: Project has available as callable financial resources at least 50% of total cash out before project reaches breakeven.	N/A
Total Financial Viability (FV) [as applicable, ((a, b, c or d) + (e, f, g or h) + i)] Total may not be less than zero.		1

Opportunity Cost		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	NPV from the most profitable alternative land use activity is expected to be at least 100% more than that associated with project activities; or where baseline activities are subsistence-driven, net positive community impacts are not demonstrated	N/A
b)	NPV from the most profitable alternative land use activity is expected to be between 50% and up to 100% more than from project activities	N/A
c)	NPV from the most profitable alternative land use activity is expected to be between 20% and up to 50% more than from project activities	N/A
d)	At \$4,061,318, NPV (5% discount rate) from the Legal Common Practice	0

	Baseline is projected to be 7% greater than the NPV from Project Activities (\$3,804,067). (See RiskTool_Financials_2013_updated4, <i>Opportunity_Cost</i> tab in the <i>Calculations</i> folder provided for validation and verification purposes).	
e)	NPV from project activities is expected to be between 20% and up to 50% more profitable than the most profitable alternative land use activity	N/A
f)	NPV from project activities is expected to be at least 50% more profitable than the most profitable alternative land use activity	N/A
g)	Mitigation: Project proponent is a non-profit organization	N/A
h)	Mitigation: The project is protected by a legally binding easement, committing the land owner to continue management practices that protect the credited carbon stocks over the length of the project crediting period	N/A
i)	Mitigation: Project is protected by legally binding commitment to continue management practices that protect the credited carbon stocks over at least 100 years	N/A
Total Opportunity Cost (OC) [as applicable, (a, b, c, d, e or f) + (g or h)] Total may not be less than 0.		0

Project Longevity		
a)	Without legal agreement or requirement to continue the management practice	$24 - (100/5) = 4$
b)	With legal agreement or requirement to continue the management practice	N/A
Total Project Longevity (PL) May not be less than zero		4

Internal Risk	
Total Internal Risk (PM + FV + OC + PL) Total may not be less than zero.	$(-4+1+0+4) = 1$

2 EXTERNAL RISKS

Land Ownership and Resource Access/Use Rights		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a) Ownership	The Bethlehem Authority holds both ownership rights and resource access/use rights.	0
b)	Ownership and resource access/use rights are held by different entity(s) (e.g. land is government owned and the project proponent holds a lease or concession)	N/A
c)	No disputes over land tenure or ownership exist on the project area.	0
d)	No disputes over access/use rights exist on the project area.	0

e) Mitigation: Legal commitment	The Project area is protected by a legally binding easement requiring the continuation of management practices that protect carbon stocks over the length of the project crediting period	N/A
f)	Mitigation: Where disputes over land tenure, ownership or access/use rights exist, documented evidence is provided that projects have implemented activities to resolve the disputes or clarify overlapping claims	N/A
Total Land Tenure (LT) [as applicable, ((a or b) + c + d + e+ f)] Total may not be less than zero.		0

Community Engagement		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	Less than 50 percent of households living within the project area who are reliant on the project area, have been consulted (No households are located within the project area)	N/A
b)	Less than 20 percent of households living within 20 km of the project boundary outside the project area, and who are reliant on the project area, have been consulted. This is because there are no households living within 20 km of the project boundary that are reliant on the project area.	N/A
c)	Mitigation: The project generates net positive impacts on the social and economic well-being of the local communities who derive livelihoods from the project area	0
Total Community Engagement (CE) [where applicable, (a+b+c)] Total may be less than zero.		0

Political Risk																				
Risk Factor	Risk Factor and/or Mitigation Description			Risk Rating																
a)	Governance score of less than -0.79			N/A																
b)	Governance score of -0.79 to less than -0.32			N/A																
c)	Governance score of -0.32 to less than 0.19			N/A																
d)	Governance score of 0.19 to less than 0.82			N/A																
e)	The average World Governance Indices (WGI) score for the United States, based on the WGI's six governance categories, for 2008-2012 = 1.23			0																
<table><tr><th colspan="4">Average Combined Ranking for all 6 WGI Categories</th></tr><tr><th>Year</th><th>Percentile Rank</th><th>Governance Score</th><th>5-year Average Governance Score</th></tr><tr><td>2012</td><td>85.57</td><td>1.25</td><td>1.23</td></tr><tr><td>2011</td><td>84.50</td><td>1.23</td><td></td></tr></table>					Average Combined Ranking for all 6 WGI Categories				Year	Percentile Rank	Governance Score	5-year Average Governance Score	2012	85.57	1.25	1.23	2011	84.50	1.23	
Average Combined Ranking for all 6 WGI Categories																				
Year	Percentile Rank	Governance Score	5-year Average Governance Score																	
2012	85.57	1.25	1.23																	
2011	84.50	1.23																		

		2010	83.71	1.20		
		2009	83.12	1.18		
		2008	85.49	1.28		
f) Mitigation per sec. 2.3.3	The U.S. has an established FSC standard body. This qualifies the project for a mitigation deduction based on 2.3.3. d)					-2
Total Political (PC) [as applicable ((a, b, c, d or e) + f)] Total may not be less than zero.						0

External Risk	
Total External Risk (LT + CE + PC) Total may not be less than zero.	(0+0+0) = 0

3 NATURAL RISKS

Natural Risk - Fire	
Significance	Minor – Over the last century, no more 4% of Pennsylvania’s forests have been exposed to fire damage in a single year and over the last 50 years human fire prevention efforts have kept fire outbreaks far below historic levels (no more than 1% of PA’s forests have been exposed to fire in a single year since 1952) ³ . Fire records provided by the Pennsylvania Bureau of Forestry for Carbon and Monroe Counties ⁴ (the counties in which the BA property is located) further support this risk significance determination. The Bureau’s wildfire data, dating back to 1979, reveals that no fire has impacted an area larger than 1,169 acres (an area equal to 6.5% of the BA project) in the last three decades. The average total acreage burned in any single year during the same period was only 436 acres (an area equal to ~2.4% of the BA project).
Likelihood	Every 25 to 50 years (This is conservatively chosen, in lieu of every 50 to 100 years, as the reduced number of fires in recent decades have led to higher than average fuel load within PA forest understories. Though large-scale fires are not likely to occur, this fuel load increases the potential of a fire event in the future.)
Score (LS)	1
Mitigation	0.5 – The Pennsylvania Bureau of Forestry has an active professional fire crew responsible for suppressing forest fires throughout the region. There have been extensive fire breaks and road networks installed on all lands in and around the BA

³ http://www.dcnr.state.pa.us/ucmprd1/groups/public/documents/document/dcnr_004230.pdf

⁴ Wildfire dataset provided by Richard Dreppen, Assistant Manager of the William Penn Forest District for the Pennsylvania Bureau of Forestry

	properties and the Bureau of Forestry, Game Commission and TNC are integrated for suppression. Working with the PA Game Commission, TNC has been managing the barrens surrounding the project area with prescribed fire to deplete fuel load and greatly reduces wildfire risk. Additionally, a detailed wildfire response plan is currently under development by TNC for the entire project area.
--	--

Natural Risk - Pest and Disease outbreaks	
Significance	Major - Beech bark disease, gypsy moth, and hemlock wooly adelgid have been sporadically present within the project region since the early 1980s. Beech bark disease has had an impact in many of the northern hardwood species, resulting in crown dieback, and some mortality. Gypsy moth caterpillars have periodically exhibited population explosions, which stress the oak forests of the region. Though hemlock wooly adelgid has caused significant damage in the northeastern US in recent decades, it is not currently established on the Bethlehem property and poses only modest threat to the carbon project as hemlocks represent only 3% of the Bethlehem's forest population. Emerald ash borer has decimated ash communities in other areas of the northeast, however its presence in Pennsylvania is largely confined to the western portion of the state and it has never been encountered on the Bethlehem Property. In the circumstance that the ash borer did reach Bethlehem it would pose little threat to the carbon project as ash species represent less than one third of a percent of Bethlehem's forest population. Asian longhorn beetle has been of major concern to northeastern forest owners since its introduction in 1996, but it is not found in the state of Pennsylvania. If the beetle does manage to enter the state, the Department of Agriculture has plans to partner with the U.S. Department of Agriculture Animal and Plant Health Inspection Service's Plant Protection and Quarantine division and the U.S. Forest Service to implement a full-scale eradication program.
Likelihood	Every 10 to 25 years
Score (LS)	5
Mitigation	0.25 – Both TNC and Woodland Management Services (WMS) have a proven history dealing with forest pests and disease mitigation. Throughout the project inventory, notes were taken at high conservation value plots defining plot condition in relation to forest stressors. Sites of concern will be regularly monitored to promote improved health and insure conditions do not worsen. As is stated in the project Forest Management Plan, an adaptive approach involving the use of FSC approved pesticides will be implemented to prevent pest/disease outbreak. <i>[The Forest Management Plan is provided separately for validation and verification purposes]</i>

Natural Risk - Extreme Weather	
Significance	Minor – Hurricane's rarely hit Pennsylvania with enough force to cause significant

	tree mortality. According to the National Oceanic and Atmospheric Administration (NOAA) only one “level rated” hurricane has directly hit PA since 1851 ⁵ . Tornadoes do strike PA with some regularity, but academic research has shown that the highest-powered tornadoes in the region do not typically cause tree mortality above 32% to forests directly within a tornado's path ⁶ . Studies of ice storm impacts in the northeastern United States reveal that ice storms occur in the region ~twice a century. Unlike hurricanes and tornadoes, ice storms do not cause significant tree blow-down, instead they tend to damage tree crowns, an injury that doesn't typically lead to mortality unless total crown damage is >50% ⁷ .
Likelihood	Every 25 to 50 years
Score (LS)	1
Mitigation	1

Natural Risk – Geological Risk	
Significance	Insignificant - No major volcanic activity has occurred in Pennsylvania in >200 million years, and earthquakes powerful enough to cause significant forest mortality are absent in the region ⁸ .
Likelihood	Once every 100 years or more
Score (LS)	0
Mitigation	1

Natural Risk – Other Risk	
Significance	No Loss – No other natural risks are of serious concern to the project area.
Likelihood	N/A
Score (LS)	0
Mitigation	1

Score for each natural risk applicable to the project (Determined by (LS × M))	
Fire (F)	1*0.5 = 0.5

⁵ <http://www.aoml.noaa.gov/hrd/tcfaq/E19.html>

⁶ Peterson, Chris J. *Damage and recovery of tree species after two different tornadoes in the same old growth forest: a comparison of infrequent wind disturbances*. Forest Ecology and Management. Volume 135, Issues 1–3, 15 September 2000, Pages 237–252

⁷ http://www.nrs.fs.fed.us/pubs/gtr/gtr_nrs60.pdf

⁸ Personal communication with Helen Delano, Sr. Geologic Scientist, PA Department of Conservation and Natural Resources

Pest and Disease Outbreaks (PD)	$5 \times 0.25 = 1.25$
Extreme Weather (W)	$1 \times 1 = 1$
Geological Risk (G)	$0 \times 1 = 0$
Other natural risk (ON)	$0 \times 1 = 0$
Total Natural Risk (as applicable, F + PD + W + G + ON)	2.75

4 OVERALL NON-PERMANENCE RISK RATING AND BUFFER DETERMINATION

4.1 Overall Risk Rating

Risk Category	Rating
a) Internal Risk	1
b) External Risk	0
c) Natural Risk	2.75
Overall Risk Rating (a + b + c)	4

4.2 Calculation of Total VCUs

At the minimum risk rating of 10, for the 1/1/2013 – 12/31/2013 reporting period, a total of 3,513 credits will be deposited in the AFOLU pooled buffer based strictly on the change in carbon stocks. This results in a total project issuance of 24,589 VCUs prior to any buffer reimbursement.