



Oregon

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February 23, 2010

MEMORANDUM

TO: Oregon Watershed Enhancement Board

FROM: Tom Byler, Executive Director
Renee Davis-Born, Ecosystem Services Coordinator

**SUBJECT: Agenda Item J: Ecosystem Services Update
March 16-17, 2010 OWEB Board Meeting**

I. Introduction

This report provides updates about two ecosystem services initiatives: OWEB's Ecosystem Services LLC research contract and the Senate Bill 513 Ecosystem Services Markets Working Group. The report also briefs the Board on a request to develop a legislative concept placeholder on behalf of the Senate Bill 513 Ecosystem Services Markets Working Group.

II. OWEB Research Project on Ecosystem Services

In August 2009, OWEB contracted with Ecosystem Services LLC (ESS) and Ecotrust to investigate how traditional OWEB restoration and acquisition projects may provide ecosystem services and how these investments may converge with ecosystem services markets. This contract is supported by Research non-capital funds approved by the Board in March 2009 for an Ecosystem Services Module within the agency's Research Program. The contract's scope focuses on carbon-offset ecosystem services, but takes into account co-benefit ecosystem services that result from carbon-related projects.

The research project includes three phases of work:

1. Phase I – Identify current ecosystem services markets and potentially eligible OWEB funded projects that have carbon-offset and co-benefit ecosystem services.
2. Phase II – Evaluate the market opportunities for ecosystem services credits emerging from OWEB funded projects.
3. Phase III – Develop up to two pilot projects, focused on carbon offsets and co-benefit ecosystem services, for market transactions.

As reported at the January 2010 Board meeting, Phase I is complete and consisted of a historical survey of past OWEB projects and their potential carbon offset and co-benefit ecosystem services values. Estimates of carbon sequestration levels for subset of restoration and acquisition projects were presented at that meeting.

Phase II, which is underway, evaluates potential market opportunities for OWEB funded projects. ESS is developing an overview of current and emerging markets for carbon offsets and co-benefit ecosystem service credits, and the requirements of these markets (e.g., standards, monitoring requirements, etc.). The contractor has completed a survey of all members of the “supply chain,” ranging from those owning land necessary for sequestration of carbon and those involved in project design and support, to those who purchase carbon offsets. The intent of the survey is to better understand the maturity of the supply chain for ecosystem markets in Oregon and more broadly, the types of restoration and conservation projects that are most promising from a market perspective, potential barriers to project development, and information and resources that are necessary for a project to result in successful carbon transactions. Highlights of the survey findings include:

- There exists a fairly well developed supply chain that is eager and prepared to advance ecosystem services markets in Oregon.
- Survey participants identified potential OWEB-type projects that could be marketed with multiple ecosystem services projects to take advantage of outcomes in fish habitat, biodiversity, stream protection, and forest carbon.
- Those in a position to benefit from an ecosystem marketplace are eager to see its development, but expressed a need for guidance on project development and performance criteria. Some respondents expressed a “show me” perspective in terms of the financial bottom line.
- Few forest-carbon projects have been transacted in Oregon, and virtually no soil-carbon projects have been transacted at this time. Wetlands-carbon projects are in their infancy, though this is a sector to watch.
- The economic downturn has affected the carbon-offset and ecosystem services markets, urging caution particularly on the part of landowners and a “wait and see” approach by some project developers and investors.
- Approaches are needed to aggregate ecosystem services that would be provided by multiple, small landowners.

A workshop for representatives from each step within the supply chain will be held March 29-30, 2010, at Silver Falls Conference Center. Participants will share lessons learned from actual transactions for carbon and other ecosystem services, discuss approaches to creating and tools for quantifying ecosystem services, and identify resources and collaborations required to the development of projects that are viable in the marketplace. Several OWEB staff and Board members plan to attend this workshop, along with representatives from watershed councils, soil and water conservation districts, conservation organizations, and land trusts.

Phase III involves the use of pilot projects to demonstrate the steps necessary to create market-ready projects. The forest based carbon pilot is a land acquisition project of nearly 600 acres along the central coast of Oregon. When the transaction is complete, approximately 50 percent of the purchase price will be provided by the sale of carbon offsets generated by changes in forest management on the property. A second pilot concept focuses on soil-based carbon sequestration projects, which would occur in Oregon primarily east of the Cascades. As described at the January 2010 Board meeting, the contractors, in consultation with rangeland scientists and practitioners, have drafted a scoping document that outlines research and

monitoring needed to address unknowns about carbon-sequestration capacity of soils in Oregon and how different rangeland management approaches influence soil-carbon offset potential. In early March, OWEB staff are convening a meeting of representatives from Bureau of Land Management, Environmental Protection Agency, Natural Resources Conservation Service, and U.S. Forest Service to review the draft scope for this pilot concept and identify how the proposed tasks align with Federal agency initiatives and activities.

ESS and Ecotrust will present final results from this research contract to the Board at the June meeting, with the final report due in mid-June 2010.

III. Senate Bill 513 Ecosystem Services Markets Working Group

OWEB is convening and staffing the Ecosystem Services Markets Working Group (Working Group) created as part of Senate Bill 513 (SB 513). At the June 2009 meeting, the Board awarded Research non-capital funds to support the Working Group, which is developing policy recommendations intended to advance the development of integrated ecosystem services markets in Oregon. In addition to the Working Group, which is comprised of individuals who are knowledgeable about and active in improving the ecological effectiveness of ecosystem services markets, an Ad Hoc Group has been convened to advise and help frame policy issues to be addressed by the Working Group.

The Working Group has met three times since December 2009. As mentioned at the January Board meeting, the group has expanded to improve representation of landowners and key federal agencies by adding staff from the Oregon Small Woodlands Association, the Oregon Farm Bureau, and the Army Corps of Engineers. The Working Group has developed a vision statement and completed review of several case studies offered by group members that demonstrate impediments to an ecosystem marketplace that currently exist and areas where agencies and ecosystem marketplace practitioners are making progress. Priority policy areas have been identified to guide the Working Group's deliberations and recommendations; these areas include:

1. Overarching ecological, economic, and integration goals to guide the development of integrated ecosystem services markets in Oregon;
2. Agency processes and interactions to address appropriate roles at local, regional, state and national scales;
3. Public/private financing issues; and
4. Private and government roles in developing standards, methodologies, metrics and tools.

Small subgroups have been formed around each of these policy areas. The subgroups will build upon the case-study experiences and "best practices" information compiled by the Institute for Natural Resources to focus on specific issues that have limited progress toward developing integrated markets. They will articulate opportunities and solutions to address these challenges, including suggestions for policy recommendations, administrative changes and other actions that would be undertaken over the short, medium, and long term.

At the February 17, 2010, meeting of the Working Group, members requested that OWEB submit a legislative concept placeholder on behalf of the group. While there is uncertainty as to whether this vehicle for advancing policy recommendations from the SB 513 process will be necessary, the Working Group prefers to preserve the option in the event that it is appropriate.

Staff recommend in Agenda Item G that the Board approve submission of a placeholder legislative concept related to ecosystem services.

Legislative concepts are due to the Oregon Department of Administrative Services (DAS) by April 9, 2010, with additional substantive or administrative details for placeholder concepts due by July 14, 2010. Staff will report to the Board at the June 2010 meeting on the progress of the Working Group to identify and develop an ecosystem services legislative concept.

IV. Recommendation

This is an informational item. No Board action is requested at this time. Staff will continue to update the Board on the progress of the SB 513 Working Group, including any potential policy recommendations that may be advanced through a legislative concept.