

Reinvest in Minnesota Clean Energy  
Technical Review Committee  
December 13, 2007

Agenda

- 10:00 a.m. Welcome, Updates and Discussion on Work Group Progress  
*Shelley Shreffler, Ron Nargang*  
1) Project Areas Work Group – Draft Application  
2) Land Management Work Group – Combined BMPs
- 11:45 a.m. Contract Structure Update  
*Dean Current*
- 12:15 p.m. Break for lunch (provided)
- 1:00 p.m. Overview of Proposed Payment Structure  
*Steve Taff*
- 1:40 p.m. Payment Structure Small Group Work  
1) Assign practices to tiers (2 groups)  
2) Assign tiers to payment rates (2 groups)
- 2:15 p.m. Break
- 2:30 p.m. Small Groups Report Back and Large Group Discussion  
*Ron Nargang*
- 3:15 p.m. Monitoring and Evaluation  
*Ron Nargang*
- 3:45 p.m. Wrap up, preview of January 10 meeting  
*Ron Nargang*

## Attendance

Committee Chair: Ron Nargang

Committee Members: Greg Anderson, Wayne Anderson, Don Arnosti, Holly Buchanan, Al Doering, Wayne Edgerton, Mary Hanks, Kelly Hogan, Kurt Johnson, Brendan Jordan, Bobby King, Paul Kramer, Larry Kramka, Mark Lindquist, Kyle MacLaury, Robin Martinek, Mike McGrath, Linda Meschke, Craig Mold, Brad Nylin, Thom Peterson, Chris Radatz, Dianne Radermacher, Jon Schnieder, Warren Seykora, Lise Trudeau, Clarence Turner

Board of Soil and Water Resources: John Jaschke, Greg Larson, Kristie Mack

Minnesota Environmental Initiative: Shelley Shreffler, Ellen Gibson

University of Minnesota: Dr. Dean Current, Dr. Steve Taff, RaeLynn Jones

Visitor: Ron Harnack

## Discussion Summary

### **Welcome, Updates and Discussion on Work Group Progress**

*Shelley Shreffler, Ron Nargang*

#### Project Areas Work Group

Work products distributed to TRC members in advance of the meeting: Draft Application, Project Area Selection Process Draft

A project area designation process is one of the two required elements of a RIM Clean Energy program. According to the legislation, the designation process shall prioritize projects that demonstrate:

- Coordinated cooperation with cellulosic biofuels facility or bioenergy production facility
- Target impaired waters, or support other state or local natural resource plans, goals, or objectives

In September, at the first Technical Review Committee meeting, the Project Area work group asked for and received approval from the committee to pursue an RFP application approach to project area designation. The work group has developed a draft framework for this competitive allocation process (Project Area Selection Process draft).

The application is designed to gather information about viability of energy market(s), partners, likelihood of project success (does the fuel being grown match the fuel needed), likely environmental and conservation benefits, and sustainability of project (through on-going monitoring and evaluation). The intention is for the application to be sufficiently detailed and reflect selection criteria that will be used to rank project area applicants, and at the same time be simple and flexible enough to be workable.

Technical Review Committee members are generally comfortable with the format and content of the draft application. The application should not target highly productive soils over less productive agricultural land, but productive land should not be precluded from entering the program.

Suggested additions to improve the document include:

- Requesting a map of the proposed Project Area to be attached to the application
- Attaching links to resources where an applicant can reference maps and data related to soil and wildlife status and priorities
- Including information about any lands within the project area currently enrolled in or coming out of an existing conservation program

Technical Review Committee members ranked a list of possible selection criteria generated by the Project Areas Work Group and expanded through a TRC brainstorming session. (Number of committee member votes received appears in parentheses.) BWSR will use this information to guide the implementation of a project area selection process.

- 1) Measurable impact on public benefits (29)
  - Water quality
  - Hydrological restoration
  - Wildlife habitat
- 2) Likelihood to recruit landowners (25)
- 3) Viable market(s) for biomass (16)
- 4) On-going monitoring plan (environmental benefits, agronomics) (15)
- 5) Adequacy of partners involved (12)

Additional selection criteria identified:

- Suitable and viable biomass supply for market(s)
- Consistency with state or local natural resource plans
- Target sensitive areas
- Project diversity (scale, geography)
- Reduction/offset in greenhouse gas emissions
- Carbon sequestration
- Likelihood of project success
- Economic development opportunities
- Innovation
- Uniqueness
- Diversity of benefits achieved
- Placement of project within portfolio of applicants
- Technical variations among types of biomass facilities
- Level of investment and commitment
- Efficiency of energy generation

*Project Areas Next Steps:* Mark Lindquist will lead the Project Areas Work Group in incorporating this feedback into a revised draft application and project area selection process document.

#### Land Management Work Group

Work products distributed to TRC members in advance of the meeting: Best Management Practices for Bioenergy Production and Harvest; Developing BMPs for Tiered Payment System; Environmental Benefits of Different Cropping Systems

The Best Management Practices for Bioenergy Production and Harvest document combines standards and specifications from two separate documents that were created by the DNR and the U of MN. It also includes a Payment Tier Matrix that was developed to give guidance to the payment structure group as a tiered payment system is drafted. The work of the Land Management group has become closely tied to the work of the Payment Structure group.

Technical Review Committee members gave input on the BMP standards and suggested the following changes/additions:

- Include consideration of landscape cover of adjoining property
- Add information about harvesting in blocks vs. strips
- Include minimum width of strip, if harvested in strips
- Detail benefits of rotational harvest, resting fields between years
- Require an approved rotational grazing plan that preserves public benefits
  - Allowed grazing might provide an added assurance to landowners in case biomass does not sell, could provide a maintenance option for weed control
- Recreational use: determined separately outside of easement contract; payment for allowed hunting access is separate from RIM-CE payment
- Include available scientific data related to biomass yield rates and wildlife habitat needs
- Include findings from DNR task force on Prairie Seed Production and Bioenergy, as appropriate
- Clarify coordination required between type of biomass grown and type of biomass needed for bioenergy facility

The standards should be simple enough to encourage high rates of biomass production. An individual conservation plan for each easement would be used to determine payment rates for specific parcels and would set management requirements. BMP standards can be adjusted over time as ongoing scientific developments reveal changes that should be made.

*Land Management Next Steps:* Feedback from TRC members will be incorporated into a revised BMPs draft and distributed to members of the Land Management work group.

BWSR could create a separate companion document to explain the basis and rationale for the management standards and specs at a later date as part of the implementation process for RIM-CE. As much scientific research to support and justify BMP recommendations should be included (research on workability of biofuel production on working lands, wildlife needs, biomass yields, Forest Resource Council's harvest guidelines for timber, etc.).

### **Contract Structure Update/Focus Group Report**

Researchers at the University of Minnesota conducted focus group interviews to inform development of contract structure guidelines for RIM-CE. Five focus groups were conducted throughout the state of Minnesota to determine desirable contract structure, and to address landowner risk, transaction costs, and landowner needs. Dean Current presented preliminary findings from the focus groups, and highlights are listed below.

Easement priorities for farmers:

- Flexible and simple easements
- Local administration and control over easements
- Mixed feelings about length of easement (20 years) and concerns over land pressures; some say 20-years could be workable if the price is right
- Allowable practices: concerns re: weed control, fertilization, timing and number of harvests, tree planting, wildlife feed plot option

Payment needs:

- Payments must be competitive with row crops, land rent, sale value of land
- 80% – 90% of saleable land value has the most consent; payment should be higher for permanent easement (110% - 125%)
- Bidding system or auction suggested

Other issues:

- Tax issues: real estate tax relief; concern over RIM-CE payment implications for income and property tax
- Opposition to public access; farmers want to maintain control of the land
- Base acres: Crop base determined by USDA, Federal farm program; concern about losing base acres
- Timing of harvest (after August 1): if there is no market for biomass, allowing haying before August 1 and selling product as cattle feed would provide an economic backup/alternative income stream

### **Payment Structure**

Steve Taff presented an updated version of the basic structure that would allow landowners and program administrators to easily calculate payments for a RIM-CE easement.

Technical Review Committee members discussed Steve's proposal as a full group, and smaller groups were asked to provide guidance on assigning the proposed practices to tier levels, and assigning payment rates to each of the tiers. A summary of the outcomes from large group and small group discussions is outlined below.

#### Base Rate for Payments

Tier levels must be assigned to payment rates, and a base rate must be agreed upon to determine the payment a landowner would receive for an easement in RIM-CE. Steve advocated for using the Estimated Market Value for the base price, as this data is readily available (published on property tax statements), and reflects an agreed upon value for a specific parcel, as opposed to basing the payment rates on the Average Township Value as with RIM-Reserve, which underpays for some parcels and overpays for others. Technical Review Committee members were in agreement that using Estimated Market Value for the base rate makes sense. Note that the Estimated Market Value for a given taxable year is calculated based on data from the previous two years (i.e. there is a lag in the accuracy and precision of the data it represents for the value of the land). Some programs (e.g. CREP) pay over 100% of the market value for the land to cover this lapse.

### Payment Structure Elements

- 1) Payment structure based on 3 tiers:
  - Tier 1: least benefits, lowest payment
  - Tier 2: medium benefits, middle payment
  - Tier 3: greatest benefits, highest payment
- 2) 3 crop mixtures:
  - Monoculture perennial grass/woody
  - Mixed native grass/woody
  - Mixed native grass/forb prairie
- 3) Estimated Market Value (EMV) used as base rate for payments

### Unresolved Decisions

- 1) How should the BMPs be weighted/prioritized and assigned to payment rates?
- 2) How should existing prairie or grassland be reflected in the payment structure?
- 3) Should expected revenue from biomass sales influence the payment rate?
- 4) How to compensate permanent easements vs. 20-year easements?
- 5) How to factor in local priorities (i.e., wellhead protection, targeting impaired waters, etc.)? Include a bonus or rate the same as Tier 3?

### Unknowns

- 1) Payment rate from bioenergy facility for delivered biomass
- 2) Landowners' willingness to accept payment rates (Focus Groups report RIM-CE must pay minimum 80% - 90% of market value to get people enrolled)
- 3) Effects of high commodity and input prices

### Assigning Practices to Tiers

One small group felt that landscape position should not be included as a factor when determining the tier levels, and that the three crop mixture types were sufficient to delineate the payment rates. "Local priority" could be used to adjust for local conservation goals or exceptional landscape features and local SWCDs could prioritize land in accordance with environmental benefits in the implementation stage. Another group felt that flatland in all categories of crop mixtures should be classified as Tier 1, but agreed with the list of 13 practices based on landscape position and crop mixture.

In the end, the Technical Review Committee agreed to simplify the payment structure by reducing the number of practices, and move forward with a payment system that would not be based on landscape position. A sub-group of TRC members will meet to discuss structuring a payment system that compensates for environmental benefits independent of a project's position on the landscape.

### Assigning Payment Rates

One proposed payment rate scale is as follows:

- Tier 1: 80% of Estimated Market Value
- Tier 2: 90% of Estimated Market Value
- Tier 3: 100% of Estimated Market Value

After several as yet unanswered questions have been resolved, the TRC will decide on finalized payment rates at the January 10 meeting.

#### Other Factors to Consider

- 1) RIM-CE rates should not be based on RIM-Reserve since RIM-Reserve has not been getting sign-ups. Instead, compare RIM-CE payments against other conservation programs that work.
- 2) Cons of paying too high:
  - If RIM-CE easements pay too much, there would be no incentive to bother harvesting; landowners could just rake in the easement money.
  - It is illogical to pay more for a working lands program than RIM-Reserve rates (100% conservation program).
  - If the net profit is too high, it will be harder to secure funding.
- 3) Cons of paying too low:
  - We have a one-time funding opportunity; if we don't get anyone enrolled, we miss our chance to learn from our mistakes.
  - We are asking a lot to ask farmers to change, try something new, take crops out of ag production; high risk justifies high payment.
- 4) We can bring payment down in later years once the market stabilizes.
- 5) RIM-CE needs to reflect a new program model that measures environmental benefits.

#### *Payment Structure Next Steps:*

- 1) Steve Taff will incorporate feedback into a new proposed payment system and distribute it to TRC members to allow them to enter land value data into the spreadsheet to calculate sample RIM-CE payments for various regions in the state.
- 2) Dean Current will bring the proposed payment system to focus groups and gather feedback before January 10.
- 3) A new sub-group will meet to work on developing a proposed payment structure that incorporates the public benefits gained from each of the tier levels without using position on the landscape as the identifying factor.

#### **Technical Review Committee Next Steps**

##### Next Meeting: January 10, 2008

MEI and BWSR will present flowcharts to show how the RIM-CE program will function from application to implementation, both for a project area and for an individual landowner. These documents will demonstrate how project partners and market interests align, and also help to distinguish program design suggestions from implementation strategies. The final report will focus on program design.

MEI will have a draft version of the final report, will gather feedback from TRC, and prepare a final draft to submit to the BWSR Board by January 16. The finished report goes to the legislature in early February.

Discussion of a monitoring and evaluation plan will occur, including options to base monitoring and evaluation for RIM-CE off existing monitoring and evaluation plans.

Upcoming Meetings

**Payment Structure and Landscape Position Sub-Group Meeting**

A sub-group will meet to work on developing a proposed payment structure that incorporates the public benefits gained from each of the tier levels without using position on the landscape as the identifying factor. Any TRC members interested in contributing to this discussion should feel free to attend.

Date and Time: Thursday, December 20: 3:00 p.m. - 5:00 p.m.

Location: MPCA, 520 Lafayette Rd., Saint Paul, MN 55155, Room: 2-A Conserve

Contact Ellen Gibson (egibson@mn-ei.org; 612-334-3388, ext. 101) for call-in information.

**Technical Review Committee Meeting**

Thursday, January 10, 2008      10:00 a.m. – 4:00 p.m.      Thompson Park, Dakota Lodge