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May 12, 2010

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ALL INTERIOR LICENSEES

The Ministry of Forests and Range is planning two changes to the Interior Market Pricing System (MPS) this year as described in the April 1, 2010 Deputy Minister's letter recently published on the Pricing Branch website:

<https://www.for.gov.bc.ca/ftp/hva/external!/publish/web/InfoPaper/Interior-Timber-Pricing-Changes.pdf>

The changes are stand as a whole pricing for MPB attacked timber and the shifting of Interior Pricing to MPS A. I would like to provide you with more information about the administration of your licence as these changes are implemented. The planned implementation date is now July 1, 2010.



This letter does **not** apply to existing or future cutting authorities with fixed stumpage rates.

Existing scale based cutting authorities

An existing scale based cutting authority where harvesting has commenced as of May 31, 2010 will not be eligible for conversion to stand as a whole pricing with cruise based billing.

It is intended that all existing, scale based, cutting authorities where harvesting has not commenced by May 31, 2010 and where the net merchantable volume in the cutting authority area is comprised of 35% or more red and grey attacked lodge pole pine, the cutting authority will be converted to cruised based billing on June 1, 2010 and stand as a whole pricing on July 1, 2010. Stand as a whole pricing means that a single stumpage rate will be determined for all of the merchantable timber on the cutting authority area. Cruise based billing means that the cruise of the timber will be used to determine the volume for billing purposes. There will no longer be a requirement to report scale grades to the ministry or to perform post harvest waste assessments. There will still be a requirement to submit truck load weights.

The single MPS A stumpage rate will be calculated in accordance with the *Interior Appraisal Manual* (IAM). The initial MPS A stumpage rate on July 1, 2010 will be similar to the rate

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that would have been calculated under the previous MPS B rate and will transition to the full MPS A rate through a series of eight quarterly adjustments over the next two years.

Existing cruise based cutting authorities

All cruise based cutting authorities will remain cruise based but will have the stumpage rate recalculated on a stand as a whole basis in accordance with the IAM effective July 1, 2010. The initial MPS A stumpage rate on July 1, 2010 will be similar to the rate that would have been calculated under the previous MPS B rate and will transition to the full MPS A rate over the next two years, in eight quarterly adjustments.

New Cutting authorities

Where a licensee has applied for a cutting permit and submitted an appraisal data submission to the district manager before June 1, 2010 the cutting permit will be converted to stand as a whole pricing with cruise based billing if the net merchantable volume of timber on the cutting authority area is comprised of 35% or more red and grey MPB attacked lodge pole pine.

Cutting authorities issued on or after June 1, 2010 will be priced in accordance with the amended IAM policy on cruised based cutting authorities. Where the net merchantable volume of each cut block in the cutting authority area is comprised of 35% or more red and grey attacked lodge pole pine that cutting authority will be billed using cruise based billing. On July 1, 2010, these cutting authorities will be priced as stand as a whole in accordance with the IAM. There will be a two year transition to full MPS A in eight quarterly adjustments.

New cutting permit composition

In order to successfully manage MPB attacked timber it is necessary to limit to some degree the options for cutting permit composition. New cutting permits that meet the 35% Red/Grey threshold described above must be cruise based. A cut block that meets this threshold must be in a cruise based cutting permit. A cutblock that doesn't meet the threshold above cannot be combined with cutblocks that do meet the threshold. These new rules will come into effect on June 1, 2010.

CP/cut block surrender

The Ministry will allow cutting authority holders to surrender as long as:

- Licensees must declare to the District Manager those cutting permits they intend to surrender no later than December 31, 2010.
- The District Manager must be satisfied that the surrender facilitates the changes to the Interior MPS and that the timber being surrendered is not significantly different from the timber that was harvested.
- The surrender date and the activities that will take place under the cutting permit prior to surrender will be mutually agreed upon between the licensee and the District Manager. All surrenders must be completed by December 31, 2012.
- Where felling or the removal of timber, other than on road rights of way, has not begun on a surrendered cutting permit, waste billing, cut control charges and the changed circumstance reappraisal provisions as described in the IAM will not apply.
- Waste billing and cut control charges will apply to partially harvested cut blocks.

- Unamortised development, constructed road and constructed structure costs will not be compensated for or considered in future appraisals.
- Costs for roads that have not yet been constructed will be eligible in appraisals for future tributary cutting authorities in accordance with the IAM.

CP consignment with BC Timber Sales (BCTS)

Licensees can also consign developed blocks or cutting permits to BCTS for sale. More details related to CP consignment will be forth coming.

CP extension

You may extend the term of a cutting permit as per section 58.1 of the *Forest Act* under the current policy. No additional provisions are being contemplated at this time. Electing extension does not preclude any of the options described in this letter nor does it prevent any of the changes to the Interior MPS from being implemented.

Kiln Warming

Kiln warming will not be available to new scale based cutting authorities as of July 1, 2010. There will be a 1 year extension to June 30, 2011 of the Kiln warming option for existing scale based cutting authorities where the timber meets the 80% dead pine threshold per truckload.

Waste Benchmarks

Current waste benchmarks for road side accumulations will be extended for up to 2 years

Cruising Manual Change

The *Cruising Manual* will be amended for May 15, 2010 with new procedures for red and grey attacked lodge pole pine stands.

As new information becomes available with respect to the changes to the Interior Market Pricing System it will be posted at <https://www.for.gov.bc.ca/hva/interior-pricing-changes.htm>

Yours truly,



Bob Friesen

Assistant Deputy Minister