



## **Sectional Analysis**

### **CS for Senate Bill 48(FIN) - Carbon Offset Program on State Land**

**Section 1:** Amends AS 31.05.030(h) to expand the Alaska Oil and Gas Conservation Commission's existing authority in order to obtain state primary enforcement responsibility from the Environmental Protection Agency over Class VI wells. Class VI wells are used to inject carbon dioxide into deep rock formations for long-term underground storage.

**Section 2:** Amends AS 36.30.850(b) to exempt the Department of Natural Resources (DNR) from following the state procurement code when contracting with a registry for purposes related to the carbon offset program established in Section 6. Registries provide the project rules and methodologies and issue credits the project can then sell.

**Section 3:** Amends AS 37.05.146(c) to allow revenue from carbon offset credit sales to be treated as designated program receipts.

**Section 4:** Conforming to Section 5. Amends AS 38.05.075(a) to exempt state land leases for carbon management purposes from a requirement to award leases to the highest bidder at public auction or by sealed bid and related terms when competitive interest has been demonstrated, as Section 4 establishes procedures specific to the carbon management purpose leases.

**Section 5:** Adds a new section to AS 38.05 authorizing DNR to lease state land to third parties for carbon management purposes.

**Proposed AS 38.05.081(b):** Provides an application process for a state land lease for carbon management purposes.

**Proposed AS 38.05.081(c):** Requires DNR to solicit competitive interest on receipt of a lease application.

**Proposed AS 38.05.081(d):** Sets a process for deciding between applications for the same land; an aggrieved applicant may appeal within 20 days of a decision.

**Proposed AS 38.05.081(e):** Caps land leases for carbon management purposes at 55 years and requires the lease include performance conditions. Requires DNR to terminate a lease if the land is not being used for the approved purpose or if the

lessee fails to meet lease requirements after a reasonable opportunity to come into compliance.

**Proposed AS 38.05.081(f):** Specifies a lessee does not receive a preference right to purchase the leased land.

**Proposed AS 38.05.081(g):** Requires lease compensation be designed to maximize returns to the state and be a form of compensation set out in AS 38.05.073(m). Requires separate accounting of lease revenue and provides the Legislature may appropriate the lease revenue to fund the department's leasing program.

**Proposed AS 38.05.081(h):** Applies standard provisions relating to sublease, assignment, renewal and extension to leases for carbon management purposes.

**Proposed AS 38.05.081(i):** Requires DNR to make a best interest finding, which includes public notice of a preliminary decision for public comment, before issuing a state land lease for carbon management purposes. A finding must include the reasonably foreseeable effects a project may have on the state or local economy and other resource industries; an assessment of known mineral potential; and the anticipated revenue and total value to the state.

**Proposed AS 38.05.081(j):** Requires state land leased for carbon management purposes to remain, to the extent possible, accessible by the public for generally allowed uses such as hunting and fishing and open to other resource development.

**Proposed AS 38.05.081(k):** Ensures that a carbon management purpose does not constitute an exemption from the need for legislative approval in order to close an area to mineral entry.

**Proposed AS 38.05.081(l):** Requires an annual, public report to the Legislature on detailed information about the carbon management purpose leasing program.

**Proposed AS 38.05.081(m):** Defines "carbon management" to include greenhouse gas mitigation measures and non-geologic carbon sequestration projects.

**Section 6:** Conforming to Section 5, amends AS 38.05.102 such that at the end of a carbon management lease if the state moves to sell or long-term lease those same lands, the carbon management purpose lessee is not granted a preferential right.

**Section 7:** Amends AS 38.05.945(a) to apply notice requirements to the solicitation of competitive interest required in Section 5.

**Section 8:** Adds a new article within AS 38.95 establishing the carbon offset program at DNR through enactment of AS 38.95.400 - 38.95.499. Defines a process for DNR to undertake carbon offset projects.

**Proposed AS 38.95.400:** Establishes the carbon offset program and allows DNR to adopt regulations to implement the program. Explicitly disclaims application of the carbon offset program to activities of private landowners.

**Proposed AS 38.95.410:** Requires DNR to adopt criteria to evaluate carbon offset projects on state lands; makes land generally available for carbon offset projects; and ensures projects are not undertaken on legislatively designated lands without legislative approval or unless allowed by law. Requires a written finding that a project is in the best interests of the state before a project is undertaken; caps project terms at 55 years; and requires land used for a project to remain open to the public for access, hunting and fishing and other generally allowed uses, and to other resource development. Ensures that a carbon offset project does not constitute an exemption from the need for legislative approval in order to close an area to mineral entry.

**Proposed AS 38.95.420:** Allows DNR to enroll projects with a registry and requires DNR to maintain certain project records.

**Proposed AS 38.95.430:** Dedicates 20% of the revenue received from carbon offset credit sales to the renewable energy grant fund. The remaining revenue will be separately accounted for and may be appropriated by the Legislature.

**Proposed AS 38.95.440:** Allows DNR to enter into contracts using the state procurement code for the carbon offset program. Provides flexibility so that within the procurement process, DNR can evaluate the revenue potential and total value to the state of contracts and can consider contracts with varied terms in one solicitation process. Disallows proposed contracts that involve a commission of more than 30% of the project revenue.

**Proposed AS 38.05.450:** Requires an annual, public report to the Legislature on specific, detailed information about the Carbon Offset Program, including the entities engaged in a project, revenues, and project status.

**Proposed AS 38.95.499:** Defines 14 terms related to the new program.

**Section 9:** Adds a new subsection to AS 41.15.300 making land within the Haines State Forest Resource Management Area eligible for a carbon offset project.

**Section 10:** Conforming to Section 9. Amends AS 41.15.315(d) allowing Haines State Forest Resource Management Area lands to be managed for a carbon offset project.

**Section 11:** Conforming to Section 9. Adds a new subsection to AS 41.15.315 enabling amendments to the Haines State Forest Resource Management Area management plan to allow for carbon offset projects. A plan must identify land appropriate for a carbon offset project and a project must be consistent with the management plan.

**Section 12:** Adds a new subsection to AS 41.17.200 authorizing lands within the State Forest system to be used for carbon offset projects.

**Section 13:** Conforming to Section 12. Amends AS 41.17.220 so State Forest lands are managed under the sustained yield principle, AS 41.17, a forest management plan, and, as applicable, a carbon offset project.

**Section 14:** Conforming to Section 12. Amends AS 41.17.230(a) to include carbon offset projects among the forest uses a forest management plan must consider and permit when compatible with the primary purpose of State Forests.

**Section 15:** Conforming to Section 12. Adds a new subsection to AS 41.17.230 enabling amendments to State Forest management plans to allow for a carbon offset project. Requires plans to identify land appropriate for a carbon offset project and requires a project be consistent with the plan.

**Section 16:** Disallows oil and gas production tax lease expenditures for capital costs incurred for a carbon management purpose lease or a state carbon offset project.

**Section 17:** Sets an immediate effective date for the bill.