

HOUSE FINANCE COMMITTEE  
March 24, 2023  
1:34 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair  
Representative Neal Foster, Co-Chair  
Representative DeLena Johnson, Co-Chair  
Representative Julie Coulombe  
Representative Mike Cronk  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Dan Ortiz  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Andy Josephson

ALSO PRESENT

John Boyle, Commissioner, Department of Natural Resources;  
John Crowther, Deputy Commissioner, Department of Natural Resources;  
Rena Miller, Special Assistant, Department of Natural Resources.

SUMMARY

HB 49 CARBON OFFSET PROGRAM ON STATE LAND

HB 49 was HEARD and HELD in committee for further consideration.

HB 50 CARBON STORAGE

HB 50 was HEARD and HELD in committee for further consideration.

PRESENTATION: Carbon Management Legislation Opportunities

Co-Chair Foster reviewed the agenda for the meeting.

#hb49

HOUSE BILL NO. 49

"An Act authorizing the Department of Natural Resources to lease land for carbon management purposes; establishing a carbon offset program for state land; authorizing the sale of carbon offset credits; and providing for an effective date."

#hb50

HOUSE BILL NO. 50

"An Act relating to the geologic storage of carbon dioxide; and providing for an effective date."

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Co-Chair Johnson CLOSED public testimony for the prior day's meeting on HB 39-APPROP: OPERATING BUDGET; CAP; SUPP and HB 41-APPROP: MENTAL HEALTH BUDGET.

^PRESENTATION: Carbon Management Legislation Opportunities

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Co-Chair Foster continued to review the agenda for the meeting. He explained that the presentation would give a high level overview of HB 49 and HB 50.

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JOHN BOYLE, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, offered the PowerPoint Presentation entitled, "Carbon Management Legislation and Opportunities," dated March 24, 2023 (copy on file).

Co-Chair Foster noted that Representative Ortiz had joined the meeting.

Commissioner Boyle continued to slide 2 titled "Outline:"

- Alaska's Opportunities in Carbon Management
- What is carbon management?
- What are Alaska's opportunities?
  - HB 49 Carbon Offset Projects on State Land
  - HB 50 Carbon Capture, Utilization and Storage

Commissioner Boyle moved to slide 3 titled "Alaska's Opportunities in Carbon Management," showing the first topic of the presentation. He turned to slide 4 titled "Carbon Management - simplified." He explained that it was essential to understand the concept of carbon management in order to learn about the opportunities it offered. One method of carbon capture entailed the actual capturing of carbon. Carbon that was produced as a result of industrial or manufacturing activities could be captured and sequestered underground. He pointed to another method of carbon management using nature based offsets for carbon in the atmosphere, by managing state lands and forests in a way that enhanced the ability to absorb and pull carbon out of the atmosphere.

Commissioner Boyle continued on slide 5 titled "Carbon Management:"

Different emissions, different carbon management tools:

Scope 1

Emissions made directly, such as running a power plant or vehicles.

Scope 2

Emissions made indirectly, such as buying electricity to power an office building.

Scope 3:

Emissions associated with a business's value chain.

Commissioner Boyle defined how emissions were classified in carbon management. He noted that scope three related to emissions on a consumer level. He delineated that both

scope one and scope two emissions would ideally be captured from the source and correlated to carbon capture, utilization, and storage. He indicated that it was difficult to manage scope three emissions from individual use: car emissions, lawn mowers, snow blowers, etc. with carbon capture. Carbon offsets were associated with scope three emissions.

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Commissioner Boyle advanced to slide 6 titled "Carbon Management - not so simple!" and explained that the market was rapidly evolving and there were a number of types of carbon credits that were currently available or in the development process for household, industrial, manufacturing, agriculture, etc. emissions. He offered that a "myriad" of opportunities existed for the state to monetize certain elements of its natural resources' portfolio. He voiced that an essential element of both pieces of legislation was that the department needed a broad framework and flexibility to determine what credit programs would best fit the situation. The department currently had not determined what type of credit programs worked for the state that offered the best opportunities to monetize its carbon resources.

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Representative Galvin restated that the department was asking for flexibility in order to navigate the best opportunities for the state. She asked where the opportunities for the state lay within the world market. Commissioner Boyle responded that he would address the topic later in the presentation. Representative Galvin hoped that there would be avenues for local communities to determine what would be the best fit for them as well.

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Commissioner Boyle continued to slide 7 titled "HB 49 and HB 50:"

Frameworks for Alaska to engage in two areas of carbon management:

- 1) Carbon capture, utilization, and storage (CCUS)  
-- 'the below ground'

2) Carbon offset programs on state land  
--'the above ground'

Bills are NOT:

- New taxes on industry or Alaskans
- Emissions limits
- A "cap and trade" system
- Locking up land

Commissioner Boyle felt that it was important to emphasize what the bills were not doing. The goal was not to tax Alaskans based on the carbon activities in which individual citizens engaged in nor create conservation units that had very restricted land management plans and prevented Alaskans from engaging in traditional use.

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Representative Hannan pondered the idea of carbon capture. She hypothesized a scenario regarding a lease in the Arctic National Wildlife Refuge (ANWR) where the oil had a value if kept undeveloped and whether that was considered carbon capture. Commissioner Boyle answered that the scenario was not specifically what carbon capture and sequestration was. He related that he had heard discussions regarding monetizing mineral resources where an entity had the right to develop but a state, nation, communities, or an individual could choose to forego development to reduce carbon emissions. He deemed that the scenario was an emerging concept but was currently unaware of any specific credit opportunities as of yet.

Commissioner Boyle continued that the state was focused on the voluntary compliance market. He elaborated that compliance markets were the result of a government regulated activity like the carbon credit, cap and trade system implemented by the state of California Air Resources Board. He indicated that some of Alaska's native corporations, i.e., Sealaska, Chugach, etc. utilized the California compliance market to monetize some of their forested lands. He noted that Europe had a very advanced compliance market that operated under a regulatory structure with emission limits. In that case, carbon

credits were being traded at over \$100 per metric ton of carbon. He contrasted compliance to voluntary markets that were based on entities' private goals to achieve certain environmental benchmarks and were unregulated and ungoverned. He reiterated that the state currently was only interested in voluntary markets offering more variation in pricing but less than the compliance market. However, he understood that voluntary carbon markets were trending to future growth due to a recognition that allowing industry to engage in a market based system to address emissions was more effective than an imposed system.

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Commissioner Boyle advanced to slide 8 titled "Carbon Offset Markets." He reported that the slide highlighted the difference between the compliance and voluntary markets and their projected growth. He pointed to the \$850 billion value for 15 gigatons of transacted volume in carbon credits in the compliance market in 2021 versus the voluntary market at \$2 billion. He elaborated that in 2022, the value of the voluntary market increased tremendously. The voluntary market could be anywhere from \$10 billion to over \$40 billion dollars in value in the future. All indications were pointing to increasing opportunities for the state and he believed that the state had a competitive advantage regarding its "geography" relating to the credits. He pointed out that carbon credits issued in places that were more pristine and iconic had higher premiums on the voluntary market. He thought that the state being able to market itself as a "pristine environment" would command a higher premium in carbon markets.

Commissioner Boyle examined slide 9 titled "Carbon Offsets - State Resource Base." The slides map denoted the state's resource ownership in purple at over 100 million acres. The state had a tremendous resource base, tens of millions of forested acres for carbon offsets. He pointed to slide 10 titled "Carbon offsets - Opportunities:"

- Alaska has the resources.
  - Forest carbon potential:
  - 100 million acres of uplands

- o Tens of millions of acres of forested State lands
- Kelp potential:
  - o 60 million acres of tide and submerged lands
- New source of State revenue
- Constitutional responsibility for maximum use

Commissioner Boyle commented that the state had over 30,000 miles of coastline and 60 million acres of tide and submerged land. He believed that carbon resource potential from monetizing state land and state submerged lands in new ways afforded the state the opportunity to increase revenues. He reminded the committee that the Department of Natural Resources' (DNR) responsibility was to maximize and develop state resources for public benefit and felt that the carbon opportunity fit in well with its constitutional obligations under Article VIII.

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Representative Stapp asked how the process would work. He wondered how the Alaska Permanent Fund Corporation (APFC) could work hand in hand with the state's emerging carbon markets and not "short" the state's carbon market. Commissioner Boyle responded that different markets traded in different ways. He was unsure how markets were manipulated by different entities. He deduced that gauging by the world's interest, a level of confidence existed that the voluntary market was an effective and efficient way to price carbon. He indicated that DNR's approach would be circumspect and would change its management goals as time progressed.

Representative Ortiz was interested in the kelp potential listed on slide 10. He asked how the program would provide revenue to the state and how it would work. Commissioner Boyle replied that the state could be both an active and passive participant and contemplated the state fulfilling both roles. He exemplified that in a passive role, the state may choose to lease lands to private developers of a carbon offset project and collect lease revenues. Alternatively, the state may decide to manage its own

carbon offset project and play an active role in maximizing state revenue. He observed that the Alaska Native Corporation entering into contracts with other entities to develop carbon offset projects with a provision that the entity trained the corporation in order to develop its own projects in the future.

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Commissioner Boyle continued on slide 11 titled "CCUS - Global Demand:"

There is a growing trend of CCUS projects around the world as companies compete to provide oil and gas to competitive markets in foreign jurisdictions that have implemented carbon taxation, and more companies include environmental targets in their corporate goals and performance.

Commissioner Boyle related that in 2021, the Occidental Petroleum Company shipped a cargo of over 2 million barrels of oil to a refinery in India that was certified as net zero offsetting the amount of carbon the oil would be emitting. He commented that "blockchain technology" enabled the differentiation of barrels of oil that were certified as offset and considered "greener" barrels of oil than those that were not, and he pointed to growth in the "green" oil market. He noted that in the gulf coast of the United States (US) there was a large number of developing projects in CCUS as well as active CCUS projects in Wyoming and North Dakota. He offered that Alaska had large amounts of the type of geology for sequestering carbon that was located on state land and not privately owned, which offered a competitive advantage over other jurisdictions. Alaska could sequester other countries' carbon in its vast geologic basins.

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Representative Tomaszewski asked Commissioner Boyle to explain blockchain technology and how it would be utilized in carbon sequestration. Commissioner Boyle responded that block change technology was a distributed electronic ledger system that could track a particular cargo transaction as it progressed through its transportation and distribution systems. The oil matched the identification number that was certified as net zero at its destination. The system

verified that the product delivered was the product ordered. He summarized that it was the underlying technology that could identify a fungible commodity.

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Co-Chair Johnson guessed that theoretically, the state could offset its own oil production if it became a mandate by the federal government. She assumed there was some registry or official certification for carbon capture and offset and wondered whether there was a value to the state having its own standards or criteria to determine credits or offsets. She believed that it was a new and subjective endeavor. She wondered about the integrity of the certification process and thought the state "should be aware of what it was selling.". She asked for comment. Commissioner Boyle responded that there were various carbon registries for the voluntary market. He elucidated that an important element of a carbon registry was that it offered a "robust certification process" to ensure that the carbon was truly being offset. He opined that the state's reputation was an important factor in that the credit purchaser could trust the offset transaction. He was uncertain whether the state should develop its own registry. In terms of developing a carbon offset project, he believed that it was important for a registry to have integrity and credibility in certifying carbon offset projects. Co-Chair Johnson commented that if the state was going to invest in a program, it was imperative it operated ethically and in good faith.

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Representative Hannan referred to slide 11 and observed that most of the CCUS was happening near where the resource was being produced or there was an efficient transportation system to transport the carbon. She deemed that most of the CCUS in Alaska would happen in Cook Inlet versus the North Slope, which was difficult and costly for transport and would create a lot of carbon to transport it to the Arctic. She asked if he could narrow down the geographic scope of CCUS in the state. Commissioner Boyle responded that the administration was contemplating making all state land that was geologically conducive to sequestration available. He noted that she had correctly pointed out that it was ideal to co-locate the CCUS facility where the carbon generating activity was due to the profit margins of sequestration. He

indicated that all of the facilities on the North Slope associated with the oil industry created emissions and they were sitting on top of geology that was conducive to CCUS. He pointed to coal fired powerplants in Interior Alaska that also had sedimentary basins that were conducive to sequestering carbon. He suggested that entities involved in generating coal fired power may be interested in sequestering its carbon in the Interior. He speculated that the development of a liquefied natural gas project in Nikiski, that produced other valuable energy related by-products would likely drive the development of CCUS in Cook Inlet. He remarked that it was speculative, and he did not think the economic conditions currently existed, but the potential was there for some time in the future when economics changed.

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Representative Galvin was curious about the Alaska Native Corporations and the work it had already done in monetizing carbon offsets. She asked the Commissioner to share his knowledge of the native corporations' successful projects as an example of something that was currently working and generating revenue. Commissioner Boyle answered that the governor had looked at what the native corporations had accomplished as he considered how the state could monetize the same types of activities. He mentioned a study that the state had undertaken that evaluated the monetary potential of carbon offsets on state forests. The department had a "high level of confidence" that a myriad of opportunities existed to monetize and bring in state revenue. He cautioned that he wanted to avoid "overpromising" the amount of revenues that could be collected.

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Commissioner Boyle discussed slide 12 titled "Carbon Markets:"

- Approximately 35 commercial CCUS facilities today globally.
- Targeted growth: 2,500 facilities to reach International Energy Agency (IEA) scenario of net zero carbon emissions by 2070.

Commissioner Boyle indicated that the graph showed the projected world captured carbon by source (coal, natural gas, industrial processes, and biomass) from 2020 to 2070. There was a growing market and demand for carbon capture. He continued on slide 13 titled "Net Zero Greenhouse Gas (GHG)." The slide listed emission reduction initiatives of North Slope companies. He noted that almost all of the large North Slope operators had set "aggressive" emission reduction standards and benchmarks for themselves. He pointed to Santos and noted it had committed to net zero emissions (scope 1 and scope 2) for the Pikka Project. He discerned that if the state did not have a CCUS regulatory framework or carbon offset program in place, the companies would engage in the activities in other jurisdictions. The department believed that the carbon generating companies should be able to offset their emissions in the same jurisdiction where the emissions were created. He believed that oil and gas produced in Alaska was done in a manner that was more environmentally and socially responsible. He reasoned that if the state had a carbon emission and offset regulatory regime in place it implied that the state could responsibly develop its resources while addressing concerns about the carbon intensity of the underlying activity. He surmised that lacking a carbon regulatory and offset structure, the state would miss out on monetizing a resource. He stated that due to an Alaska Supreme Court ruling, 25 percent of the revenues from CCUS fees would accrue to the Permanent Fund.

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Representative Stapp referenced the companies listed on slide 13 and asked whether emission reduction plans were self-imposed and whether other global oil companies had emission reduction targets. Commissioner Boyle responded in the affirmative and added that the benchmarks were self-imposed and were based on the own volition of the companies to meet the environmental benchmarks. He added that, in general, most of the companies operated around the world and often in jurisdiction that had emissions compliance requirements and were being pressured by their shareholders and boards to manage emissions. He deemed that it would take a considerable amount of time for the world to develop sufficient renewable energy resources yet demand for energy was growing. He shared statistics on the number of the world's population with inadequate and unpredictable energy sources that wanted reliable energy to improve their

quality of life. He ascertained that in order for the energy companies to increase energy production in a manner that reduced the environmental impact they needed to adopt emission standards. Representative Stapp wondered what the continued investment of Alaska's oil and gas would be without the standards. Commissioner Boyle believed that if the companies could offset their carbon generation in the state it would make a stronger case to their shareholders and help to promote or encourage further investment.

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Co-Chair Edgmon appreciated the presentation. He discussed climate change, fossil fuel emissions, and the need to stop carbon emissions and for the world to change. He acknowledged that it would not happen swiftly. He stressed that there was too much carbon dioxide in the atmosphere, and it was proven by scientists around the world. He was confounded that there was still no open discussion regarding climate change. He mentioned the damaging effects on the Arctic due to a changing climate. He emphasized that it was not just corporate boards but countries that acknowledged the changing climate. He wished that the state would engage in global detailed discussions about climate change. He referenced recent presentations in committee on prior days on the Willow Project ["Willow Project Update," DNR, March 23, 2023] and the "Spring 2023 Forecast Presentation" [Department of Revenue, March 22, 2023] and noted that both of the PowerPoints were populated with caveats. He recounted the FY 2024 10-year forecast had projected revenues for carbon capture of \$300 million in FY 24 increasing to \$900 million per year. He thought the proposals were speculative. He asked what level of confidence Commissioner Boyle had in the revenue projections. Commissioner Boyle answered that he was unsure how to answer the question. He had not viewed the proposals through the specter of specific revenue numbers, but more broadly as a way to monetize state resources. He referenced a report on a carbon offset pilot project done by consultants that demonstrated the state could make tens of millions in revenue. He offered that in terms of CCUS, it could take up to two years to accomplish the permitting. He was reticent to project any revenues by a time certain due to many factors. He was certain that the state could embark on the program with minimal costs and investment and was "extremely confident" that the state would gain some net positive cash flow.

Co-Chair Edgmon appreciated the Commissioner's answer. He recounted that there was \$300 million "baked" into the revenue projection according to the ten year plan. He acknowledged that "there was a level of conjecture" in the projections. He cautioned that carbon capture was "a moving picture" including the registries and the state should proceed with care.

Commissioner Boyle interjected that much of the carbon capture economics were driven by the increased amounts of federal tax credits. The credits as they currently exist would expire in roughly 10 years. One of the reasons why the administration was pushing so hard to pass the bills was due to the expiration of the federal tax credits that played a crucial role in driving the economics of CCUS. There was an urgency to have the state program in place so the companies could take advantage of the tax credits.

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RENA MILLER, SPECIAL ASSISTANT, DEPARTMENT OF NATURAL RESOURCES, introduced the next section of the presentation: "HB 49 - Carbon Offset Projects on State Land" and continued with an overview of HB 49 on slide 15 titled "HB 49 Overview:"

- Tasks DNR with exploring carbon offset opportunities that align with Alaska's resource and land interests, responsibilities.
  - Enables carbon offset projects on state land and Shorelines.
  - Caps project terms at 55 years, protects existing land use by Alaskans.

Ms. Miller expounded that the bill protected existing land use by Alaskans. She referred to Representative Galvin's comments concerning local input on the projects. She assured the committee that the bill required a best interest finding by DNR for either a third party project or a state project. The process included a comment period and input by local entities and governments that would be "wrapped" into a final decision.

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Representative Ortiz understood that the most valuable offsets were for a term of 99 years. He inquired why the bill set a 55 year term. Ms. Miller responded that 55 years was typically the term of long-term state land leases for other purposes. In addition, she determined that 55 years was a sufficient amount of time to embark on a project and generate a full suite of credits under the protocols that the registries established. She indicated that depending on the registry and the standards they imposed that were most suited for ongoing managed land in Alaska, 55 years seemed sufficient. Representative Ortiz deduced from her answer that there would not be an added financial benefit to the state with longer term leases. He asked for clarification. Ms. Miller replied that potential for longer term leases existed, it depended on what other criteria Alaska's land would be eligible to meet and the timelines associated with it. Representative Ortiz asked who determined the eligibility. Ms. Miller answered that the registry; the entity in the middle between the projects and the purchasers of the credits, had a series of protocols that covered different types of projects. She detailed that each protocol had specific requirements related to current land practices and what type of project was chosen. The registry had a time period associated with each project. Therefore, depending on the project, a longer term lease could work for the state. However, the department was viewing the offsets as a way to generate revenue for the state but stay within its mandate to maximize state resources for multiple use.

Commissioner Boyle interjected that the state's land leasing statutes included the ability to offer renewals of another 55-year lease.

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Representative Ortiz deemed that the original purchaser of the offset would not be aware of the lease extension provision or whether the extension would happen or not. Therefore, the value was calculated lower at 55 years than it would have been at 110 years. He was wondering whether he was correct. Commissioner Boyle responded that he would respond with more information. He assumed that a project developer would know that state law granted an extension, which would be weighed in the value of the credits. He believed that the length of state land leases was a reasonable discussion to have as policy developed.

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Ms. Miller advanced to slide 16 titled "HB 49 Overview:"

- Provides a process for third parties to lease state land for carbon management purposes (Section 4).
- Establishes the Carbon Offset Program at DNR to undertake state projects (Section 6).
- Authorizes the use of the 3 state forests for state sponsored projects (Sections 7, 10).

Ms. Miller listed the 3 state forests as the Haines State Forest, Southeast Forests, and Tanana Valley State Forest.

Ms. Miller moved to slide 17 titled "Carbon Offsets - Potential Affirmed:"

Anew report affirms potential:

- Identifies 3 'pilot' projects.
- Improved Forest Management protocols timber harvest continues.
- Revenue potential of all three:
  - approx. \$81.6 million over 10 years
  - approx. \$311 million over 40 years

\*Revenue potential as estimated by Anew at time of report; an actual project may have different potential depending on design, costs.

Ms. Miller pointed out that the report was not conclusive or exhaustive, but it affirmed the potential for projects that could be implemented fairly quickly and had revenue potential. She remarked that the report [Carbon Offsets Opportunity Evaluation, August 2022 (copy on file)] was included in the member's bill packets. The consultants identified three pilot projects in the three forests as well as forested lands in the Matanuska - Susitna Borough (Mat-Su). The lands were eligible for active timber harvest

and would fall under the improved forest management type of project. She noted that the registry ANEW used was called the American Carbon Registry and was one of four major registries operating in North America. She recalled that there were several Alaska Native Corporations' projects enrolled under the American Carbon Registry under the improved forest management protocol. She turned to slide 18 titled "Carbon Offsets - Potential Pilot Projects." She pointed to the slide's map that depicted where projects could be located.

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Representative Hannan noted that the sectional only named the Haines State Forest, which indicated to her that the resources in the Haines Forest would be beneficial, yet the presentation referenced three state forests. She asked for clarification. Ms. Miller responded that the legislation authorized all three state forests eligible for carbon management projects. She elaborated that the Haines State Forest was established in statute separately from other state forests therefore, bill sections 7 through 9 was specifically written to Haines, but sections 10 through 13 referenced state forests that included Southeast and Tanana Valley. Representative Hannan asked about the Mat-Su Forest. Ms. Miller replied that the Mat-Su area was not a state forest but was forested state land.

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Representative Cronk asked how the process would be conducted. Ms. Miller responded that the following slides would answer the question.

Co-Chair Foster cited slide 17 and ascertained that the "key" word was "potential." He referenced the fiscal note that showed \$400 thousand in revenue in FY 2025 and others showing a total of \$1.5 million per year with the potential for roughly \$8 million per year. Ms. Miller agreed that potential was a good word to "keep in mind." She indicated that the fiscal notes did not include the anticipated revenue from the projects. The department lacked specific information to include an accurate projection of revenue, since the projects were not identified as yet.

Ms. Miller examined slide 19 titled "Carbon Offsets - State Project Parties." She commented that the slide listed the

participants in a carbon offset project. There were three: project proponent, registry, and buyers. She would focus on a hypothetical project that the state would undertake through DNR. She explained that the project proponent would be the State of Alaska. The project proponent held the land and resource and would be the recipient of the project's revenue. The buyers of the offset credits would be companies with voluntary emission reduction targets. The middle participant was the registry with certain rules that according to the slide was a "Nonprofit 'quality control' ensuring project, credit integrity through scientifically based project protocols." She stressed that the rules of the registry existed to protect the integrity of the credits the companies were purchasing. She characterized the credits as backed by highly scientific, peer reviewed, and factual in order to ensure the legitimacy of the claims of the credits. The buyer could be confident that the credit represented a "real emission reduction" and would not be accused of "green washing." She defined green washing as a company making false claims about its environmentally beneficial activities. She summarized that the registry protected the integrity of the credits and was a crucial party to the process. She cited Co-Chair Johnson's query about creating an Alaska registry and related that registries were non-profits and very distinct from the proponent or the buyer.

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Representative Galvin asked who paid for the registry. Ms. Miller answered that the project proponent paid the registry an initial fee to open the project. Once the project was proved to be successful and demonstrated that it was achieving the emission reduction objectives, the registry generated credits and assessed a fee based on the credits. Representative Galvin asked whether the state or the buyer paid the assessed fees. Ms. Miller answered that the fees would be a portion of the credit issuance.

Representative Coulombe voiced that she did not want state land "locked up" and favored that the state was not engaging in contracts for 99 years. She was hesitant to see the state commit for even 55 years for something so new with unknown outcomes. She surmised that the offset land was locked up "in some way." She wondered how much use the forest could retain once it was in an offset project. She asked if a better use of the land was discovered whether

there was flexibility to shift to a maximum use model after 40 years of a 55 year contract. She wondered whether the land could be logged and what would happen if the trees started dying. Ms. Miller responded that land was not being locked up, it would be committed to a specific management plan. She noted that the improved forest management projects were conditional on continued timber harvesting to some degree. The management commitment was being locked in versus locking in the land. The land was broadly available to the public but there might be a varying degree of site control that limited some access. She assured the committee that there was an ability to terminate a project and remove some of the land from the project, but the loss of carbon storage had to be accounted for and it was possible that there would be financial consequences. She noted that the term was called a "reversal." She added that "involuntary reversals" for things like, insect infestation, wind events, fire, other "acts of god" were covered under a "risk buffer" or type of insurance pool required by the registry to mitigate against that type of loss.

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Commissioner Boyle added that the best way of looking at carbon offset as it related to forested land was in the context of enhanced forest management. He delineated that carbon credits could incentivize more proactive management of forests. He provided the example of the forest in the Anchorage bowl, Kenai, and Mat-Su that were damaged by the spruce bark beetle infestation and the trees were left dead and dying. He exemplified that an offset program could incentivize removing and replanting the trees with a higher value species and provide for other value added management practices. He described ways in which the managed land could yield multiple benefits under an offset program. He shared that a mine could exist within an offset managed forest if the footprint of the mine did not exceed the additional carbon credit margins that were being earned. He summarized that carbon credits would likely incentivize or revitalize a timber industry, especially in interior forests because it would provide an additional economic mechanism that would make forest products profitable. The existing practice of utilizing forests and harvesting timber was not in opposition to a carbon offset project. The harvesting and management would have to comply with the particular terms of the offset project.

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Ms. Miller interjected that the founding principle was to grow more than can be harvested within the project area.

Co-Chair Foster wanted the committee to be comfortable with the concept of an emerging new market. He intended to bring the topic back before the committee at a later date. He asked the department to continue with the presentation and did not want to rush into the next section.

Ms. Miller discussed carbon offsets on slide 20 titled "Carbon Offsets - State Project Process:"

Concept/Feasibility  
Project Development  
Third-party Verification  
Registry Review  
Credits Issued

Ms. Miller indicated that the slide depicted a high level overview of the state project process. She recounted that the state could be the project developer or hire a firm to develop the project. She pointed out that ANEW projected it took 18 months to 24 months to develop a project to credit generation. She elaborated that project development entailed groundwork and fieldwork to determine the amount of carbon the trees were capable of storing. The project would eventually move into a design and concept. She interjected that the forest management construct was the commitment to manage the forest in a certain way over time. The project proceeded to the registry review that required retaining a third party to audit the findings and ensure compliance with registry rules. Once the project was approved the registry could then start generating credits for the project. A steady flow of credits could be generated over the years. She furthered that the project required ongoing monitoring reports, fieldwork and inventory updates required throughout the project's term.

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Representative Coulombe expressed concern that carbon offsets would ultimately raise the cost of energy. The cost of the offsets would be passed on to the consumer by the purchaser. She worried about the high cost of energy in the state.

Commissioner Boyle responded that the activity and commitment to net zero whether or not it was being driven voluntarily from within a company or imposed on industry by government was happening. He ascertained that from the perspective of the state, its participation was not a cost driver, it was an off-ramp that enabled companies to divert revenue to the state versus diverting the revenues to another entity. One could argue that based on the prospective benefits to the state, the revenues received by the state would be redistributed amongst Alaska residents to offset any additional costs associated with the activities. He restated that state policy was not driving the costs. The costs were not being driven by voluntary compliance and regulatory markets. He believed that the question was whether the state chose to participate and drive benefits that helped offset costs or watch the investment go elsewhere and deride no benefit. Representative Coulombe thought it was something to consider. She supported carbon credits and believed that it was a benefit to the state but not necessarily a benefit to the consumer and energy costs should be factored into the discussion.

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Representative Ortiz shared that he had done a bit of research on the topic and referenced the term "leakage." He relayed that if the trees on the land outside the project area were being harvested it might affect the offsets in the project area. He asked for more information on leakage.

Ms. Miller responded that there were two types of leakage in the carbon offset programs: activity and market. She explained that activity leakage was the scenario as described by Representative Ortiz. The registry actually accounted for activity leakage in the calculation of the carbon credits. She stated that the other type was market leakage. Representative Ortiz restated that the registry anticipated leakage and calculated that into the value of the credits in the project area. He asked if he was correct. Ms. Miller responded that the registry did not anticipate it but was hedging against it. She deduced that state projects had the benefit of existing land use plans and harvest schedules that were public, and it was apparent how adjacent lands would be managed. She added that market leakage was also accounted for in terms of timber that

would not be harvested in the project area, but the same amount of lumber would be needed from elsewhere. She saw that as a benefit in keeping the credits legitimate.

[3:31:35 PM](#)

Representative Hannan commented that the current day was the twenty-fourth anniversary of the Exxon Valdez disaster. It was important to note the long-term cost of carbon and if it was not paid for upfront, society had to pay for it over a lifetime. She felt that a big issue regarding the bills was the upfront costs of the projects and understanding any "ripple effects" it caused.

[3:32:52 PM](#)

Co-Chair Foster noted that there would be future meetings on the topic and to finish the presentation.

HB 49 was HEARD and HELD in committee for further consideration.

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#  
ADJOURNMENT

[3:35:00 PM](#)

The meeting was adjourned at 3:34 p.m.