HOUSE FINANCE COMMITTEE
April 10, 2023
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 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 Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Rena Miller, Special Assistant, Department of Natural Resources.

PRESENT VIA TELECONFERENCE

Joshua Strauss, Senior Vice President, ANEW.

SUMMARY

HB 49 CARBON OFFSET PROGRAM ON STATE LAND

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

PRESENTATION: FOREST CARBON 101 BY ANEW

Co-Chair Foster reviewed the meeting agenda.

#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."

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^PRESENTATION: FOREST CARBON 101 BY ANEW

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RENA MILLER, SPECIAL ASSISTANT, DEPARTMENT OF NATURAL RESOURCES, introduced herself and shared that she would advance the slides for the presenter speaking via teleconference.

JOSHUA STRAUSS, SENIOR VICE PRESIDENT, ANEW (via teleconference), provided a PowerPoint presentation titled "Forest Carbon 101," dated April 6, 2023 (copy on file). He reviewed his agenda on slide 2 titled "Agenda:"

- About Anew
- Compliance vs Voluntary Markets
- Components of Offset Quality
- Alaska Pilot Projects Outlook
- Project Development Process
- Questions

Mr. Strauss notified the committee that during his presentation he would refer to a report ["Carbon Offset Opportunity Evaluation" August 2022 ANEW (copy on file)]. He moved to background information about ANEW on slide 3 titled "About Anew:"

- Oldest and largest carbon offset developer in North America (20+ years).

- Voted Environmental Finance's Best Project Developer (North America) and Best Offset Developer (California) for seven years running.

- Dedicated forestry team: in house finance, marketing, and legal experts, plus >30 professional foresters with unparalleled forest carbon experience.

Mr. Strauss shared his experience in carbon management. He worked with ANEW for over a decade and specialized in forest offset carbon solutions for his entire career. He delineated that ANEW had over 100 forest carbon projects under management and over 5 million acres enrolled in carbon projects in the United States (US) and Canada.

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Mr. Strauss explained forest carbon basics beginning on slide 5 titled "What are Forest Carbon Offsets?"

- Forests across the US sequester substantial amounts of CO2.

- By maintaining or increasing forest stocking, forest landowners can generate units of CO 2 emissions reductions ("Carbon Offsets").

- Companies wishing to combat climate change are willing to pay forest owners for these Carbon Offsets, thereby claiming credit for reducing CO 2 emissions and mitigating some of the effects of climate change.

Mr. Strauss explained that 50 percent of the wood material of a tree is raw carbon. As the tree photosynthesized it pulled carbon out of the atmosphere and bound it to the wood material. Forest owners could address climate change via sequestration by avoiding harvesting trees that would be cut down and allowing trees to grow larger.

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Mr. Strauss moved to slide 6 titled "Forest Carbon Markets:"

Voluntary Market

Companies voluntarily choose to purchase offsets to reduce their emissions.

Greater variation in pricing $4 to $35

Premium value attributed to "charismatic" projects

Less certain demand

Compliance Market

Companies purchase offsets to help meet their legally mandated emissions targets (CA & Québec)

More consistent pricing $15 to $20

Built in demand through 2030

Additional Compliance Programs

Washington
CORSIA (international aviation)
Canada (Federal and Provincial)
Oregon

Mr. Strauss indicated that there were two different types of forest carbon markets: the voluntary market and the compliance market. The opportunity evaluation report recommended for the state pursue the voluntary market. He explained that compliance markets included buyers in the State of California and Québec, Canada, which had a compliance program since 2012 and were linked through the Western Climate Initiative. Under compliance programs, entities were mandated to reduce emissions and forest credits typically sold between $17 and $24 per ton. He delineated that an offset credit equated to one metric ton of emission production; the unit commonly referred to in carbon markets. The California market was in place through 2030. He addressed the voluntary market where companies voluntarily choose to purchase offsets to reduce their emissions. The motivations for engaging in the voluntary markets were numerous. Some entities were mandated by constituencies or shareholders and for others it was a marketing tool. He elaborated that one of the differences between the two markets was that in the voluntary markets there was "less certain" demand. There was nothing legally binding an entity in the voluntary market. He detailed that voluntary units depended on "the charisma of a carbon offset." Voluntary market pricing varied substantially between $4 to $35 depending on the quality of the carbon program. The most charismatic projects beside from a strong

rule of law and protocols had co-benefits from an ecological perspective. He explained that a voluntary offset that offered "a suite of ancillary benefits" within a forest project like habitat, air, and water quality, etc. carried a premium value on the credit.

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Mr. Strauss turned to slide 7 titled "Credit Buyers." The slide listed some of the large participants in the voluntary market. The business sectors involved were technology, food, banking, entertainment, energy producing, etc. He felt that from his standpoint in the industry, it was heartening to see the commitments in place that represented concrete promises to stakeholders and the public even if it was not a mandate to a certain target. He believed that these voluntary commitments represented "a substantial target built into long-term planning" by the companies.

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Mr. Strauss discussed slide 8 titled "Landowner Obligation:"

- Harvesting should not exceed growth.
- Must maintain certification (SFI, ATFS) or have state approved Forest Management Plan.

Mr. Strauss spoke to the obligation of landowners. The chart on the slide showed the difference between the key commitment points of the California Air Resources Board (ARB)(compliance market) and a volunteer project through the American Carbon Registry (ACR). He reminded the committee that the ANEW report focused on the ACR voluntary market as the recommended path forward for Alaska. He added that there was currently no "path generation into the compliance space." The only way forward for a publicly managed organization was the voluntary market. He was merely comparing markets to add context to the discussion. He outlined that harvesting in a carbon project should not exceed what was growing. Landowners were rewarded for increasing and maintaining their carbon stock. He discussed the monitoring obligations. The number of years an entity was obligated was for 40 years versus 100 years following the last issuance of credit in the ARB compliance market.

The offset project was required to perform annual reporting and every five years the project was mandated to perform a third-party verification of the total credits claimed, which included a site based component that measured the inventory to confirm the claimed carbon credits. The audit had to be conducted at the start of a project and every decade subsequently. The compliance market required an inventory audit every 12 years. He detailed that the audit employed a grid network of plots across the forest to determine the amount of carbon. The audit used an academic level of rigor to identify the number of trees, dead trees, tree diameter and height, species, defects, regeneration, etc. within each fifteenth of an acre grid plot. The audit established a rich data set to determine how much carbon existed across the landscape. The audit was critical to the quality and legitimacy of the program. Therefore, a nonbiased arbiter with extensive experience in protocols and forest science was imperative to assure the integrity of the credits.

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Representative Hannan looked at slide 8 and referenced a statement by Mr. Strauss that Alaska was not able to participate in the compliance market. She asked for a repeat of the statement. She asked for clarification why the state could only look at the voluntary market, which had a much shorter commitment period. Mr. Strauss confirmed that the Department of Natural Resources (DNR) would only be able to participate in the voluntary market in the forestry sector. He reiterated that there was not a project on public land that could enroll in the ARB compliance program. He detailed that it was technically allowable under its regulations but proved to be impossible to do in practice. He affirmed that the ACR program was a 40-year commitment. He explained that other committees had determined that it was important to understand the difference in the mechanics between the compliance and voluntary programs therefore, he included the comparison in the presentation.

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Representative Josephson referenced Mr. Strauss's statement that the carbon value needed to be maintained or grow on the land impacted by the agreement. He mentioned the term "leakage" and provided a hypothetical situation regarding

the state engaging in a carbon offset project on certain land and logging the adjacent land. He wondered how that would impact the offset project. Mr. Strauss replied that the scenario Representative Josephson described was crucially important to the integrity of an offset program. He elaborated that the term leakage was correct and took the situation into account. One of the pillars of the program was that any landowner who participated in the program by signing the ACR terms of use agreement, needed to attest that any reduction of harvesting on one acre would not lead to an increased harvest on another holding managed by the landowner. He furthered that in addition to the agreement, other leakage was considered by other market players who would increase their harvest to add supply because of the harvest that was taken off the market by the offset participant. He noted that under ACR the leakage reduction was "quite conservative" at 30 percent to 40 percent. Representative Josephson stated that because the voluntary market was not regulated by government, he wondered whether voluntary compliance and all it entailed was done primarily for "bragging rights" to show the participants' consumers and shareholders that they engaged in the activity.

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Mr. Strauss replied that there were a couple of different ways to view the regulatory issue. He reasoned that in the ACR voluntary market there were contracts signed by the landowners and if a landowner ran afoul of its commitment ACR could use the legal system and courts for breaching the contract. He added that the credit buyers were buying the credits because they were interested in reducing emissions. In the compliance market, entities either had to reduce their emissions under internal procedures or choose to offset their emissions. The other option for anyone who opted to offset in the voluntary market was emitting more carbon due to the lack of a mandate. In the voluntary market the reason for the wide difference in credit pricing was that some certifiers lacked strict protocols therefore, some of the credits did not justify the emissions reductions that a company may claim. However, with a reputable offset program, the credit buyer could feel confident that what was bought had real value and legitimacy in the marketplace.

Representative Coulombe asked who the third-party was that would perform the verification. Mr. Strauss answered it was a private auditing company with no allegiance to the landowner or credit buyer, whose sole purpose was to serve an auditory function and participate in field work to ensure credits were of the highest integrity.

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Mr. Strauss advanced to slide 9 titled "Key Components of Offset Quality" The slide listed the key components as follows: Additionality, Verification/Monitoring, Registration/Serialization, Leakage Reversal (intention/ unintentional), Buffer. He referred to additionality and defined it as an offset that was a legitimate action that led to a reduction in total emissions or an increase in total sequestration. He described permanence as longevity or the amount of time an entity was bound to maintain its carbon stocks. In general, the marketplace preferred at least 10 years in order to provide a significant impact. He reiterated that verification and monitoring under a third-party had to be performed on an ongoing basis to verify and continue to monetize the stream of credits that were derived from the forest. He elucidated that monitoring consisted of keeping track of the forest, how it was growing, and impacts from natural causes.

Mr. Strauss continued with registration and serialization that was the overarching framework ensuring the credits were appropriately tracked. The work was performed by non-profit groups that tracked and issued the units (carbon offsets) and then serialized. Once an emission reduction was claimed, the unit was retired after one-time use. He offered that any credit that was sold off registry was difficult to legitimize. He indicated that reversal was what happened if there was a loss of carbon stocks. An intentional reversal was a situation where a landowner over harvested and reduced its carbon stocks. The credits had to be replaced to the registry by purchasing credits in the marketplace and retiring the credits to makeup for the emissions the overharvesting caused.

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He furthered that there were also unintentional reversals, which was more common than intentional and was defined as "acts of God" and caused by natural disasters. In the ACR

program, a mandatory 18 percent buffer requirement was included in an insurance pool to account for unintentional reversal. He calculated that for every 100 credits generated, 18 credits were required to go into an insurance pool and protected the landowner from catastrophic loss.

Mr. Strauss examined slide 10 titled "Alaska DNR Pilot Projects:"

- Three areas were selected as pilot projects due to their carbon stocking, accessibility, and timber marketability.
- Three projects could collectively generate ~10 million offsets over 40-year life.
- >$80 million in revenue over 1st decade alone.

Mr. Strauss discussed the findings from the ANEW pilot project. He recounted that he had engaged in extensive discussions with DNR staff to identify 3 major regions under DNR management and decided on Haines/Southeast, Tanana, and Mat-Su (Matanuska Susitna Valley) forests. He directed attention to the report for additional information on page 13 and an addendum that broke out the difference between Haines and Southeast (SE) Alaska with the most recent data. The Tanana data was on page 15 and Mat-Su was on page 17. He commented that Haines and SE had a "richer" potential than Tanana and Mat-Su. He added that the data was done by a multi-level review that involved field data provided by DNR. His organization, ANEW, did a remote sensing examination of the forest holdings, considered access to the timber market, infrastructure, and historical and planned harvests to draw its conclusions.

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Co-Chair Foster recognized that Representative Ortiz had joined the meeting. He looked at slide 10 stating that three projects could collectively generate 10 million offsets over their 40-year life. He referenced fiscal notes attached to the bill that estimated revenue over 10 years. He thought that the key word regarding revenue generation of $80 million was "could." He asked whether the assumption in the fiscal notes was based on 10 percent of the three pilot areas generating carbon offsets. Mr. Strauss clarified there were two different periods he was talking

about; the entire life of the project of 40 years would generate about 10 million offsets. He indicated that the value would total roughly $310 million over 40 years. He clarified that the three projects over the first 10 years would generate approximately $80 million.

Representative Tomaszewski referenced slide 10 and calculated that the value per carbon offset was $32. He cited the fiscal notes showing $2.1 million in expenses in FY 24. He asked if the revenue generation numbers included expenses and inflation and if not, he requested the data. Mr. Strauss answered that the figures did include all the expenses associated with producing the offsets but did not include any fee for the development effort. The revenue estimates included the costs for inventory and verification work and for registration and issuance of the credits. The assumption was based on DNR doing the work in-house. He added that the cost for the project development depended on who would do the work. He communicated that ANEW did not charge for the implementation efforts, they partnered with landowners and took a percentage of the total revenue generated by the project. Additionally, ANEW paid for all the expenses upfront. He referred to the report and pointed to the expense columns on the project tables on pages 15 through 17. The expenses would be reimbursed on successful sale of the credits. Public entities would not have any initial upfront costs and if the project failed ANEW would cover the costs.

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Representative Tomaszewski asked about the cost of operation over the same period of time. He thought costs were broken down over a decade and 40-year project life. He requested a breakdown of the costs in the fiscal notes including development costs.

Ms. Miller interjected that ANEW did not work on the fiscal notes. She was happy to follow up and work with the Co-Chair to identify a framework for the numbers that the committee would prefer.

Representative Josephson asked if the voluntary compliance aspect ended once there was a contract. He deduced that once a contract was signed it was binding for 40 years. Mr. Strauss replied affirmatively. He clarified that voluntary referred to the market a landowner and credit buyer

operated in. In the compliance market credit, credit purchasers were obligated to participate. Representative Josephson he recalled Mr. Strauss stating that a breach of contract could be remedied in an international court. He asked where the court was located. Mr. Strauss replied that he did not refer to an international court. He clarified that a company called Winrock International, that was a large non-profit Non-Governmental Organization (NGO) owned the American Carbon Registry and he had referred to the organization. He indicated that any litigation would be carried out in the US in the jurisdiction of Virginia.

Representative Galvin cited slide 10 and recounted Mr. Strauss's statement that $310 million in revenue could be realized over 40 years. She calculated the average of about $7.75 million per year on the front end. Mr. Strauss agreed with her calculations and that it was front ended. He explained that due to the nuance of the project it was front ended in Haines and Southeast rather than in the other locations of Mat-Su and Tanana.

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Representative Galvin remarked that with the credits having no intrinsic value such as oil or timber, she had heard the carbon credits analogized with cryptocurrency and Non-Fungible Tokens (NFTs). She asked Mr. Strauss to discuss the biggest downside risk with the bill and the program. Mr. Strauss answered that the credits operated in a market context. He hypothesized a situation where the market for timber significantly increased during the timeline of an offset project, which reduced the value of the project below the value of the timber. He offered that the landowner would "be giving up" the timber value, which was what gave the carbon offset project legitimacy. The commitment was made to maintain the carbon offset. It would not be an option to reduce the timber stocks if the landowner could suddenly capitalize on a higher timber value. He always encouraged landowners to make the commitment to the full 40 years. He qualified that "off-ramps" were possible. He offered a hypothetical example in the future where a new technology could remove as much carbon out of the atmosphere as necessary for pennies on the dollar. The carbon offsets would have a low value because the market fell out. The contract had a provision where the landowner could purchase sufficient credits from the market to reimburse the registry for every credit the

project generated and exit the program without penalties. The project could be ended at the lower cost of the market rate for the credits. However, he was not suggesting the scenario could be used as an arbitrage play.

He continued by addressing any "downsides" to the legislation. He communicated that the legislation did not commit DNR to participate in any projects, it offered the option if it was worthwhile, it had no binding elements. Representative Galvin asked what percentage ANEW or companies like it charged for its services. Mr. Strauss did not know what other companies would charge. He disclosed that ANEW was the predominant company for public projects. Any project done by ANEW would vary depending on complexity, size, total amount of credits issued, etc. He estimated that the percentage would be lower if it did all 3 of the projects simultaneously, and the charge would be below 20 percent.

Co-Chair Foster noted that Co-Chair Johnson had joined the meeting.

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Representative Ortiz looked at the projection of $80 million over the next first decade. He asked if the lost opportunity costs for the harvestable timer was woven into the projection. Mr. Strauss responded that he had worked closely with DNR on the revenue projections and attempted to be fairly conservative. He elucidated that the plan allowed for timber harvesting to a certain level. The assumption was that DNR would not harvest to the extent the timber harvest plan had allowed for. It was a factor in how ANEW could design a project versus a baseline. He explained that the baseline allowed for as much timber harvesting as allowed under a harvest plan. The carbon project scenario defined what amount of harvest was acceptable and allowable; it took the ability to harvest meaningfully more off the table. He summarized that there might be an opportunity costs, but the idea was to provide truly sustainable management and remove the opportunity to increase harvest as could have otherwise. Representative Ortiz deduced that the $80 million over a decade for carbon offsets did not produce the same amount of economic activity if the timber was harvested. He wondered if timber harvesting promoted much more economic activity than an offset program.

Mr. Strauss answered that it was important to understand the carbon offset project was not a dramatic departure from current harvest management plans. However, the offset project made a concrete commitment to maintain or reduce harvest to certain levels and removed the opportunity to "ramp up" to the level of the original harvest plan.

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Representative Hannan announced that she and Representative Ortiz represented areas of Southeast Alaska. She referenced a specific harvest sale in SE, the "Brown Bear" sale that was currently under litigation. She asked whether the Brown Bear stand was included in the ANEW study. She was interested in comparing the two values of the stand: under a timber harvest or as part of a carbon offset.

Ms. Miller replied that she would need to consult with the Forestry Division to answer the question. She understood that depending on the dynamics of the project, it might not be an either or situation.

Representative Hannan asked how the decisions would be made to either offer a stand as an offset or to harvest the timber. Ms. Miller offered to provide the answer. She added that the bill explicitly contained provisions for DNR to follow when considering a project and to evaluate the state and local economic impacts.

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Mr. Strauss addressed slide 12 titled "Development Components:"

1. Project Feasibility Analysis
2. Contracting and Listing
3. Inventory
4. Modeling And Documentation
5. Verification
6. Credit Registration and Issuance
7. Credit Sale

Mr. Strauss explained the development process of a forest carbon project. He indicated that the first step was a feasibility analysis. The carbon team would gather data and use all the information to build the carbon project plan. Once the project's feasibility and economics were considered favorable, the contracting and listing process began. He elaborated that a contract was the agreement between the landowner and project developer and the listing actually listed the project onto the ACR. The inventory stage would commence, which included a detailed study of the carbon stock. Once the data from the inventory was collected the modeling and documentation phase began. Modeling determined the carbon offset plan versus the current baseline timber harvest plan. The third-party verification process was the next component. The specialized accredited auditor would review and confirm documents and perform onsite measurements to verify that all the calculations were correct. He added that the verification process could be a long process lasting up to 6 months or more and involved "a lot of back and forth" between the auditor and project developer. Following the verification, a registry review was commenced by ACR and once approved the credits were registered, serialized, and issued. Finally, the credits could be sold. He noted that bullet points 4 through 7 could happen on an annual basis of the 40-year life of a project. He pointed to the downward arrow on the slide that encompassed all seven components labeled "credit marketing" and related that ANEW offered "turnkey" service and provided service for every aspect of the process. He emphasized that ANEW maximized value to the landowner by marketing their credits directly to buyers, avoiding middlemen.

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Mr. Strauss discussed slide 13 titled "Development Timeline," which charted how long the entire process took. He offered that the entire process from its establishment took 18 months to 24 months. He noted that the project verification process typically began after 12 months, because it took one year to accumulate credits for the audit. The 40-year life of the project was broken into reporting periods, with the first one happening within the first year.

Co-Chair Foster noted that the department would address the fiscal notes at the next bill hearing.

Representative Josephson recounted that DNR studied local impacts when entertaining a project proposal. He wondered how local governments could benefit from a project. Ms. Miller responded that the bill in conjunction with the best interest finding specifically stated the department would need to consider the reasonably foreseeable effects of a project on the state and local economy. There was no direct avenue for a local government to receive revenue generated by the credits. However, the portion of credit revenue deposited into the General Fund (GF) funded a number of activities that supported local governments.

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Representative Josephson commented that the proposal was not about leasing land, but the bill talked about leasing land. He asked for clarification. Mr. Strauss answered that the ANEW report did not involve anyone leasing any land – it was simply the state enrolling its own land for a project.

Representative Josephson asked Ms. Miller to address the "conundrum".

Ms. Miller responded that the bill took two pathways to potential projects on state land. One way was described by Mr. Strauss, where the state did a project on state land in conjunction with a development company. The other avenue under the bill allowed DNR to lease state land to third parties for a carbon offset purpose.

Representative Galvin looked at slide 13 and asked for verification that it took typically 24 months to execute a credit sale. Mr. Strauss replied that ANEW aimed for 18 months but 24 months was not unusual, and clients should be prepared for that. Representative Galvin inquired about timing and the "urgency" for the bill and whether it related to the voluntary market being dynamic. Mr. Strauss confirmed that it was a dynamic market. He offered that ANEW had been the beneficiaries of an increasing market and pricing over the last decade. He commented that there were different projects that came into favor at different times and buyers had different interests in various carbon types. He did not think the market dynamics had the largest impact on how long it took to get the credits issued. He noted that there was no requirement to sell the credits once issued. The state could hold the credits if the market

softened. His company considered market dynamics and determined when to sell and when to hold.

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Co-Chair Edgmon added the four fiscal notes that totaled $2.1 million in costs in FY 2024. He asked whether he was correct. Ms. Miller responded that one fiscal note related to the state leasing portion and would never be paid through the revenue generated from a project. She pointed to DNR's Mining, Land, and Water (FN New, dated 3/30/2023) fiscal note. There was authority in HB 49 for DNR to use receipts from leasing activities to supplant GF for funding the positions that would assist with leases. She pointed to the two other DNR fiscal notes allocated to the Office of Project Management and Permitting (OPMP) (FN New, dated 3/30/2023) and the other allocated to Forest Management and Development (FN New dated 03/31/2023) related specifically to a carbon offset project on state land. Both pathways would employ things like best interest findings, etc. Co-Chair Edgmon presumed that there was already work done on the three pilot projects and he assumed it was done in-house without any additional budget. He deduced that with every lease there were two purposes, one was to harvest timber and the other was a carbon offset project. He asked if the bill addressed the issue.

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Ms. Miller asked if his question was specific to the leasing pathway. Co-Chair Edgmon answered in the affirmative. Ms. Miller replied that a land lease to a third-party did not convey any timber rights. Co-Chair Edgmon presumed that a timber harvest would take place. Ms. Miller answered that the bill did not restrict a carbon offset project lease to a third-party to timber. She mentioned that kelp farming was a potential way to use nature and sequester carbon. A forest carbon offset project would entail some likelihood of harvest. Only the state could undertake an offset project in the Tanana and Southeast state forests. She qualified that forested state land was open to a third-party lease, which did not require a commitment to harvest timber.

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Co-Chair Edgmon he pointed to page 7 of the bill that referred to the mitigation of greenhouse gases. He asked if the definition of mitigate greenhouse gases was defined in statue. He cited page 6 of the bill and referred to "transferrable instruments and "admission reduction of one metric ton." He understood that the state lacked the framework to voluntarily commit to a project and understood that was the purpose of the bill. He concluded that he needed more information in order to understand the concepts of the bill.

Co-Chair Foster did not intend to rush discussions on the carbon bills. He wanted the committee to gain a thorough understanding and feel comfortable with the topic.

Representative Stapp stated he was having a hard time understanding one of the pilot projects related to the Tanana State Forest. He was not aware of any large scale timber operations in that forest. He wondered why someone would pay the state not to harvest timber it was not harvesting. Ms. Miller replied that when the registry looked at a potential project, they looked at whether a harvest was legal. The registry then analyzed the commercial possibility of harvesting timber, whether it was currently being harvesed or ever had been harvested in the past. The registry also considered factors like proximity to mills and whether the type of timber was appropriate for the mill to process, etc. She deferred to Mr. Strauss for a further answer.

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Mr. Strauss replied that credits were generated in two ways. He explained that there were credits from avoided harvesting and credits for new growth that took place since the project's inception. He indicated that Tanana had less attractive timber than Haines. In the Tanana case, what was considered was what would be financially attractive and would involve harvesting anything less than what was projected in the hypothetical. He referenced page 15 of the report that detailed the Tanana Project, which talked about conservation credits and removal credits (meaning removal of carbon in the atmosphere). The Tanana Project only received removal credits and did not receive conservation credits because they were not modeling any potential credit generation from avoided loss of the existing stock.

Representative Tomaszewski cited the four fiscal notes that reflected about 25 percent of the $8 million per year. He asked if there was inflation proofing in the calculation of the carbon credits and whether it would it be a flat fee or if the fiscal notes would change over the years with inflation. He estimated that 45 percent of the revenue was already spoken for in the fiscal notes. He asked if the Forest Management and Development fiscal note covered the development timeline shown on slide 13 or whether a third-party was involved.

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Ms. Miller replied that the fiscal notes did not account for the costs of a project developer to do a turnkey operation. The operating costs on the fiscal notes were internal positions for DNR. She furthered that the capital outlay in the OPMP allocated fiscal note included some money for contractual expertise but did not include a program developer. She deferred to Mr. Strauss to answer the question regarding inflation proofing related to the credits.

Mr. Strauss answered that the tables reflected a world with static inflation. He deduced that if there was inflation in the expenses there would likely be inflation in the price of the credits. He was constantly examining what was happening in the market. He emphasized that the data reflected selling credits in the given years. He provided a scenario where some years some credits were held back or all were sold, etc., depending on the market. The marketplace should be constantly scrutinized to maximize revenue from the sale of credits.

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Representative Tomaszewski asked if there was a project or contract, who would be responsible if the forest burned down. Mr. Strauss recounted his discussion of a type of insurance that deposited 18 percent of all the credits into a buffer pool for catastrophic loss and reduced the state's liability (unintentional reversal.) If the state chose to harvest trees, which was an intentional reversal, it would be obligated to purchase and replace the lost credits.

Representative Tomaszewski asked if the buffer was an insurance policy. He wondered if it was an account that the

state owned and built up. He clarified that 18 percent would go to insurance in form of a buffer pool. He asked if he was correct. Mr. Strauss responded in the affirmative and added that the 18 percent was an insurance-like purchase. The credits were held by the ACR and required that for every credit .18 credits would need to be pushed into the buffer pool as a protective measure in case of unintentional reversal. He reiterated that out of every 100 credits generated the project received 82 and the remainder of the credits were deposited into the buffer pool. He added that all of the data in the report accounted for the buffer pool credits.

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Representative Coulombe asked for confirmation that for every credit generated 18 percent would go to the insurance pool. Mr. Strauss responded in the affirmative. Representative Coulombe asked when the money would start getting transferred to the insurance pool. Mr. Strauss responded that there were never any dollars exchanged. The buffer pool was made up of credits, not dollars. When the credits were issued to the project the buffer pool credits transfer would happen simultaneously. Representative Coulombe understood that the carbon credits were worth money, and a percentage of credits would be deducted for the pool. Mr. Strauss responded that the project was generating the carbon credits and a purchaser would buy them. He explained that there was an expense of $0.17 per ton from the registry for the issuance. There would be no fees involved for the percentage of credits transferred into the buffer. He suggested that the way the transfer of buffer credits should be viewed was of the 100 credits that were generated, only 82 would be received because the buffer poll retained the remaining credits.

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Co-Chair Foster requested a profit and loss report that included all of the costs and associated expenses, fees, etc. including the buffer pool.

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

Co-Chair Foster reviewed the agenda for the following day.

#
ADJOURNMENT

3:17:05 PM

The meeting was adjourned at 3:17 p.m.