HOUSE FINANCE COMMITTEE
April 18, 2023
1:35 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:35 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

John Crowther, Deputy Commissioner, Department of Natural Resources; Ryan Fitzpatrick, Commercial Analyst, Division of Oil and Gas, Department of Natural Resources.

PRESENT VIA TELECONFERENCE

Kurt Krapfl, Director of Forestry, American Carbon Registry; Rena Miller, Special Assistant, Commissioner's Office, 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.

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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KURT KRAPFL, DIRECTOR OF FORESTRY, AMERICAN CARBON REGISTRY (via teleconference), relayed that the American Carbon Registry (ACR). He explained that ACR was a carbon offset registry and issued credits that could be used in voluntary and compliance carbon offset markets. He provided information about his education and professional experience in the carbon market. He shared that he had reviewed projects throughout the U.S. and Canada and had helped in developing ACR's carbon offset methodologies. He was also responsible for ACR's portfolio management and strategic direction.

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Mr. Krapfl provided a PowerPoint presentation titled "The Role of Forest Carbon Credits in Alaska's Forest Management and Carbon Reduction Strategies"(copy on file). He began on slide 2 and detailed that ACR was a carbon offset registry founded in 1996 as the first private and voluntary greenhouse gas registry in the world. He elaborated that ACR was a subsidiary of a larger nonprofit organization called Winrock International. Winrock International was based in Little Rock, Arkansas and did community development and sustainability projects nationally and worldwide. He explained that ACR operated in the compliance

and voluntary carbon markets. In 2012, ACR was approved as a California Offset Project Registry under California's Cap-and-Trade program and was one of only three registries approved. In 2020, ACR was approved by the International Civil Aviation Organization (ICAO) to supply offsets to the airline industry. In 2023, ACR was approved by the Washington State Offset Project Registry for its emerging Cap-and-Trade program.

Mr. Krapfl continued to review slide 2 and reported that the ACR team had over 250 years of collective market experience:

- Forestry team consisting of six (3 PhD and 3 MS) technical and policy experts
- 70+ Compliance forestry and >130 Voluntary forestry projects registered

Mr. Krapfl detailed that ACR had over 200 projects that spanned compliance and voluntary carbon markets in its forestry portfolio alone.

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Mr. Krapfl turned to slide 3 and discussed the carbon market. He explained that the point was that rapid decarbonization provided monetary incentive for meeting goals of the Paris Agreement targets. He detailed that carbon offsets themselves were not a silver bullet to addressing climate change. He explained that ACR believed the first step was decarbonizing the economy and carbon credits were to be used to offset residual emissions that could not be directly out of the supply chain initially or over time. In the past years, there had been a rapid expansion in the voluntary carbon market (the carbon market driven by corporate actions and environmental consciousness).

Mr. Krapfl explained the voluntary carbon market included a lot of net zero and climate neutral targets. Over 2,000 companies engaged in the voluntary carbon market to date, and it had grown to a $2 billion industry. There were projections that the market would grow exponentially in the coming years. The compliance market included cap and trade programs where emission sources were capped, and allowances or offsets were issued to certain participating entities.

Mr. Krapfl detailed that the entities were then incentivized to decarbonize. He explained that entities that could decarbonize quickly were rewarded with the ability to trade the offsets to other entities in areas that were harder or took longer to decarbonize. He stated that the voluntary carbon market had emerged as a very important means of the efforts, especially in the U.S., to meet the commitments under the Paris Agreement. He highlighted the aviation industry under industry regulation related to sustainable aviation and fuels.

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

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Mr. Krapfl addressed slide 4 titled "Nature-Based Solutions." He highlighted examples of project types under ACR's portfolio that he thought Alaska may be interested in such as improved forest management, which involved extending rotation lengths and committing to increase carbon stocks compared to an alternate legal and plausible baseline scenario. Other project types such as afforestation/reforestation would be incredibly important nature-based solutions to climate change. The projects would involve planting trees on marginal or degraded lands that would not be expected to regenerate to forest. The projects were credited for forest carbon accrual and included tree growth and biomass accrual. Avoided conversion was a third project type that included avoided conversion of forest to non-forest (e.g., agriculture, mining, residential). The project type involved appraisal to the highest and best use for the property compared to its use in forestry and would involve putting a conservation easement on a property to make sure [development] did not happen. He noted that carbon credits were unique and important in incentivizing climate action and attaching monetary value to forest conservation, ecosystem benefits, and amenity values. He explained that in many other scenarios the only monetary value was the timber.

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Mr. Krapfl turned to slide 5 titled "ACR land sector portfolio." He relayed that there were 16 methodologies across the ACR portfolio including [but not limited to]

three improved forest management (IFM) methodologies, the U.S. forest methodology, the Canadian IFM methodology, an IFM methodology for small non-industrial private forest (NIPF) land, afforestation/reforestation, avoided conversion of forestland, and two wetlands methodologies. He stated that ACR incorporated numerous land ownership classes including industrial, land trusts, municipal and state lands, small landowners, and tribes. He noted there was opportunity for a variety of different land ownership classes in Alaska.

Mr. Krapfl continued reviewing slide 5. He relayed that ACR had a multitude of projects and most of those enrolled in its program in the land sector were improved forest management, but there were other opportunities as well. He highlighted that ACR's forest credits issued had taken off, especially around 2015/2016 when the California Resources Board started ramping up its enrollment. He reported that ACR's credits issued continued to grow and growth was expected to be exponential in the coming years.

Mr. Krapfl moved to slide 6 titled "Project Development Process." The process was made up of four phases including project feasibility, monitoring/reporting, validation/verification, and credit issuance. He discussed project feasibility considerations including eligibility and costs, the commitment period (40 years under ACR), and potential buyers. He relayed that the first step of the monitoring/reporting phase was establishing and maintaining a forest carbon inventory, which included detailed timber cruising that led to quantifying forest carbon stocks and reporting on a periodic basis to the American Carbon Registry.

Mr. Krapfl moved to the third phase, which was independent third-party validation and verification of carbon credit claims. He explained that validation was confirmation of eligibility for the program and verification was on a five-year basis at minimum and could be done more frequently if desired. He elaborated that every five years a site visit field-based verification was required where trees were measured. Desk-based verification could be done during the interim if a party was looking for more frequent carbon offset issuances. He highlighted the fourth phase, the issuance of serialized carbon offset credits. The credits were tracked and retired in ACR's secure registry platform.

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Mr. Krapfl relayed that the next section of the presentation would address tenets of the carbon market needed for demonstrating quality. He advanced to slide 7 titled "Additionality." The first consideration was what would happen in the absence of the project and whether the project was causing real climate benefits. He detailed that ACR used a three-pronged additionality test that considered regulatory surplus, common practice (e.g., typical harvesting rates on nearby properties, and what had been done historically), and implementation barriers (the forestry analysis typically financial, but could be technological or institutional). He elaborated on implementation barriers and explained there was a high value of timber and in order to sequester carbon it was necessary incentivize a change in forest management.

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Mr. Krapfl turned to slide 8 titled "IFM project example." He believed the State of Alaska would primarily be most interested in the IFM project type and he would review the crediting for the particular project type. The slide showed a graph of an IFM project example. He pointed to the initial carbon stocks where the yellow line [reflecting the project] and the red line [reflecting the baseline] merged at time zero, which represented the carbon stocks at the initial forest inventory. He explained that the red line was a counterfactual scenario of what could happen in the absence of a project driven by regulatory requirements, accessibility, operability, distance to mills, and mill capacity. He noted there were many considerations in the development of the baseline scenario. He relayed that the baseline was also driven by net present value using an appropriate discount rate by ownership type. For state lands the net present value discount rate would be 5 percent. The project line shown in yellow reflected how the forests were being managed. He explained that ACR's program required a participating entity to continually grow its forest carbon stocks above their previously issued levels. Participants also had to re-measure their forests and verify the carbon stocks at least once every five years.

Representative Josephson looked at slide 8 and noted his question pertained to additionality. He remarked there was a bill on the House floor the following day, which would

move from 5-year timber sales to 10-year to 20-year sales and would liberalize some forest practices for certain trees deemed salvage trees at the discretion of the commissioner. He reasoned that if contracts were made pursuant to the bill, presumably the contract could not be undone. He asked if Mr. Krapfl had experienced a situation where two different concepts in a state were working in opposing directions. He asked how to meld two concepts that were currently dynamic and in flux.

Mr. Krapfl answered that he did not know about the particular bill Representative Josephson was referring to. He stated that if the bill salvaged timber, ACR always considered legal restraints in its baseline and if other legal constraints came into effect during the recording period, the baseline would need to be updated. It was possible the baseline may need to be updated if contradicting legal requirements came into place during the recording period or before.

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Mr. Krapfl advanced to slide 9 titled "Permanence." He explained that permanence was the concept that the carbon stored, because of the project's activity, needed a contractual and legally binding term guaranteeing the carbon would not be released back into the atmosphere. The ACR required a 40-year commitment to retain and increase carbon stocks, which coincided with climate targets for decarbonizing by midcentury and for nature-based solutions to climate change aligned with Paris Agreement targets. He explained that during that time it was necessary to continually monitor, report, and verify to ensure permanence.

Mr. Krapfl detailed that any nature-based solution such as forest would have the possibility for the release of carbon due to natural or landowner disturbances. There were separate, specific ways to treat risk mitigation. He expounded that ACR required a percentage to be contributed into a shared buffer pool for every issuance of carbon offsets due to nature-based solutions. He explained that the buffer pool acted as an insurance mechanism. He furthered that unintentional reversals could include wildfire, flood, wind events, and insect/disease, which were all out of control of the project component and ACR would not expect the participant to be liable for the

losses. He detailed that because all projects contributed and not all projects were expected to use the buffer, ACR felt it had a robust risk mitigation mechanism to handle unintentional reversals. If a substantial number of stocks were lost, ACR would cover the loss with funds from the buffer pool. He explained a scenario involving an intentional reversal. For example, if a project harvested more than annual growth such that the carbon stocks decreased below previously issued levels, they would be covered by the project proponent out of pocket.

Representative Stapp stated his understanding that the biggest benefit for Alaska would be forestry maintenance, something that was not currently done in many of Alaska's forests. He referenced risk mitigation, buffer contributions, and mitigation of the long-term catastrophic effects on carbon offsets posed by wildfires. He asked if it was true that practicing good forest management reduced the potential risk and liability to losses. He asked if ACR would consider it good or bad practice.

Mr. Krapfl replied that ACR did consider it good forest practice. He explained that ACR had a tool that was based on project location that considered fuels management, flood risk, flammability of the forest, etcetera. He explained that a participant's contribution was based on their project attributes. For example, certain things like fuels management could reduce a participant's contribution. The program incentivized good practices.

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Mr. Krapfl turned to slide 10 titled "Quantification." He explained that each of ACR's methodologies had specific ways of quantifying the carbon in forests. The quantified carbon benefit is the carbon stock difference between the project and baseline scenarios. He noted there were some reductions required for sound carbon accounting. He detailed that the gross number of credits or ERTs [emission reduction tons] required a deduction for physical uncertainty where warranted. He explained that ACR required that forest inventory had a statistical accuracy and precision level of plus or minus 10 percent of the 90 percent confidence interval. He elaborated it was driven by the number of forest carbon plots put out on the land and the size of the land. A project with more plots and a uniform forest would have a low sample error and could

avoid the deduction; however, ACR required a deduction for projects with higher statistical uncertainty.

Mr. Krapfl addressed the concept of carbon leakage and explained that if a forest carbon project was reducing the amount of harvest in a project area, there was the possibility that neighbors or market forces may be driven to increase more harvesting in their areas to compensate for the reduction in wood products. He explained that a decrease in the amount of wood products in the market was likely to increase prices; therefore, it may incentivize harvesting elsewhere. The ACR used a 30 percent crediting deduction for leakage, based upon academic literature. There was another option to directly quantify leakage although it was an abstract concept that was difficult, but possible, to do in the field.

Mr. Krapfl continued to discuss slide 10. He explained that the buffer contribution was driven by a project's attributes and typically ranged from 15 to 22 percent for forestry projects (with an average of about 18 percent). The credits went into the buffer and ACR did not make any profits off of the buffer. The net ERTs or credits issued to a project were calculated by subtracting the buffer contribution from the gross ERTs.

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Representative Hannan asked what ERT stood for.

Mr. Krapfl replied that ERT stood for emission reduction tons, which was one metric ton of carbon. He turned to slide 11 titled "3rd Party Verification." He relayed that third-party verification was a key step for any reputable crediting program. He explained that third-party verifiers had to be approved by the international standards organization. Site visit verifications were conducted at least every five years where trees were measured and compared to the project developer's measurements to ensure measurements were done correctly. Full quantification checks were conducted, which entailed checking tree level calculations that went into quantifying the amount of carbon in the forest. He elaborated that the third party did its own independent full quantification and compared it to the project developer. The third party conducted a materiality check. He explained that the difference between the project developer's calculation and the verifier's

calculation could not have a difference of more than 5 percent. The third party also fixed all of the correctable errors. He noted that typically the differences were only related to rounding.

Mr. Krapfl continued to address slide 11. He relayed that successful verification was followed by an ACR review, which led to serialized offset credit issuance (the registry tracked credits from issuance through retirement).

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Mr. Krapfl discussed the role of registries on slide 12. To safeguard the environmental and financial integrity of the carbon market. He detailed that registries set the rules for what constituted high quality carbon offsets. Additionally, registries reviewed projects to ensure they complied with requirements and developed scientific methodologies to quantify the amount of forest carbon sequestered based on the project actions. Each of the methodologies had a public comment period where anyone could participate in the scientific process. He relayed that ACR received many comments and responded to each of the comments and revised methodology as needed. The work was followed by a blind scientific peer review process that was at the same level of publishing as a high quality academic journal. He elaborated there were typically three or four experts in the academic and industry space that weighed in and ACR did not know who the individuals were during or after the process. The process was administered independently of the authors and all of the issues needed to be closed out before any of ACR's methodologies could be published.

Mr. Krapfl reiterated that registries had a safeguarding and quality assurance role. He detailed that ACR had secure registry software that issued credits that could be tracked throughout their life. He relayed that ACR was a legally registered nonprofit under the Internal Revenue Service (IRS). The registry had a nominal annual fee for each project listed under its program and there was a 17 cent per ton activation and retirement fee. He shared that critics had suggested in the past that if a registry was charging on a per ton basis, it may have incentive to over credit. He underscored that was not the case. He explained that ACR did not charge fees when credits were issued; it charged fees when credits were activated and used for

transfer retirement to meet compliance or a climate obligation. The registry was not incentivized and did not earn any revenue on credits if they were not considered the highest integrity and they were not used. He explained that it mitigated many of the concerns and it aligned with ACR's effort of ensuring quality of every credit and delivering real climate impact.

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Co-Chair Johnson stated she was trying to wrap her head around ACR's clients and where the money came from. She detailed her understanding that ACR was trying to make a match between people offsetting carbon and people producing carbon through a third-party verified system. She asked who would be setting up the system where there was an actual monetary value. She wondered if clients were governments, countries, banks, and venture capitalists.

Mr. Krapfl asked for verification that Co-Chair Johnson was wondering who would use the credits.

Co-Chair Johnson stated there had to be an entity with money that would provide money to a project that was carbon neutral and that wanted to ensure the project was verified through a registry. She wondered who the entities were that wanted people to use a registry versus something less reliable. She wondered if the entities were venture capitalists, states, other countries.

Mr. Krapfl replied that ACR's reputation had been built by over 30 years in the carbon market. He detailed that ACR was one of the three carbon offset registries chosen to work in the California Cap-and-Trade program and similarly in the Washington State program and the International Civil Aviation Organization program. He explained it was a very comprehensive assessment of program requirements in order to get approved. There were few emerging evaluation networks currently being established including the Integrity Council for the Voluntary Carbon Markets that addressed what constituted a high quality carbon offset and what program requirements were necessary across the board to ensure high integrity. He explained there were only a handful of carbon registries, including ACR, that met the requirements. He believed Co-Chair Johnson's question was in regard to standardization and what represented a high quality carbon offset. He referenced ACR's track record and

principals of permanence and additionality, free of leakage, and requiring field verification, which were all necessary in order to meet the level of integrity.

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Co-Chair Johnson clarified that she was trying to get a sense of who or what entity was registered as carbon neutral and put the information on a bank loan application or request for venture capital funding. She assumed the entities were applying for money somehow and the registry was there to verify the integrity of the carbon and offsets. She asked who the entities were. She reiterated her previous question.

Mr. Krapfl replied that the end users were all of the above mentioned by Co-Chair Johnson including banks, regulated entities under a compliance system, technology companies, etcetera. He elaborated that many of the largest companies in the U.S. had climate obligations they used the credits for. There were a variety of people involved including landowners, project developers, independent third-party verifiers, and registry. He relayed that ACR did not get involved in any project development; it merely set the requirements and ensured projects met them. He explained that in the voluntary carbon market people could trust that credits had gone through the process because of ACR's accolades and due to its rigorous processes.

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Co-Chair Johnson remarked that ACR had been involved with carbon credits for quite some time. She asked if ACR had originated from a United Nations climate accord or climate goals established by a state. She wondered how the market originated and about the registries providing quality assurance. She wondered what it was measured against.

Mr. Krapfl replied that up until the Paris Agreement there had not been any regulated caps for industry and their carbon obligations in the U.S. other than California and the State of Washington that were establishing cap-and-trade programs, much of the commitments were voluntary and driven by consumer demand and industry wanting to do what it could to help with climate mitigation. He elaborated that a regulated state like California had very specific criteria that carbon offset registries needed to meet. He

noted that meeting the criteria was not easy and required a lot of certification and insurance. He stated it was the bar that needed to be met in regulated spaces.

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Representative Galvin noted the meeting agenda had listed the Alaskan Carbon Registry, which she assumed was a typo and was meant to be the American Carbon Registry. She considered ARC compared to Anew. She appreciated the committee had learned about the history of what the model looked like and was meant to do. She was trying to articulate the difference between the two presentations the committee had heard [by ARC and Anew]. She wondered if the two organizations were offering the same services or if the registry was an entirely different piece with a shared model, which explained the reason for similar messages. She looked at slide 12 and asked for a sense of the business plan. She wondered about the cost of each of the components and the revenue.

JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, replied that the Department of Natural Resources (DNR) was working to present some information about the costs of project development and associated revenues in addition to how it interrelated to the fiscal notes attached to the bill. He would follow up with the information. The department viewed ACR as a third-party verifier of projects, while Anew was a project developer. The state and Anew would work together to propose a project and register it through a protocol maintained by an entity like ACR. He expounded that buyers would see that the credits were registered on a respected and known registry, which would have a degree of certainty about their terms and quality.

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Representative Galvin looked at slide 12 and stated her understanding the committee was currently hearing from a registry and in a previous meeting on the bill there had been a presentation from a potential project developer.

Mr. Crowther nodded in agreement.

Representative Galvin asked for clarification on the name of the organization currently presenting. She wondered if

the reference to the Alaskan Carbon Registry had been accidental or intentional.

Mr. Crowther replied that they were currently hearing from the American Carbon Registry; there was not an Alaskan Carbon Registry. He thought it may be a typo.

Representative Coulombe had a question about the value of carbon credits. She looked at slide 4 showing solutions including improved forest management, afforestation/reforestation, and avoided conversion. She asked if the three items listed on the slide were all equal in value. For example, she wondered if focusing on credits related to improved forest management would be just as valuable as the other two.

Mr. Krapfl replied that the credits varied in price as set by the market. He detailed there were two different types of improved forest management credits including a conservation credit aimed at avoiding deforestation, which was related to the baseline, and a removals credit related to growing the trees larger. He relayed that ACR viewed the climate benefit as the same, but the two types were distinguished in its registry for transparency. He explained that generally the removal of credits received a bit higher price than the avoided emissions. He elaborated that some of the pricing was based on who was buying the credit and what their interests were (e.g., if a credit fit a purchaser's geography and whether the purchaser liked the story behind a project). He detailed that avoided emissions may be going for $10 to $20 per ton in the states currently, whereas removal may be going for $20 to $30 per ton.

Mr. Krapfl stated that reforestation projects were generally a bit more difficult to bring to market because of the time lag between planting a tree and its growth; however, it was very important and something that buyers recognized, which meant the credits were on the high end of the removals crediting spectrum. He stated that avoided conversion was an impactful project type (avoided conversion of forest to non-forest) and resulted in many avoided emissions and removals credits as well. He communicated that the market determined the pricing and it could vary widely.

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Representative Coulombe looked at slide 11 related to third party verification. She listed the process including a site visit every five years, a third-party qualification check, and an ACR review. She asked how many times the site had to be visited to receive and maintain the credit.

Mr. Krapfl replied that the site visit requirement was a minimum of once every five years, which came out to eight visits over the life of a project with a 40-year term. He explained that desk-based verifications could be done more frequently if desired. He detailed that the desk-based verification was more of a modeling exercise, whereas measuring the trees out in the field was a larger endeavor.

Representative Coulombe clarified her question. She asked if ACR had to verify and do its own review independent of the site visit occurring every five years.

Mr. Krapfl clarified that ACR was a standard setting body and did not verify carbon claims. There were independent third-party verifiers that conducted the verifications according to ACR's program. He elaborated that ACR reviewed project detail requirements and conducted high-level quantification checks prior to issuing any credits. He relayed that ACR tried to stay separate from individuals in the field for impartiality.

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Co-Chair Foster discussed the meeting timeframe.

Representative Hannan directed a question to the department. She noted that in a prior discussion on HB 50, the department shared that it started to look at the concept after industry had highlighted its interest in the area. She asked where the impetus for HB 49 came from. She asked if there were industry partners or people seeking forestry carbon registry goals in Alaska.

Mr. Crowther answered that generally speaking there was an increasing awareness and interest in the types of projects. He relayed that Alaska Native Corporations (ANCs) had been pursuing the projects. Additionally, there were projects in forest management in the country and worldwide. The primary impetus for the legislation was the increased awareness as opposed to discreet projects being proposed. He added that

a variety of people had come to the state with a variety of carbon management related interest in Alaska because of the scope of its resources above and below ground. He noted that the occurrence of the projects through ANCs was the most discreet precipitating event for the state's investigation of the topic.

Representative Ortiz looked at nature-based solutions on slide 4. He pointed to the last statement on the slide: "Provide important contributions to climate change." He asked if there was a climate change measurement process that took place and considered things like temperature change. He clarified that he did not doubt it was happening. He asked if it was actually possible to measure providing important contributions to climate change.

Mr. Crowther explained the context of the phrase cited by Representative Ortiz on slide 4. He clarified that the projects were identified as carbon reduction in the atmosphere. He stated that carbon dioxide in the atmosphere was attributed to being a driver of climate change and reducing or managing it was associated with contributing to limiting climate change.

Representative Ortiz asked for verification there was a way to measure how much carbon was being removed from the atmosphere by using a baseline year and measuring five years later.

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Mr. Crowther replied that the measurement done through the projects was more associated with the amount of carbon in the biomass as opposed to measurements of the atmosphere. He noted it was very difficult to assess an incremental change on a global scale. It was much more manageable to measure whether a specific plot of land had more trees than it did 5, 10, and 20 years ago; therefore, there was more carbon dioxide sequestered in the area. The intent of the program was incentivizing carbon in the landscape as opposed to the atmosphere.

Representative Galvin asked if Mr. Krapfl played a role in drafting the bill. She wondered about the financial returns for the state.

Mr. Krapfl replied that he had no part in drafting the bill. He explained that ACR issued credits, but the actual returns for Alaska would be better directed to Anew or someone similar.

Co-Chair Foster believed the intent of the next hearing on the bill was to address feasibility questions and the numbers.

Mr. Crowther replied the intent was to present more revenue information at the next hearing on the bill.

Representative Galvin asked if she should wait to ask questions pertaining to the wording of the bill.

Co-Chair Foster asked for the question on the bill.

Representative Galvin referenced language on page 2, line 4 of the bill: "When competitive interest has been demonstrated or the commissioner determines that it is in the state's best interest." She thought the two things seemed to be the same thing and wondered about the word "or."

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Mr. Crowther deferred to a colleague.

RENA MILLER, SPECIAL ASSISTANT, COMMISSIONER'S OFFICE, DEPARTMENT OF NATURAL RESOURCES (via teleconference), replied that the language referenced by Representative Galvin was currently in statute. She explained that the bill would amend the existing provision according to the bold at the far right of line 2 on the same page.

Representative Galvin referenced statutes included in the bill and observed there were a lot related to leases. She assumed the language was relatively similar to oil and gas leases. She asked if the language was representing the same business model shown on slide 12 of the presentation. She stated her understanding that there would be a land lease where the project manager such as Anew would bid on land and would then go through a carbon registry. Alternatively, she wondered if the state would do "this." She was trying to understand if the third party was needed and if it was the reason there was leasing language in the bill.

Mr. Crowther believed the intent of the bill was to allow flexibility for state-managed projects on state-managed lands potentially with the support of third party organizations like Anew or to let third party developers pursue projects with a lease. He stated his understanding that both of the kinds of projects would potentially utilize third party registries like ACR to verify and register credits created by the project.

Representative Galvin stated her understanding that it would be left wide open depending upon the players coming to the table (i.e., state entities or another group looking for carbon offset projects). She observed that under the legislation the [DNR] commissioner would determine whether a project was in Alaska's best interest. She believed carbon offset projects could be independently operated by an entity other than the state and perhaps in parallel with state projects.

Mr. Crowther believed Representative Galvin's understanding was correct; however, there were certain areas of land that were limited to state projects (e.g., state forest lands). He noted that the discretion of the commissioner was expressed through a best interest finding and a public input process.

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Mr. Krapfl continued on slide 13 titled "California Cap & Trade." He shared that the remaining slides included portfolio metrics, some in relation to Alaska and some in terms of state lands. Slide 13 showed metrics on the California Cap-and-Trade program. He highlighted that forestry played a large part in California's program with the remainder in industrial solutions. Forest management accounted for over 90 percent of the program. He highlighted that ACR had the leading share in terms of forestry issuance by registry in the California program.

Mr. Krapfl advanced to slide 14 titled "ACR Voluntary Portfolio." The ACR voluntary portfolio was split between forest carbon and a variety of other agricultural and land-based projects such as wetlands and agriculture, and industrial projects (e.g., destroying ozone and depleting gases). Additionally, IFM was also a large part of ACR's portfolio and was somewhat more evenly distributed between Canadian IFM reforestation, wetlands, etcetera. He

highlighted that ACR's projects were distributed nationwide including in Alaska. He detailed that about 4 percent of its registered projects were in Alaska. Many of its projects were located in the upper Midwest and along the Gulf Coast.

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Mr. Krapfl turned to slide 15 titled "Other Relevant Stats." He relayed that ACR currently had 12 state, county, and municipal projects listed under its registry. Additionally, ACR had 16 Alaskan projects and 27 tribal or ANC projects. He detailed that 4 percent of ACR's projects were registered in Alaska; however, over one-quarter of its total issuance volumes currently come from Alaska. He stated there was a big opportunity in Alaska based on its resources.

Representative Josephson looked at nature-based solutions on slide 4. He noted that Mr. Krapfl had talked about conservation credits and secondarily about removal. He asked if Mr. Krapfl meant the removal of carbon by growing trees larger.

Mr. Krapfl replied that conservation credits were given for avoiding emissions to the atmosphere associated with more intensive harvesting that could be done in the baseline scenario. He explained that removal of carbon from the atmosphere entailed growing trees larger, accumulating more biomass over time. He stated it was similar to reforesting or planting trees, only it pertained to existing trees that were accumulating more biomass.

Representative Josephson asked how timber harvesting fit into slide 4. He observed that the emphasis on slide 4 included extending rotation lengths (leaving trees in the ground longer), planting new trees, avoided conversion, and conservation easements. He asked whether the state could do the other things [listed on the slide] if it wanted to do some harvesting.

Mr. Krapfl affirmatively. He explained that ACR's projects did not restrict harvesting from occurring. He elaborated that for IFM it would reduce the harvest levels and set the threshold for the amount of timber that could be cut. He expounded that it may incentivize and provide funds to do different types of harvesting. For example, converting from

clearcuts to single tree selection. He explained that forests could be managed and harvested differently than the state would have done traditionally and the funds from the carbon could help to do so.

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Representative Hannan looked at slide 14 showing that Alaska was 4 percent of [ACR's] project distribution (the number of projects nationwide). She turned to slide 15 that showed Alaska accounted for 34 percent of the volume. She surmised that the small number of projects reflected a total carbon value of 34 percent. She assumed the volume was measured on carbon value and not acreage or anything else.

Mr. Krapfl replied that slide 14 was based on the number of projects registered with ACR and slide 15 was issuance volumes. The slides showed that 4 percent of ACR's projects were producing a large number of credits.

Representative Hannan looked at other relevant statistics on slide 15 including 16 Alaskan projects in addition to [27] tribal/ANC projects and 12 state/county/municipal projects. She assumed the only projects that were Alaska specific were the 16 Alaskan projects. She asked if all 16 were either tribal or ANC projects.

Mr. Krapfl answered that there were a total of 16 Alaskan projects, many of the 16 were tribal or ANC, but some were privately owned. The remainder of the [27] tribal/ANC projects were distributed through the continental U.S.

2:56:05 PM

Representative Tomaszewski looked at slide 6 related to serialized carbon offsets that were tracked and retired in ACR's secure registry platform. He asked for additional detail on how the secure registry platform worked and how carbon offsets were retired.

Mr. Krapfl answered that the registry platform was on a publicly accessible website showing existing projects. The website kept records of carbon claims. He explained that ACR's standards and documents showed what information needed to be publicly available and what needed to be private. He characterized the platform as a clearinghouse

of information available for people to view. The website included issuance volumes, project locations, and a variety of other project attributes. He explained that ACR issued credits on a per ton basis and each ton had its own serial number. The serial number acted as a unique identifier to enable the credit to be traded and tracked. He explained that when someone used credit against their climate commitments it was designated as retired to ensure it could not be sold or used twice. He relayed that one unit of carbon dioxide was used once for one climate mitigation action.

Mr. Crowther thanked Co-Chair Foster and relayed that the department looked forward to continuing work on the bill.

Mr. Krapfl thanked the committee for the invitation to present.

Co-Chair Foster noted that the next bill hearing would include a deeper dive into the fiscal notes and bill.

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

#hb50
HOUSE BILL NO. 50

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

2:59:22 PM

Co-Chair Foster noted the committee had left off on slide 23 in the last hearing on the bill.

RYAN FITZPATRICK, COMMERCIAL ANALYST, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, continued a PowerPoint presentation titled "HB 50 Carbon Capture, Utilization, and Storage," dated April 11, 2023 (copy on file). He began on slide 24 titled "Funding Sources." He provided an overview of the three funding mechanisms in the bill, which all served different functions. The first was a regulatory program charge for the Alaska Oil and Gas Conservation Commission (AOGCC), which was similar to the regulatory cost recovery fee for oil and gas leases. The mechanism funded AOGCC operations for its work on Carbon Capture, Utilization, and Storage (CCUS) projects. The

second was the leasing and licensing of state lands Department of Natural Resources (DNR) charge, which included lease rentals, carbon dioxide injection charges, and revenue sharing agreements between CCUS operators and DNR. He elaborated that the funds went to the state general fund with a portion diverted to the Alaska Permanent Fund. The leasing and licensing of state lands would be the primary revenue driver for the state.

Mr. Fitzpatrick turned to slide 25 titled "Funding: Closure Trust Fund" and addressed the last of the three charges, the carbon storage closure trust fund. He explained that an injection charge went into a long-term fund to cover potential long-term liabilities for the state associated with the management of the carbon dioxide after a site had been closed and the state took title to the carbon dioxide. He noted it was a separate charge from the money that went to the general fund; the funding was kept in a separate fund to pay for the long-term liabilities.

3:02:17 PM

Mr. Fitzpatrick moved to hypothetical revenue opportunities on slide 26. He underscored that DNR had developed the hypothetical scenarios based on potential opportunities. He clarified that the slides did not indicate the scenarios would occur or occur in the manner shown. The intent was to illustrate potential opportunities that Alaska may be able to take advantage of. The first scenario was a regional power facility sequestering approximately 250,000 tons of carbon dioxide per year. The amount was equivalent to many of the regional power facilities operating in Anchorage and the Fairbanks area. The second scenario was a North Slope emitting facility. There were currently several of the types of facilities operating on the North Slope. He explained that the scenario involved the retrofit of an existing facility. The third scenario was a carbon dioxide import and sequestration facility for carbon dioxide that did not originate from within the state's borders and could come into the state most likely through maritime transport from the Asia Pacific region for sequestration in Alaska.

Mr. Fitzpatrick turned to slide 27 and provided caveats to the hypothetical revenue opportunities. He stated that not all carbon dioxide emissions were feasibly captured, but technology continued to rapidly develop. Capital expenditures required to retrofit existing facilities may

not be met by existing incentives. For example, the 45Q tax credit only covered a certain amount of funding and some capture and sequestration opportunities were more expensive than the credits may support; therefore, not all opportunities may come to fruition. He noted the slide also included a bit more information about the assumptions that went into the revenue analysis.

3:04:59 PM

Mr. Fitzpatrick turned to slide 28 and provided modeling detail on the hypothetical revenue opportunities. The slide showed a couple of different line items for each of the three hypothetical scenarios [presented on slide 26]. The first was the exploration license, which was the initial phase of project development where a company applied to DNR for an exploration license for a given amount of acreage. The revenue in early years corresponded to the per acre license fee. He elaborated that as the project developed and shifted into a development lease after going through the AOGCC permitting process. He explained that once the permit was obtained, the license could be converted into a lease (a longer-term guarantee). Typically, the acreage associated with the project was down selected to the acreage that would be included in the actual project. The revenue decreased in those years because there was less acreage under contract at that point. The majority of the revenue in all three scenarios began at the point where the project went into operation and carbon dioxide began to be injected underground. He stated that for all three scenarios there started to be injection fees, including per ton injection fees and revenue sharing agreements. The scenario on slide 28 modeled a $2.50 per ton injection charge. He noted the slide showed the injection piece associated with each of the project scenarios.

Mr. Fitzpatrick noted that the North Slope scenario [shown on slide 28] included one additional revenue source. The scenario showed a 50/50 split between sequestration and enhanced oil recovery. He elaborated that some of the technical experts at the Division of Oil and Gas came up with a conservative estimate of what that volume of CO2 might be able to recover in terms of additional oil. The modeling compared the volume of oil to current revenue sources books in terms of the dollar value of oil to the state.

3:08:03 PM

Representative Hannan stated when the committee had previously heard the bill it had been told that a number of partners had come to DNR to look at the opportunity. She asked if the opportunity had included all three revenue opportunity sectors. She wondered if half of the opportunities were power facilities. She stated that the only named corporations in the bill packets had been North Slope operators; therefore, she presumed it was what industry had come to the state with. She was curious whether transporters of future carbon sequestration and/or power facilities were the industry partners.

Mr. Crowther replied they could not speak for individual companies on their decisions to undertake projects. He highlighted Usebelli as a fuel provider to power providers that was very interested in the projects. There was a power facility affiliate also interested. From the North Slope perspective, the current operators operating in Prudhoe Bay were working to understand what the projects would look like in addition to an Alaska liquid natural gas (LNG) associated project under evaluation for North Slope operators. There were countries and companies in the international market assessing what general sequestration capacities were in different jurisdictions. The department had reached out related to what Alaska's geology was like, what potential opportunities may look like, and what the framework would look like. He relayed that the scenario would require the development of technology for shipping that was not currently present. He thought it was fair to say that in a general sense and in an Alaska sense all three of the categories were being looked at by companies at some level.

3:10:26 PM

Mr. Crowther addressed the bill's fiscal notes. He began with DNR's zero fiscal note and explained that the department believed it could handle the program startup with existing resources. Similarly, the Department of Environmental Conservation did not have a fiscal note. Additionally, the Department of Revenue did not have a fiscal note because the state was still working to assess the revenue potential based on how project economics developed. He reviewed the AOGCC fiscal note and explained that the funds would enable the pursuit of the Class VI

primacy DNR believed was necessary for the program. Additionally, DNR believed the Environmental Protection Agency (EPA) had grant funding that would be identified hopefully as soon as the coming summer that could offset any costs incurred by the state to pursue primacy. Ultimately, the department did not expect the state would have to pay any cost for project standup.

Representative Galvin thought it seemed like a nice pathway for oil and gas to find a greener way toward development and potentially a way for the state to get more revenue from other parts of the world. She wondered how the department came about the revenue component in terms of the agreement between the state and oil and gas companies. For example, a long-term oil and gas lease was typically around 12.5 percent of the price. She understood the topic under the bill was a little trickier. She highlighted the aim of maximizing the best for Alaska. She wondered if there was space for the state to seek more revenue. She did not want to chase anyone out of the state, but she thought there may be an opportunity to negotiate the rates. She asked what DNR had done to study the possibility.

3:13:15 PM

Mr. Crowther referred to slide 26 showing the assumptions that went into the revenue including the per ton injection and rental charges. He stated that DNR was seeing in the market that the projects were very challenged by the cost of carbon capture. He detailed that it was very expensive to capture carbon dioxide. He explained that any other project costs were challenging to fit within the 45Q tax credit incentive. The legislation gave the [DNR] commissioner the authority and responsibility to identify different frameworks to best capture the value for the state, whether it was a per ton injection charge, rental fees, or other revenue sharing mechanisms. The department viewed the legislation as allowing flexibility to seek out the best deal for the state in different ways to recoup the revenue. He reiterated that the projects were cost challenged in some instances. He explained that it was necessary to take into account that if the state made a lot of revenue from a project that did not ultimately move forward, the state ultimately would make no revenue. He offered to follow up with additional information.

Representative Galvin looked forward to the follow up information. She believed it was important for the legislature to be evaluating. She appreciated the work that went into the detail to be provided. She recognized that globally, oil and gas companies were moving "more in this direction" to be good stewards. She stated the companies would make the choices because they were doing it in other areas and it helped them to get the investments necessary to continue their projects. She wanted to encourage the companies to do so and to take on their fair share of the burden. She understood there were costs associated with the effort and she believed part of it was good business. She looked forward to seeing the numbers down the line.

3:15:34 PM

Representative Coulombe looked at the fiscal notes on slide 29, including $988 million to AOGCC [in FY 26 onward, funded with receipts into the Carbon Storage Closure Trust Fund]. She noticed that the fiscal notes for HB 49 had been growing with time. She asked if the HB 50 fiscal notes were final.

Mr. Crowther replied that the department did not anticipate changes to the fiscal notes.

Mr. Fitzpatrick reviewed a sectional summary of the bill beginning on slide 31. He relayed that Sections 16 and 33 of the bill contained the lion's share of the lifting in terms of statutory enactments. He noted that many of the bill sections contained conforming language.

- Section 1: Short title of bill: Carbon Capture, Utilization, and Storage Act
- Section 2 (AOGCC): AS 31.05.027 – Grants AOGCC jurisdiction to regulate carbon storage unit operations in the state like oil and gas (bill Sec. 16)
- Section 3 (AOGCC): AS 31.05.030(h) – Authorizes AOGCC to seek primary enforcement authority for permitting and regulating Class VI injection wells for CO_2 (Class VI primacy discussed earlier in the presentation)
- Section 4 (AOGCC): AS 31.05.030(m) – Conforming changes to clarify authority in the Geothermal Resources part of AS 41.06

- Section 5 (AOGCC): AS 37.05.146(c) – Adds carbon dioxide storage facility administrative fund to list of separate funds with sources not from UGF appropriations (bill Sec. 33, proposed AS 41.06.160)
- Section 6 (DNR/AOGCC): AS 37.14.850 – Creates Carbon Storage Closure Trust Fund to provide non-sweepable fund account for post-closure operations of State agencies. Fund source is an injection surcharge (bill Sec. 33, proposed AS 41.06.175)
- Section 7 (DNR): AS 38.05.069(e) – Adds carbon storage (bill Sec. 16) to mineral estate disposal exemptions for agricultural lands disposal
- Section 8 (DNR): AS 38.05.070(a) – Adds exemption for carbon storage leasing (bill Sec. 16) from generalized state land leasing provisions in AS 38.05.070–105 (when state lands are leased for purposes other than extrication of natural resources)
- Section 9 (DNR): AS 38.05.130 – Adds carbon storage to provisions requiring lessees to pay damages to landowners and post bond for that purpose; and providing lessee access to the mineral estate if a surface owner refuses to engage in a surface use agreement; same statutory process that exists for other mineral estate development of split estate created by AS 38.05.125 (primarily for situations when CCUS project developers entered onto surface lands not otherwise owned by the state)
- Sections 10–13 (DNR/DOG): AS 38.05.135(a)–(e) – Adds carbon storage program (bill Sec. 16) to mineral leasing statutes primarily providing for revenue collection by adding reference to injection charges (proposed Sec. 38.05.700(c))
- Section 14 (DNR): AS 38.05.140(a) – Adds carbon storage provision to exemptions for coal bed methane under AS 38.05.180(gg) and unconventional gas under AS 38.05.180(ff) because carbon storage leasing might be possible in unmineable coal seams
- Section 15 (DNR): AS 38.05.184 – Adds carbon storage leases to prohibition in the Kachemak Bay oil and gas closure area (DNR tried to track allowances for CCUS project development to where existing oil and gas project development was allowed)
- Section 16 (DNR/DOG): Adds new sections to AS 38.05 Alaska Land Act as Article 15A Carbon Storage Exploration Licenses; Leases (proposed AS 38.05.700–795); detailed summary after next slide

3:19:38 PM

Mr. Fitzpatrick briefly highlighted slide 32 showing a CCUS theoretical timeline. He provided Section 16 detail on slide 33. He relayed that the section addressed the DNR carbon storage license and lease provisions. He explained that the section enacted a number of new statutes:

AS 38.05.700
Provision for applicability carbon storage statutes and authority for DNR to adopt regulations to implement these statutes.

AS 38.05.705
Allows the commissioner to issue carbon storage exploration licenses on state land and establishes work commitment obligations, minimum economic terms, bonding requirements, default provisions, and renewal provisions.

- 5-year exploration license term
- Conversion of the license to a lease upon fulfillment of work commitment, acquiring storage facility permit from AOGCC, ability to meet commercial terms

AS 38.05.710
Procedures for issuance of a carbon storage exploration license. These are modeled after existing procedures for oil and gas exploration licensing under AS 38.05.133

- Identify land, minimum work commitment, economic terms, 90 days for competing proposals
- Written finding - including competitive process if competing proposals are submitted
- Subsection 715(h) provides a right of first refusal opportunity for existing lessees under AS 38.05.135 181 (i.e., mineral lessees for coal, oil and gas, geothermal, or other exploitable minerals).

AS 38.05.715
Provision allowing conversion of an AS 38.05.705-710 carbon storage exploration licenses to a carbon storage lease.

AS 38.05.720
An oil and gas lessee converting from enhanced oil recovery to carbon storage must apply for a carbon storage lease.

AS 38.05.725
Requirements for plans of development and operations, and provision for unitization, as with oil and gas leasing.

Mr. Fitzpatrick elaborated on AS 38.05.720. He explained that when an oil and gas lessee reached a point where they were no longer engaged in enhanced oil recovery and had become more engaged in storage, the statute required the lessee to apply for a storage lease from DNR and AOGCC.

Representative Galvin stated that at some point in the development of a well there came a time when the reinjection was no longer helping extract the oil. She asked how it was measured. She wondered if the state got involved or oil companies just reported that they had switched over to a storage area.

Mr. Crowther responded that the nature of the injection through the well could be measured by AOGCC and/or the nature of production from the field could be measured by DNR in the course of its lease management. There were a number of variables to assess to set a reasonable industry standard to indicate a well was no longer in operation and transitioned to carbon [storage]. He stated at that time, the statutory authority requiring a switch to a carbon lease would be triggered.

Representative Galvin asked if the lease rate would be different.

Mr. Crowther replied that DNR would require an operator to obtain the right and compensate the state for the authority to inject carbon.

Mr. Fitzpatrick concluded his review of Section 16 detail on slide 33:

AS 38.05.730
Payments from carbon storage licenses and leases are to be deposited in the general fund except for the

amount allocated to the Permanent Fund under art. IX, sec. 15, of the Alaska Constitution.

AS 38.05.795
Definitions for specific terms used in the proposed Article 15A Carbon Storage Exploration Licenses; Leases

Mr. Fitzpatrick continued the sectional summary on slide 34.

- 17 (DNR/DOG): AS 38.35.020(a) – Amended to include carbon dioxide for pipeline transportation right-of-way (ROW) leasing purposes
- 18 (DNR/DOG): AS 38.35.020(b) – Amended to allow the DNR commissioner to exempt pipelines from ROW leasing when transporting carbon dioxide for enhanced oil recovery or pressure support within existing fields (does not exempt pipelines from regulation, just a ROW)

Mr. Fitzpatrick elaborated on Section 18 and explained it was similar to the way the state treated oil and gas pipelines: if they were transporting over long distances the state issued a right-of-way lease and infield lines were covered under unit regulations. He continued to review the sections on slide 34:

- 19 (DNR/DOG): AS 38.35.122 – Conforming amendment to bring some carbon dioxide pipelines under the same title as "product" pipelines
- 20–23 (DNR/DOG): AS 38.35.230 – Amends definitions of "lease," "pipeline" or "pipeline facility," "transportation," and adds "carbon dioxide" to accommodate carbon dioxide pipeline provisions
- 24–32 (AOGCC): AS 41.06.005–060 – Conforming amendments separates AS 41.06 into two articles – one for geothermal and one for carbon storage
- 33 (AOGCC): AS 41.06 – Adds new sections as Article 2. Carbon Dioxide Injection and Storage beginning at AS 41.06.105. Detailed summary on slide after next.

Mr. Fitzpatrick turned to slide 35 and noted that Section 33 was the next large scale section of the bill and included AOGCC statutes. He pointed to the timeline on the slide and highlighted the AOGCC carbon storage permitting

statutes. He reviewed Section 33 statutes in detail on slide 36:

AS 41.06.105
Provides AOGCC jurisdiction over carbon dioxide storage facilities to prevent waste, protect correlative rights, and ensure public health and safety; "waste" is defined in AS 41.06.210

3:26:21 PM

Mr. Fitzpatrick turned to slide 36 and continued to review the sectional detail:

AS 41.06.110 Concerns AOGCC's authority to carry out the purposes and intent of AS 41.06.105-210

AS 41.06.115
Provides that waste is prohibited in a carbon storage facility or reservoir

AS 41.06.120
Provides permit requirements for storage facilities

AS 41.06.125
Creates a public hearing requirement for storage facility permits issued by AOGCC - notice is given to property owners within 1/2 mile

AS 41.06.130
Specifies the criteria for the AOGCC to approve a carbon storage facility permit

AS 41.06.135
Allows AOGCC to include parameters, limitations, or restrictions in a permit and to protect and adjust rights and obligations of persons affected by geologic storage

AS 41.06.140
Concerns amalgamation of property interests for storage facilities

Mr. Fitzpatrick explained that AS 41.06.140 addressed units that may have more than one property owner.

3:27:41 PM

Mr. Fitzpatrick moved to slide 37 and continued reviewing bill sections:

AS 41.06.145
Creates specifications for recording a carbon storage facility certificate to put future property purchasers on notice (recorded in the DNR Recorder's Office)
AS 41.06.150
Creates statutory requirements for AOGCC to ensure environmental protection and reservoir integrity in storage facilities and reservoirs

AS 41.06.155
Clarifies preservation of rights, including deconfliction of development of other minerals by drilling through or near a storage reservoir (AOGCC would be responsible for making sure that there was not a conflicting development plan between CCUS that the development of minerals occurring the same areas)

AS 41.06.160
Authority for AOGCC to collect fees and establishes the "carbon dioxide storage facility administrative fund" under the general fund (regulatory cost recovery mechanism)

AS 41.06.165
Specifies that storage operators hold title to injected carbon dioxide until a certificate is issued under AS 41.06.175, including liability for damage associated with injected carbon dioxide

AS 41.06.170
Specifies the eight factor criteria for certificate of completion a transfer of title of CO2 (requirements to close a carbon storage facility)

AS 41.06.175
AOGCC will collect a "carbon storage facility injection surcharge" for post closure administration, deposited in the "carbon storage closure trust fund" established in AS 37.14.850 (bill Sec. 6) (the surcharge funded the long-term liability account and the amount was set by the AOGCC on a facility by facility basis)

AS 41.06.180
AOGCC may impose civil penalties for violations of its carbon storage statutes

AS 41.06.185
Excludes AOGCC's carbon storage statues from enhanced oil recovery (EOR), except when an EOR related reservoir is converted for storage

AS 41.06.190
Authority for AOGCC to enter into agreements with other government entities and agencies for carbon storage purposes

AS 41.06.195
AOGCC authority to determine injection and storage amounts, and providing for fees

AS 41.06.210
Definitions for terms used in AOGCC's carbon storage statutes

3:30:11 PM

Mr. Fitzpatrick reviewed the last sections on slide 38. He explained that Sections 34 through 37 [were conforming amendments] related to areas currently open to oil and gas leasing that would be open to carbon storage leasing and areas closed to oil and gas leasing would be closed to carbon storage leasing. Section 38 was an amendment to the existing Alaska corporate income tax statute that prohibited the application of 45Q tax credits to the Alaska corporate income tax. He explained that the 45Q was the federal tax credit for CCUS. He detailed that because Alaska adopted the federal income tax code by reference, the bill section carved out the 45Q tax credit from the Alaska corporate income tax code, so Alaska was not renting the credit under its own state corporate income tax structure.

Mr. Fitzpatrick relayed that Section 39 added a new subsection to existing statute for DNR to administer storage facilities and stored carbon after a certificate of completion was issued (when the state took title of the C02). Section 40 provided authority to the Department of Environmental Conservation to adopt regulations for carbon dioxide pipelines. Sections 41 through 43 were general

provisions for adopting regulations, title changes, and effective dates.

Representative Tomaszewski highlighted AS 41.06.115 on slide 36 related to the prohibition of waste. He looked at the definition of waste on page 29 of the bill: "waste" means, in addition to its ordinary meaning, physical 24 waste, and includes inefficient, excessive, or improper operation of a storage facility 25 or well. He asked about the ordinary meaning of waste. He asked for additional details on what the waste could be and what the department was anticipating.

Mr. Crowther deferred the question to an AOGCC colleague online.

Co-Chair Foster noted the individuals were not online.

Mr. Crowther responded that the department would follow up with the information.

Representative Galvin stated it was important work to think about how to roll back impacts of a hydrocarbon dependent world. She remarked it seemed like the work was just getting started. She thanked the department. She thought perhaps Alaska could be a proving ground or an opportunity as an active depository was yet to be seen. She understood the bill was a framework to determine whether there was interest in commercially pursuing [carbon storage] on a global scale. She appreciated the efforts and efforts made to protect the state's interests. She would be watching with optimism. She hoped they could make a dent in the global challenge in addition to bringing in some revenue.

Mr. Crowther appreciated the committee's time. He looked forward to providing more information to move the bill forward.

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

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

#

ADJOURNMENT

3:35:22 PM

The meeting was adjourned at 3:35 p.m.