ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
March 10, 2023
1:01 p.m.

MEMBERS PRESENT

Representative Tom McKay, Chair
Representative George Rauscher, Vice Chair
Representative Kevin McCabe
Representative Dan Saddler
Representative Stanley Wright
Representative Jennie Armstrong
Representative Donna Mears

MEMBERS ABSENT

Representative Josiah Patkotak
Representative Maxine Dibert

COMMITTEE CALENDAR

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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 49
SHORT TITLE: CARBON OFFSET PROGRAM ON STATE LAND
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/27/23	(H)	READ THE FIRST TIME - REFERRALS
01/27/23	(H)	RES, FIN
02/20/23	(H)	RES AT 1:00 PM BARNES 124
02/20/23	(H)	<Bill Hearing Canceled>
02/22/23	(H)	RES AT 1:00 PM BARNES 124
02/22/23	(H)	<Bill Hearing Canceled>
02/24/23	(H)	RES AT 1:00 PM BARNES 124
02/24/23	(H)	<Bill Hearing Canceled>
02/27/23	(H)	RES AT 1:00 PM BARNES 124
02/27/23	(H)	Scheduled but Not Heard
03/01/23	(H)	RES AT 1:00 PM BARNES 124

03/01/23	(H)	Heard & Held
03/01/23	(H)	MINUTE(RES)
03/08/23	(H)	RES AT 1:00 PM BARNES 124
03/08/23	(H)	Heard & Held
03/08/23	(H)	MINUTE(RES)
03/10/23	(H)	RES AT 1:00 PM BARNES 124
03/10/23	(H)	Heard & Held
03/10/23	(H)	MINUTE(RES)

WITNESS REGISTER

SPENCER PLUMB, Manager
Forest Carbon Innovation
Verra
Missoula, Montana
POSITION STATEMENT: During the hearing on HB 49, Version S, presented a PowerPoint, titled "Introduction to Verra and VCS Forest Carbon Methodologies" and answered questions.

ANGELO SARTORI, Director
Regional Outreach
Verra
Santiago, Chile
POSITION STATEMENT: During the hearing on HB 49, Version S, answered questions on carbon credits and methodologies.

BEN CARRIER, Legal Director
Verra
Portland, Oregon
POSITION STATEMENT: During the hearing on HB 49, Version S, answered questions on carbon credits and methodologies.

RENA MILLER, Special Assistant to the Commissioner
Office of the Commissioner
Department of Natural Resources
Juneau, Alaska
POSITION STATEMENT: On behalf of the bill sponsor, House Rules by request of the governor, answered questions during the hearing on HB 49, Version S.

ACTION NARRATIVE

1:01:30 PM

CHAIR TOM MCKAY called the House Resources Standing Committee meeting to order at 1:01 p.m. Representatives Saddler, Wright, Mears, McCabe, Armstrong, and McKay were present at the call to

order. Representative Rauscher arrived as the meeting was in progress.

HB 49-CARBON OFFSET PROGRAM ON STATE LAND

1:02:10 PM

CHAIR MCKAY announced that the only order of business would be HB 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." [Before the committee, adopted as a working document on 3/8/23, was the proposed committee substitute (CS) for HB 49, Version 33-GH1372\S, Dunmire, 3/3/23, ("Version S").]

1:04:03 PM

SPENCER PLUMB, Manager, Forest Carbon Innovation, VERRA, presented a power point presentation, titled "Introduction to Verra and VCS Forest Carbon Methodologies" [hard copy included in the committee packet]. In providing an overview to Verra, he stated that he would address the project registration process, verified carbon standard (VCS), forest carbon methodologies, and prospective changes. He stated that these topics are important in the consideration of the proposed legislation. He introduced Angelo Sartori and Ben Carrier as his colleagues.

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MR. PLUMB began on slide 2, which bulleted the topics in the presentation. He explained that Verra plays a complementary role in voluntary carbon markets by interacting with stakeholders; other registries and standards exist, but Verra's standard is one of the largest, contributing to the high quality of carbon credits. He stated that the presentation would address the updates on Verra's forest carbon methodologies. Moving to slide 3, he pointed out that Verra's mission is to accelerate action on climate change and sustainable development through standards which drive investment to achieve measurable, high-integrity outcomes for global stakeholders. He stated that Verra was founded in 2007 as a nonprofit organization based in Washington D.C. and has staff worldwide, as its standards cover the global footprint.

1:08:00 PM

REPRESENTATIVE SADDLER requested examples of some of the global stakeholders.

MR. PLUMB responded that in the voluntary carbon markets, often buyers of carbon credits are global companies. He said Verra does not sell to specific countries or businesses, as anyone is eligible to buy carbon credits and develop projects globally. In response to a follow-up question, he provided Shell as an example of a global company buying carbon credit. He stated that Meta and Microsoft have inquired about buying carbon credits. He deferred the question to his colleagues.

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ANGELO SARTORI, Director, Regional Outreach, Verra, responded that global companies buying carbon credits have been connected to airlines worldwide and some European energy companies. He listed examples of global companies.

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BEN CARRIER, Legal Director, Verra, responded that Verra has a public registry that lists the buyers of carbon credits.

MR. PLUMB pointed out Verra's standards listed on slide 5, with VCS being the best known and the most germane. He discussed the climate, community, and biodiversity standards, which could elevate some VCS projects to protect biodiversity and local communities. He stated a Scope 3 Program is being developed to engage directly with businesses concerning Scope 3 emissions. He said this is the extent of Verra's operations. Providing around 70 percent of carbon credits, VCS is one of the largest programs in the voluntary carbon market.

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MR. PLUMB pointed out that slide 6 illustrates how Verra fits into the various carbon markets. He stated that the voluntary carbon market consists of companies not operating under a jurisdiction or national program; rather companies are independently deciding to take the measures to reduce their carbon footprint. He indicated that some companies are in areas where it is difficult to reduce emissions, and often these companies buy carbon credits to demonstrate an effort to stakeholders and the public. He noted Alaska sells credits to projects in California, which is the best-known compliance market. He stated that the European Union also has a compliance

mechanism, but credits cannot be bought outside of its market. He stated that Corsia, South Africa, and Columbia each have compliance markets that allow for VCS credits to be issued and used, whereas California does not. He added that Verra has a pathway to generate credits for the market in California, but California does not follow VCS. He pointed out there are emerging markets with their own compliance mechanisms, and Verra plans to integrate these carbon credits with VCS.

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REPRESENTATIVE MCCABE expressed the opinion that Verra is like a broker, as it verifies the credits before the credits are sold. He questioned whether Verra follows standards for the United Nations and the World Economic Forum. He related the concern that the World Economic Forum has connections with Verra.

MR. PLUMB clarified that Verra is a nonprofit company with a board of directors serving the public. He added that Verra is a standards body working in the middle between buyers and sellers, setting the rules and checking project documents to make sure the credits are real. Verra's methodologies can be used under the United Nations' program, but these are not methodologies Verra has written. He stated that Verra has its own methodologies based on scientific work that meets certain standards of quality.

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REPRESENTATIVE MCCABE expressed appreciation for Verra's role as the "standards body." He expressed the understanding that Verra sets the standards, and the buyers would know that the sellers have to meet these standards. He compared Verra to a quality assurance group.

MR. PLUMB responded in agreement. He gave an example of a seafood label that verifies sustainability. He also provided an example of the Forest Stewardship Council that verifies sustainable management of forests.

REPRESENTATIVE SADDLER commented that Verra is a "big" operation and questioned its funding.

MR. PLUMB responded that Verra receives its funding from program and project fees. The project fees are associated with each carbon credit generated. He stated that Verra receives around 15 cents from every credit issued, and it issues between 50

million and 100 million credits a year; therefore, this is where a large majority of the funding comes from. He added that because there is a great deal of interest in the voluntary carbon market, Verra's staff is rapidly increasing.

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REPRESENTATIVE SADDLER questioned whether one Verified Carbon Unit is equal to one carbon credit. He expressed the understanding that one carbon credit is equal to one million metric tons of carbon dioxide.

MR. PLUMB, in response, directed the committee to slide 7 which defined a carbon credit. He explained that the language used to represent a carbon credit is "verified carbon unit," with one unit representing one credit. He continued that one credit represents the removal or reduction of one ton of carbon dioxide, either by keeping it from going into the atmosphere or pulling it out of the atmosphere.

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REPRESENTATIVE WRIGHT questioned whether Verra acquires the credits or acknowledge the eligibility of credits.

MR. PLUMB stated that Verra does not own the credits. The credits belong to the project developer, and then they belong to the buyer or seller. He said Verra simply sets the standards for what qualifies as carbon credits.

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MR. PLUMB, in response to Representative Armstrong, moved to slide 8 and explained the attributes of high-quality carbon credits. He stated that Verra makes public the qualities and characteristics of potential projects. Reviewing this process, he stated that Verra evaluates potential projects to make sure they are real and measurable. He pointed out carbon removal would need to be permanent, or at least viable for 100 years. He continued that projects have to be additional. This means projects would not have occurred but for the carbon finance related to the sale of voluntary carbon credits. He stressed the importance of the projects being independently verified. He listed the three bodies involved in this as Verra, the developers, and the third-party auditors. The bodies must agree with the way projects are being measured and the way guidelines for quantifying carbon removal are being followed. He stated

the registry lists the entities that can hold credits, and it lists the entities that have retired credits. He added that credits are uniquely numbered so they cannot be duplicated. He made the final point that all projects are required to be conservatively estimated.

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MR. PLUMB moved to slide 11, which shows how to develop a VCS project in 8 steps. He stated that steps 1, 2, and 3 would involve the project developer picking a methodology, submitting a project description, and listing the project on the registry. Once a project is received and reviewed, step 4 would be a 30-day public comment period, which creates additional transparency. He stated that in step 5 a third-party verifier would look at the project and ensure it is following the rules and meeting the requirements. After this review, in step 6, activities could be implemented. In step 7 a third-party auditor would take measurements and verify emission reductions are real. In other words, there are two steps where bodies other than Verra and the project developer would take measurements and quantify the project. He said this is to make sure the project is not just creating "hot air" credits. In the final step, he said the credits would be issued.

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MR. PLUMB, in response to Representative Saddler, stated that "verified carbon unit" is Verra's brand. He stated that there are other names under other registries; however, the most common denominator for all is one carbon credit equals one ton of carbon dioxide. He explained that one ton of carbon dioxide is used because other greenhouse gases are also tracked, such as methane. Because methane traps more heat per molecule, it has a higher global-warming potential than carbon dioxide. Reducing methane creates more carbon credits because it creates more tons of carbon dioxide.

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CHAIR MCKAY expressed the opinion that there needs to be a unit of time, such as one ton of carbon per year.

MR. PLUMB responded in agreement. He said Verra requires the removal or reduction be for 100 years. He stated that the duration of carbon is an additional aspect for buyers of carbon credits to consider.

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REPRESENTATIVE ARMSTRONG pointed out the 2015 paper from the journal, Forest Science, which criticizes Verra for over crediting carbon credits in a past project. She questioned whether anything has changed since this 2015 criticism, such as the methodologies used.

MR. PLUMB, in response, pointed out on slide 10 that Verra has different types of methodologies, including agriculture, energy, and improved forest management. He stated that the criticism concerned the Improved Forest Management methodology. He added that Verra receives criticisms frequently and takes them seriously; nevertheless, Verra stands by its methodologies that have been developed under a public, transparent process with scientific review. He explained that in order for projects to pass through the verification bodies and through Verra's review process, there needs to be a high level of confidence. He said the case Representative Armstrong referred to concerned additionality, as there was likely to be some sort of harvesting, and the paper argued that there should not have been. In Verra's view, some sort of counterfactual needed to be set, and, at that time, this was a forward-looking counterfactual based on common practices in the area. In other words, looking at other forest management plans from other landowners in the area, there was a reasonable likelihood of logging, which would cause a loss of carbon credits. He expressed the opinion that this type of criticism is a healthy dynamic, as it creates new methodologies. He stated that now a new method is being developed which compares projects to other areas in real time, not just a forecast of what could happen. In this new method, a match would have to be found for the project, and these other comparable areas would have to be tracked in real time to understand what is happening. He argued that this would be an improvement; however, Verra would not throw out the other methodologies because it stands behind what additionality has demonstrated. He reiterated that Verra always looks for feedback and ways to improve.

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MR. PLUMB, in response to Chair McKay, defined the acronym "VVB" as "validation verification body." In response to a follow-up question, he described the verification bodies as independent organizations that review projects and Verra's methodologies.

He said these auditors are experts in Verra's standards and methodologies and know them "front and back."

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REPRESENTATIVE ARMSTRONG expressed concern about business investments in Alaska and [carbon credits] being over estimated. She surmised this could hurt Alaska's reputation. She referred to the different methodologies as choosing "your own adventure" in generating money. She suggested the investors could put Alaska in their annual reports, and if projects fail, this could affect future investments in Alaska. She questioned the certainty in carbon credit markets and requested the average number of public comments on Verra's projects. She expressed interest in researching the auditing process and questioned whether the auditors are freelance or part of a third-party company.

MR. PLUMB, in response, directed the committee to slide 13, which showed some of the forestry methodologies which could be used in Alaska projects. He pointed out a new methodology for forest management that uses baselines from national forest inventories. He argued that this methodology could generate a market with the highest-quality forest credits in the country. In this methodology, Verra would review the carbon measurements by pulling data points on plots measured within the project. He stated that a comparison would be made with 10 other data points; therefore, [carbon credits] are not just forecasted, but compared with actual measured quantities of other plots. He argued that this is the most advanced way to make sure the credits are additional to what would have happened without intervention. He explained that this methodology is moving forward to ensure quality; however, the legislature would need to determine whether the standards are strict enough for Alaska.

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REPRESENTATIVE SADDLER expressed appreciation for the detailed explanation of the process. To understand the development of the carbon credit market, he drew an analogy of the developing firearms market. He stated that Remmington had its own calibers and specialties, as did other developing brands of firearms and in time the market determined which specifics to adhere to, and these standards were adopted. He questioned whether the early stages of the carbon credit market resemble this example. He questioned whether in time the carbon credit market will consolidate.

MR. PLUMB expressed the opinion that the analogy was accurate; however, the carbon credit market has more growth than consolidation at this point. For example, the market is set at one ton of carbon dioxide equaling one Verified Carbon Unit, and this is the same as for other registries; however, the methodologies are not exactly the same. He stated that Verra works at moving forward and improving, and so do the other registries. He suggested that going forward, a coalescing will happen around projects in order to issue credits. He stated that now the distinctions are minor, and others' standards and methodologies are often used.

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MR. PLUMB returned to slide 9, which shows Verra's position in the market. He noted that project developers are made up of a variety of stakeholders and companies that are built to develop credits. He added that there is no discrimination on what entity can develop a project. He stated that Verra would often put together project descriptions for developers for review; however, as templets are online, entities can do these themselves. He noted that the key piece is Verra's VCS, as all methodologies "tier up" to this standard. He stated that even though carbon credits from diverse industries seem different, they could be housed under a single standard because the methodologies provide specific details. He stated that some projects could be combined, such as agroforestry projects.

MR. PLUMB stated that once credits are developed, project developers own them. The credits can be sold to brokers, trading platforms, or directly to businesses or individuals. Because carbon credits in the market are not all the same, there is an increase in the demand for brokers to do quality assessments, so there is a differentiation happening at the intermediary level. He stated that brokers are scaling this up in order to sell the credits to corporations or companies, and entities are buying credits, not only for climate purposes, but to align their images in the public perspective. For example, a cruise ship line may want to buy carbon credits in Alaska so it can align with local projects, making this connection for their customers. He explained that this is the reason for differentiation - different companies have different needs when buying carbon credits.

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MR. PLUMB reviewed slide 10 and the wide range of project types. He talked about the revision of afforestation and reforestation methodologies. He stated that Verra is expanding its methodology on wetland projects, which are also called blue-carbon projects. He explained that projects are relative to the interests of each state, and if a methodology does not exist, Verra is open to receiving input. As new information is presented or requested by stakeholders or project developers, Verra is actively updating methodologies. He cautioned that, because of the lengthy reviews, developing new projects could be a long process.

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CHAIR MCKAY interjected that Alaska would primarily use forestry projects to digest carbon, and the carbon credits would go toward oil and gas projects. He requested that the presentation be turned to this focus.

MR. PLUMB provided an example of a reforestation project. He stated that Alaska has had many wildfires, and these areas often need to be replanted. He questioned whether this example would be of interest.

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CHAIR MCKAY pointed out the spruce beetle infestation that leaves trees standing dead. To address this, he postulated that a swath of infested forest would be inventoried for the carbon digested. The credits would be calculated and sold to an oil company for carbon offsets, for example. He continued that the oil company would then proceed with developing projects that would provide revenue and jobs. He referred to this as "a circle of life." He expressed the understanding that forest management would mean cutting down dead standing trees to make a more lush and productive forest.

MR. PLUMB responded that, in this case, a specific methodology would need to be determined in order to implement an improved forest management project. The project would remove the dead trees and open the forest canopy to allow new growth. He added this would also reduce fire risk. He continued that under the new methodology, a company would add to the way the forest had been managed in the past, and the implemented changes would increase the amount of carbon stored in the forest. The project description would outline how the activities align with the requirements and rules in the methodology, and this would then

be submitted to Verra for review. Verra would work with the project developer. Upon acceptance of the project, there would be a 30-day public comment period, and Verra would collect the feedback. In this process, there would also be the list of forest management activities, such as removing the beetle kill and opening up the forest canopy so other trees can thrive. He stated that the independent verification bodies determine if the activities would align with the methodology.

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MR. PLUMB stated that once the project is verified, activities could begin, such as thinning the forest. In order to be conservative, the carbon stored in the removed trees would have to be quantified. For example, the trees may be used in construction, or chipped and burned. If the trees were burned, the emissions would be counted as a loss for the project. He suggested that the regeneration of the forest would balance this out over time. He stated that setting a forecasted baseline, or a statistically matched baseline, would quantify the amount of carbon the project is addressing. If additional carbon credits were found upon the third-party verification, Verra would scale this across the entire project. After initial carbon credits are issued, and the forest grows, he said, there could be another verification with more credits issued.

2:09:07 PM

CHAIR MCKAY directed the focus of the presentation to state-owned forests in Alaska. He expressed the understanding that Verra would be dealing with the Department of Natural Resources (DNR). In reference to the timeline, he suggested, DNR would pick a methodology for a swath of land affected by beetle kill. However, during part of the year there would be no fieldwork because of the harsh winters. He expressed the understanding that DNR, with a consultant, would propose a project description, and this would take around a year. The project would then be listed on the registry, which might take a month. There would be a public comment period, which might take 18 months. An independent auditor would be contracted, which would add another three months. Once the project activities are implemented, he surmised it would be two years into the project, or the second summer, when another auditor would need to verify the activities are real. Finally, he said, carbon credits could be sold two or three years into the process. He said, "That's a lot of work" and questioned, "Who pays for it ... because we have not made a dime yet?"

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MR. PLUMB cautioned, if the project developer is the state, there may be a requirement that this be done by the state, which could affect additionality. Assuming this is not an issue, he addressed the question, explaining that a major project developer would need to start with a project description and the pre-implementation estimate of carbon benefits, and this would require forest modeling. The total estimated carbon credit could then be taken to companies for up-front financing to start the project. After implementation, credits would be given to the company. He expressed the opinion that often companies are open to signing contracts because they are considering the purchase of carbon credits for future emissions. He said Verra is not involved in the contracts; however, Verra's VCS can be used to develop the project and referred to in the contract. He suggested this would substantiate the project. He deferred to his colleagues.

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MR. CARRIER stated these offtake agreements are for the future stream of carbon credits generated by projects. Because the development of a project could take years, with no revenue until credits are issued, these offtake agreements, or contracts, would solve the financing.

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CHAIR MCKAY suggested an option would be to sell the forest with beetle kill "as is." He expressed the opinion this would not be the optimum use, but "that would get us cash in hand faster."

MR. PLUMB responded that this is a consideration; however, he suggested carbon credits as a new and complex way to generate revenue for Alaska. He explained there are ways to make estimations of carbon storage in wood products. Once a wood product is demonstrated to be long lived, the benefits can be measured. He added that the land could also be retained for multi-use purposes, such as recreation or hunting. He explained that with improved forest management projects, harvesting can often be beneficial; however, Verra's methodologies require the loss from harvesting be accounted for by putting the trees in different wood uses. He added there is also a requirement that projects not harvest trees during peak carbon storage.

CHAIR MCKAY questioned whether the money would have to be returned if a swath of forest is sold for carbon credits, and an act of God, such as a forest fire, destroyed the forest.

MR. PLUMB responded that there is a non-permanence risk tool. He explained that an upfront assessment of the likelihood of the loss of carbon would be made, and the project developer would calculate a risk percentage. Verra would retain this percentage of carbon credits in a pool to cover the losses. Once these are made up, the project could be reinstated. If buffer credits cannot be reinstated, the project would be closed, and no more credits would be issued until the balance is made up. He stated that this would ensure the holder would not lose carbon credits and the project developer could keep the project going.

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CHAIR MCKAY pointed out there is a huge volume of treeless tundra in the state. He questioned whether tundra could be included in the program.

MR. PLUMB responded that tundra lands can be used for carbon storage, but it would need a new methodology. Verra would have to develop this along with researchers from the state. In response to a follow-up question, he stated that programs would not prohibit recreational activities. Verra is looking for carbon storage, and, as long as there is no impact to the forest, the state would determine land usage. In response to a second follow-up question, he remarked that when a mine deposit is found on the land, this becomes tricky. He said the project would be stopped, as there is no way to make up for the credits elsewhere. The buffer pool could be used, but most likely this project would become ineligible.

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REPRESENTATIVE RAUSCHER questioned why a mine would not produce the same result as a forest fire.

MR. PLUMB responded that he would need to follow up after the meeting with this answer. He stated that any time credits are issued, the percentage for the insurance pool is taken. Verra would withhold a proportional amount of carbon credits, and different risk factors would be determined from different types of activities, such as mining, floods, fires, or drought. He expressed uncertainty of the mechanism that would regain credits issued from the buffer pool. He surmised that if the state

changed its course, Verra could possibly use the buffer pool; nevertheless, new projects would most likely not be developed.

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MR. CARRIER responded in agreement. He added Verra has a review process for projects that were registered but are no longer creating emission reductions.

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MR. PLUMB moved to slide 12, which addressed project fees. Depending on the project, he stated that project developers would pay a fee for setting up registry accounts. He added that there are fees associated with issuing credits and costs associated with the independent verification bodies. He offered to follow up with the names of some of these independent companies. He continued that onsite validations require a fee. He stated that the exact total project costs for project developers is not available to Verra.

2:34:11 PM

MR. PLUMB displayed slide 13 and addressed existing forestry methodologies. He pointed out on the slide the methodologies relevant to Alaska. He stated that there is a methodology being developed for tree-planting activities in case of a severe fire. He referenced his work on a fire-adapted forest methodology, which concentrates on forest thinning in order to reduce the severity of wildfires. To understand the effectiveness, he stated that treated areas are compared with untreated areas. Moving to slide 14, he said the final point for review is that Verra is working toward using remote-sensing applications for both setting the baseline and estimating carbon within the project. He suggested that this would streamline projects and reduce costs. He stressed the importance of this for Alaska, as the state is vast, with many areas difficult to reach. In conclusion, he offered to address any further questions.

2:38:17 PM

REPRESENTATIVE SADDLER remarked that Verra is a "vigorous, large operation." He expressed the understanding that most of the funding comes from issuing around 100 million credits per year at 15 cents per unit fee. He questioned whether Verra brings in $150 million a year. He requested an explanation of the funding stream.

MR. PLUMB responded that the primary sources of funding are from issuing credits, registering new users, and collecting project fees.

REPRESENTATIVE SADDLER questioned whether his calculation was correct, and he requested an explanation of the amount Verra receives from issuing credits versus other fees.

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MR. CARRIER responded that around 90 percent of revenue comes from issuance fees for carbon credits, and there is a fee schedule on the website. He stated that in 2021 Verra had issued an excess of 100 million carbon credits, and the revenue for the year was between $20 million and $40 million. He added this would be from fees charged to registered entities, as Verra does not rely on grant funding.

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MR. PLUMB, per Representative Saddler's calculations, stated that 100 million credits at 15 cents a credit would equal $15 million.

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CHAIR MCKAY listed the primary tree varieties found in Alaska. He remarked that most of Alaska is frozen and dark for half of the year. He questioned the carbon storage in trees during the winter.

MR. PLUMB responded that during the winter the carbon would continue to be stored in the trunk and root system of the trees. In the summer, with 18 to 20 hours of daylight, trees would be very active, going through photosynthesis at a higher rate than forests at lower latitudes. He stated that photosynthesis requires light, water, and carbon dioxide, and the trees pull this in and make sugar, and store this while releasing oxygen.

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CHAIR MCKAY requested that a representative from the Department of Resources respond to a question from Representative Mears.

2:46:18 PM

REPRESENTATIVE MEARS referred to page 2, line 12 of HB 49, Version S, concerning the bidding process. Concerning the commissioner making the decision, she questioned whether this would be typical of Alaska's purchasing processes, or whether there would be a higher level for an appeal.

RENA MILLER, Special Assistant, Office of the Commissioner, Department of Resources, responded that this section relates to the land leasing procedures already in statute. She stated that Version S in [Section 38.05.081] under Section 4, page 3, beginning on line 1, would add language to the statute exempting the state land carbon-management leases. She explained that this language addresses competition between applicants for the same land. She pointed out that in the same section on page 3, beginning on line 13, the director would exercise discretion in determining the most qualified applicant. She added that the qualification would include previous carbon management experience.

REPRESENTATIVE MEARS, in a follow up referencing page 3, line 17 of Version S, stated that this language would require qualified bidders to make a deposit equal to cost incurred by other bidders. She questioned whether these bidding processes are unique to land management and forestry.

MS. MILLER deferred the question to the Division of Mining, Land and Water for a future response.

REPRESENTATIVE MEARS, with a follow-up question, pointed out language in Section 38.05.081, page 3, on line 31 of Version S, which concerns maximizing the return to the state. She indicated that other language refers back to the Constitution of the State of Alaska as a "maximum benefit". She stated that [Section 11, page 8, line 26 in Version S] refers to a "sustained yield". She expressed the opinion that the language "maximize the return" indicates immediate money, while the word "benefit" has less monetary and timeline implications.

MS. MILLER expressed agreement with the interpretation, as "compensation" relates to money, while "best interest" could be a range of things. She explained that the language "best interest finding" is used in statute to make sure the state could accommodate other values that are not necessarily tangible dollars. She continued that a "best interest finding" would be required when issuing a lease, but the compensation in exchange for the lease should be designed to "maximize" the dollar return

to the state. She clarified this would be attempting to balance these two features.

2:50:43 PM

REPRESENTATIVE SADDLER expressed the opinion that in Version S the language in [Section 38.05.081] on page 3, line 21 is subjective. He questioned the criteria the director would use in deciding between two conflicting bidders.

MS. MILLER responded that the short answer is this could be decided in regulation. In response to a follow up requesting clarification, she said the director would evaluate a proposal and determine which usage would be more appropriate. She explained that characteristics and current usage of the land might be more conducive to one type of project; therefore, the state may broadly consider the "best interest" by maintaining certain types of usage.

REPRESENTATIVE SADDLER, with a follow up, expressed the understanding that [Section 38.05.081] is about leases of land for carbon management, and the same mechanism for carbon management would be applied, regardless of the bidder. Concerning two different applicants for the same piece of state land, he questioned how the distinction would be made for the different uses.

MS. MILLER responded that there should be flexibility, as styles of carbon management can require very different site-control protocols and registry requirements. Should there be competition, she said flexibility should be protected for the selected land and its usage.

2:54:09 PM

REPRESENTATIVE MEARS questioned the reasoning for singling out the Haines State Forest Management Area in Section 7, page 8, line 2 of Version S.

MS. MILLER responded that the Haines State Forest Management Area was established in a different part of the statute from the other state forest systems. Because of this, the Haines State Forest Management Area statute would need to be addressed separately in Version S to allow carbon offset projects. She deferred the question to the next committee meeting and the Department of Law for the unique history on this.

2:56:06 PM

CHAIR MCKAY announced that HB 49 was held over.

2:56:20 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:56 p.m.