

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 17, 2023

1:01 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

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."

- MOVED CSHB 49(RES) OUT OF COMMITTEE

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)
03/13/23	(H)	RES AT 1:00 PM BARNES 124
03/13/23	(H)	Heard & Held
03/13/23	(H)	MINUTE (RES)
03/15/23	(H)	RES AT 1:00 PM BARNES 124
03/15/23	(H)	Heard & Held
03/15/23	(H)	MINUTE (RES)
03/17/23	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

RENA MILLER, Special Assistant to the Commissioner
Office of the Commissioner
Department of Natural Resources
Juneau, Alaska

POSITION STATEMENT: On behalf of the sponsor, House Rules by Request of the governor, addressed HB 49, Version S.

JOSHUA STRAUSS, Senior Vice President
Anew Climate
Houston, Texas

POSITION STATEMENT: During the hearing on HB 49, Version S, gave a PowerPoint presentation, titled "Forest Carbon Hypothetical Project."

CHRISTOPHER ORMAN, Assistant Attorney General
Natural Resources Section
Civil Division (Juneau)
Department of Law
Juneau, Alaska,

POSITION STATEMENT: Answered questions during the hearing on HB 49, Version S.

ALEXEI PAINTER, Director
Legislative Finance Division
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 49, Version S.

ED KING, Staff
Representative Tom McKay
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 49, Version S.

ACTION NARRATIVE

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CHAIR TOM MCKAY called the House Resources Standing Committee meeting to order at 1:01 p.m. Representatives Saddler, Wright, Rauscher, Mears, Armstrong, Dibert, McCabe, and McKay were present at the call to order. Representative Patkotak arrived as the meeting was in progress.

HB 49-CARBON OFFSET PROGRAM ON STATE LAND

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CHAIR MCKAY announced that the only order of business would be 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." [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").]

CHAIR MCKAY stated that the hearing would begin with an explanation of a hypothetical project presented by staff from the Department of Natural Resources (DNR) and Anew Climate.

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RENA MILLER, Special Assistant to the Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), deferred to staff from Anew Climate to lead the PowerPoint presentation, which reviews a hypothetical carbon capture project.

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JOSHUA STRAUSS, Senior Vice President, Anew Climate, presented a PowerPoint presentation, titled "Forest Carbon Hypothetical

Project" [hard copy included in the committee packet]. He highlighted his experience in forestry and in environmental economics, and he shared that he is the head of Anew Climate's team working on carbon-offset development. He stated that his team had worked on the report by Anew Climate previously presented to the committee. This report analyzed the potential for carbon capture as an asset on DNR land, particularly in consideration of forest carbon. He continued that the hypothetical project in the presentation is based on this report. He began the presentation by showing a map on slide 2 of the area chosen for the hypothetical forestry project. He explained that Anew Climate worked extensively with DNR to choose the project area of 43,000 acres near Haines. He stated the following factors had been considered: existing infrastructure, animal species within the project area, market demand for timber, and access to timber facilities.

MR. STRAUSS continued to slide 3, which featured a table depicting the breakdown in revenue from the hypothetical project. Using the American Carbon Registry's (ACR's) improved forest management program, he predicted that a project of this size would generate about 800,000 forest carbon credits. He added that the protocols used have been successful in similar projects in Michigan. He characterized the scenario on slide 3 as a "conservative approach," as it would keep the areas of management consistent with the harvest levels seen in the area over the past decade. He explained that the proposed management strategy for the project will be compared with a hypothetical baseline that depicts a possible management alternative. He stated that the "project pathway" would maintain modest harvest levels while the alternative baseline scenario would have a short-term revenue focus with higher harvest levels. He emphasized that both pathways are consistent with the current rules and regulations for DNR land.

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MR. STRAUSS reported that his team estimated \$20 million in carbon credits for the hypothetical project during the first 10 years and around \$60 million over the 40-year life of the project. He stated that two types of credits available make up the total amount of revenue for a project, conservation credits and removal credits. He stated that conservation credits are the units of carbon dioxide equivalent to what accumulates when less timber is harvested than the maximum available. By avoiding heavier harvest levels in the case of the Haines project, this would generate about 41 thousand conservation

credits per year for the first few years of the project. He explained that new tree growth within the project area would add an additional 50 thousand removal credits a year for the entire life of the project. He emphasized that removal credits are based on the annual new growth and conservation credits are based on the amount of timber that could have been harvested but was not because the project was in place. Because there is the assumption that once the stock of harvestable trees is brought down to a certain level, it will continue at this same level for the remainder of the project, the conservation credits are only available in the first years of the project. He pointed out that each offset type is associated with a different price level. He continued that, based on current market prices for conservation and removal credits, the state could expect to make about \$15 and \$25 per credit respectively. He explained that removal credits have a higher price because buyers often pay a premium for new growth.

MR. STRAUSS, explaining the project expense column on the table, detailed the different costs needed by the project. These costs include doing a carbon inventory, verifying the project through a third-party audit, and paying ACR to allow the credits to be sold and transferred. He stated that Anew Climate would cover all upfront expenses for any public entity project it manages, and any reimbursements would happen only after the project's success. He explained that this model has been successful because it allows public entities to pursue these types of projects with minimal risk.

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REPRESENTATIVE MCCABE asked how removal credits work.

MR. STRAUSS clarified that removal credits refer to the amount of carbon being removed from the atmosphere as new tree growth occurs. He explained that forestry scientists can quantify how much carbon dioxide is being taken out of the air and stored within the trees as new wood material by studying the accumulation of new growth.

REPRESENTATIVE MCCABE questioned whether it would be in the best interest of the state to remove some older growth trees, as they absorb less carbon. He reasoned that this would make way for younger trees, which provide more carbon credits.

MR. STRAUSS replied that this is a misconception. He explained that while younger trees can have higher absorption rates in

some cases, the total mass of the older trees will compensate for slower growth rates, and the older trees often store more carbon than younger trees annually. He emphasized that older trees have extreme value to carbon storage. He said timber harvest can be tailored to encourage new growth with long-term land management by concentrating on maximizing carbon offset, but he reminded the committee that these processes take time. He reiterated that the scenario presented with the hypothetical Haines project is a conservative approach, focusing on maintaining the current stock, while encouraging the greatest near-term growth. He stated that this is opposed to taking drastic harvesting action, which could foster future growth, but this also risks short-term carbon loss.

REPRESENTATIVE MCCABE asked for details on how forests can be managed to foster the greatest amount of growth.

MR. STRAUSS stated that because the needs of each forest can vary dramatically, it is difficult to speak in general about forest management strategies. However, he explained that in the case of the hypothetical Haines project, a "light touch" management approach is proposed, and this would remove commercial timber at rates comparable to the rates in the last ten years, which had a commitment to maintaining the stock and increasing growth. He stated that the numbers in the table reflect this. He stated that the variables of how many credits are earned versus how much wood is harvested could be manipulated as desired to achieve different results. He explained that the programs do not have hard mandates on how to manage the land within the project area, but the "golden rule" is not to harvest more timber than what has grown in any given year.

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REPRESENTATIVE SADDLER asked for a brief definition of conservation credits.

MR. STRAUSS described conservation credits as "avoided loss" and explained that all carbon projects compare the harvesting plan for the project with an alternative plan, which could be implemented based on the resource at hand and the market value of the material. He stated that his organization looks at the various DNR constraints for harvest on a piece of land and calculates how much could be harvested if the focus was to prioritize the near-term financial gain, instead of carbon sequestration. He reported that the alternative, aggressive

harvesting plan is considered the baseline, and this baseline is compared against a harvesting plan that prioritizes carbon sequestration. He stated that in carbon sequestration projects, DNR would make revenue based on the carbon credits, as well as on the timber harvests. He continued that this would result in a wider gap in stock amounts between the project plan and the baseline. He explained that any carbon lost through harvest in the baseline scenario, but maintained in the project plan, would be considered conservation credits.

REPRESENTATIVE SADDLER requested a simplified definition of conservation credits.

MR. STRAUSS directed the committee to the last slide of his presentation to explain conservation credits through an example of a real carbon project. He said that the graph on slide 8 depicts how many carbon credits a project would receive annually if it followed the baseline pathway versus the growth pathway.

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CHAIR MCKAY sought the clarification that the conservation credits would come from not logging portions of the project area.

MR. STRAUSS confirmed that the carbon conservation credits are awarded based on logging less than the baseline scenario. He used the graph to illustrate that the baseline loses carbon stocks over time, while maintaining carbon stocks allows the project to gain more credits by avoiding this loss.

CHAIR MCKAY shared his understanding that in the graph on slide 8, the gray area above the horizontal line represents no logging, while the blue shaded area below the line represents if logging were to occur.

MR. STRAUSS restated that the black line is the carbon project scenario, while the blue line is the alternative, unused baseline. He explained that the blue wedges represent the annual amount of conservation credits earned by not logging as much as the baseline plan and the black wedges represent the amount of removal credits earned through the annual new growth of timber within the project area.

CHAIR MCKAY sought confirmation that the project would gain conservation credits by limiting logging and removal credits by thinning out dead trees [to promote forest growth]. He

questioned whether this would allow the project to earn both types of credits.

MR. STRAUSS confirmed that the project would get both credits. He added that the more growth there is, the more removal credits would be granted. He expressed caution that any thinning of a forest to promote growth must be done very carefully.

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REPRESENTATIVE MCCABE hypothesized that loggers and other people in the forestry management field would need to focus less on actual forest management and become more knowledgeable about how to find the "sweet spot" between harvest and credit accumulation.

MR. STRAUSS expressed agreement and opined that the issue would be more than just a balance between removal and conservation credits, as it would also involve understanding the interplay of timber value and carbon value. He clarified that he is not promoting the closure of any working forests, as 90 percent of the projects he works on are in forested areas with active commercial logging operations. He reiterated that starting carbon sequestration projects would require a commitment from logging operations to maintain the timber stock to at least the same level as it was when the project started and add on carbon [through new tree growth] annually. He compared this type of management to other plans that have shown large dips in carbon stock levels because the plan prioritized timber harvests. He reiterated the idea of a balance between the two types of carbon credits and the market value of carbon versus timber.

REPRESENTATIVE MCCABE pointed out the millions of acres of inaccessible forests in Alaska that are not being managed. He questioned whether it would be possible for the state to lease these lands to logging companies for carbon credits by simply leaving the lands in their natural state.

MR. STRAUSS replied that land use in this manner would not be acceptable to ACR for carbon credits. He explained that ACR will only grant credits for areas where it is possible for the timber to be harvested in an alternative way. He said that if there were no differences between the baseline management strategy of what could take place and the proposed carbon sequestration strategy, there would be no credits gained. He explained that the intent of the credits is to reward projects

for choosing a harvest management plan that increases carbon storage.

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CHAIR MCKAY opined that there is a misconception within the legislature concerning the eligibility for carbon credit projects in inaccessible forests in Alaska. He requested clarification on this assumption.

MR. STRAUSS confirmed that not every acre of forested land in Alaska would be available for carbon credits. He posited that within the vast amount of lands that DNR controls, there could be many carbon credit projects; however, he emphasized that infrastructure and a market for the timber and carbon resources must be established to qualify for credits. He suggested that a case could be made for developing projects in remote areas; however, the more complicated and costly the hypothetical project is, the less likely the project is to generate meaningful carbon credits. Because of this, he said, remote forests are generally not available for carbon credits.

CHAIR MCKAY questioned why inaccessible forests are not able to garner carbon credits, as they are absorbing and storing carbon dioxide (CO2).

MR. STRAUSS responded that credits are only issued when an action on the land either increases the land's CO2 uptake or reduces the carbon loss in the area. He stated that if an entity decides to decrease timber harvests in a location to increase carbon accumulation, then carbon could be credited. He explained that in the situation where carbon is going to accumulate on a given piece of land without any additional action, ACR or any other accounting system would not offer credits as an incentive for mitigating carbon emissions because no action had taken place.

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MS. MILLER clarified that "accessible" for ACR means land currently accessible by road and land reasonably accessible in the future. She reiterated that land could become accessible if an economically viable harvest supports the creation of road access.

CHAIR MCKAY restated that there has been the perception that all forests were eligible for carbon credits and thanked the testifiers for the clarification.

REPRESENTATIVE SADDLER shared his understanding that the intent behind forestry carbon credits would be to incentivize leaving a tree standing, as cutting a tree down would contribute to carbon emissions. He expressed the understanding that a potential risk for these trees to be cut down must exist in order for a forest to have carbon value for ACR. He questioned the degree of risk that a potential project would need to demonstrate to qualify for carbon credits. He expressed interest in further investigating exactly where this line would be.

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REPRESENTATIVE MCCABE summarized the discussion by stating that carbon credits act as a way to pay entities not to cut down trees that were otherwise planned to be cut. He posited that the forests in the Denali National Park and Preserve could not be used as an offset because they will never be at risk of harvest, while a forest outside of Talkeetna with the possibility of future road access would qualify for carbon credits, and he sought confirmation of this assertion.

MR. STRAUSS affirmed that carbon credits deal with how timber-harvesting levels affect the amount of carbon within a landscape. He addressed Representative Saddler's question about what the risk must be to meet the threshold for credits. He stated that ACR has well established methods to determine whether an area could qualify for credits, and a third-party verification body generates harvest-threat assessment. He stated that an entity must be able to show the third-party verification body that harvesting timber in a particular location would be financially attractive. He explained these verification bodies would be staffed by qualified foresters, trained in reviewing carbon offset projects.

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CHAIR MCKAY gave the example of a timber sale in a thousand-acre forest. He expressed the understanding that these thousand acres would be eligible for carbon credits. He then proposed a hypothetical about a similar thousand acres of forest being cut because of "beetle kill" and forest fire prevention. He questioned whether offset credits could be garnered in this situation.

MR. STRAUSS replied that fire prevention measures would not qualify the land for credits under ACR's program. He reiterated that ACR's forest management projects must fall under the specific guidelines of balancing the harvest of viable wood products and the carbon stock of the area. He added that Anew Climate does work on projects in states that use other methods. He explained that these methods use fire prevention to generate carbon credits by forecasting the fire risk of leaving dead trees in an area. Although these programs are not currently available in Alaska, he opined that this could work for some of the forested lands in the state. Furthermore, he observed that the proposed legislation does not narrowly define how credits can be accumulated. He stated that his focus has been on DNR's most current, common protocols.

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REPRESENTATIVE MCCABE, citing the high cost of firefighting in Alaska, expressed interest in pursuing carbon credits through forest fire prevention, as this could benefit the state. Returning to the question of the harvest risk threshold, he asked the extent of a viable timber market that a project would have to exhibit. He further inquired about who would be responsible for the project.

MR. STRAUSS replied that the first step in establishing the risk threshold of a forest harvest would be to create a case for the verifier board to review. The case should contain facts about the proposed project area, such as the land's history of harvest, the current infrastructure, and the cost of building the infrastructure. To determine whether the project would be financially viable, these factors would be compared to the value of the wood material in the area. Once a case has been built, he reiterated that the verifier would decide whether it is an acceptable plan for receiving credits. Addressing the second question, he continued that carbon project developers, such as Anew Climate, typically research and design projects, handle the verification process, and sell the carbon credits. He emphasized that the design and management of these projects is generally not the responsibility of the landowner, especially when the land is part of the public domain.

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REPRESENTATIVE SADDLER shared his understanding of the third-party verification process. He posited that the calculation

process is complicated. He questioned the details on how companies would consider the project's net cost and the financial benefit of carbon credits.

MR. STRAUSS responded that the calculations only take into consideration the possible profit and financial viability of harvesting the wood material, without looking at the potential carbon credits. He explained that the underlying question is whether the value of the wood itself justifies the cost of bringing the timber to market. He stated that the logistics of removing the timber, the market's ability to absorb the timber, and the net cost of removing the timber are all factors in the analyst's risk evaluation.

REPRESENTATIVE SADDLER opined that if the timber available within an area is low quality "trash lumber," with no market, it would not have value for carbon sequestration.

MR. STRAUSS responded in the affirmative.

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MR. STRAUSS concluded his presentation by describing the "Development Timeline" graphic on slide 4. He explained the steps required from the initial conception of a project to the first realization of revenue. He stated that this graphic depicted the necessary steps before a sale can occur over an 18-month schedule, which he described as a very efficient timeline. He reported that the development stage can take up to 24 months, depending on factors, such as weather conditions. He reported that the project must first establish an account with ACR, and this would officially start the monitoring and comparing of activity in the area to the baseline scenario. Once the data is collected, he stated that a carbon model would be created to predict how the forest is likely to mature in both the baseline scenario and the proposed carbon project.

MR. STRAUSS stated that all information collected by the project manager will then be organized into documentation required by ACR, and this would be submitted to the third-party verification body. He reported that the verification process could take up to eight months, culminating in the verifier conducting a site visit to confirm the data reported is correct. Once the verifier decides to approve the project, he explained that all documentation would go to ACR. He described ACR as a nonprofit organization that manages the platform where carbon credits can be traded, sold, and retired. This ensures that the credits are

carefully tracked, and he emphasized that ACR also approves the rules quantifying carbon credits. He explained that ACR is the ultimate judge of what will be creditable, as it would audit the verifier's work before issuing any credits. He reported that there are many voluntary buyers interested in reducing carbon emissions through credit purchases, such as tech, entertainment, and energy sectors. He emphasized that these buyers are acting voluntarily and are not mandated to buy the credits or otherwise reduce emissions. He also argued against the idea that carbon credits are a way for companies to "pay to pollute." He explained that after the 18-month development period, and the credits have been issued, companies could start the verification process over again. He reported that verification is only required to occur every five years; however, new credits for sale can only be issued through verification, so it would benefit the carbon revenue of the project to reverify annually.

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CHAIR MCKAY expressed the understanding that the inventory fieldwork and site audit are the two steps that would need to take place in the field.

MR. STRAUSS responded in the affirmative. In response to a series of follow-up questions, he affirmed that fieldwork would be best done during the summer months. He suggested that following the "weather window" in Alaska is crucial. He answered that, given Alaska's weather, if the project were on schedule, credits could start selling on the 19th month of project development. He added that other projects completed in Alaska have been done on a similar schedule.

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REPRESENTATIVE SADDLER asked Ms. Miller whether there would be spending limits for the operating fund created by carbon projects. He questioned whether the money would have to be spent in a specific way, such as only utilized for logging roads.

MS. MILLER replied that page six of the proposed bill would create a carbon-offset fund, and this fund would be available for administrative program costs. She expressed the belief that anything that is part of a project's scope and design could be an eligible expense for the fund. In response to a follow-up question, she stated that money from this fund could be used to build logging roads to less accessible areas in order to raise

the harvest risk levels. She explained that determining the risk level would happen when the baseline scenario is established.

REPRESENTATIVE MEARS asked whether the management of the project, by the state or through a third party, could be paid for through the project general fund.

MS. MILLER shared the department's understanding that the general fund could be used towards management of the project if the intent of the management is to increase the carbon stock within the project area.

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CHAIR MCKAY directed the committee's attention to a memo from DNR, which was written to answer questions from Representative Armstrong regarding forest acreage. He asked whether Representative Armstrong was fully satisfied with the answers provided.

REPRESENTATIVE ARMSTRONG responded that the memo was sufficient to answer her questions, as it explained that the projected amount of revenue to be made by the state might have been initially misrepresented. She expressed the understanding that because there is not very much logging in Alaska, there would be less acres available to "save" from being harvested. She posited that this makes Alaska less attractive for carbon projects. She mentioned that other states have seen instances of over-crediting in these projects, which can cause backlash. She opined that the idea of "carbon credits" could be "a scam." She explained that the acreage data in the DNR memo showed that Alaska does not harvest very many acres of timber annually; therefore, she posited that promising to harvest even less to make more money on the carbon credits does not "add up."

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CHAIR MCKAY thanked Representative Armstrong for her perspective on this complex issue and asked Ms. Miller what would happen in the case that mining interrupted a carbon-offset project.

MS. MILLER, addressing the DNR memo on available acreage, explained that the baseline scenario is not based solely on historic harvest, and the data for timber acres sold would not represent all potentially available acreage. She then spoke to the question on the interaction of mining and carbon credits.

She stated that DNR believes most potential interactions could be addressed in the initial project design phase. She reminded the committee that during the planning phase the lands for the project would be decided. She explained that the department is very aware of the location of valuable mineral resources, and she noted that these acres could be fenced off at the start of the project and the same could be done for other uses, such as an active hunting or trapping corridor. She proposed that a required report on the best-interest findings would encourage public feedback about land usage, helping to avoid these conflicts.

MS. MILLER expressed the understanding that in a scenario where a carbon project is underway, but a new mining interest is discovered, the surface disturbance caused by a mine would be small enough so that a large carbon project would absorb the loss of carbon from the mine. She reiterated that for a project to qualify for credits there must be more tree growth than loss annually within the entire project. She suggested that there would be potential for most projects to adjust for this loss. She posited that, depending on the condition of the project, the adjustment may require forgoing a year of issuing carbon credits. She mentioned that a typical mining project disturbs about 500 acres of aboveground land and the carbon projects are anticipated to cover about 50,000 acres. She stated that if the state needed to exit a project, a portion of the land could be removed from the area, but the credits bought to date on the land would have to be reimbursed by the state. In the case that the entire project needed to be terminated, she confirmed that the state could do so, but there would be financial repercussions. She emphasized that the state's right to terminate a project would be held within the project contract made with ACR.

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REPRESENTATIVE SADDLER asked whether the money in a carbon project's general fund could be used to pay back credits in the case of a terminated project.

MS. MILLER posited that there would need to be a careful legal examination of the terms set within the bill and deferred the question to a lawyer.

REPRESENTATIVE SADDLER posited that if the general fund could be used to refund credits, the fund would need to maintain a

healthy balance. He advised that the committee needs to consider this.

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CHRISTOPHER ORMAN, Assistant Attorney General, Natural Resources Section, Civil Division (Juneau), Department of Law, stated that refunding credits for this purpose could be interpreted as an appropriate use of the fund; however, he advised that this possibility is potentially dangerous. He explained that the language in the proposed bill would allow the fund to be used for the purposes of providing for and developing carbon offset programs. He posited that using these funds to terminate a program may be a "stretch" of its appropriate use. He opined that the best legal move would be to "play it safe" and ask for a specific and separate appropriation for any related costs for project termination. He emphasized that the fund would be for supporting projects that are actively producing carbon credits.

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REPRESENTATIVE SADDLER posited that it would be beneficial for lawyers from different departments to discuss this and confer with the House Finance Standing Committee.

CHAIR MCKAY requested additional input from the Legislative Finance Division.

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ALEXEI PAINTER, Director, Legislative Finance Division, Legislative Affairs Agency, expressed the opinion that the way the fund is structured it would be dedicated for a specific purpose, as there is money flowing into and out of the fund without appropriation.

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CHAIR MCKAY announced that the committee would now discuss the changes made to the attached fiscal notes.

MS. MILLER explained that the department has prepared three revised fiscal notes for Version S. She reported that one major revision was to move \$425,000 in capital outlay from the Division of Mining Land and Water (DMLW) to the Office of Project Management and Permitting (OPMP). She explained that the intent is to house the state's carbon program under OPMP,

while DMLW would remain responsible for leasing state land for carbon management under a different capital program. She stated that the revised fiscal notes also include an additional three-year permanent position in the Department of Forestry. She continued that, in alignment with the current best practices, there were minor adjustments to the "costs per employee" line. She explained that the fiscal analysis was cleaned up, and now it is clear which activities the fund would pay for. She added that the potential fire suppression costs were deemed unlikely to cause a fiscal impact.

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MS. MILLER, in response to Representative Saddler, affirmed that the 3/16/23 fiscal notes would be the most current.

REPRESENTATIVE RAUSCHER expressed the understanding that the proposed committee substitute for HB 49, Version S, would not only create the terms for any future carbon offset projects, but it would also establish a state-run carbon offset program, with or without any carbon contracts in process.

MS. MILLER stated that Version S would initiate a program and establish a framework for the department to use in the consideration of potential projects. She emphasized the importance of having a framework to allow for guidelines on the review of carbon projects, as this would allow for a documented best interest finding. She said that the framework would include how best to meet the state's reporting requirements.

REPRESENTATIVE RAUSCHER questioned whether the program would continue to exist if it is later determined that carbon offset projects are not profitable for the state.

MS. MILLER confirmed that the program would be written into statute; therefore, it would still exist. She stated that if the state no longer wanted to bear the cost associated with the program, the legislature would be able to make financial adjustments to the program.

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REPRESENTATIVE PATKOTAK moved to adopt Amendment 1 to HB 49, Version S, labeled, 33GH1372\S.1, Dunmire, 3/15/23, which read as follows:

Page 8, line 22, following "(4)":

Insert "if applicable,"

CHAIR MCKAY objected for the purpose of discussion. He explained that the amendment would be adding the phrase "if applicable" to a section of the language on page 8.

REPRESENTATIVE SADDLER asked for DNR's position on Amendment 1.

MS. MILLER responded that the department supports the clarification of language.

CHAIR MCKAY added that it would clarify that all state forests would not be required to be available for carbon offset projects. He removed his objection. There being no further objection, Amendment 1 was adopted.

[2:17:34 PM](#)

REPRESENTATIVE PATKOTAK moved to adopt Amendment 2 to HB 49, Version S, as amended, labeled, 33GH1372\S.7, Dunmire, 3/16/23, which read as follows:

Page 3, line 30, through page 4, line 1:

Delete all material and insert:

"(f) Compensation for a lease under this section
(1) shall be designed to maximize the return to the state and be a form of compensation provided under AS 38.05.073(m);
(2) shall be separately accounted for under AS 37.05.142; and
(3) may be used by the legislature to make appropriations to the department to carry out the purposes of this section."

REPRESENTATIVE PATKOTAK objected for the purpose of discussion.

CHAIR MCKAY explained that Amendment 2 would require that the management of leases be paid for by lease revenue. He asked for DNR's position on Amendment 2.

MS. MILLER stated that the department supports Amendment 2.

REPRESENTATIVE PATKOTAK removed his objection. There being no further objection, Amendment 2 was adopted.

[2:18:26 PM](#)

REPRESENTATIVE PATKOTAK moved to adopt Amendment 3 to HB 49, Version S, as amended, labeled, 33GH1372\S.9, Dunmire, 3/16/23, which read as follows:

Page 9, line 2:

Delete "nontimber"

Insert "other [NONTIMBER]"

REPRESENTATIVE PATKOTAK objected to Amendment 3 for the purpose of discussion.

CHAIR MCKAY described Amendment 3 as a technical amendment that corrects the terminology to account for the inclusion of carbon-offset projects for timber purposes. He questioned DNR's opinion of Amendment 3.

MS. MILLER reported that the department supports Amendment 3.

REPRESENTATIVE PATKOTAK removed his objection. There being no further objection, Amendment 3 was adopted.

[2:19:06 PM](#)

REPRESENTATIVE PATKOTAK moved to adopt Amendment 4 to HB 49, Version S, as amended, labeled, 33GH1372\S.10, Dunmire, 3/16/23, which read as follows:

Page 4, line 6, following "state.":

Insert "The findings must include

(1) reasonably foreseeable effects that a project may have on the state or local economy; and

(2) anticipated annual revenue that the lease will yield to the state.

(i) State land used for carbon management purposes must, to the extent practicable, remain open to the public for access, hunting, fishing, and other generally allowed uses as determined by the department."

Reletter the following subsection accordingly.

REPRESENTATIVE PATKOTAK objected for the purpose of discussion.

CHAIR MCKAY explained that Amendment 4 clarifies that the requirements included in the leasing statutes would include economic impacts, anticipated revenues, and public access. He asked for DNR's opinion of Amendment 4.

MS. MILLER stated that the department has no comment on the amendment.

REPRESENTATIVE PATKOTAK removed his objection. There being no further objection, Amendment 4 was adopted.

[2:19:49 PM](#)

REPRESENTATIVE MEARS moved to adopt Amendment 5 to HB 49, Version S, as amended, labeled, 33GH1372\S.11, Dunmire, 3/15/23, which read as follows:

Page 6, lines 7 - 10:

Delete "The carbon offset revenue fund consists of money appropriated to the fund by the legislature and program receipts from the sale of verified carbon offset credits. Appropriations to the fund do not lapse."

Page 6, lines 11 - 13:

Delete all material and insert:

"(b) The legislature may appropriate money in the fund to implement AS 38.95.400 - 38.95.499.

(c) On June 30 of each year, the unobligated amount in the carbon offset revenue fund in excess of \$10,000,000 lapses into the general fund."

REPRESENTATIVE PATKOTAK objected for the purpose of discussion.

REPRESENTATIVE MEARS explained that the carbon fund provided in Version S would consist of funds from appropriations and program receipts, while the fund withdrawal would be at the commissioner's discretion. She expressed the need for a clearer appropriation from the legislature and Amendment 5 would rectify this issue.

[2:20:33 PM](#)

MS. MILLER reported that the department has no position on Amendment 5. She expressed appreciation for the clarity added into the funding language. She emphasized the department's respect for the legislature's power as the appropriating body. She stated that the \$10 million [budget] written into the amendment was an amenable starting point, and the department would be prepared to justify any requests for an increase in subsequent committees.

2:21:05 PM

REPRESENTATIVE SADDLER referred to the current language in Version S, which states that the fund will consist of money appropriated by the legislature. He pointed out that Amendment 5 would delete this, replacing the legislature's ability to appropriate into and out of the fund. He questioned whether this language is necessary.

REPRESENTATIVE MEARS expressed the understanding that more explicit language would be necessary because there are also program receipts coming into the fund. In response to a follow-up question, she stated that \$10 million was requested by DNR.

MS. MILLER responded to the question by stating that the amendment had originally featured a different initial starting point for the appropriation limit; however, the department asked for it to be higher in consideration of some of the potential project costs. She reiterated that the department may ask for more money with justification in later committees.

REPRESENTATIVE SADDLER made it clear for the record that in a situation where the fund accumulates more than \$10 million this amendment would allow the legislature to appropriate money back into the general fund, and the amendment itself does not appropriate \$10 million.

REPRESENTATIVE MCABE referenced a previous committee hearing where it was discussed whether the legislature would have access to the fund for appropriations. He expressed the understanding that the legislature would retain access to this fund, as it would be a designated fund rather than a dedicated fund. Because of this established access, he opined that Amendment 5 was superfluous.

2:24:43 PM

MR. PAINTER commented that the language is contradictory concerning how the money is appropriated and who has access to the fund. He explained that if the intent of the bill were only to allow legislative appropriations to be spent without further appropriation, this would create multiple specifications on how the money could be spent within the same fund. He opined that this could be confusing. He suggested that the problem could be addressed by both allowing money to flow in, without appropriation, and then requiring it to be appropriated out, or

the reverse. He stated that either way would work, and Amendment 5 is one possible solution to the problem of identifying when the money should be appropriated. He reiterated that Version S, as currently written, is ambiguous in this regard. He advised that some clarification would be needed.

[2:26:19 PM](#)

REPRESENTATIVE ARMSTRONG notified the committee that Legislative Legal Services sent a memo on this topic, and it advised that the bill would allow money to flow into and out of a fund without appropriation, and this is unconstitutional and would need to be fixed.

REPRESENTATIVE MCCABE suggested that Legislative Legal Services wrote both the memo and the proposed legislation, and he questioned why there is a contradiction between the two.

REPRESENTATIVE ARMSTRONG replied that Legislative Legal Services did not write the original version of the bill, as it came from the governor's office. She stated that the memo referred to the version of the bill before the committee substitute was adopted.

[2:27:11 PM](#)

REPRESENTATIVE SADDLER shared his understanding that there is a need to clarify when fund appropriation could happen. He referred to Mr. Painter's explanation that Amendment 5 would provide a fix for this issue, as it would allow the legislature to appropriate from the fund, and all other unobligated funds would spill back into the state's general fund. He sought confirmation that this is a correct summation of the amendment. He further questioned the term "unobligated" as used in Amendment 5.

REPRESENTATIVE MEARS deferred to Mr. Painter.

[2:28:07 PM](#)

MR. PAINTER defined "fund obligation" as a commitment to spend a certain amount that has not been spent yet. He used the example of an established multiyear contract with a set payment; the amount needed to satisfy the contract would be the obligated part of the fund, and this part would not be open for appropriation. He added that the unobligated balance would be

any funds leftover, which do not have a legal commitment, and the legislature could transfer this out of the fund.

[2:29:03 PM](#)

REPRESENTATIVE PATKOTAK removed his objection to Amendment 5.

[2:29:18 PM](#)

The committee took an at-ease from 2:29 p.m. to 2:30 p.m.

[2:30:31 PM](#)

CHAIR MCKAY announced that, there being no further objection, Amendment 5 was adopted.

[2:30:50 PM](#)

CHAIR MCKAY thanked the committee for the hard work on the proposed legislation and expressed the hope that the bill would be moved out of committee with bipartisan support.

[2:31:55 PM](#)

REPRESENTATIVE MCCABE pointed out past testimony from Verra. He noted the organization's association with the World Economic Forum. He questioned why past testimony from Verra had been used when Alaska would be utilizing ACR, which is not affiliated with the World Economic Forum.

[2:33:10 PM](#)

ED KING, Staff, Representative Tom McKay, Alaska State Legislature, affirmed that ACR is the registry most likely to be used by the state in any carbon credit contracts, and this is why testimony from ACR was not used in the previous meeting, as a conflict of interest regarding the passage of the bill could exist. He reported that he chose experts from Verra for extra reassurance that the committee was receiving unbiased information. In response to a follow-up question, he confirmed that Verra did not receive any compensation for its previous presentation.

[2:34:28 PM](#)

REPRESENTATIVE ARMSTRONG pointed out that Anew Climate used a project in Michigan as a comparison to understand further the

potential of Alaska projects. She reported that Michigan was able to sell 109 thousand acres of carbon credits to receive \$13 million over the first decade of its project. She explained that the Michigan Department of Natural Resources was able to absorb the cost of the project without any additional employees. This state was able to do a large sale of credits because it harvested over 46 thousand acres of forest annually. She compared this to the 2,145 acres that Alaska harvested last year, which was the highest harvest in several years. She reiterated her uncertainty that Alaska would be able to qualify for a similarly large number of credits because of the small amount of acreage used for timber harvest. She expressed the hope that the data from this Michigan project would help members better understand the possible future revenue from carbon credits as the proposed legislation goes forward.

[2:35:41 PM](#)

REPRESENTATIVE MCCABE expressed the understanding that three Native corporations in Alaska have been actively working on carbon-offset projects since 2018, and they have seen a beneficial amount of revenue, with no adverse effects being reported. He asked Ms. Miller for any further information she could provide.

MS. MILLER replied that she was unsure of the exact acreage, but both SEA Alaska and Doyon Limited have established carbon offset projects. She reiterated that Anew Climate alone has worked on 10 projects within the state. She added that the projects have done well financially, targeting both the compliance and the voluntary credit markets with great success.

REPRESENTATIVE ARMSTRONG questioned the harvest levels on the Native lands.

MS. MILLER expressed uncertainty on the harvest levels on these lands. She noted that there are marked differences between Native land management and the state's land management. For example, she said that the state is bound to sustain-yield management while a private owner, like a corporation, would not have this same management requirement. She added that some corporations practice this method voluntarily, adding that a private landowner has greater flexibility in bringing down the initial baseline, which generates more credits. She emphasized that these factors are very project specific.

[2:38:03 PM](#)

REPRESENTATIVE SADDLER opined that the idea of generating carbon credits by not harvesting trees could be compared to the practice of conservation easement; wherein, an organization may pay a landowner to keep land free of development. He expressed the understanding that forested lands used for carbon offset could still be used for public use, such as firewood harvesting and mechanized recreation. He expressed support for the bill, as it would allow the state to earn additional revenue while also helping the planet. He expressed interest in seeing these projects operate successfully in the future.

[2:39:18 PM](#)

The committee took a brief at-ease.

[2:40:21 PM](#)

MS. MILLER, for the record, reported that one of the changes in the revised fiscal notes was to continue to fund the new positions through the general fund, for the life of the fiscal note. She explained that doing this would provide extra time for the carbon credits to be available in the new fund. She stated that this differs from the original plan, as in the original version funding from the general fund would have been used for three to four years, and then the new fund would have been used. In final comments on the proposed legislation, she expressed the department's appreciation to the committee and staff for the work on the bill.

[2:41:43 PM](#)

REPRESENTATIVE RAUSCHER stated for the record that his business outside of the legislature works with timber and has a financial interest in all projects that produce timber for income. He shared this as a declaration of position before voting rather than as a conflict of interest.

[2:42:21 PM](#)

REPRESENTATIVE RAUSCHER moved to report CSHB 49, Version 33-GH1372\S, Dunmire, 3/3/23, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 49(RES) was reported out of the House Resources Standing Committee.

[2:43:15 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:43 p.m.