



CARBON OFFSET SUMMARY

Commissioner Feige, DNR and Commissioner Mahoney, DOR have been working together to develop a business model and to identify SOA (State of Alaska) lands that would enable SOA to monetize SOA carbon offsets in a manner that balances resource development in our state.

Background: Many jurisdictions in the world have carbon offset programs (sometimes referred to as cap-and-trade systems). Jurisdictions cap the amount of carbon emissions an entity like a utility/refinery/manufacturer/etc can emit into the air. And if an entity exceeds the emission cap it can either pay a carbon tax or invest in projects that reduce their carbon dioxide output – projects known as carbon offsets. Our SOA lands generate carbon offsets that we could monetize.

Examples of projects could include forestry, carbon sequestration/carbon sinks, methane capture from landfills, tundra, kelp or renewable energy projects. Australia, California, Washington, most Canadian provinces, countries of the European Union, Iceland, and New Zealand all have cap and trade systems that could potentially include Alaskan lands in its registry. Many countries are in the process of implementing similar programs.

Alaska Tax Credit Certificate: Many large global banks funded the investments that were made by our Alaskan producers and explorers that generated the SOA liability of ~\$600M in tax credit certificates. Some of these banks have established policies that are opposed to arctic investing. Many have adopted ESG policies globally due to their global presence. These entities may have access to some of the global cap and trade programs, especially in Europe. Each program/country has its own set of rules and criteria.

Alaska Program Concept: Our goal is to create a program with 2 components:

1. Register select SOA Alaska lands/carbon offset projects in established programs throughout the world and engage in a marketing effort to share with the world that Alaska has a balanced approach to resource development. Not only does Alaska responsibly develop our hydrocarbon assets, but the SOA and producers are also good stewards of our environment. SOA will make Alaska carbon offsets available to entities as well as individuals. The following is a diverse, small list of entities and individuals who have purchased carbon offsets: Amazon. JetBlue. Delta Airlines. Elton John. Dave Matthews Band. Justin Trudeau. Austin, Texas. Norway. Nestlé. The Tokyo 2020 Olympics. NASCAR.

2. Create an option for tax credit certificate holders whereby each tax certificate has a corresponding carbon offset value. For example, if the SOA owes a bank/oil company \$1M, SOA will establish a corresponding carbon offset value and these entities will have the option to manage/monetize the offsets in a manner that fits with their corporate ESG policies. This enables these entities to control monetizing their tax certificates; the entity can trade liability for a carbon offset that may fit with its corporate goals. Examples of potential uses include:
 - a. These entities may be able to use the Alaska carbon offset to reduce a carbon tax owed in another part of the world.
 - b. Entities may have carbon neutral policies that would position them to purchase Alaska carbon offsets and use the offsets to attain carbon neutrality.
 - c. Entities may have better access to global opportunities where investing requires carbon offsets/carbon neutral positions. These entities could trade the offsets to another entity.
 - d. Entities may also just want to report in its annual ESG report that a certain number of carbon offsets have been attained to neutralize carbon emissions.

The program is currently a concept that is under review. An RFP has been issued to retain a consultant to advise the DNR and DOR Commissioners about carbon offset projects for three test areas in Alaska. Carbon inventories will be established by the consultant. Additionally, the consultant will provide advice and recommendations regarding the marketing and pricing of the Alaska carbon offset inventories.

The program will be jointly managed by the Commissioners of DNR and DOR. The land selections will be identified and managed by DNR to ensure that the public is informed, and the resources are deployed for the highest and best use. The business component of the program will be managed by DOR. Any revenues received would go into the General Fund with the intent that those revenues would assist with paying down the tax certificate liabilities. The revenues will be subject to legislative appropriation.

We are requesting legislative support and approval of this program because the program would be tied to state lands and resources.

Commissioner Feige and I plan to visit the bankers and the Oil/Gas companies to market the program and to also obtain feedback about the program.

Because this program is very new and uncertain, ERG (Economic Research Group) has a very wide range of potential annual revenues \$500k to \$20M.