**Generating Revenue from Carbon in Alaskan Forests**

Starting in 2013, California launched a bold program to reduce carbon emissions in its effort to combat climate change. The Golden State put a price on carbon, requiring emitters to pay for their pollution. Under this program, emitter have the option to either reduce their emissions, or to pay for it by buying allowances from the state regulator or purchasing offset credits in lieu of allowances. Offset credits represent greenhouse gas (GHG) emission reductions or sequestered carbon that meet regulatory criteria and may be used by an entity to meet up to eight percent of its compliance obligation.

California has approved several offset protocols, including a protocol for U.S. forests, under which the most carbon offsets have been developed in the U.S. As of 2015, well-stocked forests like those found in much of southeast and southcentral Alaska are now valued in the California cap-and-trade program and have the potential to generate meaningful revenue for Alaskan Native Village and Regional Corporations.

Encourage Capital is eager to help Alaskan Native Corporations benefit from this program. At no cost to the landowner, Encourage will undertake a desktop assessment of any Alaskan lands using maps, GIS files and satellite data to assess the feasibility of developing a carbon project. If the assessment yields a positive finding, Encourage may propose terms to develop the project in partnership with the landowner.

As part of the project development process, Encourage will hire inventory crews, biometricians, carbon quantification experts and verifiers, while ensuring that the project meets all of the requirements of the California forest carbon project protocol. Wherever possible, Encourage will proactively look to hire local personnel first, which will help bring jobs and consulting revenue to the Alaskan communities, now and in the future.

Typically, within 18-24 months, a project will produce its first batch of offset credits. A carbon project does not need to be disruptive to a landowner. Even with the implementation of a carbon project, a landowner can still conduct routine land management and permit recreational activities, including hunting or fishing, and a carbon project does not necessarily preclude a landowner from timber harvesting, so long as that harvest is accounted for in the forest plan at the time of project development.

Not only will Encourage assess the viability of the project for free, Encourage will also put capital at risk to develop the project. Encourage will underwrite the cost of developing the offset credits until first issuance and, accordingly, bear all of the financial risk associated with the development of the project. Encourage will recover its costs once the project is completed and the offsets are sold and take a small percentage of offsets as compensation. If the offsets are not issued from a project, Encourage will incur that loss.

The team at Encourage has been involved in carbon markets for many years, well before the implementation of compliance carbon markets. Ricardo Bayon, Partner at Encourage Capital, wrote the seminal book on voluntary carbon markets -- *Voluntary Carbon Markets: An International Business Guide to What They Are and How They Work*. Otho Kerr, who leads Encourage’s carbon work has spent many decades structuring deals and advising clients on Wall Street. Uti Agarwal, an engineer by training, has spent the last six years financing, managing, developing and commercializing half a dozen offset projects. The team also includes Denise Farrell and Debbie Atuk. Denise has two decades worth of experience serving municipal governments and is a registered municipal advisor with the SEC. She has a fiduciary responsibility to provide financial advice to the highest standard of integrity. Debbie is a board member of Bering Straits Native Corporation and a shareholder of Sitnasuak Native Corporation and has deep roots in the Alaskan community. She has a cultural and personal perspective that is sensitive to local needs. Her economic development experience with tribal entities can assist ANCs identify and reach projects long term goals.

As an independent financier and project developer, Encourage is agnostic in the choice of buyer (emitter) that an ANC may choose to purchase their offsets. Encourage does not commit the landowner to sell offsets to any one buyer. Typically, once the offsets are generated, buyers can bid and the ANC chooses the best offer in a spot sale based on market prices at the time of issuance of offsets. If an ANC prefers to hedge their price risk by selling the offsets before they are developed, Encourage can arrange a bidding process for a forward sale. Selling offsets to the buyer upfront, while advantageous in some situations, can also result in a sale at low prices, potentially to the extreme detriment of the ANC.

The price of offsets is expected to hold steady in 2019 and gradually rise to about $14 by December 2020. Due to a rule change in California’s program, after 2020, the use of out-of-state offsets (Alaskan offsets) will be restricted to 2% of a compliance entity’s emissions; down from the current 8% level. Price for Alaskan offsets could therefore drop after 2020 since the out-of-state offset supply will be chasing a much lower demand.

If an ANC is considering a carbon offset project, the time to act is now. It takes about eighteen months to generate offsets. By the time the board approval of an ANC is obtained, the inventory, quantification and verification are undertaken, and the offsets issued and commercialized, it is very likely that the calendar will show December 2020. Therefore, ANCs are encouraged to reach out to Hallie Bissett at ANVCA or directly to Denise Farrell (dfarrell@enviadvi.com or 917-621-7165) from Encourage Capital to discuss options for a carbon project.

The Encourage Capital team will be in attendance at the 2019 ANVCA Annual Business Conference in Anchorage on May 8th and 9th if any ANC members want to meet in person.