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Maximizing Net Revenues from a CARB Forest Carbon Offset Project

Alaska SAF
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Topics Covered

1. Why should I want to develop a project?

2. How can I fully understand the net revenues over the 125-year project life?

3. What project development business model works best for me?

Why should I want to develop a CARB project?

- To receive a high enough ROI to cover all the known and uncertain costs over the 125-year project life, <u>plus a high risk premium</u>

- Project life = 25-year crediting period + 100-year monitoring period
  - Net revenue <u>certainty is at its highest in year 1</u>
  - Net revenues increase in uncertainty over the 25-year crediting period

Understanding net revenues over the 125-year project life

- The actual costs of developing a project are high but known in the 1st year, but may not be disclosed by project developers.
- Annual and periodic costs can be estimated for years 2-25. But who pays these is negotiable.
- Credit prices (revenue) will go up and down over the 25-year crediting period. Costs will only go up!
- **Net revenues over the 25-year crediting period is what is important. Not just net revenues over the contract term.**

Net Revenues Depend on:

1. **<u>The deal</u>** you made with your Project Developer, i.e. the term of the contract in years (I am seeing terms of 3 – 10 years),
2. **<u>Who pays</u>** for what costs (I will discuss the 4 cost centers in the next slide),
3. **<u>The price</u>** received for your credits, and
4. **<u>The uncertain costs</u>** that will be incurred
   - reductions in inventory, and periodic costs associated with <u>unintended reversals</u> due to insect, wind, disease, and ice damage.

Understanding net revenues over the 125-year project life – <u>focus on year 1</u>

- **Example: 1,000,000 1st year credits, 20,000 acres in the lower 48**
- **<u>4 cost centers:</u>**

1. Project Management: $100,000 - $125,000 (fixed)

2. Carbon Modeling: $80,000 - $100,000 (fixed)

3. Forest Inventory: $60,000 - $70,000 (fixed) not in AK

4. Verification: <u>$60,000 - $70,000 (fixed)</u>

TOTAL $300,000 - $365,000

+ Attorney: $??

+ Management plan: $??

+ Registry: $?? (based on #credits)

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What project development business model works best for me?

- **<u>Hire a Project Developer: 20% share $13/credit</u>**

  - At 1,000,000 year 1 credits: net revenue = <u>$12,600,000</u> Project Developer gets <u>$2,600,000</u>.

<u>You keep $10,000,000   Costs = $400,000</u>

  - At 5,000,000 year 1 credits: net revenue = <u>$64,600,000</u> Project developer gets <u>$7,720,000</u>.

<u>You keep $56,880,000   Costs = $400,000</u>

What project development business model works best for me?

- **<u>Hire a Project Manager: fee for service basis $13/credit</u>**
  - At 1,000,000 credits, fee for service cost is $400,000.
    <u>You keep $12,600,000 as compared to $10,000,000</u>
  - At 5,000,000 credits, fee for service cost is $400,000.
    <u>You keep $64,600,000 as compared to $56,880,000</u>

Take Aways

- **<u>Year 1 credits is what matters !</u>**
- **<u>Evaluate the 25-year net revenue projections !</u>**
- **<u>Who pays what and when, matters!</u>** If hiring a Project Developer, ask for a 12 year contract term.
- **<u>Don't give away the farm!</u>** Be careful about negotiating away <u>your</u> credits.
- **<u>Size matters!</u>** Project development costs are not linear with first year credits.
- **<u>For new projects</u>, ask your project developer to act as a project manager !**

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Thank you …