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, plus a high risk premium

• Project life = 25-year crediting period + 100-year monitoring period
  – Net revenue certainty is at its highest in year 1
  – 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. **The deal** you made with your Project Developer, i.e. the term of the contract in years (I am seeing terms of 3 – 10 years),

2. **Who pays** for what costs (I will discuss the 4 cost centers in the next slide),

3. **The price** received for your credits, and

4. **The uncertain costs** that will be incurred
   - reductions in inventory, and periodic costs associated with **unintended reversals** due to insect, wind, disease, and ice damage.
Understanding net revenues over the 125-year project life – focus on year 1

Example: 1,000,000 1st year credits, 20,000 acres in the lower 48

4 cost centers:

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: $60,000 - $70,000 (fixed)

TOTAL $300,000 - $365,000

+ Attorney: $ ??
+ Management plan: $ ??
+ Registry: $ ?? (based on #credits)
What project development business model works best for me?

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

  - At 1,000,000 year 1 credits: net revenue = $12,600,000
    Project Developer gets $2,600,000.
    You keep $10,000,000  Costs = $400,000

  - At 5,000,000 year 1 credits: net revenue = $64,600,000
    Project developer gets $7,720,000.
    You keep $56,880,000  Costs = $400,000
What project development business model works best for me?

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

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