

AIDEA Oil and Gas Infrastructure Development Fund HB 246

House Finance Committee

June 3, 2016

Current AIDEA Financing Tools

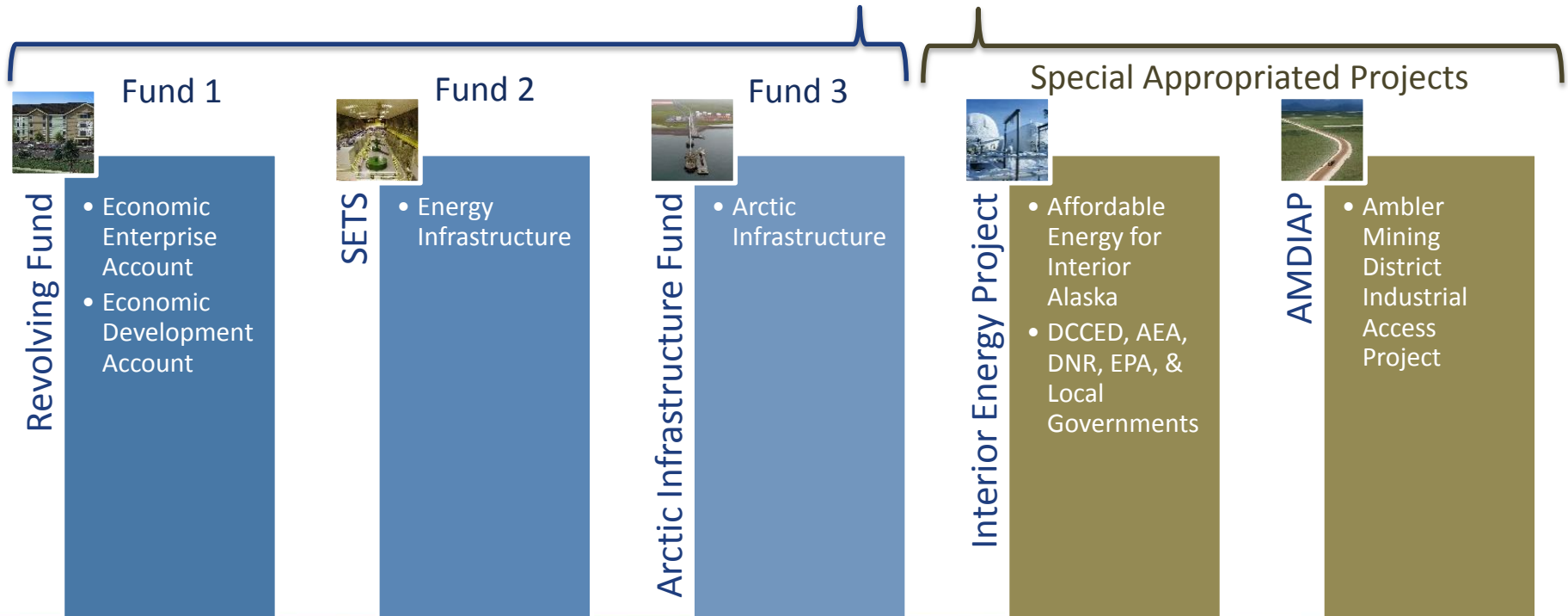


AIDEA Board

- Commissioner - Dept. of Revenue
- Commissioner - DCCED
- 5 successful Alaska business people

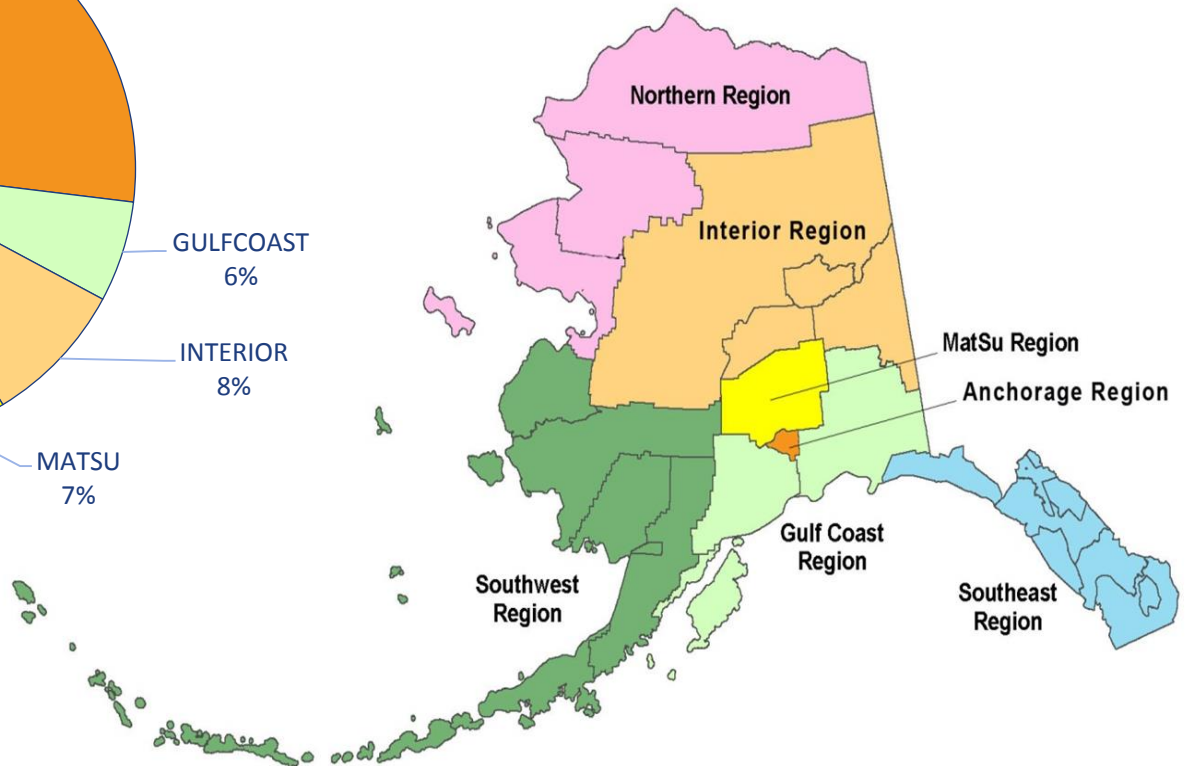
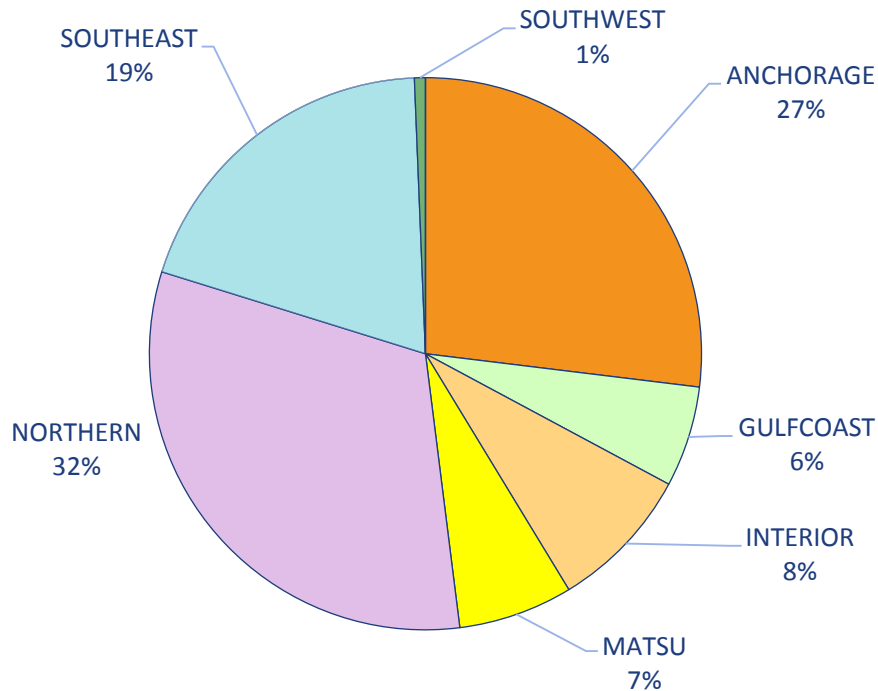


AIDEA Staff



Geographic Project Diversity

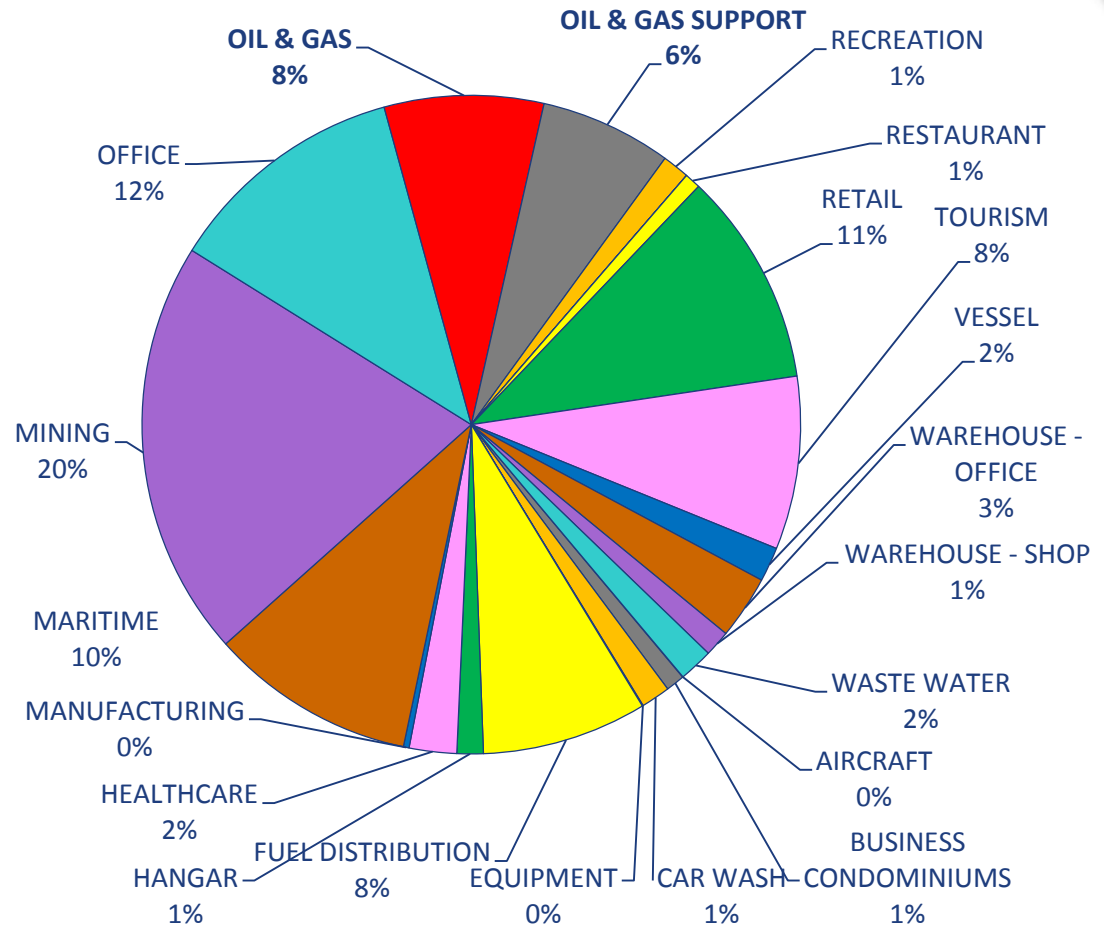
AIDEA Projects and Loans



Industry Diversification

Total Existing and Approved Capacity Projects and Loans as of 10/31/15

Oil and Gas (including support) account for 14% (\$110 million) of AIDEA's financing.



AIDEA Financing Tools after HB 246

Proposed legislation
would create “Fund 4”
Oil and Gas Infrastructure
Development Fund

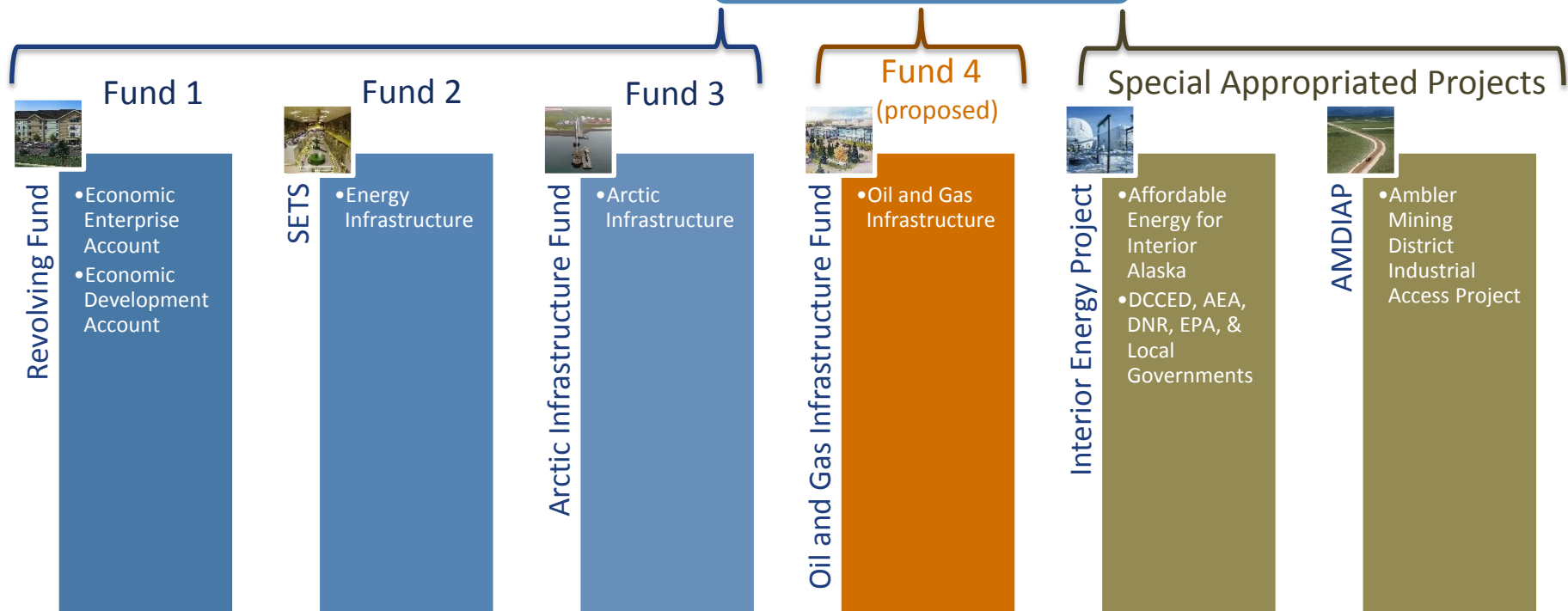


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Intent of HB 246



Continue infrastructure financing to:

- Support small and medium sized oil and gas developers statewide
- Increase production and bring new fields online
- Attract new investment
- Increase future State oil and gas revenues
- Support investment for energy security

Eligible Oil and Gas Infrastructure Projects



- Oil & Gas Development Infrastructure defined as:
 - Investment: acquisition, construction or installation (including engineering)
 - Projects: road, pad, camp, processing facility, gathering system or other-site improvement or equipment
- Projects must support fields with proven reserves
- Proven Reserves defined as:
 - Analysis of geological and engineering data
 - Commercially recoverable under current economic conditions, operating methods, and government regulations
 - Can be categorized as developed or undeveloped

Financing and Tax Credits



- After opting to use AIDEA financing, projects may no longer use:
 - Exploration & Development tax credit (AS 43.20.043)
 - Production tax credit (AS 43.55.023)
 - Production tax credit for exploration expenditures (AS 43.55.025)
- Projects with past tax credits still eligible for AIDEA financing

Market Based Interest Rates



- AIDEA will base interest rates on:
 - Project risk
 - Borrower creditworthiness
 - Owner and financing partner commitments
 - Benefit to the State
- Interest rates may be higher for oil and gas infrastructure projects due to the inherent industry risk

Other Bill Components



Modifies financing limits of SETS and Arctic Infrastructure development funds

- Proposes that all 3 funds be allowed to loan up to 50 percent of an eligible project or offer a loan guarantee up to \$25,000,000
- Amounts in excess of these limits would require prior legislative approval

Sectional Analysis



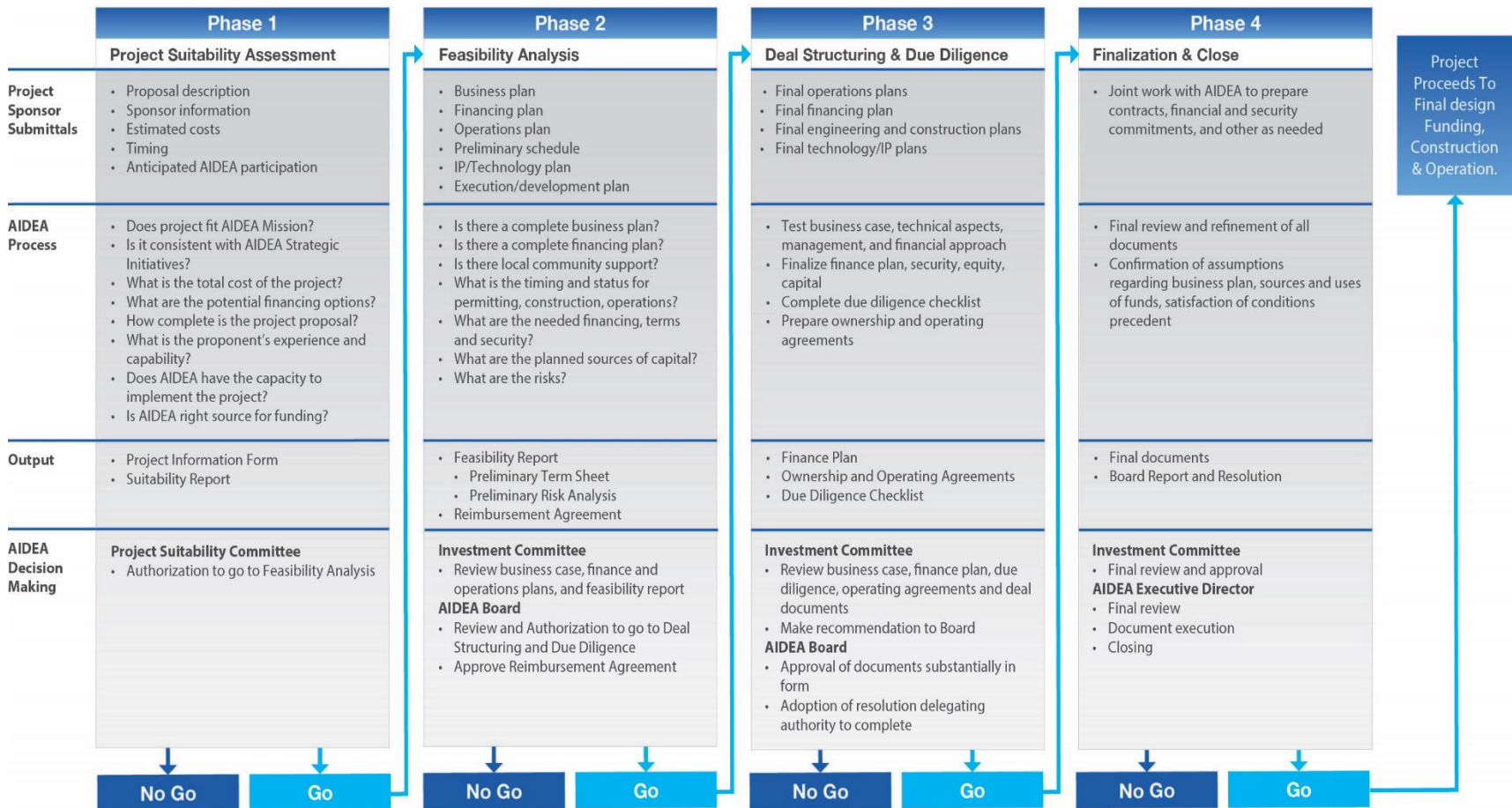
- A separate sectional analysis is in each committee member's bill file.

Established analysis and decision making process

- Technical due diligence
 - AIDEA sets procedure for verifying proven reserves
- Financial due diligence
 - Review developer creditworthiness and financing partner commitments
 - Analysis of economics, including oil price stress tests
- Analysis of benefit to State
 - Jobs created and petroleum revenues created
- Managed by AIDEA staff with hired consultants/specialists
- AIDEA Board makes final investment decision

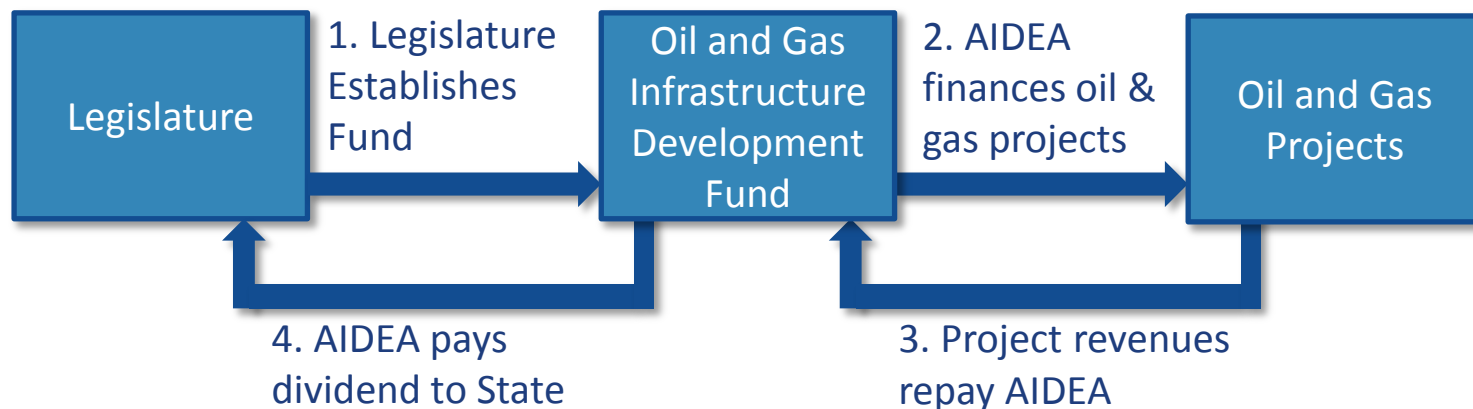
Analysis & Decision-Making

Established analysis and decision making process

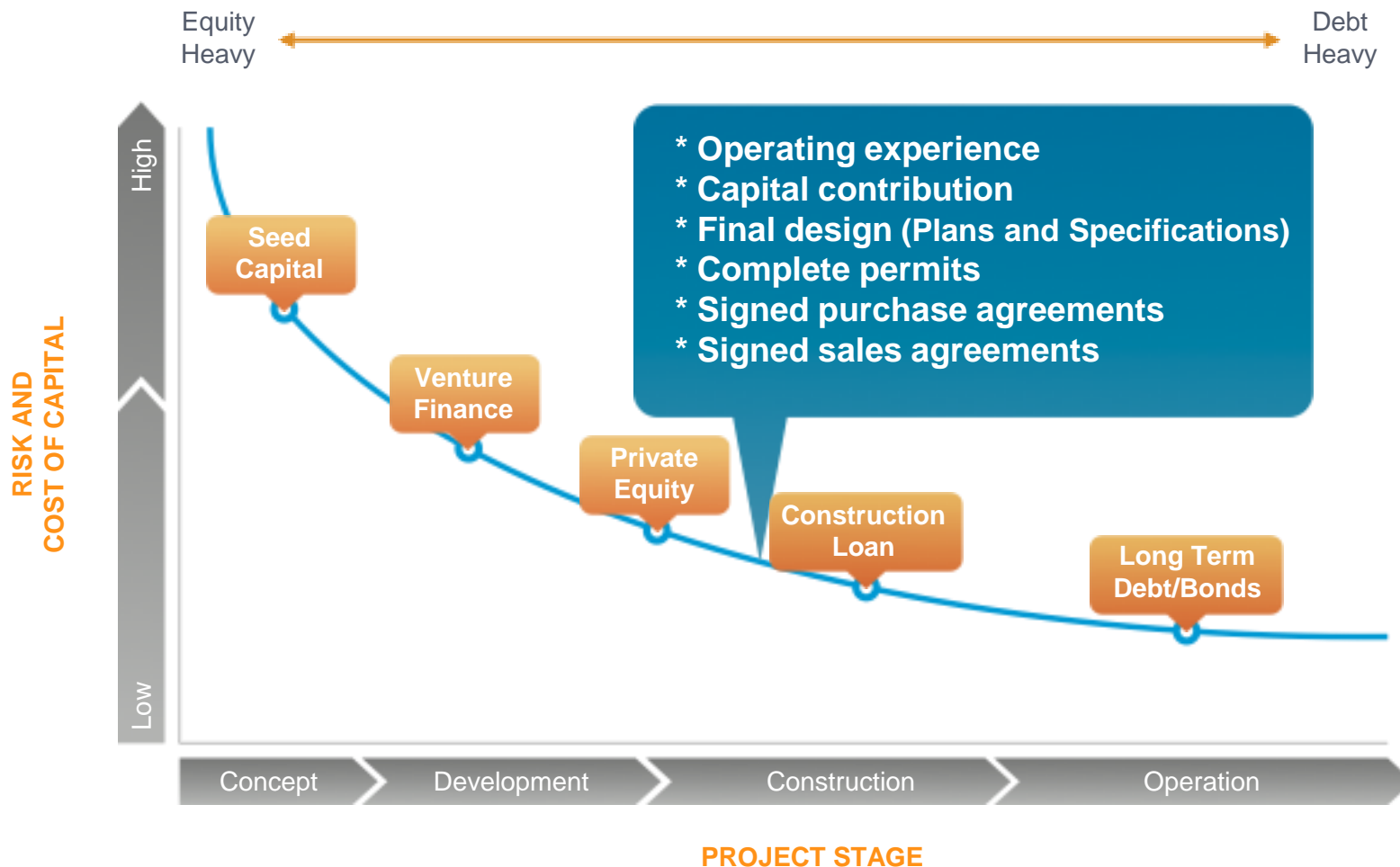


Financing Repayment

- AIDEA financing at market-based rates to reflect individual project risk
- Loans repaid with interest
- AIDEA will earn revenue
 - Some earnings to the State as a dividend
 - Some earnings to fund future projects



AIDEA Entry Point & Criteria



Summary



- Provides AIDEA a specific program to finance oil and gas infrastructure
- Eligible oil and gas infrastructure must have proven reserves and undergo established due diligence review
- Finance terms will be market based

Implementation Cost



- Implementing the program will involve minor modification of regulations, which will be carried out in-house
- Program implement cost will be absorbed
- Program management cost will be absorbed
- Modified fiscal note submitted to acknowledge potential fund capitalization



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