



House Bill 246 v W

AIDEA Oil and Gas Infrastructure Development Program; Fund; amendments to the SETS and Arctic Infrastructure Development programs; authorizing variable program interest rates and adjusting loan limits

Sectional Analysis

Sections 1 through 3: Sections 1 through 3 amend the language of AS 44.88.088, to include payment of a dividend from the proposed new oil and gas infrastructure development fund.

Sections 4 through 9: Sections 4 through 9 amend subparts of AS 44.88.159, which governs the interest rates AIDEA charges under its loan participation program and its SETS and Arctic infrastructure Development programs. These sections of the bill use many of the same interest rate provisions applicable to any loans provided through the SETS and the Arctic infrastructure program and fund. In essence, the interest rate provisions require a minimum interest rate that ensures AIDEA does not lose money on its loans, and the interest rates AIDEA uses in these programs are more or less in line with the rates commercial lenders offer. Sec. 9 adds a new section (h) to AS 44.888.159, so that the authority may by regulation establish differing interest rates, as well as for methods for setting interest rates, based on the risk of the financing and the security provided.

Section 10: Section 10 amends AS 44.88.690(a) to increase the loan limit from one-third to 50% of the capital cost of a qualified energy development and increases the limit of a loan guarantee to \$25 million under the sustainable energy transmission and supply (SETS) fund.

Section 11: Section 11 amends AS 44.88.840(a) to increase the loan limit to 50% of the capital cost of an Arctic infrastructure development and increases the limit of a loan guarantee to \$25 million under the Arctic infrastructure development fund.

Section 12: Section 12 is the heart of the bill, and it adds a new chapter to AIDEA's statutes to create the oil and gas infrastructure development program and separate fund. The new statutory provisions the bill adds do the following:

AS 44.88.850 creates the oil and gas infrastructure development program within AIDEA.

AS 44.88.860 creates the oil and gas infrastructure development fund within AIDEA separated from Authority's existing Revolving Fund. The new fund will consist of money the legislature appropriates to it and investment returns obtained from financing activity provided by the fund. AIDEA is authorized to pledge the fund to the payment of bonds issued to finance oil and gas infrastructure development.

AS 44.88.870 authorizes AIDEA to use the money in the oil and gas infrastructure development fund to finance oil and gas infrastructure development.

AS 44.88.880 specifies AIDEA's powers and duties with respect to the oil and gas infrastructure development program and fund, and requires AIDEA to adopt regulations to implement the new program. These regulations must contain a process sufficient to confirm the existence of proven reserves sufficient to justify proposed project financing. AIDEA is also authorized to contract for legal, bond counsel, engineering, or other expertise necessary to fulfill the purpose of the program and protect the authority.

AS 44.88.890 establishes limitations on the financing AIDEA can provide through the oil and gas infrastructure development program and fund. Without getting legislative approval, AIDEA cannot make a loan through the oil and gas infrastructure development fund for more than the lesser or one-half of the capital cost of an oil and gas infrastructure project or \$100,000,000. Without prior legislative approval AIDEA may not issue a loan guarantee through the new program for more than \$25 million.

AIDEA may not utilize this new oil and gas financing program unless all participants in the proposed development agree they will not take, apply for, or accept any exploration and development tax credit under AS 43.20.043; production tax credit under AS 43.55.023 or production tax credit for exploration expenditures under AS 43.55.025.

Individual project financing under the proposed Oil and Gas Infrastructure Development Program must not exceed a loan to value ratio of seventy-five percent. Resource reserves that may be offered as part of the collateralization for a project loan must be valued conservatively.

AIDEA must be properly shielded from any potential dismantlement, removal and restoration obligations that may stem from the infrastructure development project before financing from the proposed Oil and Gas Infrastructure Development Program can be provided.

Finally, any financing under the new program must be for the expected life of the project, but not for more than 30 years.

Section 13: This section sets out the definition of the terms “oil and gas infrastructure development” and “proven reserves”.

It amends AS 44.88.900 by adding a new Paragraph (20) that defines the term “oil and gas infrastructure development” to mean “the acquisition, construction, or installation of and engineering for the construction or installation of a road, pad, camp, processing facility, gathering system, or other on-site improvement or equipment for an oil or gas field, or an oil and gas field, located in the state that has been explored and for which proven reserves have been established;

In addition it amends AS 44.88.900 by adding a new Paragraph (21) that defines "proven reserves" to mean "those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations; "proven reserves" can be categorized as developed or undeveloped."