

## Proposed ways to address concerns expressed on HB 246

### Concern 1

Concern exists that there may be confusion on page 7, line 17 of the bill regarding whether use of the word “reserves” refers to economic reserves or oil and gas reserves.

#### Response

Ambiguity in this section can be clarified by adding the following language:

Page 7, line 17

Following the word “established”

Insert

“financial”

### Concern 2

There is a concern that AIDEA financing may leave the Authority and the state responsible for dismantlement, removal or remediation obligations.

#### Response

AIDEA does not intend to take on these responsibilities and believes this concern can be addressed with the following language:

Page 8, line 25

Insert a new subsection to read

“(d) The authority may provide financing for an oil and gas development only if the authority will not be responsible for the dismantlement, removal or remediation cost of the oil and gas development.”

### Concern 3

Concern was expressed that the definition of “proven reserves” on page 8, line 31 is a Society of Petroleum Engineers definition, which focuses on technical ability to produce hydrocarbons, and not a U.S. Securities and Exchange Commission definition, which would focus more on the economics of production. If the SPE definition is retained, there is a concern whether the definition of “commercially recoverable” on page 9, line 2 adequately focuses on the long term economics of the proposed activity.

#### Response

To strengthen the economic focus of the determination of commercially recoverable, HB 246 could be amended as follows:

Page 8, line 24

At the end of the existing sentence, add

“In providing financing under AS 44.88.880, the authority shall require a loan to value ratio of 75 percent or greater and, if proven reserves constitute a portion of the value, the proven reserves shall be reduced by ten percent in calculating the value of the proven reserves and the reduced quantity shall be valued based on the average price of oil or gas actually paid during the preceding 12 month period, or if less, the price the Department of Revenue forecasts for the next succeeding 12 month period.”

#### **Concern 4**

Concern has been expressed that if AIDEA is given a new tool to invest in oil and gas infrastructure, this tool could be misused by an administration to unilaterally advance a Trans Alaska natural gas pipeline project.

#### **Response**

When the SETS Fund was established in AIEDA, language was inserted into the definition of a qualified energy development to exclude a natural gas pipeline for transporting natural gas from the North Slope or Cook Inlet to market. Similar language could be considered for the definition of allowable projects for the Oil and Gas Infrastructure Fund established by HB 246 as follows:

Page 8, line 30

Following the word “established”

Insert

“ but excluding a natural gas pipeline project, thirty inches in diameter or larger, for transporting natural gas from the North Slope or Cook Inlet to market”

#### **Concern 5**

There is concern with the language on page 6, lines 25 – 29 which allows AIDEA to transfer assets between funds, including the proposed oil and gas fund. The language in the HB 246 reads as follows:

#### **Proposed Oil and Gas Fund language**

The fund consists of appropriations made to the fund by the legislature, money or other assets transferred to the fund by a majority vote of the members of the authority under AS 44.88.050 from any other fund controlled by the authority, and unrestricted loan repayments, interest, or other income earned on loans, investments, or assets of the fund.

#### **Response**

The existing language in the bill is similar to the language in SETS and identical to language in the Arctic Fund. We would ask that this program be treated similarly.

#### **Existing SETS Language**

The development fund consists of appropriations made to the development fund by the legislature, money or other assets transferred to the development fund by the authority, and unrestricted loan repayments, interest, or other income earned on loans, investments, or assets of the development fund.

**Existing Arctic Fund Language**

The fund consists of appropriations made to the fund by the legislature, money or other assets transferred to the fund by a majority vote of the members of the authority under AS 44.88.050 from any other fund controlled by the authority, and unrestricted loan repayments, interest, or other income earned on loans, investments, or assets of the fund.

**Concern 6**

There is concern that page 7, lines 26 – 28 propose language that is materially different regarding the services of an attorney or bond council under the proposed Oil and Gas Infrastructure Development Fund.

**Response**

SETS and the Arctic Fund use the following language to secure outside council and expertise:

“contract for services with a professional advisor, including an attorney, bond counsel, engineer, or other technical expert necessary to fulfill the purpose of the program”

In order to use the same language, HB 246 could be amended in the following manner:

Page 7, line 23 through line 28

**Delete**

all material

**Insert**

“(4) contract for service with a professional advisor, including an attorney, bond counsel, engineer, or other technical expert necessary to fulfill the purposes of the program; and”

**Concern 7**

Questions were raised regarding the necessity of Sections 10 and 11 of the legislation which would adjust the current SETS and Arctic Fund loan participation and loan guarantee limits to match those of the proposed Oil and Gas Infrastructure Development Fund.

#### Response

AIDEA believes its investment and financing tools would be more easily understood if they have consistent participation limits above which legislative approval is required. However, this separate policy call is distinct and separate from creation of the Oil and Gas Infrastructure Development Fund.