

HB 388 Cook Inlet Reserve-Based Lending

House Resources Committee Bill
Office of Representative Tom McKay

Cook Inlet Gas Shortage

- ▶ South Central will face an increasing gas production shortage in the coming years
- ▶ Fallback solution to Cook Inlet gas is LNG imports
- ▶ LNG imports estimated to be significantly more expensive, however exact increase is currently speculative

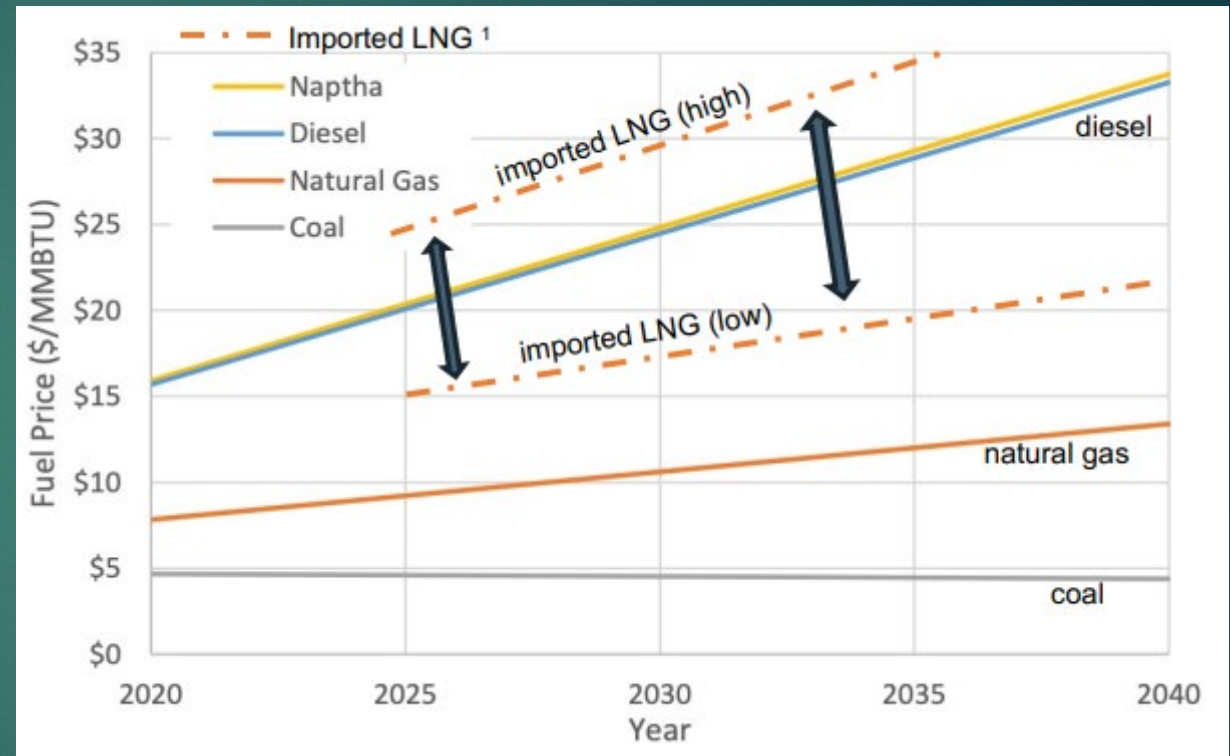


Figure 1: Fuel price forecasts from the Alaska Energy Authority

Source: NREL Renewable Portfolio Standard Assessment for Alaska's Railbelt, 2022, NREL/TP-5700-81698, <https://www.nrel.gov/docs/fy22osti/81698.pdf>

Cook Inlet Gas: Private Capital Attraction Issues

- ▶ Expensive, risky, or low rate of return projects have difficulty in the private market
- ▶ Oil and gas projects are highly capital-intensive investments competing for limited capital in a world of (relatively) unlimited projects
- ▶ Nature of Cook Inlet as a stranded gas market further complicates funding issues for private investment

Reserve-Based Lending (RBL)

- ▶ Financing structure for independent oil and gas companies
- ▶ “Borrowing-base” type of loan based on the projected Net Present Value (NPV) of cash flows generated by the underlying hydrocarbon assets
- ▶ Began in onshore Texas in the 1970’s; use accelerated for UK North Sea plays in the 1970’s and 1980’s
- ▶ A state-funded RBL program would balance lower project rates of return against the avoidance of the impact of higher and unstable energy prices on Alaskans

Reserve Classifications

- ▶ Not all “reserves” are equal
- ▶ 3 classifications: Proven (P1), Probable (P2), and Possible (P3)

<u>Deterministic method</u>	<u>Probabilistic method</u>
<ul style="list-style-type: none">- Proven (P1)<ul style="list-style-type: none">○ Proved Developed Producing (PDP): oil behind pipe○ Proved Developed Non-Producing (PDNP): oil shut behind pipe○ Proved Undeveloped (PUD): a bit more investment to develop it- Probable (P2)- Possible (P3)	<ul style="list-style-type: none">- P90: 90% probability- P50: 50% probability- P10: 10% probability

HB 388 - Cook Inlet Reserve-Based Lending (Ver. A)

- ▶ Establishes Cook Inlet Reserve Based Lending funds under both AIDEA and AEA
- ▶ Does not specify any appropriation, simply creates the fund allowing legislature flexibility to fund directed projects
- ▶ Funds may be used for reserve-based loans deemed necessary to increase oil and gas production from the Cook Inlet Sedimentary Basin

HB 388 - Sectional Analysis (Ver. A)

- ▶ **Sec. 1:** Establishes the Cook Inlet Reserve-Based Lending Fund within the Alaska Energy Authority, specifying its composition from appropriations by the legislature.
- ▶ **Sec. 2:** Establishes the Cook Inlet Reserve-Based Lending Fund within the Alaska Industrial Development and Export Authority, specifying its composition from appropriations by the legislature.
- ▶ **Sec. 3:** Provides for an immediate effective date.

CSHB 388 (RES) – Summary of Changes

- ▶ **Sec. 1:** Removes the establishment of a Cook Inlet reserve-based lending fund under AEA and replaces it with a new section to AS 44.88 relating to reporting requirements for AIDEA on the evaluation of Cook Inlet oil and gas development projects which the authority deems has the potential to increase oil and gas production from the Cook Inlet sedimentary basin. The report shall be delivered to the senate secretary and chief clerk by the first day of each regular session.
- ▶ **Sec. 2:** Amends section 2 of HB 388 version A by removing the definition of “reserve-based loan” from 44.88.850(b).
- ▶ **Sec. 3:** Adds a new section under 44.800.900 for definitions of “oil and gas development project” and “reserve-based loan”.
- ▶ **Sec. 4:** Same as section 3 in HB 388 version A.