

HB 387 - Cook Inlet Jack-Up Rig Credit

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

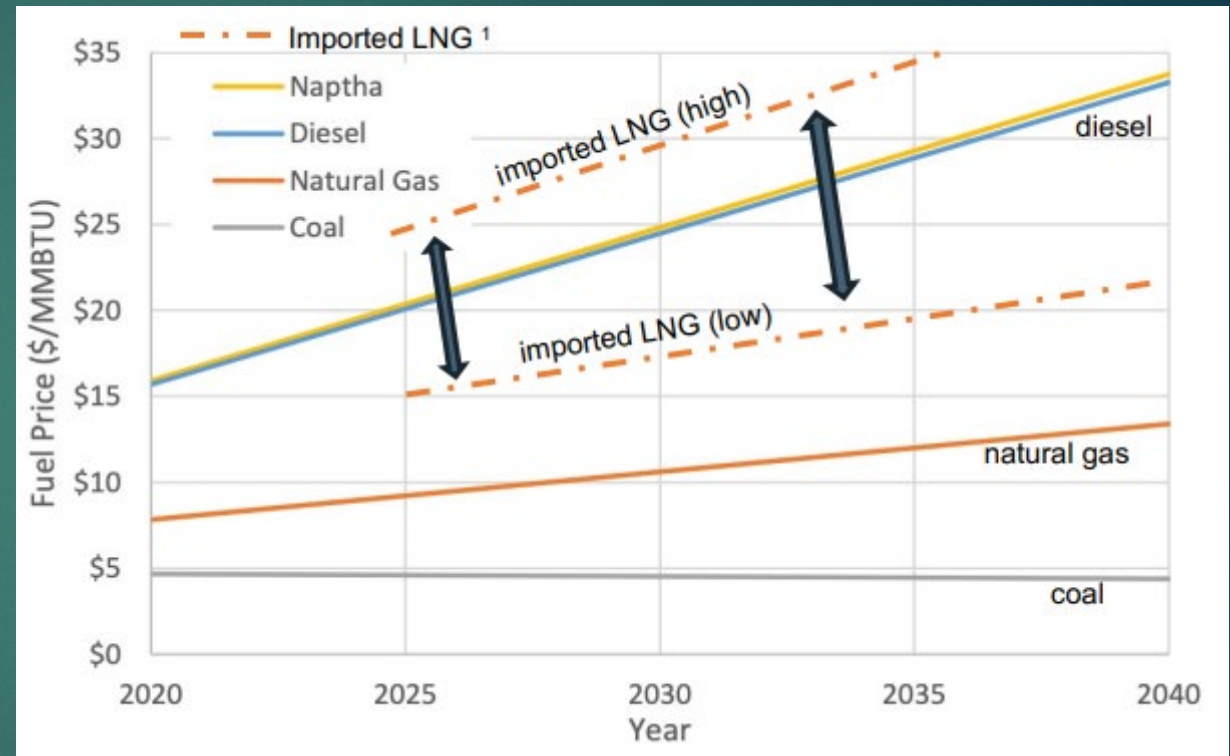


Figure 1: Fuel price forecasts from the Alaska Energy Authority

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

Jack-Up Drilling Rigs

- ▶ Specialized rig for relatively shallow offshore drilling in the mobile offshore drilling unit (MODU) class of drill rigs
- ▶ Consists of floating hull and extendable legs
- ▶ Necessary for exploration, development, and production of Cook Inlet gas

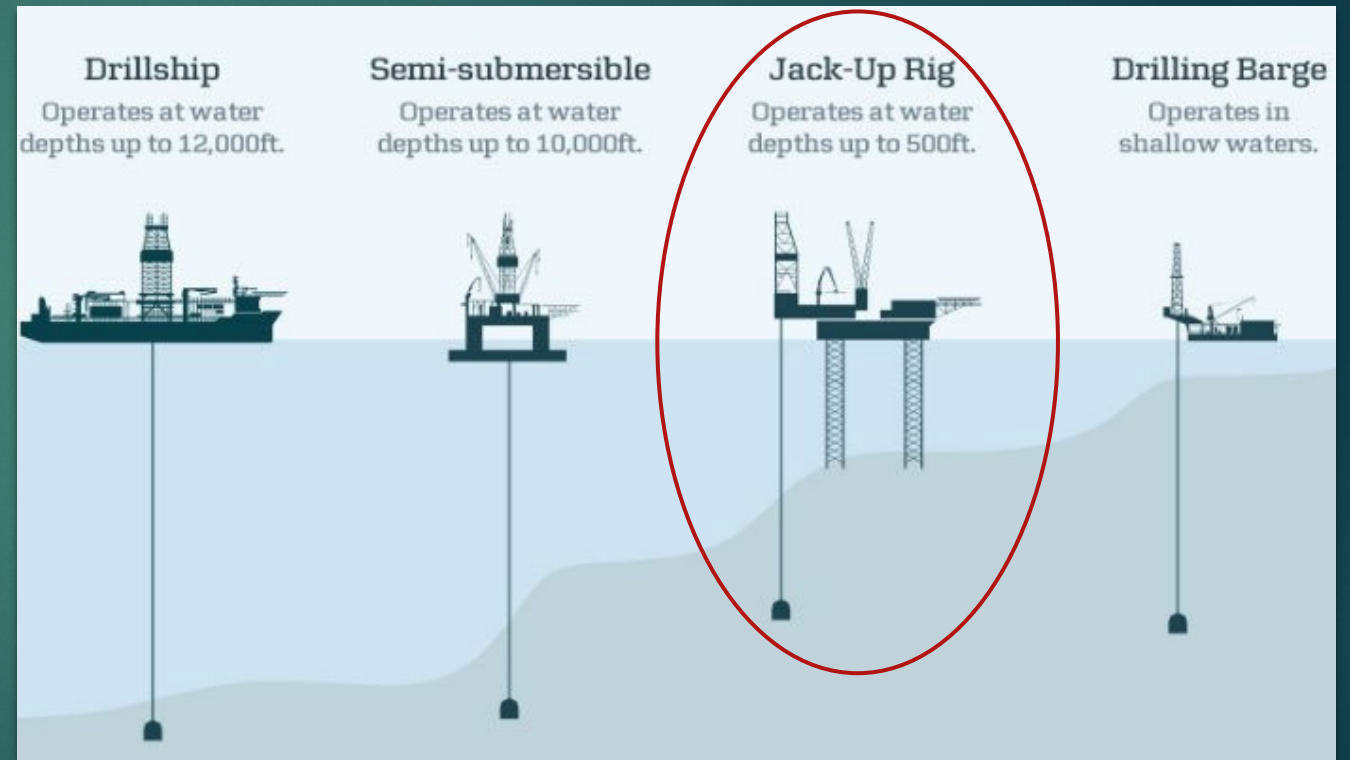


Figure 2: MODU Classes

Why HB 387?

- ▶ Second jack-up rig in Cook Inlet will be required to adequately explore for and develop gas reserves
- ▶ Current jack-up rig in Cook Inlet (Spartan 151) will be drilling for the foreseeable future; any new major development (Cosmopolitan, Kitchen Lights) will require the presence of a second rig.
- ▶ Federal leases in Cook Inlet require a rig with longer reach capabilities

Jack-Up Rig Credit Details

- ▶ Title 43 tax liability reduction credit, not cash credit
- ▶ Equal to 100% of the cost for purchasing and transporting jack-up rig; limited to a maximum of \$75,000,000.00
- ▶ Applies only to jack-up rigs for Cook Inlet; Includes language to ensure rigs are used in Cook Inlet for a minimum of three years
- ▶ No significant risk to the state; either Alaska benefits from a second rig & increase drilling, or credit is not utilized

Sectional Analysis

Section 1: Amends AS 43.98 by adding a new section (43.98.080) which introduces a tax credit for persons installing a jack-up rig in the Cook Inlet sedimentary basin.

Section 2: Repeals a prior jack-up rig drilling credit

Section 3: Provides for an immediate effective date.