

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

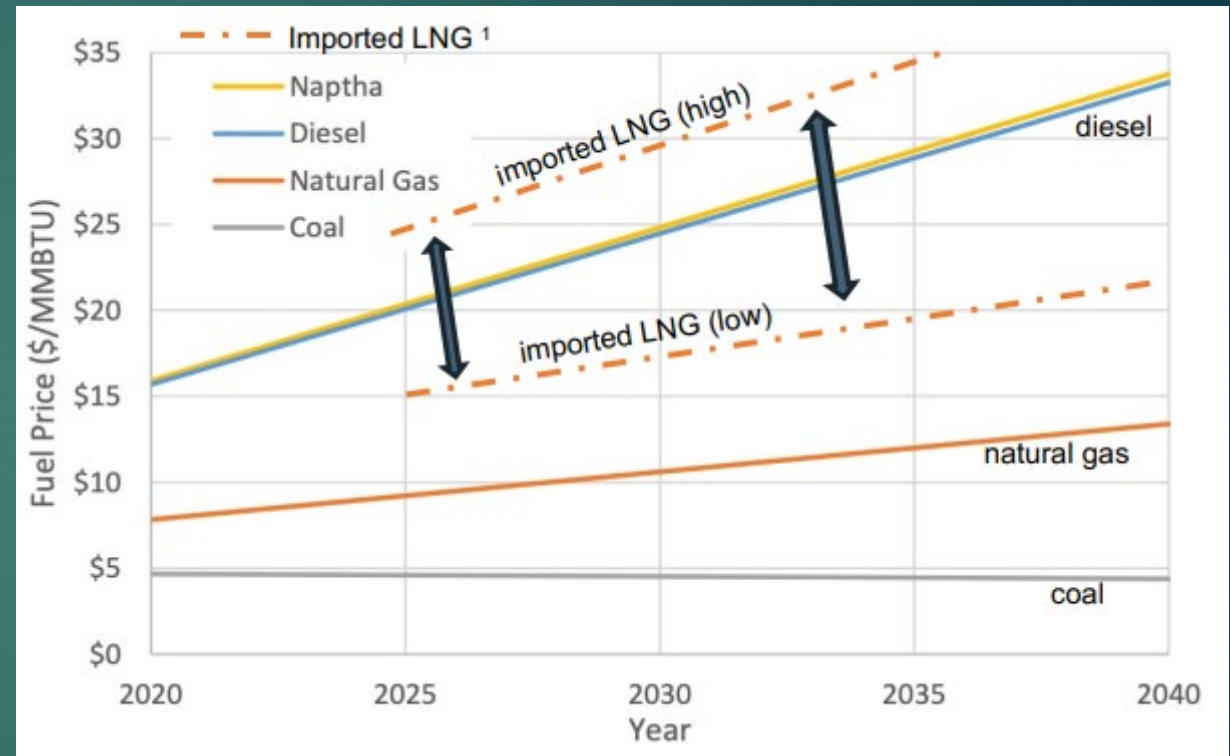


Figure 1: Fuel price forecasts from the Alaska Energy Authority

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

- ▶ Establishes Cook Inlet Reserve Based Lending fund under AIDEA outside of their revolving fund; conforms fund to current AIDEA dividend policy and defines funding sources. Also allows for the creation of AIDEA subsidiaries to issue loans.
- ▶ Does not specify an appropriation, simply creates the fund allowing legislature flexibility to fund directed projects
- ▶ Introduces reporting requirement for AIDEA to deliver to the legislature at the beginning of each new session regarding potential Cook Inlet RBL 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

- ▶ **Sec. 1:** Conforms the Cook Inlet reserve-based lending (RBL) fund to current AIDEA dividend policy.
- ▶ **Sec. 2:** Allows for the creation of subsidiaries under AIDEA to handle reserve-based lending projects.
- ▶ **Sec. 3:** Defines a reporting requirement for AIDEA regarding potential Cook Inlet reserve-based lending projects. The reports must be delivered to the senate secretary and chief clerk at the beginning of each legislative session.
- ▶ **Sec. 4:** Establishes the Cook Inlet Reserve-Based Lending Fund within the Alaska Industrial Development and Export Authority.
- ▶ **Sec. 5:** Provides definitions.
- ▶ **Sec. 6:** Provides an effective date.