

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

RESOLUTION NO. G24-08

RESOLUTION OF THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY RELATING TO THE APPROVAL OF A COST REIMBURSEMENT AGREEMENT AND NON-BINDING TERM SHEET CONCERNING AN AS 44.88.172 APPLICATION FOR TO HEX COOK INLET LLC TO INCREASE COOK INLET NATURAL PRODUCTION AND SUPPLY

WHEREAS, HEX Cook Inlet LLC has requested that the Alaska Industrial Development and Export Authority (“Authority”) finance a drilling program via a Revolving Line of Credit for the Kitchen Lights Unit in the Cook Inlet of Alaska to increase natural gas production and supply under AS 44.88.172 et. seq. (the “Project”); and

WHEREAS, pursuant to AS 44.88.173, before approving a project financed under AS 44.88.172, the Authority must prepare a finance plan with respect to the project; and

WHEREAS, the development of a finance plan for the Project requires a project feasibility study, evaluation, the preparation of the requisite financing agreements and certain other tasks (collectively the “Feasibility Activities”); and

WHEREAS, the estimated cost of the Feasibility Activities is \$200,000; and

WHEREAS, the Authority has prepared a draft cost reimbursement agreement to be shared with HEX Cook Inlet LLC relating to certain costs incurred in the evaluation of the Project; and

WHEREAS, it is in the best interests of the Authority that it enter into the Cost Reimbursement Agreement with HEX Cook Inlet LLC and that, subject to the execution of such agreement, the Authority may expend up to \$200,000 to complete the Feasibility Activities for the Project; and

WHEREAS, pursuant to the completion of the Feasibility Activities to the satisfaction of the Authority it is in the best interests of the Authority that it negotiate a non-binding term sheet that will be presented to the Board of Directors for approval at a subsequent meeting.

NOW THEREFORE, BE IT RESOLVED BY THE ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY AS FOLLOWS:

Section 1. Staff of the Authority is authorized to undertake the Feasibility Activities with respect to the Project in such a manner as in the judgment of the Executive Director is appropriate.

Section 2. The Executive Director is hereby authorized to execute the Cost Reimbursement Agreement on behalf of the Authority with such non-material modifications as the Executive Director, in his discretion, may deem appropriate.

Section 3. Subject to execution of the One Hundred Percent (100%) Cost Reimbursement Agreement by HEX Cook Inlet, LLC, the Authority may utilize up to \$200,000 in assets of the Economic Development Account, AS 44.88.172, to undertake the Feasibility Activities.

Section 4. The Executive Director, at their discretion, is hereby authorized to negotiate a non-binding term sheet with HEX Cook Inlet LLC to be presented to the Authority's Board of Directors in addition to a finance plan pursuant to AS 44.88.173 for approval at a subsequent meeting.

Dated at Anchorage, Alaska, this 7th day of August, 2024



Secretary

Chair



MEMORANDUM

TO: Board of Directors
Alaska Industrial Development and Export Authority

FROM: Randy Ruaro
Executive Director

DATE: August 7, 2024

SUBJECT: HEX Cook Inlet LLC – Kitchen Lights Unit Natural Gas Drilling Program
Cost Reimbursement Agreement & Non-binding Term Sheet Negotiation
Resolution No. G24-08

AIDEA Participation:

HEX Cook Inlet LLC (the “Developer” or “HEX CI”), has requested AIDEA’s participation in the financing of a natural gas drilling program for the Kitchen Lights Unit (“KLU”) located in the Cook Inlet, Alaska (“Project”).

Resolution No. G24-08 authorizes the Executive Director to 1) execute a Cost Reimbursement Agreement (the “Reimbursement Agreement”) and 2) negotiate a non-binding term sheet with HEX Cook Inlet LLC.

The Cost Reimbursement Agreement would allow AIDEA to study, evaluate, prepare a finance plan, and conduct due diligence with regard to the viability of the Project and the soundness of the business case (the “Feasibility Analysis”). Up to \$200,000 could be used for this effort (see budget below).

The Project is the commencement of a multiyear infield development program, sidetracking non performing wells and drilling grass root wells to access previously untapped natural gas reserves in the KLU within the Cook Inlet Alaska.

The State of Alaska, Department of Natural Resources (“DNR”) has approved the 10th Plan of Development (“POD”) for the KLU, stating “Furie [a subsidiary of HEX CI and operator of the KLU] will drill grassroots well or sidetrack well targeting additional gas resources during the 2024 POD. The 10th POD is effective January 4, 2024 to January 3rd, 2025.”

Upon approval from the Board, a Cost Reimbursement Agreement would be executed for the subsequent work.

The budget for the Feasibility Analysis is:

Technology Consultant	\$75,000
Financial Advisor	\$50,000
Legal Services	\$75,000
Total:	\$200,000

Resolution G24-08 also requests approval for the Executive Director to negotiate a non-binding term sheet to be presented to the Board at subsequent meeting for consideration.

Background:

HEX CI through its affiliates Furie, Cornucopia Oil & Gas Company LLC ("Cornucopia") own natural gas leases, natural gas production and processing infrastructure for the KLU. HEX CI is the only 100% Alaskan oil and gas company operating in Alaska.

Mr. John Hendrix is the owner of HEX LLC, the parent of HEX CI. AIDEA facilitated Mr. Hendrix's acquisition of Furie out of bankruptcy in 2020 with a \$7.5 million loan that was fully paid off 8-months early.

The KLU consists of approximately 84,000 acres off shore in the upper Cook Inlet. Furie operates the production platform, subsea gathering line, and onshore processing facility. Currently Furie has 3 wells producing a combined 11,000 mcf/d of natural gas from the Julius R platform. There are 4 wells currently drilled and 2 additional well slots for new grassroots wells. It is Furie's goal to significantly increase production and develop the KLU for the benefit of the State of Alaska and Alaskans.

It is HEX CI's desire to commence a multi-year infield development program, sidetracking non performing wells and drilling grass root wells to access previously untapped natural gas reserves. Drilling at the platform entails contracting with a Mobile Drilling Unit aka a jack up rig, that is towed to the platform and cantilevers over the platform to drill or sidetrack wells. Offshore work with the Jack up rig can only occur in ice free periods, thus there is a limited 6 to 7-month time period to conduct well activity in Cook Inlet.

There is a high demand for locally developed reliable supplies of natural gas by local market. The buyers of natural gas are stable utilities that provide heat and electricity to over 70% of the state's population. Furie's current and historical customers include, Alaska Electric and Energy Cooperative, Inc. ("HEA"), Alaska Pipeline Company ("ENSTAR"), Matanuska Electric Association ("MEA"), Chugach Electric Association ("CEA"), Golden Valley Electric Association ("GVEA"), Interior Gas Utility ("IGU") and Marathon Petroleum Corporation ("MPC"). The combined annual local natural gas market is approximately 70 bcf, of which Furie currently supplies 4Bcf. Furie is the 2nd largest operator, and 3rd largest producer of natural gas behind Hilcorp and CEA respectively. Furie has existing long term contractual agreements with its customers, and will be able to sell all of the natural gas it can produce. The largest producer of natural gas in Cook Inlet, Hilcorp, has stated it will be unable to meet the local market demand as early as 2028.

Furie intends, subject to jack up rig availability, to commence a sidetrack and/or grassroots drilling during the summer/ early fall of 2024 and 2025. Furie is working with Hilcorp, to determine access and schedules for using the Enterprise / Spartan 151 jack up rig in 2024 and 2025.

Furie has existing permits that allow for the operation of the Enterprise / Spartan 151 within the KLU. It has applied to the U.S. Army U.S. Army Corps of Engineers, Alaska District, Regulatory Division ("Corps."), for authorization under Section 10 of the Rivers and Harbors Act to position the Enterprise / Spartan 151 at the Julius R. Platform ("JRP"). The application was submitted on September 8th and is being processed with a targeted issuance date of April 15, 2024.

Project Impact:

The proposed development will benefit the State of Alaska in many ways.

- Lowering operating costs will extend field life and increase state revenues.
- Reduce the forecasted, beginning in 2027, supply gap of natural gas production in the Cook Inlet.

Additionally, the impact of the project will create and estimated 100 jobs and retain 5 jobs as certified in HEX CI's direct finance application.

Current Status:

- A Cost Reimbursement Agreement is being reviewed by Counsel and will be presented to HEX Cook Inlet subject to the approval of Resolution G24-08.
- Due Diligence consultants/contractors have been identified and shall be selected for both the technical and financial review.
- Initial Due Diligence review and analysis indicate that this project warrants continued AIDEA participation.

AIDEA Mission:

AIDEA's purpose is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska. Economic development in connection with the extraction, transportation and production of Alaska's abundant natural resources, including oil and gas resources is key for the prosperity of all Alaskans.

Under AS 44.88.172(a), AIDEA is entitled to expend money from the economic development account to finance, acquire, manage and operate development projects that the Authority intends to own and operate or to provide development project financing, all for projects defined under AS 44.88.900(13)(A), including oil and gas development.

Thus, the proposed and contemplated financing to HEX Cook Inlet is consistent with its mission to create and maintain jobs and facilitate economic development in Alaskan communities and address the forecasted natural supply shortage within the Cook Inlet and South Central Region of Alaska.

Next Steps:

- Execute Cost Reimbursement Agreement (August 2024);
- Execute NTP with Project Due Diligence Subject Matter Expert(s) (August 2024);
- Conduct Feasibility Analysis (August - September 2024);
- Development of a finance plan pursuant to AS 44.88.173 and 3 AAC 99.510 (September 2024);
- Negotiate a non-binding term sheet (September 2024);
- Assuming a positive outcome of the Feasibility Analysis and term sheet negotiations, AIDEA staff expects to bring the project and term sheet to the Board for approval in October 2024.

Staff recommends approval of Resolution No. G24-08.