

# Analysis and Recommendations Pursuant to Executive Order JML 24-13

DENR Office of Management, Budget and Finance  
Natural Resources Restoration Trust Authority



# Overview

The Louisiana Natural Resources Trust Authority (LNRTA) represents a pivotal initiative in the state's efforts to optimize financial management, support critical infrastructure projects, and promote conservation efforts.

House Bill 810, which establishes the LNRTA, is designed to address the financial and operational challenges related to energy and natural resources projects within the state.



# Overview

The LNRTA will operate in conjunction with the State Mineral and Energy Board, the State Bond Commission, the Department of Treasury, and the Department of Insurance.

This presentation will examine current financial security arrangements and provide recommendations for optimizing financial management and supporting sustainable natural resource development.



# Current Status

## Financial Security Arrangements

1. Engineering Division
  - Required for newly drilled wells and new operators on existing wells
  - Ensures funding for well closure and site restoration
  - Certificate of deposit, performance bonds or letters of credit
2. Environmental Division
  - Imposed on explorations and productions waste facilities and transfer stations to mitigate liability for damages
  - Permit requires bond, letters of credit or certificates of deposit for issuance
  - Mandatory closure funding for proper site closure
  - Annual closure cost estimates required



# Current Status

## Financial Security Arrangements

### 3. Injection and Mining Division

- Class I - Non-Hazardous Wells
- Class I - Hazardous Wells
- Class II - Enhanced Oil Recovery (EOR) and Salt Water Disposal (SWD)
- Class II - Hydrocarbon Storage Cavern Wells
- Class III - Solution-Mining Wells
- Class V - Monitor, Remediation and Stratigraphic Test Wells
- Class VI - Carbon Sequestration Wells



# Current Status

## Financial Security Arrangements

### 4. Renewable Energy

- Recent statutory changes added solar power generation facilities
- Solar Developers required to provide directly to DENR or others
- Ensures adequate funding for site closure and restoration activities



# Benefits

## Centralized Oversight

- Streamlined Process
  - Standardizes practices
  - Clarity and simplification for operators
- Enhanced Coordination
  - Improves coordination and collaboration among regulatory bodies and stakeholders
  - Fosters communication and collaboration to create integrated approach to risk management
- Improved Transparency and Accountability
  - Establishes clear lines of responsibility and reporting
  - Greater visibility for operators, regulators and stakeholders



# Benefits

## Centralized Oversight (cont.)

- **Strengthened Enforcement**
  - Increases monitoring, enforcement and compliance effectiveness
  - Enhances regulatory oversight resulting in timely response to concerns
- **Enhanced Risk Management**
  - Facilitates comprehensive approach to risk, monitoring and mitigation
  - Increases awareness and preparedness against potential issues
- **Promoting Innovation and Best Practices**
  - Encourages collaboration across divisions and sectors
  - Creates a hub for continued improvement towards innovation and sustainability





# Necessary Changes (Recommendations)

- Establish Separate Fund
  - Enhance transparency and accountability with the goal of streamlining fund management
  - Ensure clear segregation of collections
- Cash Equivalent for Financial Security
  - Replace Pledge of CD with letter of credit or performance bond, or remit face value as cash for escrow
  - Simplifies enforcement and reduces collection issues
  - Accounting for funds separately creates transparency and better defines securities
- Indexing Coupon Rate to Inflationary Rate to maintain purchasing power



# Necessary Changes (Recommendations)

- Managing Financial Security in High Inflationary Eras - may include adjusting amounts or considering inflation-indexed instruments
- Interest Spread Management (specific to LORA)
  - Keep interest spread or the difference in interest earned and rate paid within OSR fund
  - Allows for claw back of most of interest spread to potentially increase available funds
- Elimination of Blanket Bonds (coverage for multiple wells under one security) – streamlines the financial security process
- Insurance Instrument and Planned Escrow – explore as alternatives



# Further Research Necessary

Cash Equivalent - Provide greater stability and reliable source of funds for initial financial security requirement

- Well-Specific Cash Equivalents
- Escrow Accounts
- Regulatory Reporting and Auditing Requirements
- Financial Assurance Agreements
- Integration with Regulatory Platforms



# Further Research Necessary

Insurance Instrument - Establishing well-specific reserves and engaging with the Department of Insurance to ensure effective implementation and regulation

- Individual Well Coverage
- Risk Assessment and Premium Calculation
- Actuarial Analysis and Reserve Management
- Premium Payments
- Coverage Terms and Conditions
- Claims and Payouts
- Regulatory Oversight and Compliance
- Risk Pooling and Reinsurance
- Long-Term Sustainability

