History of Oil and Gas Production Tax Credits

Types of Credits

- Exploration Credits- AS 43.55.025; 2003-2016
  - Added as a new incentive during ELF era
  - 20-40% of seismic work and exploration drilling
- Capital Expenditure Credit- AS 43.55.023(a) and (l)
  - 20% credit added 2006 as part of PPT
  - Expanded outside North Slope to include 40% “well lease expenditure” credit in 2010
  - Repealed on North Slope with passage of SB21 in 2013
  - Cut in half 2017, repealed in Cook Inlet 2018 in HB247
- Carried Forward Annual Loss Credit- AS 43.55.023(b)
  - “NOL” refunds a percentage of a company’s losses
  - Currently 35% on North Slope- **<u>main remaining credit</u>**
  - Was 25% in Cook Inlet, now 15%, phased out 2018
  - “Stackable” with Exploration and Capital credits

History of Oil and Gas Production Tax Credits

Types of Credits (cont'd.)

- Small Producer Credit- AS 43.55.024(c)
  - Tax reduction of up to $12 million for first nine years
  - Qualification ended in 2016; gradually phasing out
  - Can't be cashed, transferred, or carried forward
- Per-Taxable Barrel Credit- AS 43.55.024(i) and (j)
  - Subtracted from taxes as part of SB21 calculation
  - Can't be cashed, transferred, or carried forward
- Credits against corporate income taxes (AS 43.20)
  - Gas storage, LNG storage, Refinery investment

To qualify for credit "repurchase" a producer must produce less than 50,000 bbl / day. Larger companies must carry forward to use against future year's taxes

<u>Refundable tax credits are unique to Alaska</u>

History of Oil and Gas Production Tax Credits

FY 2007 thru 2016, $8.0 Billion in Credits

North Slope

- $4.4 billion credits against tax liability
  - Major producers; mostly 20% capital credit in ACES and per-taxable-barrel credit in SB21
- $2.3 billion repurchased credits
  - New producers and explorers developing new fields

Non-North Slope (Cook Inlet & Middle Earth)

- $0.1 billion credits against tax liability
  - Another $500 to $800 million Cook Inlet tax reductions (through 2013) due to the tax cap still tied to ELF
- $1.2 billion repurchased credits (most since 2013)

History of Oil and Gas Production Tax Credits

Providing some detail out of confidential data:

Of the nearly $3.5 billion in state-repurchased credits through the end of FY16:

- $1.5 billion went to eight North Slope projects that now have production
- $0.8 billion went to 11 North Slope projects that do not have any production. Some of these are abandoned, and some are in process
- $0.9 million went to eight non-North Slope projects that have production
- $0.3 million went to eight non-North Slope projects that do not have any production

Credit Cost in Perspective

North Slope Repurchased Credits

- Between FY07-FY16 spent $1.5 billion supporting seven producing projects
- Total production from these producers through end of 2015 is 63 million barrels
- Total credits = **$24** / barrel
  - Doesn't include payments to non-producing projects
  - This number will decrease over time due to additional production from these fields
- Lease expenditures for these projects, through FY15, were $6.0 billion
  - Credit support was **25%** of lease expenditures

Credit Cost in Perspective

Cook Inlet Repurchased Credits

- Between FY07-FY16 spent $900 million supporting eight producing projects
- Total production through end of FY15 is 73 million BOE (much of this was gas)
- Total credits = **$13** / BOE or about **$2.10** / mcf
  - Doesn’t include payments to non-producing projects
  - This number will decrease over time due to additional production from these fields
- Lease expenditures for these projects, through FY15, were $2.3 billion
  - Credit support was **40%** of lease expenditures