

- 1. Strong Investment Value of Tax Credits**
- 2. Overview of Cosmopolitan Unit**
- 3. Specific Impact of SB 130 on BlueCrest**



J. Benjamin Johnson
Senate Resources Committee Testimony
April 9, 2016

Cosmopolitan Project Area

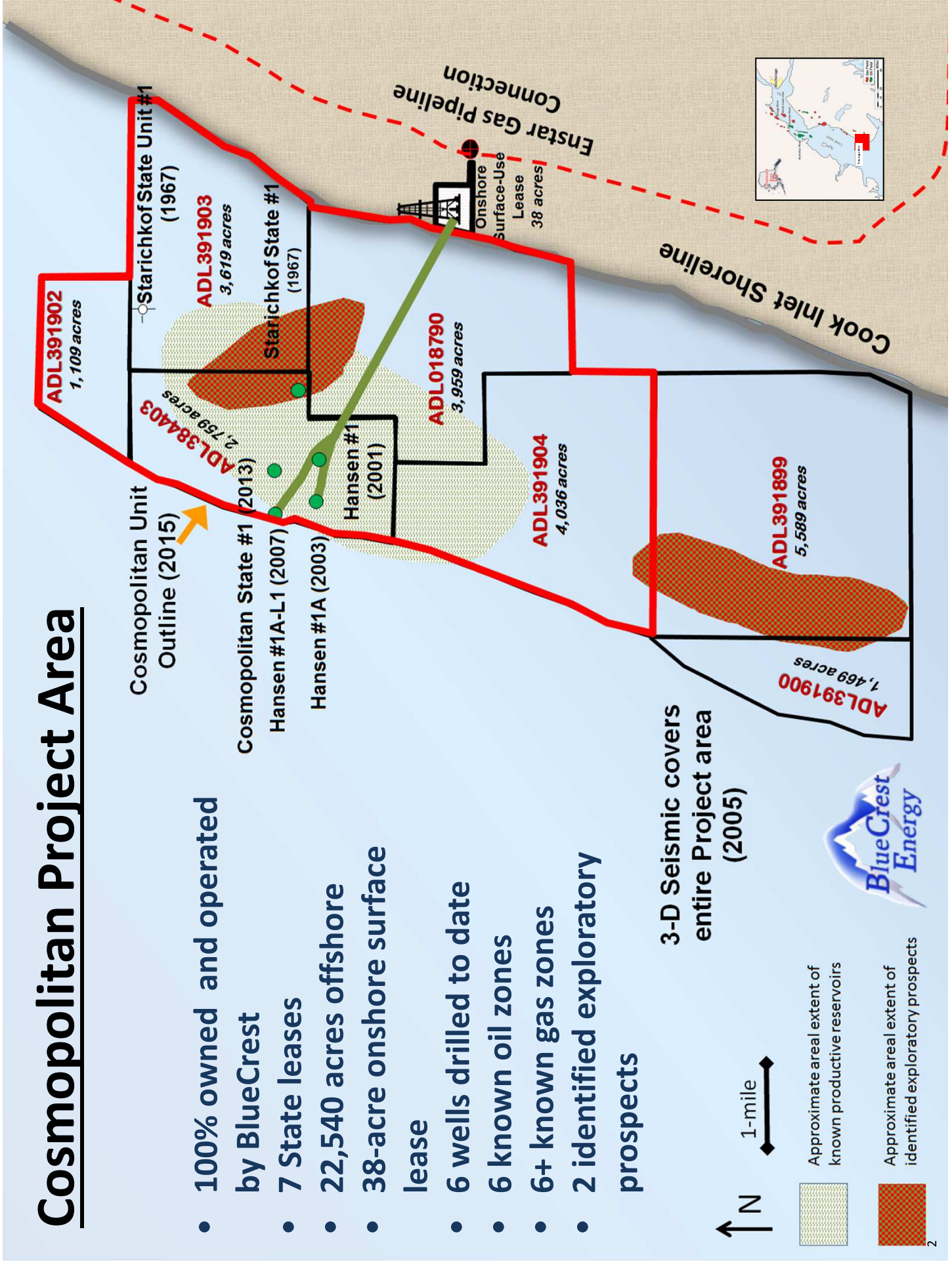
- 100% owned and operated by BlueCrest
- 7 State leases
- 22,540 acres offshore
- 38-acre onshore surface lease
- 6 wells drilled to date
- 6 known oil zones
- 6+ known gas zones
- 2 identified exploratory prospects

3-D Seismic covers entire Project area (2005)



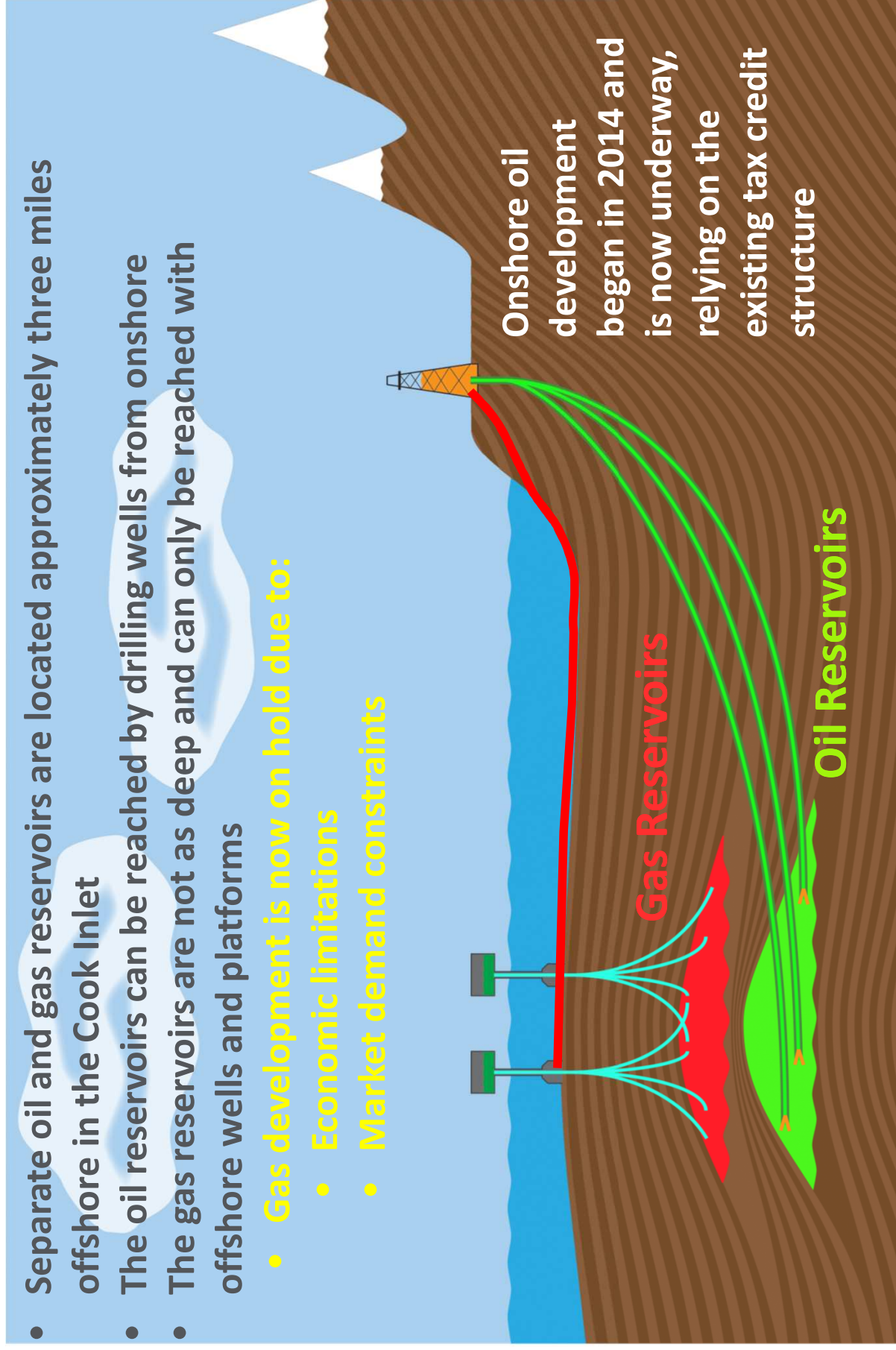
Approximate areal extent of known productive reservoirs

Approximate areal extent of identified exploratory prospects



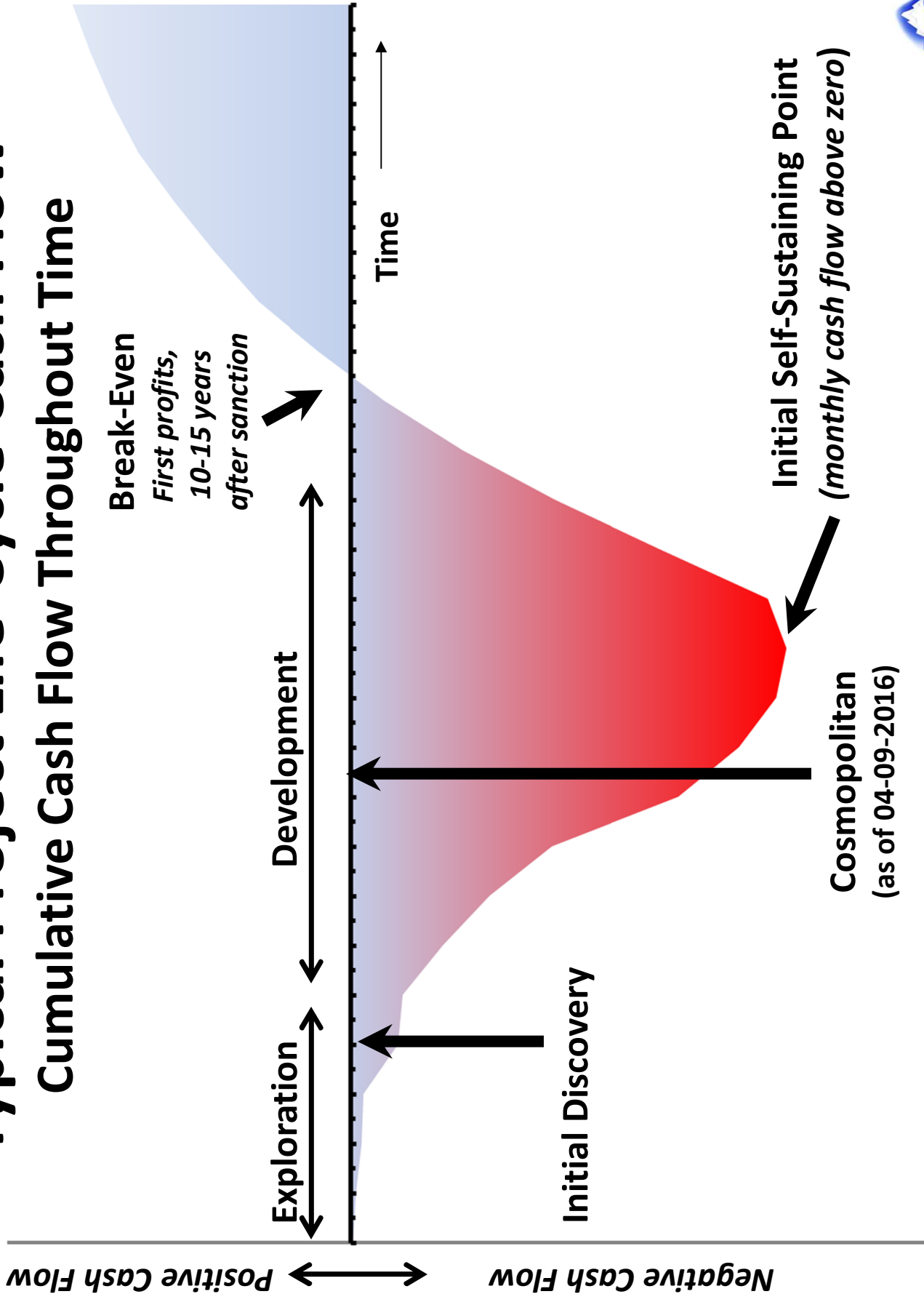
Cosmopolitan Unit Development

- Separate oil and gas reservoirs are located approximately three miles offshore in the Cook Inlet
- The oil reservoirs can be reached by drilling wells from onshore
- The gas reservoirs are not as deep and can only be reached with offshore wells and platforms
- **Gas development is now on hold due to:**
 - Economic limitations
 - Market demand constraints

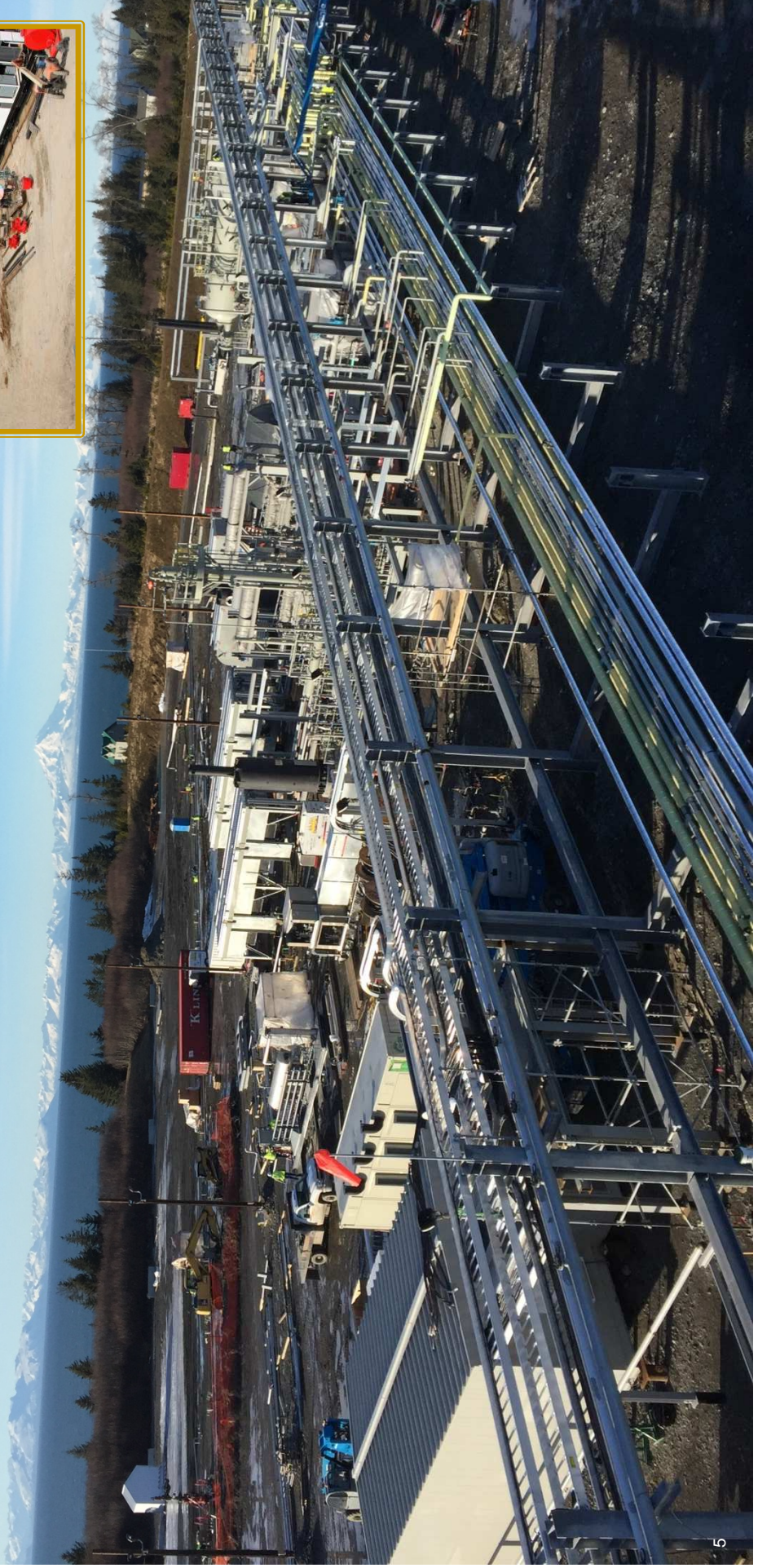


Typical Project Life-Cycle Cash Flow

Cumulative Cash Flow Throughout Time



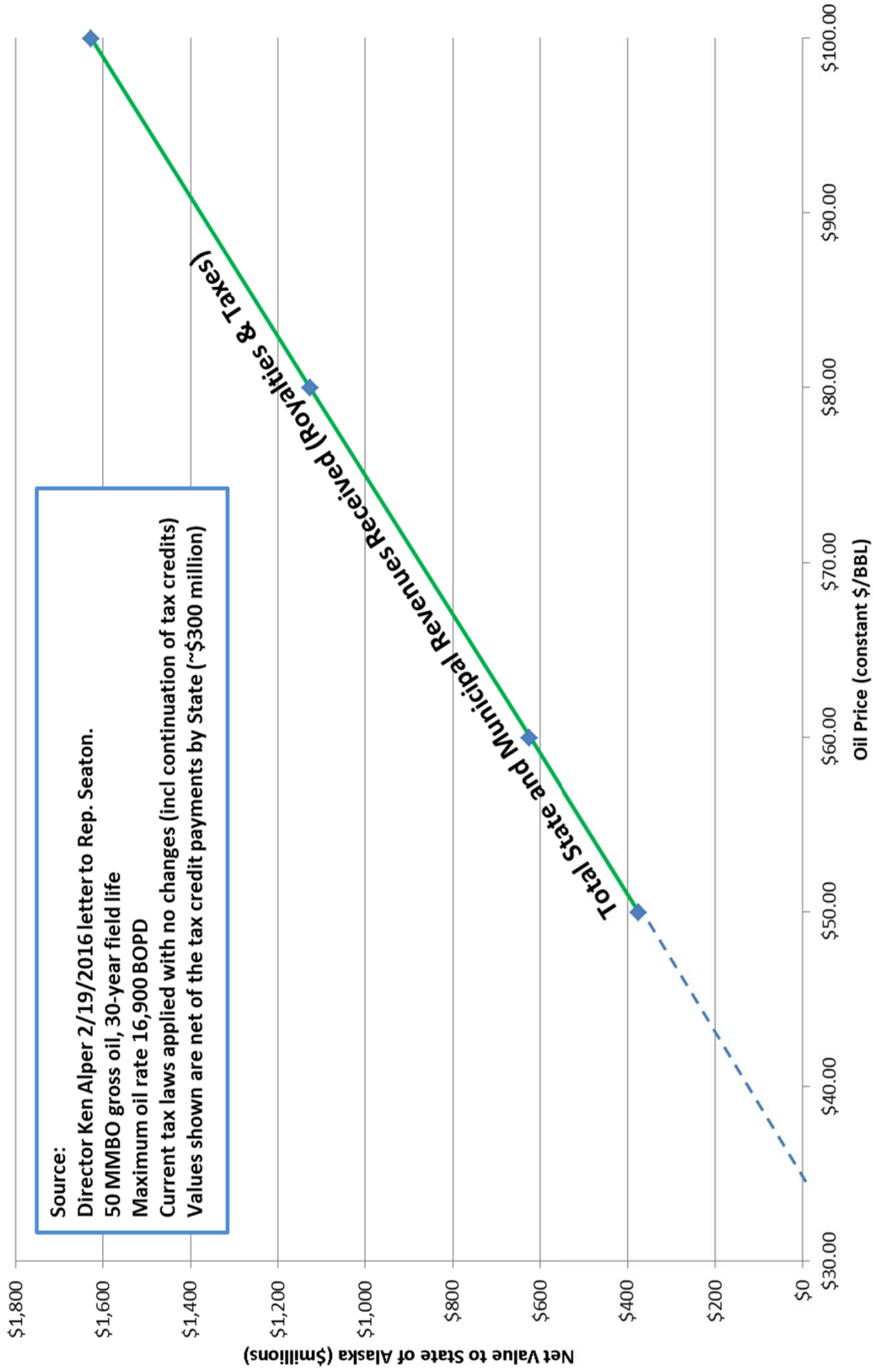
Cosmopolitan Progress as of 04/09/2016





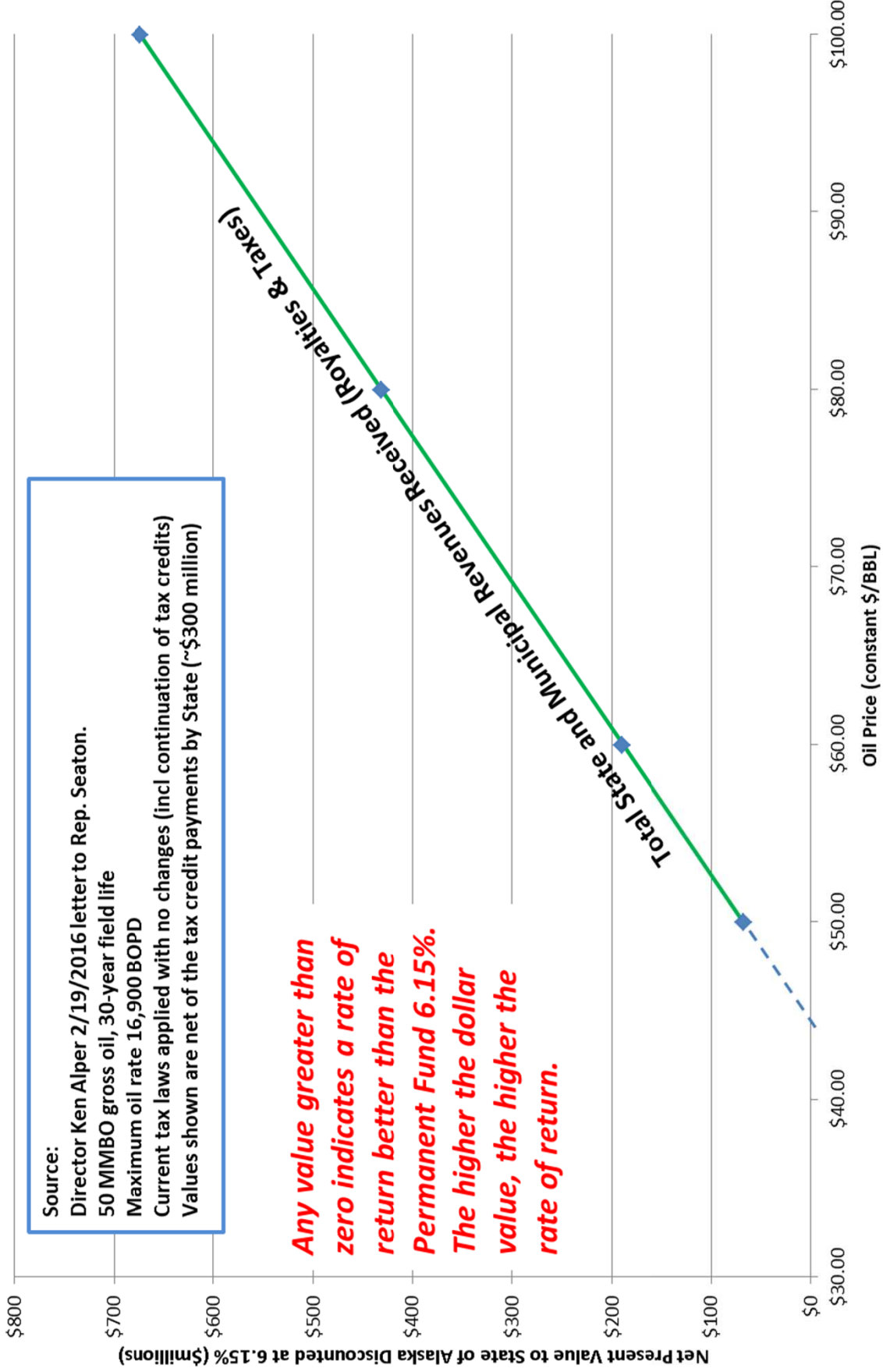
**Tax credits for developed of
previously discovered proven
reserves are a solid, low-risk
investment for Alaska.**

Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016 Net Cash Benefit to State With Continued Tax Credits at Various Oil Prices



**Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016
 Comparison to Permanent Fund NPV Return (6.15%) to State at Various Oil Prices
 Assuming All Tax Credits are Continued In Full**

Source:
 Director Ken Alper 2/19/2016 letter to Rep. Seaton.
 50 MIMBO gross oil, 30-year field life
 Maximum oil rate 16,900 BOPD
 Current tax laws applied with no changes (incl continuation of tax credits)
 Values shown are net of the tax credit payments by State (~\$300 million)



Specific Comments on 023(a), 023(b), and 023(l) Changes

Continuation of the 023(a) and 023(l) credits (QCE and WLE) is a solid investment for the State for development of Cosmopolitan oil.

Termination or severe reductions of the 023(a) and 023(l) credits will result in a significant reduction of BlueCrest's ability to continue drilling at Cosmopolitan.

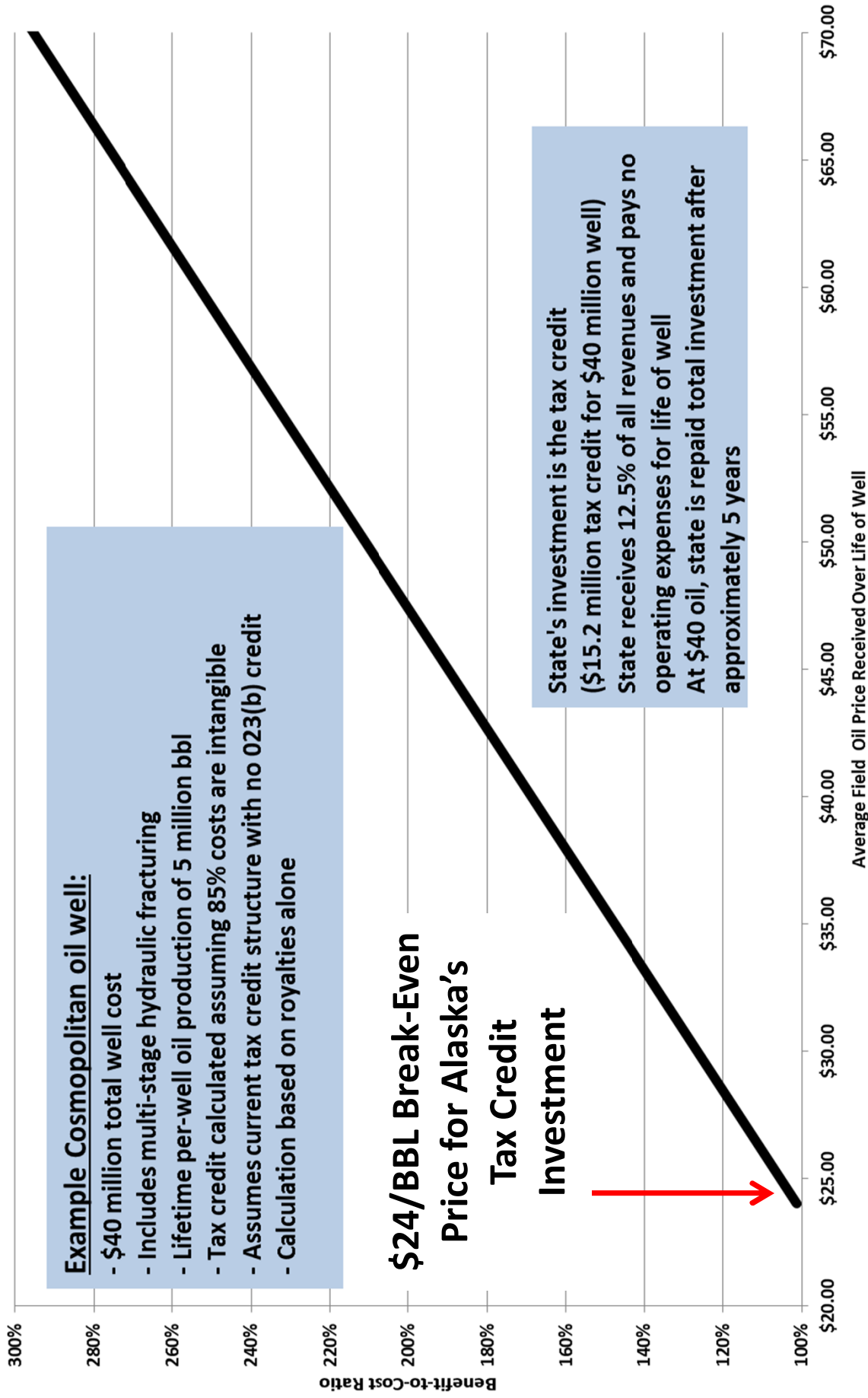
Continuation of the credits facilitates Cosmopolitan continued drilling at ~\$10/BBL lower oil prices.

The NOL credit is most important for exploration and new development work prior to production. Continuing work on new developments after start-up is mostly impacted by the 023(a) and 023(l) credits.

State's Investment Return From Individual New Cosmopolitan Well Royalties

State's Benefit-to-Cost Ratio versus Average Lease Oil Price

Assumes 023(a) and 023(f) Tax Credit Paid (total 38% of Well Cost)



Per-company limits for cash payments:

- **Arbitrary – different developments have different needs**
- **Particularly disadvantages small companies like BlueCrest who have invested but do not yet have production**
- **BlueCrest has invested in good faith, based on the tax policy in existence when the investments were committed**
- **BlueCrest has financed the Cosmopolitan development assuming the credits would be paid on time**
- **The state is backing out on its prior commitment**
- **A strong disincentive for future investments**

Effective Date

An effective date of July 1, 2016 is too soon for implementation of substantial reductions in tax credits for ongoing work that has already been contracted for and now underway.

BlueCrest's funding plan for initial Cosmopolitan oil development

Total cost: \$525 million

Funding sources

Cash investment by shareholders:

AIDEA loan on drilling rig:

Development loan:

Tax credits received to date:

Tax credits for 2015-2016 spending under current law:


\$200 million

\$30 million

\$150 million

\$24 million

\$121 million



**When we are driving on
slippery icy roads, the most
dangerous thing we can do is
suddenly slam on the brakes!**