

House Resource Committee Presentation

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FURIE

Operating Alaska LLC



Overview: Tax Credits = Jobs



- Tax credits support investment in the State
- Investments create jobs and bring revenue to the State and local governments
- Furie has invested over \$700 million in Alaska (drilled 5 wells, installed platform, subsea pipeline, and onshore facility)
- During 2015, we employed over 300 people in the State
- New gas supply supports local economic activity and reduces cost of energy
- Furie has reinvested all tax credits to fund exploration and development
- Without continued tax credits, we will have to significantly reduce future investment which will result in job losses

Video of Construction Project



Tax Credits Help Alaskans by Supporting Development

Alaskans have benefitted directly and indirectly from Furie's investments, which would not have been economical without the presence of all the Cook Inlet tax credits.



Tax credits benefit Alaskans

- Lower energy prices from increased competition and additional supply of natural gas
- Increased State revenues from royalties, leases, taxes
- New jobs (direct and indirect) and influx of income to local businesses
- Lowers risk of future shortfalls in natural gas supply



Tax credits enable development

- KLU development economics relied upon all Cook Inlet tax credits for positive returns, including:
 - 20% QCE under AS 43.55.023(a)
 - 25% loss credit under AS 43.55.023(b)
 - 40% WLE under AS 43.55.023(l)
 - Future investments may cease without them
- Financing of tax credits provides liquidity required to support capital intensive projects, certainty in go-forward structure and funding is needed

Benefits for Alaska

Tax credits are an investment that will provide a return to the State and its citizens for many years to come.

- Over 300 jobs at peak of development

- Property taxes paid to the state and various cities and boroughs:
 - 2012-2015: \$2.9 million total
 - 2016 (estimated): \$4.8 million

- Lease rentals paid to the State since 2011: \$1.6 million

- Estimated royalties of up to \$300 million over the life of the reserves

- Royalties, lease rentals and property taxes support local communities and create jobs

Alaska Partners Supporting Exploration and Development

Investment in exploration and development creates jobs and supports local businesses and industry

Sample of 100 Alaska businesses that support exploration and development in the Kitchen Lights Unit:

Airport Equipment Rentals	Clippership Motorhome Rentals, Inc.	Five Star Oilfield Services	McJunkin Red Man Corporation
Alaska Crane Consultants	CONAM Construction Company	Five Star Realty	McLane Consulting, Inc.
Alaska Industrial Hardware	Control Concepts & Technology	Fossil Maritime Company	Michael L. Foster & Associates, Inc.
Alaska Marine Surveyors Inc	Cook Inlet Marine LLC	Fugro Chance, Inc	Mobile Concrete and Grout of Alaska
Alaska Maritime Agencies	Cook Inlet Spill Prevention & Response	GCI	Nikiski Fuel, Inc
Alaska Rubber and Supply	Cook Inlet Tug & Barge, Inc.	Global Diving and Salvage Inc	North Air, Inc.
Alaska Safety Inc	CPD Alaska LLC	GRU Engineers, Inc	North Star Terminal
Alaska Satellite Internet	Crowley Logistics	Guess & Rudd LLP	Northwest Crane Service, LLC
Alaska Serigraphics	Crowley Marine Services, Inc	Harbor Consulting Engineers, Inc	NRC Alaska, LLC
Alaska Sewer & Drain	Crowley Solutions, Inc.	Harvest Alaska, LLC	Ocean Marine Services, Inc.
Alaska Steel Company	Cruz Construction, Inc.	Home Depot	Offshore Systems-Kenai
Alaska Tent & Tarp	Davis Block & Concrete	Homer Electric Association, Inc.	Peninsula Pumping, Inc.
Alaska West Express, Inc.	Deepwater Corrosion Services	Homer Septic Services	Petro Star, Inc.
Amak Towing Co., Inc.	Denali Crane Inspection LLC	Hotel Captain Cook	Petro 49
Anchorage Sand and Gravel Co.	Dril-Quip	Industrial Instrument Services, Inc.	Petrotechnical Resources Alaska LLC
Arctic Office Product	Dukowitz Machine, Inc.	Intertek Technical Services	Port Graham Corporation
ARCTOS, LLC	Eagle Enterprise	J.W. Williams, Inc.	Procomm Alaska
ASRC Energy Services	Eagle Safety Solutions	Jacobs Engineering Group, Inc	Professional Adjusters of Alaska
Atigun, Inc.	Emerald Alaska	Jensen Maritime Consultants	RAVN Alaska
Beacon Health and Safety Services	ENSTAR Natural Gas Company	Kenai Catering	Schlumberger Technology Corp
Cameron Surface Systems	Expro Americas	Kenai Peninsula Borough	Stoel Rives LLP
Carey Homes, Inc.	Fire Control Systems, Inc.	MagTec Alaska, LLC	Terrasond
Carlile Transportation Systems, Inc.	First American Title Ins. Co.	Marine Survey Services	Watson Company, Inc.
Cash Welding and Fabrication	First National Bank Alaska	Maritime Helicopters Inc.	Weaver Brothers, Inc
Certified Inspection Services, Inc.	Fisheries Supply Inc.	Maritimewx	Westpac Logistics, LLC

Tax Credits Helped Furie Bring Cheaper Gas to Southcentral Alaska



HEA secures lower price on gas deal with Furie

Elwood Brehmer, September 20, 2015

“The price of Cook Inlet natural gas continues to trend downward...”

Base Load Prices	<u>2016</u>	<u>2017</u>	<u>2018</u>
Hilcorp Consent Decree	7.42	7.72	8.03
Furie Homer GSA ¹	6.50	6.75	7.00
Reduction %	-12%	-13%	-16%

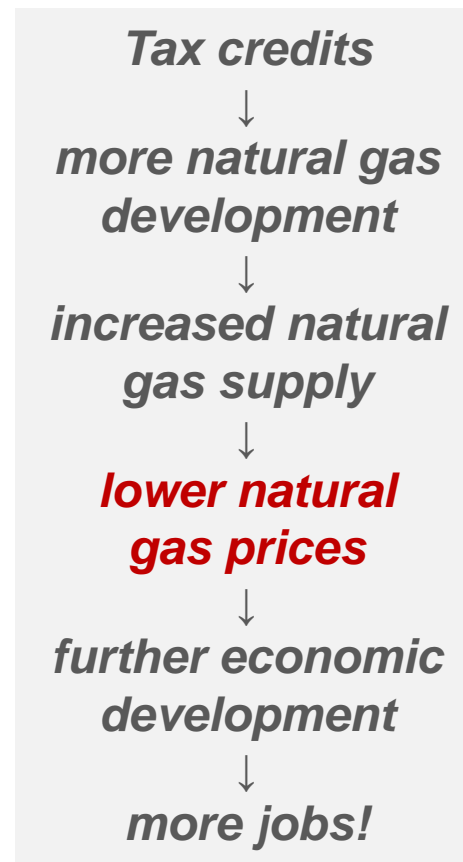


Chugach, Hilcorp agree on gas supply contract

Elwood Brehmer, August 12, 2015

“...prospect of more competitive prices from other producers...”

Base Load Prices	<u>2016</u>	<u>2017</u>	<u>2018</u>
Hilcorp Consent Decree	7.42	7.72	8.03
Hilcorp Chugach 3rd Amendment to GSA	7.42	7.72	7.35
Reduction %	-	-	-8%



Tax credits can extend the downward pricing trend and prevent future supply shortages

¹Price increases occur in the following year's April

General Comments about HB 247

- Repeal of credits under AS 43.55.023(a) (QCE) and (l) (WLE) will stifle or stop investments
- 25% loss credit under AS 43.55.023(b) -- which HB 247 leaves in place -- is helpful, but not adequate if QCE and WLE are repealed given:
 - high costs of oil and gas exploration and development in Alaska's Cook Inlet
 - tax rate on oil will be 35% after 2021
- \$25 million annual limitation on purchases of certificates is unreasonable and represents a virtual repeal of the program -- credits must be monetized timely to be useful for companies during capital intensive exploration and early development
- Transferable credits can be assigned and are vital for financing, which has provided needed liquidity -- repeal of credits and additional limitations on purchase of credits will dramatically impact financing and investment
- Any changes to tax credits in 2016 is unreasonable and hits Cook Inlet in the middle of the offshore drilling season (perhaps even in the middle of the drilling of a well):
 - budgets have been approved in light of current law
 - contracts are already in place
 - Furie is bringing another jack-up rig to Cook Inlet for additional exploration and development drilling this summer, and all credits are essential
 - impacts on financing arrangements

Tax Credits Enable Development Companies to Access Low Cost Capital

- Tax credits have provided Furie with access to economical sources of funding
 - Cost of funding declined from around 20% APR to 8% range
 - Low rates offered by lenders due to Alaska's historical support of oil & gas industry and tax credit program (low perceived "political risk")

- Lower cost of capital helps fund existing and future development of State resources

- Lenders require certainty and have stopped lending
 - Veto of 2015 appropriations almost crippled Furie's ability to access funding
 - Lenders now question if 2015 tax credits will be paid in 2016
 - Proposed legislation with limits on cash repurchase and mid-year effective dates have shut down lending
 - We need and ask for certainty to avoid curtailing capital investments planned for 2016 and beyond

Summary – Without Certainty Furie Will Have to Curtail Investments



**Had HB 247 been passed prior to 2015, Furie would not have pursued exploration and development of the KLU.
Should HB 247 pass in 2016, investments will drop dramatically.**

**Credits under AS 43.55.023 and funding for cash purchases of certificates
are crucial for liquidity and economical financing**

**Financing and loan guarantee program through AIDEA is welcome,
but not a reasonable alternative to the tax credit program**

Repeal in July 2016 will catch Cook Inlet in the middle of a drilling season

**Tax credits have led to increased:
gas supplies for local users, jobs, economic activity, and revenues to the State**