



**House Finance**  
**HB 111**  
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# TOPICS

## HB 111(RES) NEEDS TO BE AMENDED

- Abandons longstanding State policy to encourage new companies to enter the North Slope basin
- Reduces incentives for new investment
- Tilts playing field significantly in favor of incumbent producers
- Treats new companies as “second class citizens” when it comes to North Slope investment



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## How Investment Is Treated – Incumbent vs. New Company

# IMMEDIATE TAX SAVINGS FOR INCUMBENT'S INVESTMENT

STATUS QUO & UNDER HB 111(RES)

- Assume an Incumbent with production tax obligations pursues a development requiring **\$1 billion** investment
- By reducing their Production Tax Value (PTV), the company **reduces their taxes** by the total expense multiplied by the statutory tax rate:

\$1,000 million \* (35%) => worth **\$350M\***

\*Assumes the minimum tax does not limit the incumbent's ability to reduce net tax

**\$1,000 Million Invested**

- **\$350 Million (Immediate Tax Savings)**

# DELAYED TAX BENEFIT FOR NEW ENTRANT INVESTMENT

## STATUS QUO

- Assume a new entrant with no current production tax obligations pursues an development project requiring **\$1 billion** in investment
- Company receives a 35% credit for its “tax loss” or “net operating loss (NOL)”, worth **\$350 million**
- *State might pay this rebate to the Company at \$35M per year (subject to appropriation risk).*

**\$1,000 Million**

- **\$350 Million (Paid over time)**
  - Up to \$35 Million per year refunded
  - Can apply against tax bill once production starts, likely to take years to use

# REDUCED & DELAYED TAX BENEFIT FOR NEW ENTRANT'S INVESTMENT

UNDER HB 111(RES)

- Assume a new entrant with no current production tax obligations pursues a development project requiring **\$1 billion** in investment; thus generating an immediate \$1 billion loss
- They can carry 50% of the loss (\$500 million) forward until they have revenue and then they can reduce their Production Tax Value (PTV), the company reduces their taxes by the **allowed loss** multiplied by the statutory tax rate:

\$500 million \* (35%) => worth \$175M\*

**\$1,000 Million Invested**

**\$175 Million (Tax Savings  
Sometime in the future)**

# AFFECT ON EVERY ONE'S BOTTOM LINE

DISPARATE TREATMENT FOR THE SAME INVESTMENT

For the next two slides, let's assume the following:

- Incumbent and New Co are 50/50 partners on a \$2B project, with each paying \$1B.

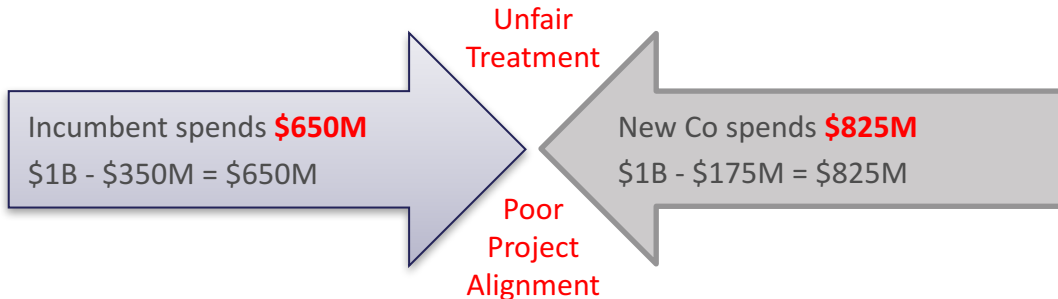
# DISPARATE AFFECT ON BOTTOM LINE

UNDER HB 111(RES)

Assume Incumbent &  
New Co partner on \$2B  
project 50/50

Incumbent gets immediate tax  
savings of \$350M

New company gets a loss to carry forward  
worth a future tax savings of \$175M, will  
have to wait to experience benefit.







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## Discouraging New Companies and Small Producers

## SMALL PRODUCER CREDIT

DESTROYING THE VALUE OF THIS LIMITED CREDIT IS MORE DAMAGING THAN IT'S WORTH

- Not allowing the small producer credit to pierce the minimum tax floor is a mistake.
- The State's exposure is already low, and will lessen each year until all eligibility is gone in 2026.
- No additional companies can become eligible for this credit.
- It will expire for each eligible company at different points over the next 10 years, most sooner rather than later.
- It is not refundable and cannot be carried forward.
- The credit was a large portion of the small producer's return expectation when sanctioning the project.
- It is a small item for the State, but a critical life-line for many small companies.

## POOR TREATMENT OF NEW COMPANIES

ONCE ENCOURAGED ... NOT UNDER HB111(RES)

- Only expenditures that result in carried forward losses are subject to DNR “approval”
  - No criteria given for what should be approved versus not approved
  - Appears to be arbitrary in what is covered and what is required
  - No public policy reason given for why these expenditures require such review
  - Will create huge uncertainty solely for new companies



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## Potential Win-Win Structure

# END CASH REPURCHASE – PAY OUTSTANDING CERTIFICATES

## A BILL EXPLORERS AND NEW PRODUCERS COULD SUPPORT

- Eliminate credits and cash payments for net operating losses, other than a “dry hole” scenario
  - Ends the “cash bleed” perceived to exist with current credit program
  - Loss of value to new companies, and will slow down exploration, but is an acceptable compromise with following provisions
- Allow 100% carry-forward, and annual uplift, for net operating losses
  - Treats New Companies in a manner equivalent to Incumbents
- Commit to repay all outstanding cashable tax credit certificates within two years
  - End the current repayment uncertainty that is threatening the survival of many new companies to Alaska
- Eliminate remaining HB111 (RES) sections

# SUMMARY

NEED TO FIX HB 111(RES)

- HB 111 (RES) is significantly flawed, and must be amended.
- Don't put new companies at a disadvantage compared to incumbents.
- Don't make changes that barely move the needle for the state, but create a critical burden for small exploration and production companies.
- Ensure that passage of HB 111 will resolve backlog of tax credits that are sinking new companies.