

Tax Credit Financings for Alaska Oil and Gas Exploration and Development

Presented for: Alaska Senate Oil and Gas Tax Credit
Working Group

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We Will Cover...

- Assets used for security
- Alaska oil and gas production tax credits used for financing purposes
- Timing issues
- Monetizing and leveraging Alaska oil and gas production tax credits to improve liquidity and project economics and increase/accelerate investment
- Key considerations in financing deals

Liquidity Through Collateral

- Third party provides funding in exchange for future payments
- Liens vs. Security Interests
- Security/collateral:
 - Leasehold Interests – deed of trust (mortgage)
 - Fixtures (e.g., casing, wellheads) – deed of trust
 - As-extracted collateral – deed of trust, security agreement
 - Accounts, equipment, seismic data, well data, tax credits – security agreement

Tax Credits as Collateral: Transferable & Refundable

Name	Statute	Description	Sunset Date	Area
Carried-forward annual loss credit	AS 43.55.023(b)	25%-45% credit for expenditures that were not deductible in previous calendar year	No sunset	25% credit for Middle Earth and Cook Inlet. For North Slope, 45% credit for costs incurred before January 1, 2016 and 35% thereafter
Qualified capital expenditure credit	AS 43.55.023(a)	20% credit for qualified capital expenditures	No sunset	Middle Earth and Cook Inlet
Well lease expenditure credit	AS 43.55.023(l)	40% credit for seismic in a unit and intangible drilling and development costs (IDC)	No sunset	Middle Earth and Cook Inlet

Tax Credits as Collateral: Transferable & Refundable

Name	Statute	Description	Sunset Date	Area
Alternative credit for exploration	AS 43.55.025(a)(1)-(4)	30%-40% credit for exploration wells, 40% for seismic outside a unit	Expenditure must be incurred for work performed before January 1, 2022 for Middle Earth projects and before July 1, 2016 elsewhere	All areas
Frontier basin credits	AS 43.55.025(a)(6) and (7)	Lesser of 80% or \$25 million for first four wells and lesser of \$7.5 million or 75 percent for first four seismic projects; cannot be combined with other credits	Expenditure must be incurred for work performed before July 1, 2016	Particular basins located in Middle Earth
Cook Inlet "jack-up rig" credit	AS 43.55.025(a)(5)	Lesser of 100% or \$25 million, 90% or \$22.5 million, 80% or \$20 million, respectively, for first three wells; cannot be combined with other credits	Expenditure must be incurred for work performed before July 1, 2016	Cook Inlet

Obtaining and Monetizing Tax Credits

- Incur the cost, apply for the certificate
- Data transmittals, work performed, invoices, AFEs, contracts, payment of invoices
- Timing of certificate from application date depends on credit: 120 days – 14+ months
- Cash purchase under AS 43.55.028
- Use in financing: improve liquidity, increase and accelerate investment, improve economics

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Assignment of Credits: AS 43.55.029

- “Present assignment” of the certificate is expected to be issued
- 30-day statutory deadline
- Assignment is irrevocable, cannot be modified absent written consent of assignee
- Remains effective when certificate is issued
- “Shall be filed” with the application to purchase any tax credit certificate

Mandatory Terms of Assignment

- Writing and signed by authorized officer of assignor and the assignee
- Identify the applicant, the assignee and the “production tax credit application”
- The interest in the credit being assigned, expressed as either an amount in dollars, up to 90 percent of the credit applied for, or a percentage of the credit to be issued
- Specify an account with a bank located in Alaska, with information for an electronic transfer of funds
- Acknowledge that the assignment is irrevocable and cannot be modified without written consent of the assignee

Stated Effect of Assignment

- Creates a property interest in the application and corresponding tax credit certificates and proceeds
- May also create a “valid security interest” in same property “as provided by law”
- Notwithstanding any other provision of law and to the extent permitted by federal law, gives assignee a first priority claim in bankruptcy if assignee has taken other steps needed to perfect security interest
- Does not affect terms under which one qualifies for credits

Deal Options

- Purchase and sale
- Term loans
- Revolving loans
- Project financing

Financing Deal Documents

- Term sheet
- Credit or financing agreement
- Security agreement
- Deed of trust
- Guaranty, assignments, ancillary documents
- Production payment agreement
- Intercreditor agreement

Core Agreements

- Credit Agreement
 - Key document
 - Structure
 - Considerations
 - Alaska issues
- Security Agreement and DOT
 - Collateral, title due diligence

Due Diligence and Safeguards

- Permits, contracts, program plans, and operator
- Project budget, AFEs
- Title due diligence
- Environmental due diligence
- Liens
- Invoice review and approval
- Credit application and invoice review
- Confidentiality, power of attorney, account controls/trustee and electronic payment

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