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# House Finance
# HB 111
# March 22, 2017

*Pat Galvin*
*Chief Commercial Officer*
*and General Counsel*

# 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

# 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)

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# 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

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# 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)

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# 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.

Incumbent spends **$650M**

$1B - $350M = $650M

Unfair Treatment

Poor Project Alignment

New Co spends **$825M**

$1B - $175M = $825M

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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 sactioning the project.
- It is a small item for the State, but a critical life-line for many small companies.

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# 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.

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