06-17-15 OVERVIEW: ALASKA'S OIL AND GAS TAX CREDIT REGIME

<TARGET><BILL></BILL><SUBJECT>06-17-15 OVERVIEW ALASKAS OIL AND GAS TAX CREDIT REGIME</SUBJECT><COMM>HRES29</COMM></TARGET>

Tax Credits Available by Year

Tax Era	ELF			PPT	ACES			ACES + HB280			SB21					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
North Slope- Against Liability																
Exploration (traditional)	20-40%	20-40%	20-40%	20-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%		
Carry-Forward Annual Loss (NOL)				20%	25%	25%	25%	25%	25%	25%	45%	45%	35%	35%	35%	35%
Transitional Investment Expenditure (clawback)				20%	20%	20%										
Small Producer Credit (maximum)				$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil
Qualified Capital Expenditure				20%	20%	20%	20%	20%	20%	20%	20%					
Per-Taxable Barrel											$0-$8	$0-$8	$0-$8	$0-$8	$0-$8	$0-$8
North Slope- Refundable																
Exploration (traditional)	20-40%	20-40%	20-40%	20-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%		
Carry-Forward Annual Loss (NOL)				20%	25%	25%	25%	25%	25%	25%	45%	45%	35%	35%	35%	35%
Qualified Capital Expenditure				20%	20%	20%	20%	20%	20%	20%	20%					
Non-North Slope- Against Liability																
Exploration (traditional)	20-40%	20-40%	20-40%	20-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%		
Carry-Forward Annual Loss (NOL)				20%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Small Producer Credit (maximum)				$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil	$12mil
Qualified Capital Expenditure				20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Well Lease Expenditure								40%	40%	40%	40%	40%	40%	40%	40%	40%
Non-North Slope- Refundable																
Exploration (traditional)	20-40%	20-40%	20-40%	20-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%		
Exploration (middle earth)	20-40%	20-40%	20-40%	20-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%	30-40%
Exploration (jack-up rig)								80-100%	80-100%	80-100%	80-100%	80-100%	80-100%	80-100%		
Exploration (frontier area)										75-80%	75-80%	75-80%	75-80%	75-80%		
Carry-Forward Annual Loss (NOL)				20%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Qualified Capital Expenditure				20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Well Lease Expenditure								40%	40%	40%	40%	40%	40%	40%	40%	40%
Gas Storage Facility (maximum)											$15mil		$15mil			
Refinery Improvement (maximum)													$30mil	$30mil	$30mil	$30mil

Title: Production Tax Credits Detail FY 2007 to FY 2019

Preparer:	Mackenzie Merrill, Economist, 465-5636
Purpose:	Provide detailed data on refunded production tax credits and production tax credits against liability historically from FY 07 to FY 13, and forecasted from FY 15 to FY 19; broken out by North Slope and Non-North Slope.
Date:	4/15/2015
Data Source:	Spring 2015 Revenue Sources Book and supporting data/models.
Key Assumptions:	All assumptions are as of the Spring 2015 Revenue Sources Book. Also see notes and comments embedded in the spreadsheet.
History:	Third version incorporates the Spring 2015 forecast numbers and, based on updated analysis, includes slight revisions to the geographic location of refunded credits in FY 2009 through FY 2012.
Disclaimer:	The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

Detail on Historical Production Tax Credits and Forecast

Updated 4/14/2015 by Economic Research Group

	Historical							Preliminary[1]	Forecast[2]				
($millions)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
Refunded Credits													
North Slope													
Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b)	55	*	*	224	404	267	*	254	340	401	209	116	74
Credits under AS 43.55.025[3]	0	*	*	23	12	53	*	27	0	0	0	0	0
Total North Slope	*55*	*54*	*190*	*247*	*416*	*320*	*261*	*281*	*340*	*401*	*209*	*116*	*74*
Non-North Slope													
Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b); Well lease expenditure, AS 43.55.023(l)	0	0	*	*	*	29	104	*	255	217	186	159	140
Credits under AS 43.55.025[3]	0	0	*	*	*	4	4	*	26	26	10	8	6
Credits under AS 43.20[4]	0	0	*	0	0	0	0	15	0	45	30	30	30
Total Non-North Slope	*0*	*0*	*3*	*4*	*34*	*33*	*108*	*312*	*281*	*288*	*225*	*197*	*176*
Total Refunded Credits	**55**	**54**	**193**	**250**	**450**	**353**	**369**	**593**	**625**	**700**	**450**	**325**	**275**
Credits Used Against Tax Liability[5,6]													
North Slope													
Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b)	292	219	279	339	313	306	486	332	0	0	0	0	0
Transitional investment expenditure: AS 43.55.023(i)[7]	171	73	0	0	0	*	*						
Per taxable barrel credit, AS 43.55.024(i)-(j)[8]								492	500	513	1258	1211	999
Small producer credit, AS 43.55.024(a)(c)	*	*	21	*	*	*	*	44	50	60	59	48	47
Credits under AS 43.55.025[3]	*	*	28	*	*	*	*	3	0	0	0	0	0
Total North Slope	*541*	*368*	*328*	*402*	*345*	*347*	*536*	*870*	*549*	*573*	*1316*	*1259*	*1046*
Non-North Slope													
Qualified capital expenditure, AS 43.55.023(a); Carry-forward annual loss, AS 43.55.023(b); Well lease expenditure, AS 43.55.023(l)	*	*	0	*	11	*	*	7	9	10	10	10	10
Small producer credit, AS 43.55.024(a)(c)	*	*	6	*	6	*	*	10	8	5	5	5	5
Total Non-North Slope	*16*	*10*	*6*	*10*	*17*	*16*	*14*	*17*	*17*	*15*	*15*	*15*	*15*
Total Credits Used Against Tax Liability	**557[9]**	**378**	**333**	**412**	**361**	**363**	**549**	**888**	**570**	**590**	**1330**	**1270**	**1060**
Total Credits North Slope	596	422	*	649	761	667	797	1158	889	974	1525	1375	1120
Total Credits Non-North Slope	16	10	*	14	51	49	122	322	298	303	240	212	191
Total Statewide Production Tax Credits	**$612**	**$432**	**$526**	**$662**	**$811[10]**	**$716**	**$918**	**$1,481**	**$1,195**	**$1,290**	**$1,780**	**$1,595**	**$1,335**

Source: Spring 2015 Revenue Sources Book backup.

*** An asteric indicates that the data is confidential.**

[1] These numbers are preliminary pending Annual Returns.

[2] Forecasted refunded credits are rounded to nearest $25 million for presentation in RSB to reflect uncertainty around these estimates. Forecasted credits against liability are rounded to the nearest $10 million.

[3] Credits under AS 43.55.025 include the Alternative Credit for Exploration, the Frontier Basin Credit, and for Cook Inlet only the Cook Inlet Jack-up Rig Credit

[4] Credits under AS 43.20 include the Gas Exploration and Development Credit, Gas Storage Facility Credit, the In-State Gas Refinery Credit, and the LNG Storage Facility Credit.

[5] The Education Credit, AS 43.55.019, though not reported in its own credit category in the summary, was less than $1 million in each year reported and is calculated in the total.

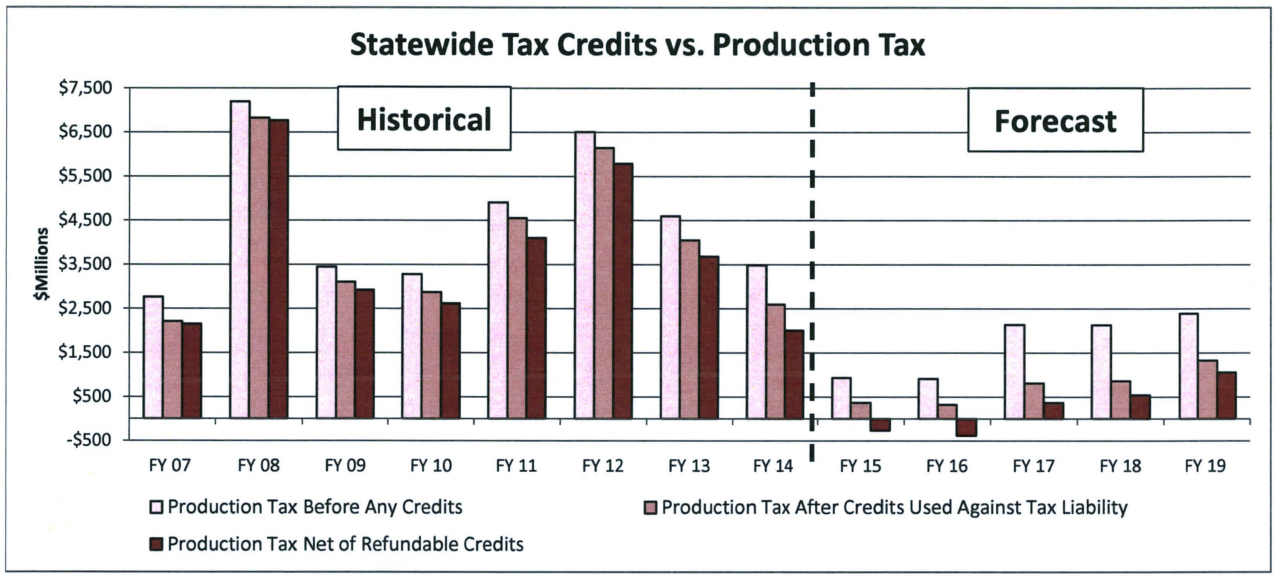
[6] For historical credits against tax liability, geographic location was determined by attributing all .023(l) credits to Non-North Slope, all .025 credits to North Slope, and the other credits were placed according to where the taxpayer mainly operated. Since multiple taxpayers had operations in both North Slope and other areas, these numbers should be treated as rough estimates.

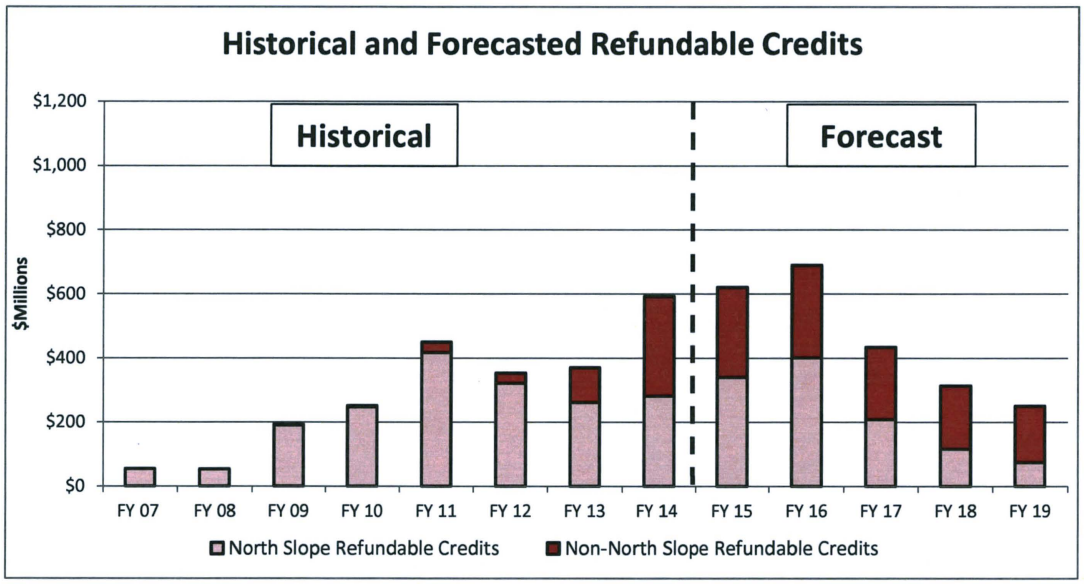
[7] AS 43.55.023(i), The Transitional Investment Expenditure credit, sunset on December 31, 2013.

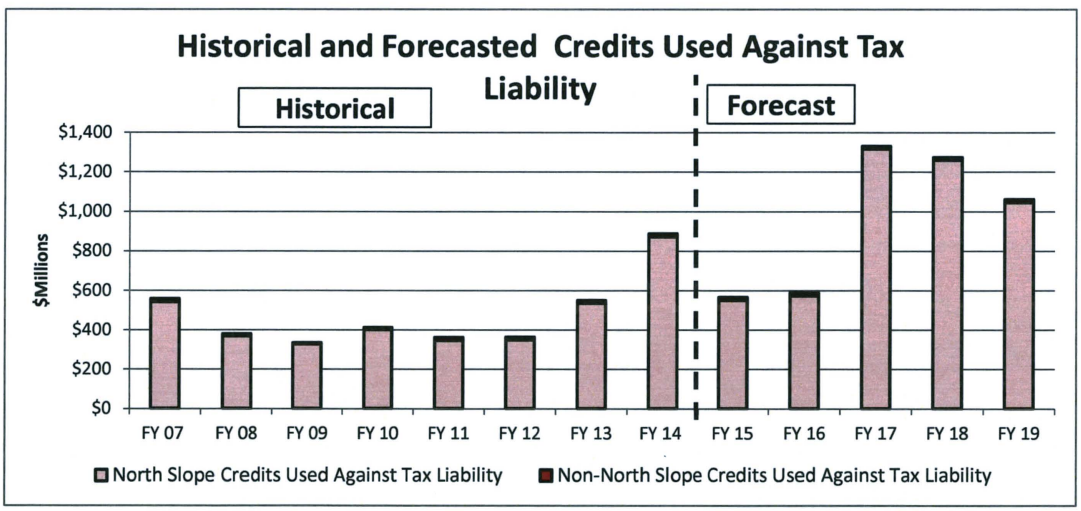
[8] For FY 14 the Per Taxable Barrel Credit is for only the last six months of the fiscal year. For FY 15 and FY 16, the credit is reduced because of the 4% minimum gross tax.

[9] Because ACES was retroactive to April 2006, three months of 2006 credits data is included in the FY 2007 credits used against tax liability number.

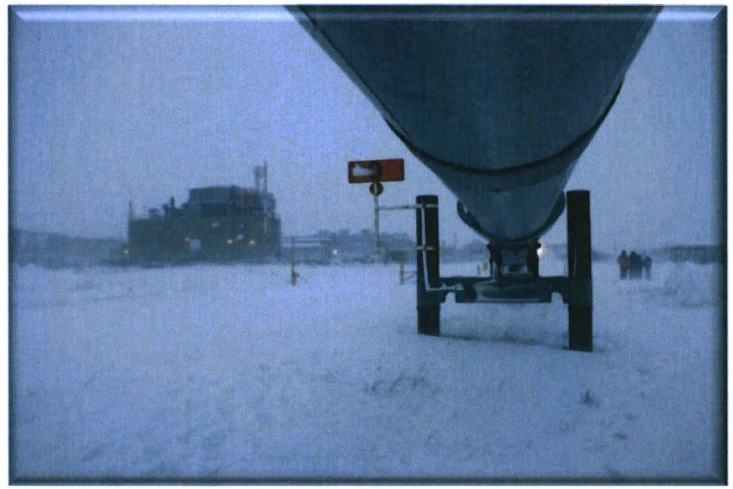
[10] Credits against liability for FY 2011 was estimated, and this total does not match the Fall 2014 Revenue Sources Book number.


Statewide Tax Credits vs. Production Tax
Historical
Forecast
$Millions
$7,500
$6,500
$5,500
$4,500
$3,500
$2,500
$1,500
$500
-$500
FY 07
FY 08
FY 09
FY 10
FY 11
FY 12
FY 13
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
Production Tax Before Any Credits
Production Tax After Credits Used Against Tax Liability
Production Tax Net of Refundable Credits


Historical and Forecasted Refundable Credits
Historical
Forecast
$Millions
$1,200
$1,000
$800
$600
$400
$200
$0
FY 07
FY 08
FY 09
FY 10
FY 11
FY 12
FY 13
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
North Slope Refundable Credits
Non-North Slope Refundable Credits


Historical and Forecasted Credits Used Against Tax Liability
Historical
Forecast
$Millions
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
FY 07
FY 08
FY 09
FY 10
FY 11
FY 12
FY 13
FY 14
FY 15
FY 16
FY 17
FY 18
FY 19
North Slope Credits Used Against Tax Liability
Non-North Slope Credits Used Against Tax Liability

Alaska Department of Revenue



Oil and Gas Tax Credits

Presentation in Kenai to Joint Resources Committee

June 17, 2015

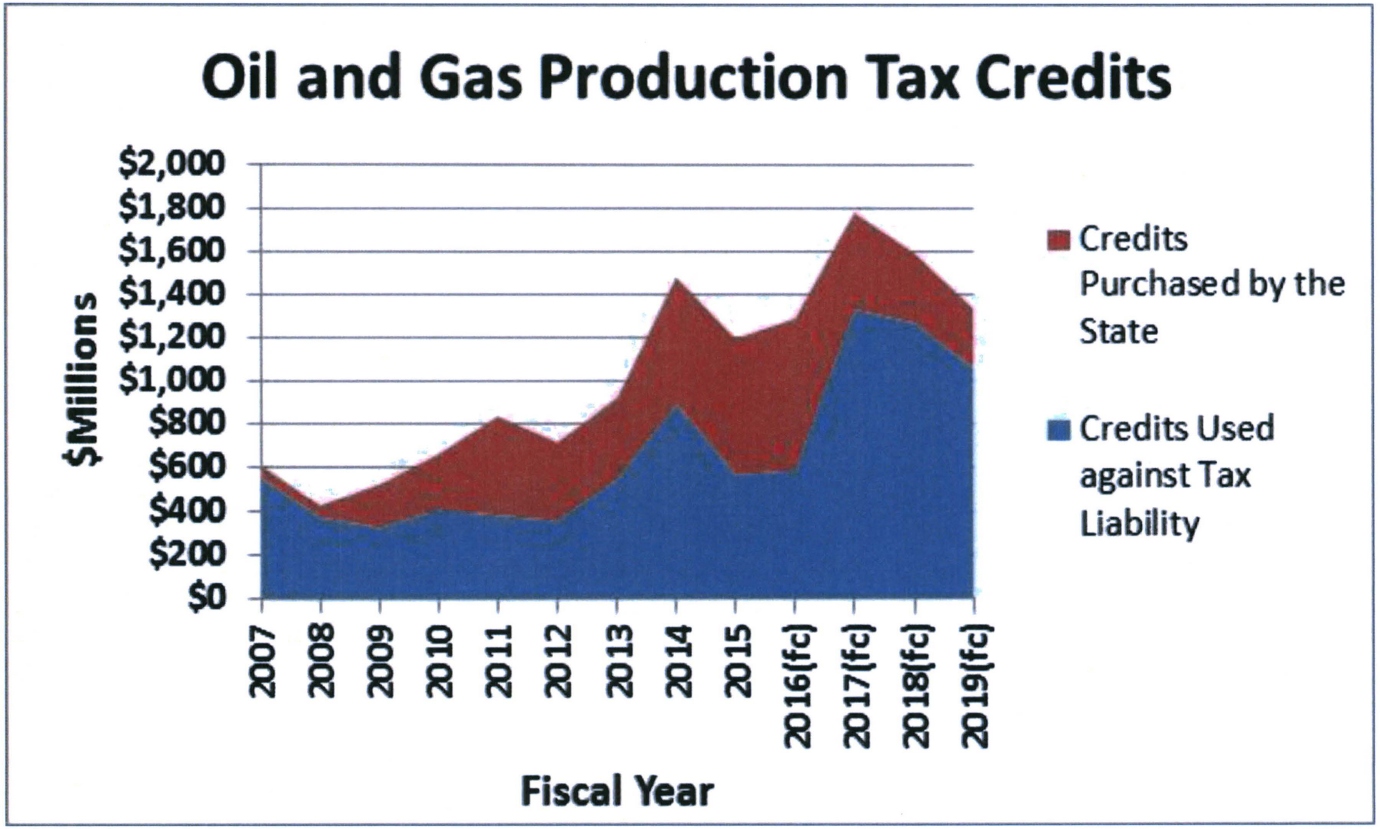
Randall Hoffbeck, Commissioner
Ken Alper, Tax Division Director
Alaska Department of Revenue

What We'll be Discussing

- Summary and Overview
- History
- Some Deeper Explanation
- Myths and Clarifications
- Projections & Going Forward

Summary and Overview

Over the last 10 years the size and the applicability of the oil and gas tax credit program has increased



From FY 2007 – 2015, $7.4 Billion in Credits

North Slope

- $4.3 billion credits against tax liability
  - Major producers; mostly 20% capital credit in ACES and per-taxable-barrel credit in SB21
- $2.2 billion refunded credits
  - New producers and explorers developing new fields

Non North Slope (Cook Inlet & Middle Earth)

- $0.1 billion credits against tax liability
  - Limited liability due to Cook Inlet tax cap
- $0.8 billion refunded credits
  - Rapid growth beginning in FY13

Plus another $0.5 to $0.8 billion Cook Inlet tax reductions (through 2013) due to the tax cap still tied to ELF

History

History of Oil and Gas Tax Credits

- The first "modern era" credit was the Alternative Credit for Exploration, AS 43.55.025 (SB 185, 2003)
  - 20%-40% credit depending on type and location of work
  - Could be taken against liability, sold to a producer with tax liability, or carried forward
  - Initially no state reimbursement option

History of Oil and Gas Tax Credits

- Several Credits added with passage of PPT and switch to a net-profits tax (HB3001, 2006)
  - 20% Carry-Forward Annual Loss (NOL) Credit
  - 20% Qualified Capital Expenditure (QCE) Credit
  - Small Producer & New Areas Credit
  - Transitional Investment Expenditure (Clawback) Credit
- Added a mechanism for state buyback of credits from smaller producers and explorers (less than 50,000 bbl / day), for up to $25 million / year (with a reinvestment requirement)

History of Oil and Gas Tax Credits

- Credits Modified with ACES (HB2001, 2007)
  - Carry Forward Annual Loss Credit increased to 25%
  - Eliminated Transitional Expenditure Credit
  - Eliminated $25 million cap and created the Tax Credit Fund (AS 43.55.028)
- Several Cook Inlet Specific Credits added in 2010
  - Gas Storage Facility Credit (HB280)
  - 40% Well Lease Expenditure Credit for all areas south of 68 degrees (HB280)
  - Jack-up Rig Credit (SB309)

History of Oil and Gas Tax Credits

- Several original restrictions on credit repurchase were also loosened in 2010 (HB280)
  - "Ringfence" (applying Cook Inlet credits against North Slope production)
  - "Reinvestment" (require commitment to new spending in the amount of reimbursed credits)
  - "Recapture" (first apply credits to the difference between the calculated tax and the actual liability under the Cook Inlet tax cap)
  - "Timing" (allow one-year payback instead of two-year payback of Cook Inlet credits)

Repurchase totals for Cook Inlet have increased dramatically since 2012, in part due to these changes

History of Oil and Gas Tax Credits

- Frontier Areas Credit (modeled on Jack-up Rig Credit) and LNG Storage Facility Credit (modeled on Gas Storage Facility Credit) added in 2012 (SB23)
- Credits Modified with SB21 (2013)
  These changes were for the North Slope only
  - Eliminate the 20% Capital Credit
  - Create the Per-Taxable-Barrel Credit ($0 to $8 / bbl for legacy oil, $5 / bbl or GVR or "new" oil)
  - Increase the Loss Carry Forward (NOL) credit to 35%. (45% for 2014 and 2015)
  - Oil and Gas Service Industry Credit
- In-state Refinery Infrastructure Credit (AS 43.20.053) added by HB287 (2014)

Deeper Explanations

Credit Reimbursement is a Two-Step Process

1. Dept. of Revenue Auditors Review and Approve Credit "Certificates"
   - These are earned based on the statute, and on the work done by the producer or explorer
   - There is no discretion- if the expenses qualify, we issue the certificate
2. "Certificates" are Presented for Repurchase
   - These are subject to available funds
     Budget section for reimbursement can be written either capped or open-ended
   - Regulations in place in event funds are limited

Other things to know about reimbursements

- Estimates in operating budgets are often missed

Fiscal Year	Estimate in Operating Budget	Actual Amount Reimbursed
	($millions)	
FY11	$180	$450
FY12	$400	$353
FY13	$400	$369
FY14	$400	$593
FY15	$450	$625
FY16	$700	?
Total 11-15	**$1,830**	**$2,390**

- Reimbursement is front-loaded in the fiscal year
  - Many credits have a statutory requirement to issue certificates 120 days after the (March) tax filing deadline
  - That means we issue many certificates in July, and reimburse them in August

Limit on State Reimbursement

- Credit reimbursement is only available to small producers and new companies
  - Per AS 43.55.028(e)(4), a company producing over 50,000 bbl / day can not have their credits repurchased by the state
  - Alternatives remain in place:
    - Hold until they have a tax liability
    - Sell (transfer) to a company with a tax liability

Credit Information

- In 2015, the Tax Division made efforts to compile historic summary information and make it widely available
  - Three reports provided today to the committee
    - Table of which credits were used in which years
    - Historic and forecasted credits by category and region
    - Impact of Cook Inlet tax cap
  - Aggregated data only per AS 43.55.890. We do not provide company-specific credit information

Notes on the Credit Summary Report

- "Non-North Slope" includes Middle Earth (due to the small number of credits there)
- For each region of the state, it combines all the '.023' credits, meaning the "spending" credits (capital, well) are combined with the "loss" credits
- Per-taxable-barrel credits in North Slope
  - Lower in 2014 due to higher oil prices
  - Lower in 2015 and '16 due to the limit of the 4% Gross Minimum Tax
  - Higher in 2017 because prices are forecasted to increase somewhat, but will be still low enough to qualify for the full $8 / bbl

Not All Credits Should be Viewed as a "Cost"

- The largest credits, the 20% capital credit in ACES and the per-barrel credit in SB21, are integral parts of the tax system. They are built-in offsets to the tax rate
  - Most of the "credits used against tax liability" fall into this category
- Other credits were created to encourage a desired behavior by industry.
  - Most of the "refunded credits" fall into this category

Myths and Clarifications

Myth #1: Many credits are remnants from ACES, and will soon expire

Three credits potentially fall into this category, but make up a small percentage of the totals

1. 20% Qualified Capital Expenditure Credit (AS 43.55.023(a); North Slope only)
   - With the passage of SB21 in 2013, this credit changed from a 2-year to a 1-year reimbursement
   - The change meant that credits earned in 2013 were claimed faster
   - The credit sunset in the middle of FY14
   - There are no North Slope capital credits still being claimed. This credit is still available elsewhere

Myth #1: Many credits are remnants from ACES, and will soon expire

2. 30%-40% Alternative Credit for Exploration (AS 43.55.025)
   - Several subcategories of this credit expire on 7/1/16
     - Regular 30% and 40% credits for North Slope and Cook Inlet
     - 80%-100% "Jack-up Rig" credit for Cook Inlet
     - 75%-80% "Frontier Areas" credit
     - Extended in Middle Earth through 2021
   - We can expect certificate applications into 2017, with the last reimbursements in FY18
   - Only about $25 million of these is typically repurchased per year. And once they sunset much of the Cook Inlet spending will still be able to qualify for other, non-sunsetting credits

Myth #1: Many credits are remnants from ACES, and will soon expire

3. Small producer credit (AS 43.55.024(c))
   - Up to $12 million / year depending on volume
   - Cannot be reimbursed, transferred, or carried-forward. To be used, a company must have a tax liability
   - Will stop taking new applicants on 5/1/16; a company can only qualify for nine years so it's a slow sunset
   - In 2014, 10 companies were able to claim this credit for a total of $60.2 million

4. Also the Middle Earth Credit (AS 43.55.024(a)) sunsets after 2016 but has never been used

Myth #2: DOR's projections for FY17-19 show a decline in credit reimbursements, which can be built into budgets

- Our credit forecast only includes "known" projects
- Most "new" projects would add to the amount of projected credits
- Credit projections use the same conservative methodology as DOR's production forecast

Potential New Projects

- As an example, Repsol recently announced a major find on the North Slope
  - Good for Alaska
  - Jobs, Oil in the Pipeline, Future Revenue
- What happens when they start spending?
  - A theoretical $1 billion in field development costs in 2016 likely would add $350 million in state credit reimbursements (NOL) in 2017
  - This is not in currently in our forecasts
  - Several years before any actual oil revenue
- Same phenomenon, in scale, for many smaller projects

Impact of AKLNG Construction

- If gas project goes forward, will require several billion dollars in upstream spending
  - Largely building out Pt. Thomson
  - Costs not built into tariffs
- Enalytica in 2014 estimated nearly $2 billion in oil tax impacts (via both deductions and credits) prior to first gas
  - Based on 35% of about $5 billion in costs

Projections and Going Forward

How We Forecast Credits

- The credit forecast is in most cases tied to our forecast of company spending (lease expenditures)
  - Carry-forward annual loss credit is usually based on total spending by companies without production (explorers)
  - Cook Inlet capital and well lease expenditure credits are based on actual allowable spending on these activities (explorers & producers)

How We Estimate Lease Expenditures

- Department of Revenue reviews and analyzes lease expenditure data from companies' annual returns and monthly information filings
- We get semi-annual projections of lease expenditures for the next five years, by property, from most unit operators
- Direct consultation with some companies
- Publicly available information and news releases on planned exploration, development, or production activity

How We Estimate Lease Expenditures

- Lease expenditures are included in the forecast if the corresponding production meets DOR's criteria for inclusion in the production forecast.
- For explorers, lease expenditures are included for known and announced near-term projects, and an assumption is made for ongoing longer-term exploration spending
- Since 2012, the production forecast is 'risked.' In other words, new projects are assigned probabilities to reduce over-estimation
- Risk factors are applied to the lease expenditure forecast consistent with the risking of the production forecast

How We Forecast Credits

- Bottom line, the credits are only in the forecast if:
  - The production that the credits would generate is in the forecast, and
  - The spending that will result in the production is in the forecast

  or

  - The credit results from exploration spending from a planned or announced project

THANK YOU

Please find our contact information below:

Randall Hoffbeck
Commissioner
Department of Revenue
Randall.Hoffbeck@Alaska.gov
(907) 465-2300

Ken Alper
Director, Tax Division
Department of Revenue
Ken.Alper@Alaska.gov
(907) 465-8221

dor.alaska.gov

OIL & GAS PRODUCTION TAX CREDITS AT LOW OIL PRICES

Presentation to Joint Resource Committee Hearings
Kenai, Alaska › Wednesday, June 17, 2015

Janak Mayer, Chairman & Chief Technologist › janak.mayer@enalytica.com
Nikos Tsafos, President & Chief Analyst › nikos.tsafos@enalytica.com

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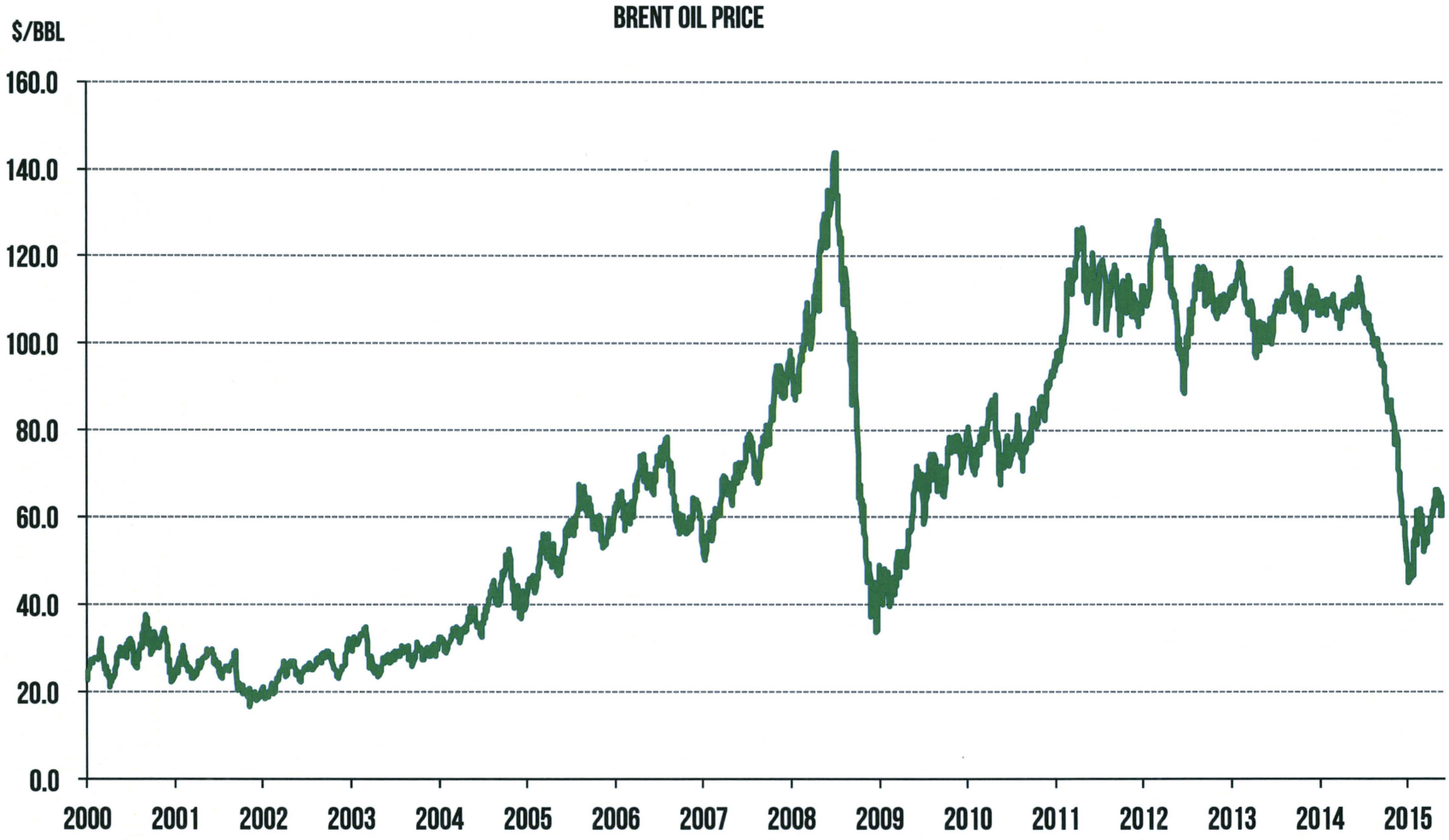
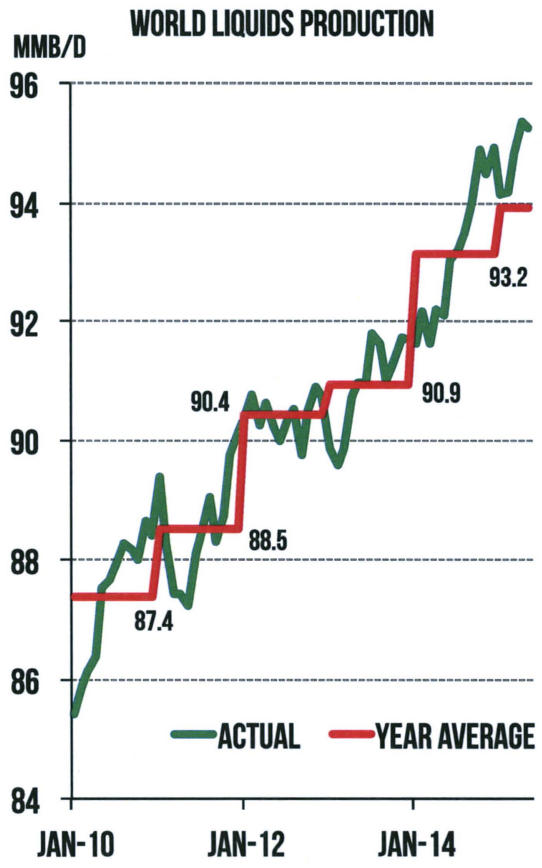
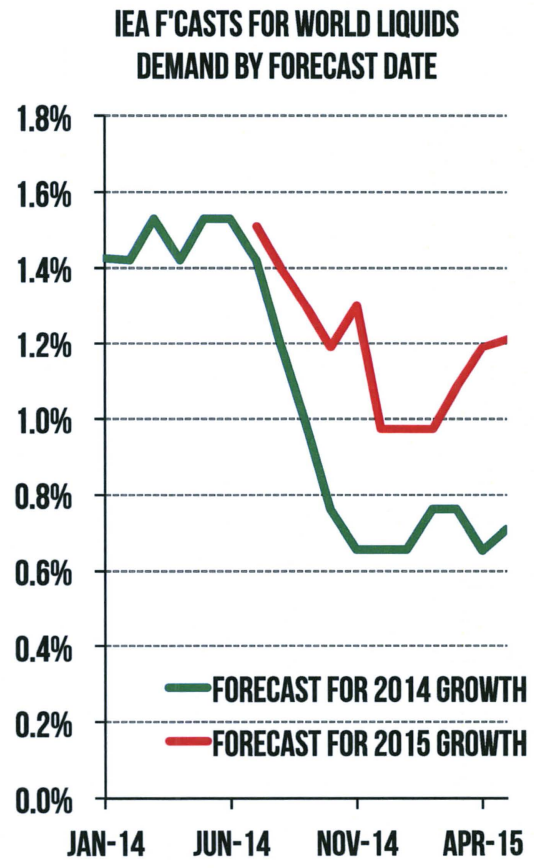
OIL PRICES HAVE REBOUNDED SLIGHTLY AFTER CRASH



SOURCE: ENALYTICA BASED ON ENERGY INFORMATION ADMINISTRATION

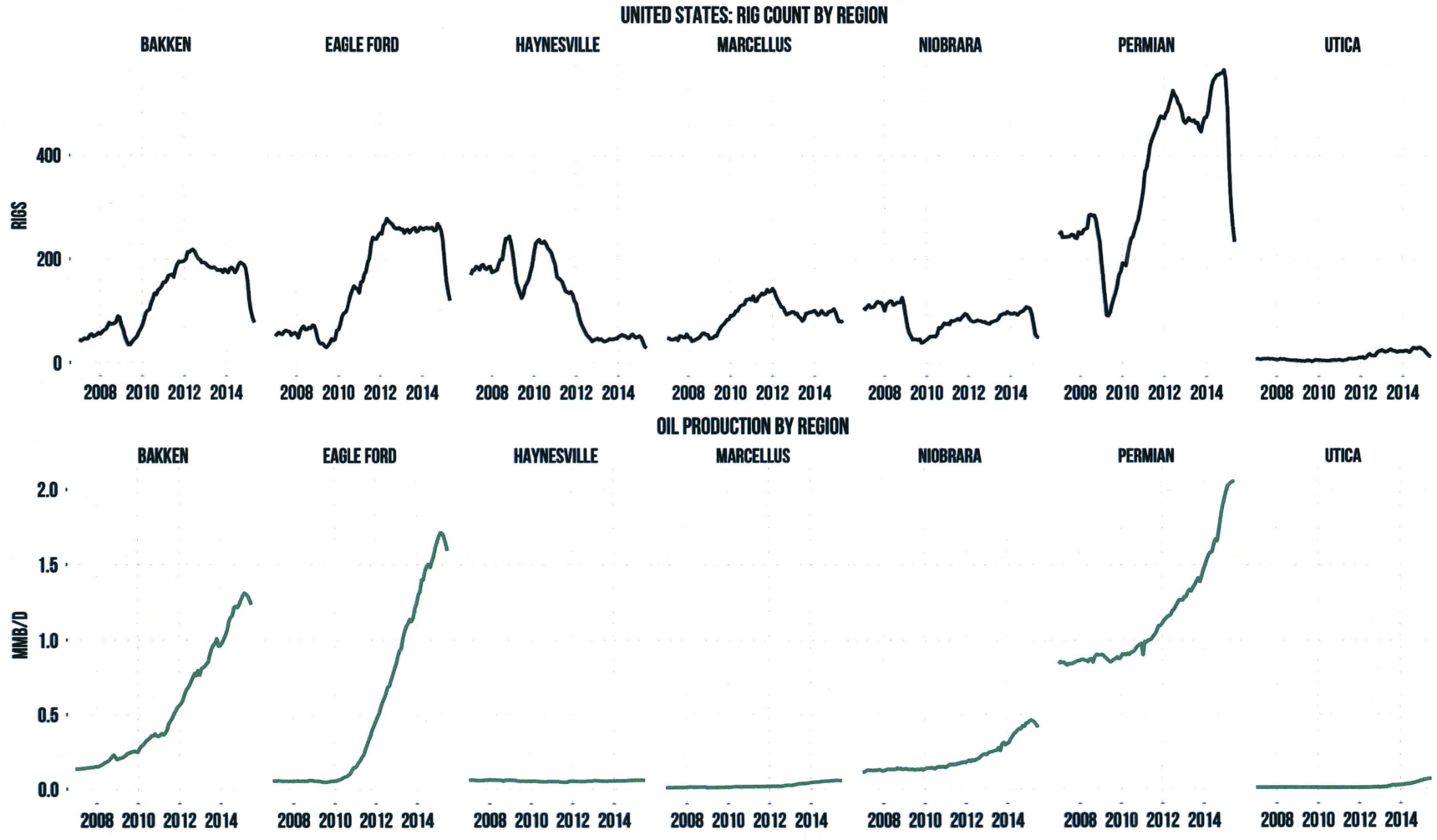
OIL PRICE DROP DUE TO WEAKER FUNDAMENTALS





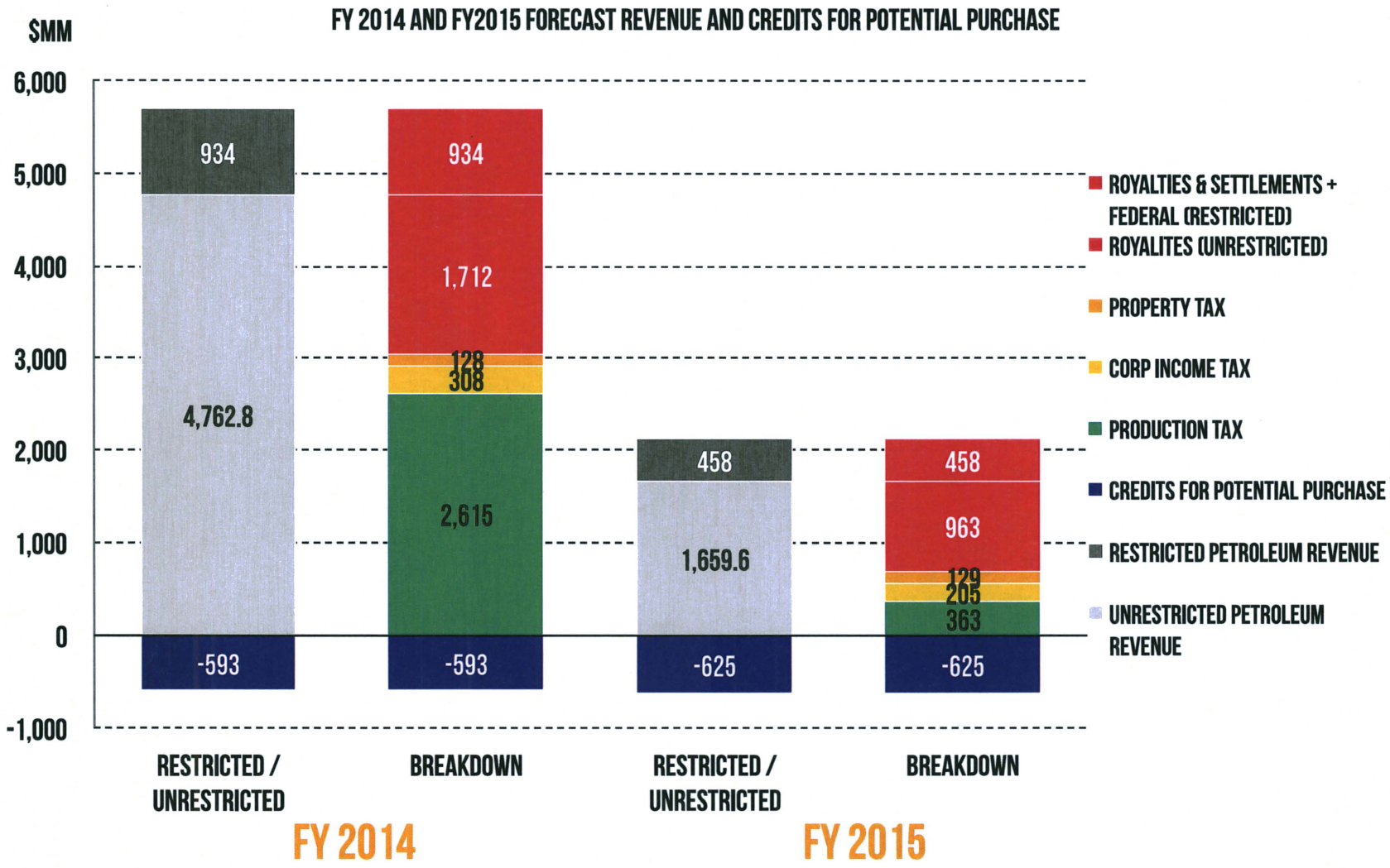
SOURCE: ENALYTICA BASED ON ENERGY INFORMATION ADMINISTRATION AND INTERNATIONAL ENERGY AGENCY

OIL PRICES HITTING US DRILLING MORE THAN US OUTPUT



SOURCE: ENALYTICA BASED ON ENERGY INFORMATION ADMINISTRATION

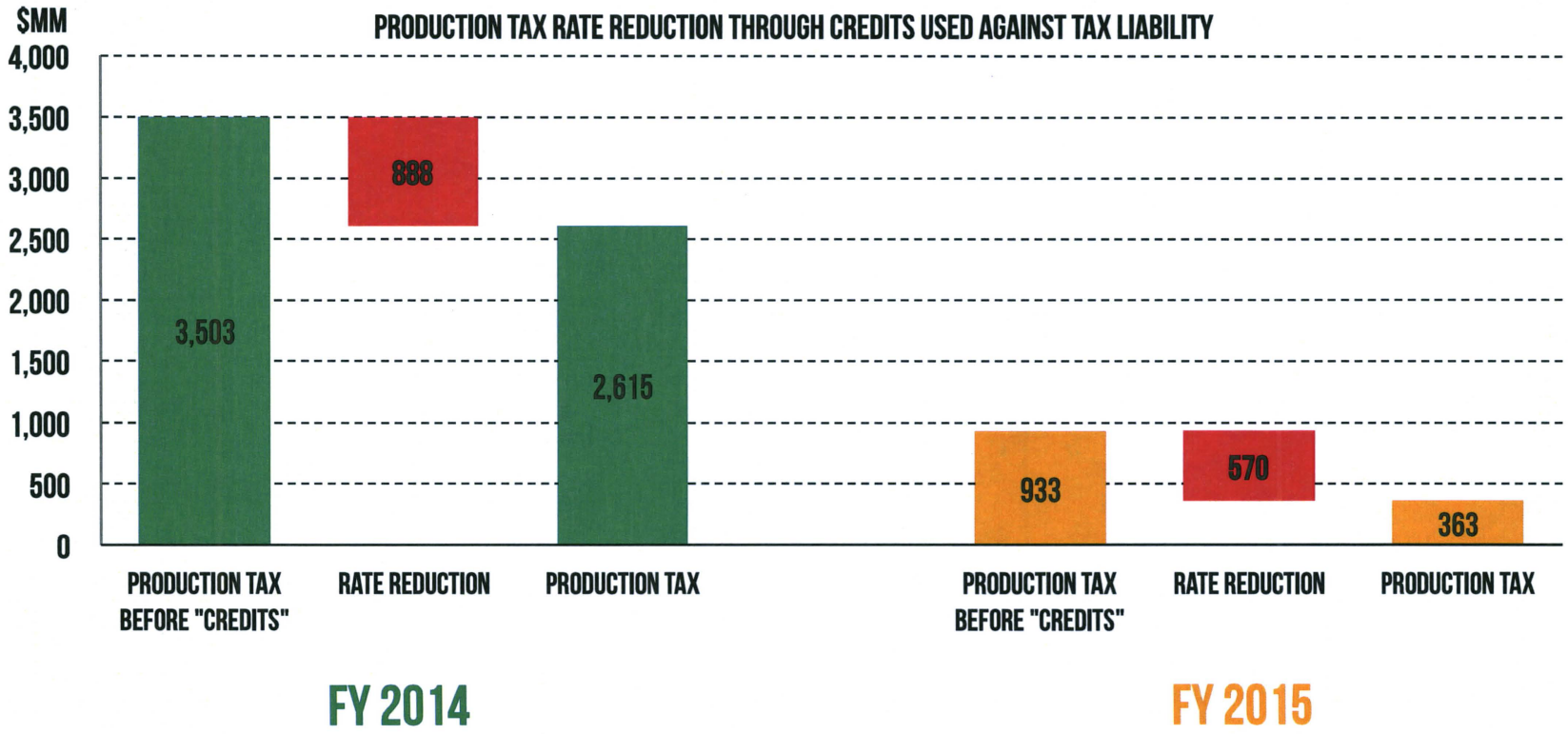
STATE REVENUES AND CREDITS: THE BIG PICTURE



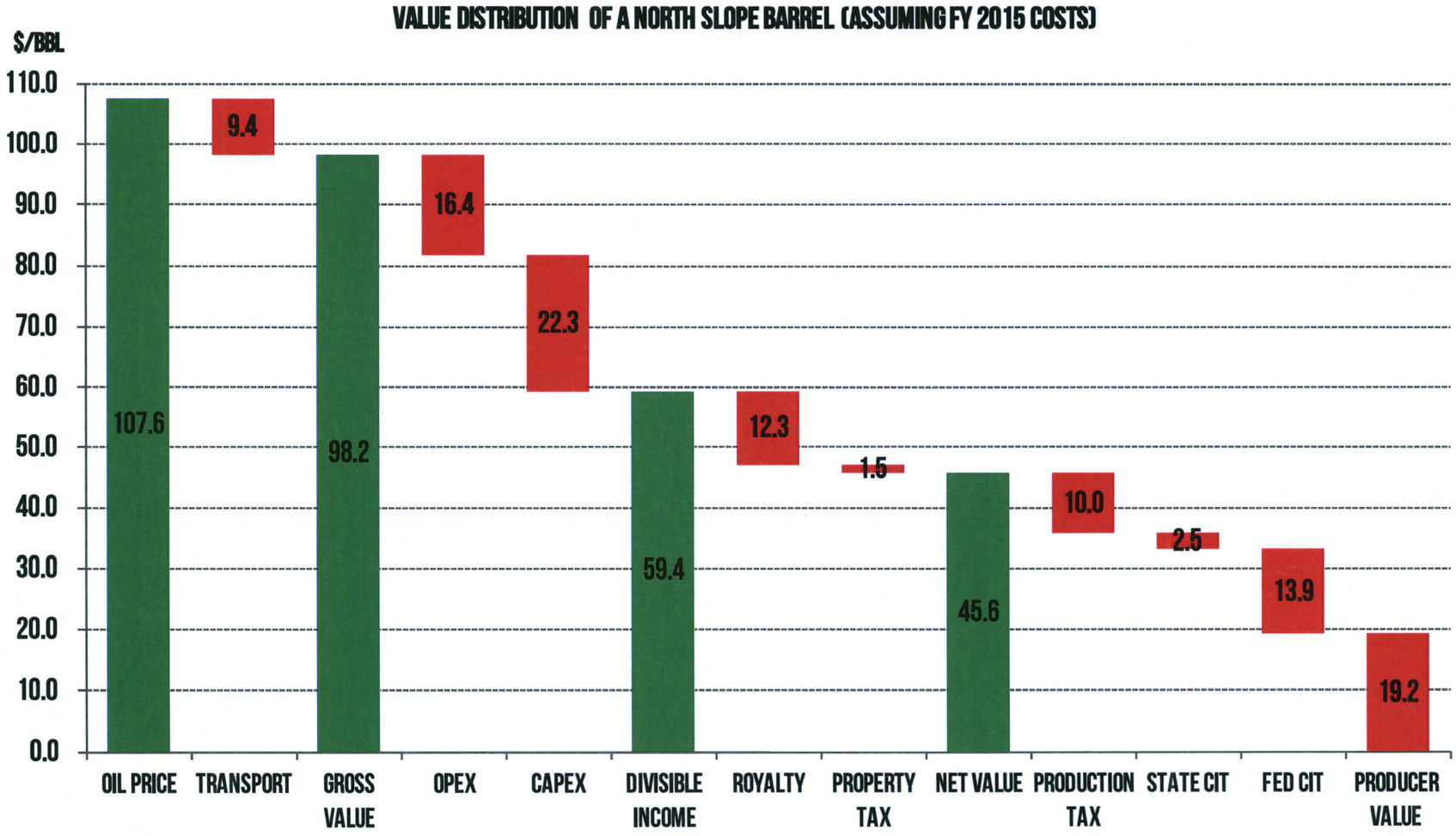
PER BARREL "CREDIT" IS A MISNOMER

The credit against the production tax is not really a credit; it has an explicit tax-rate-setting goal

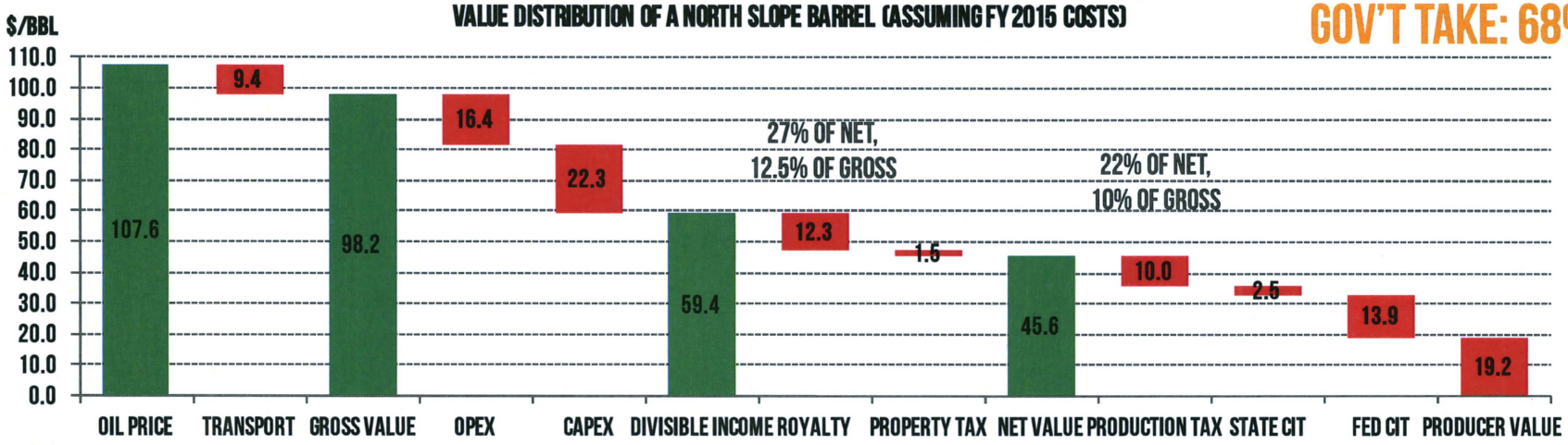
Its purpose is to lower the effective tax rate when oil prices are low

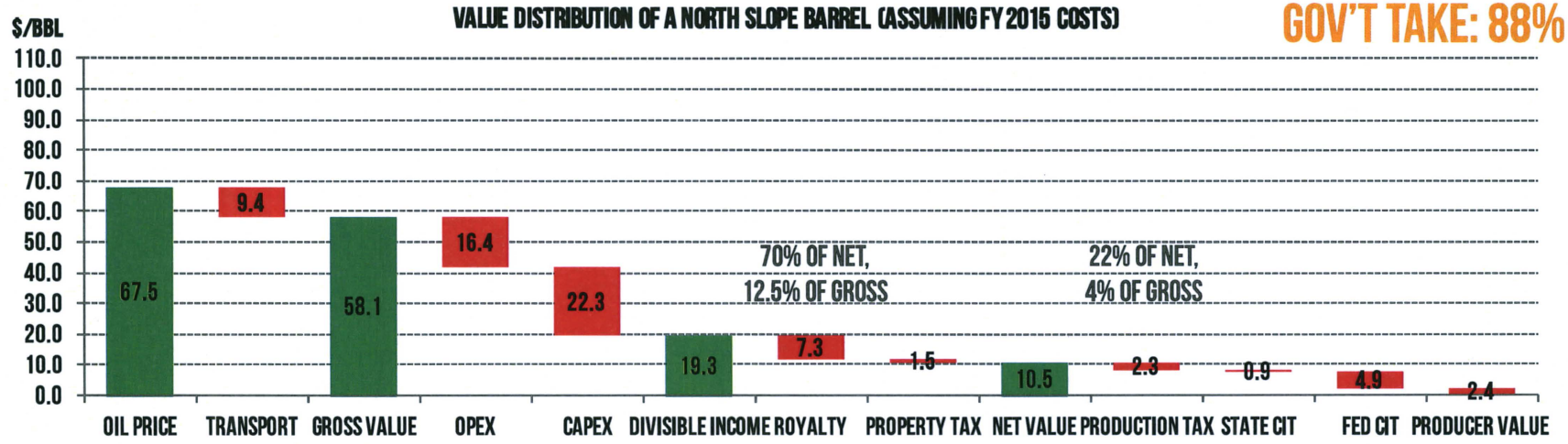


WHERE DOES A BARREL GO: IF OIL WERE $107/BBL

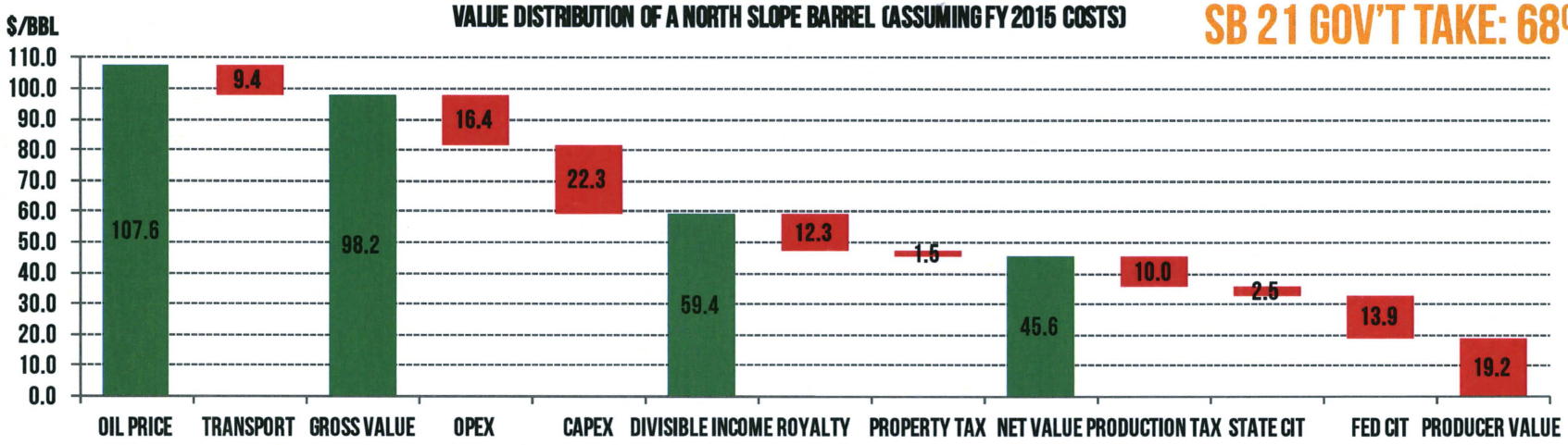


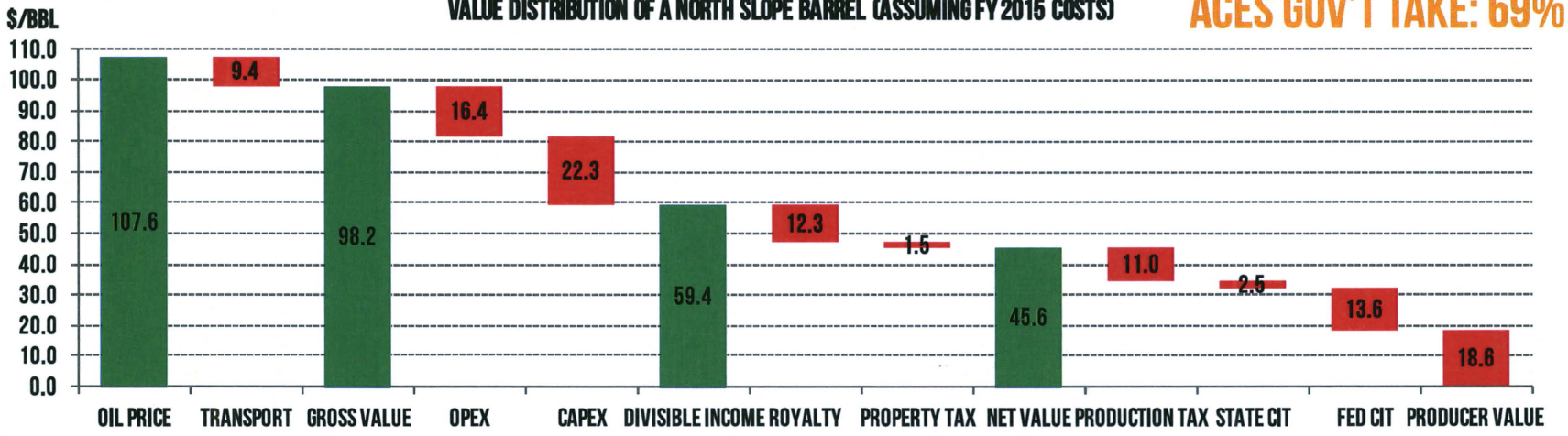
WHERE DOES A BARREL GO: $107 vs 67/BBL



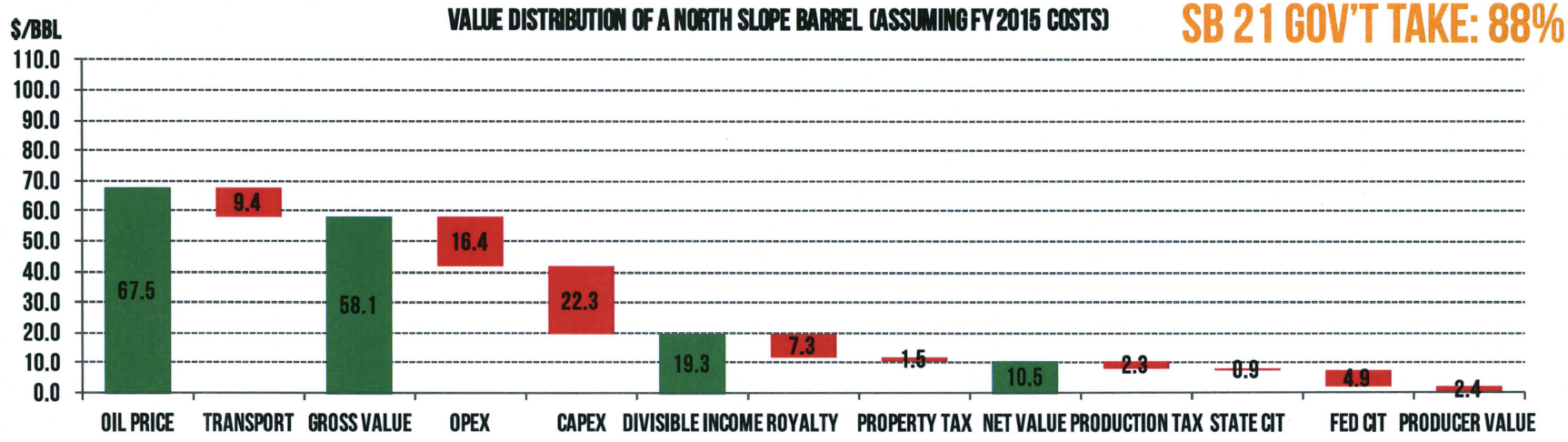


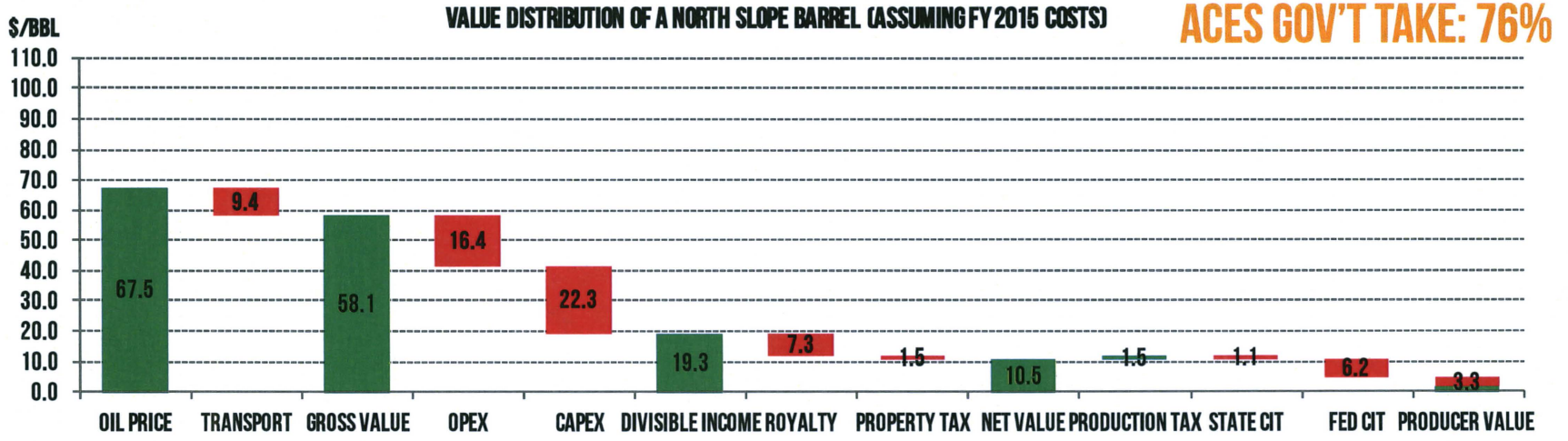
WHERE DOES A BARREL GO: ACES vs SB 21 ($107/BBL)

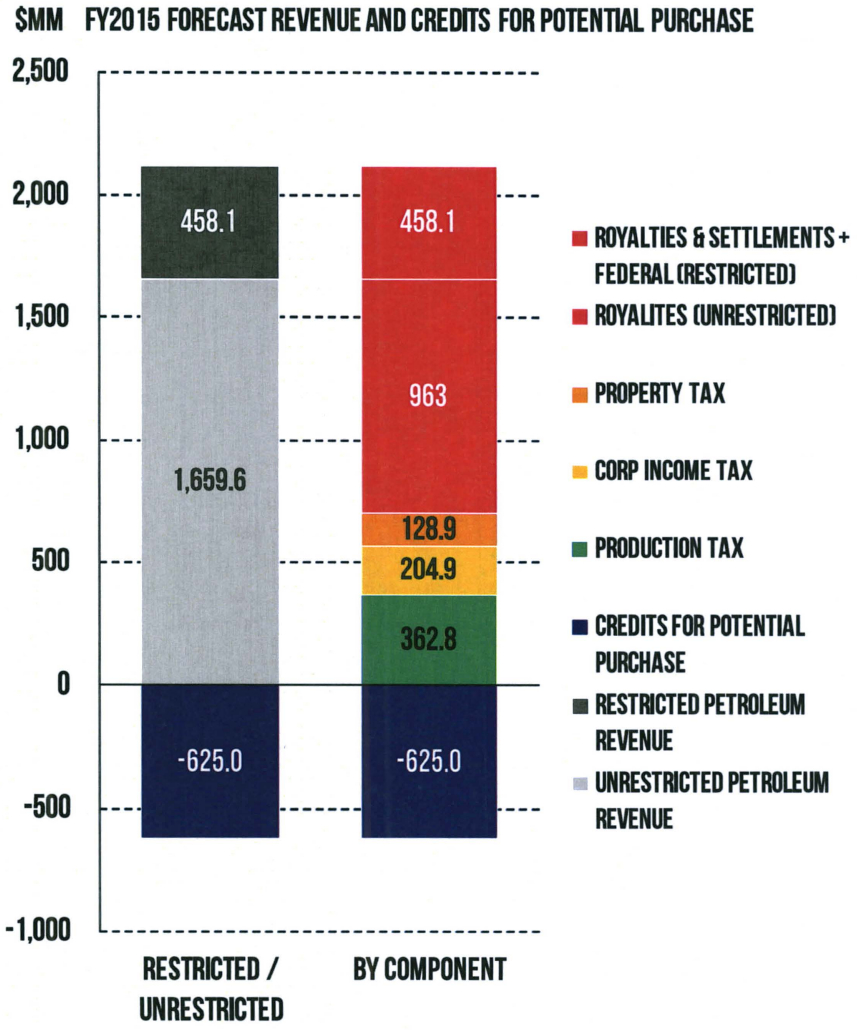




WHERE DOES A BARREL GO: ACES vs SB 21 ($67/BBL)







SUNSET FOR SMALL PRODUCER-FOCUSED CREDITS

Alternative Credit for Exploration

Frontier Basin Credit

Small Producer Credit

- Collectively cost $113 million in FY2014

IMPACT OF TRANSITIONAL ARRANGEMENTS

Support for small producer spending at 45% until January 2016 (same as ACES)

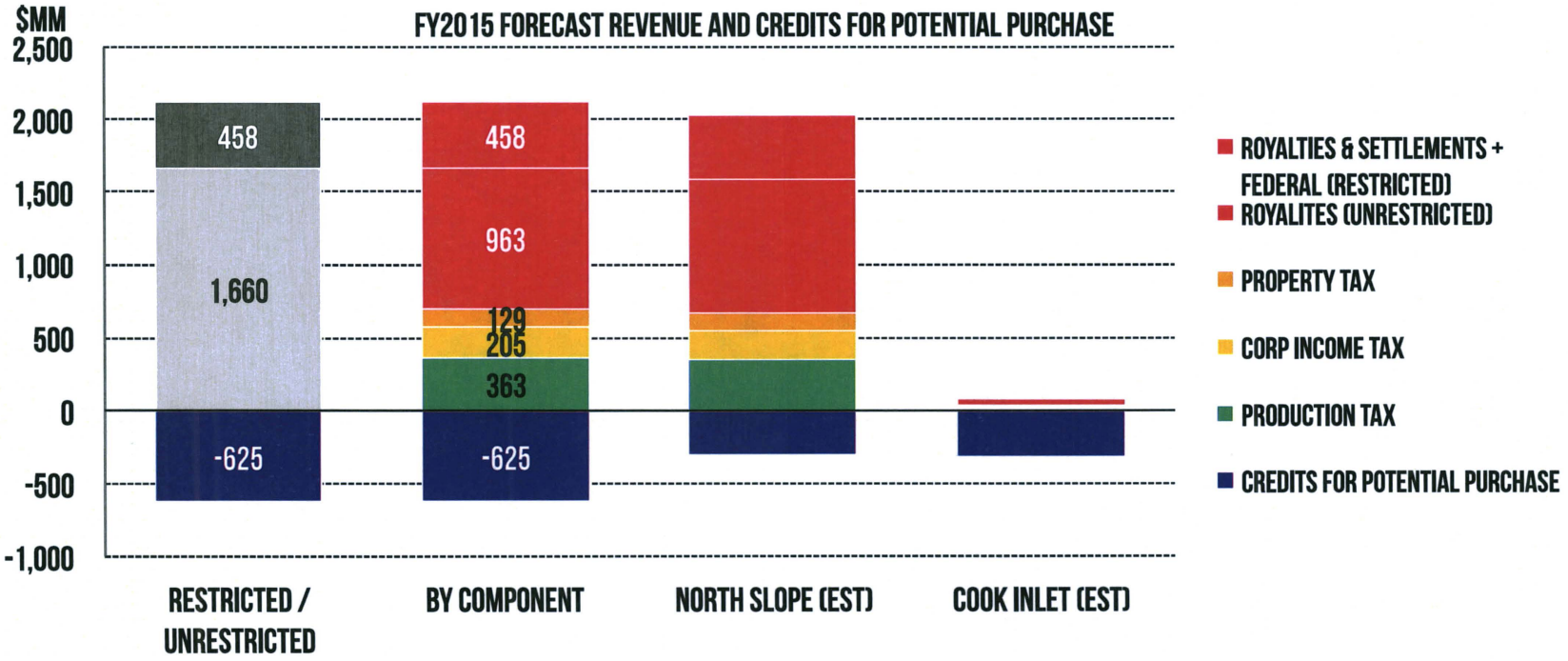
Reduced to 35% thereafter

COOK INLET AND NORTH SLOPE VERY DIFFERENT

Cook inlet receives approx. of 50% credits for purchase, but generates only 5% of revenue

Production tax essentially 'ELF': Low, fixed rate on gas, and generally no tax on most oil production

But significant credits: 20% capital; 40% well expenditure; 25% carried-forward annual loss



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Data. Analytics. Solutions. in Energy

Joint Alaska Senate and House Resources Committees

Hearing Testimony: J. Benjamin Johnson

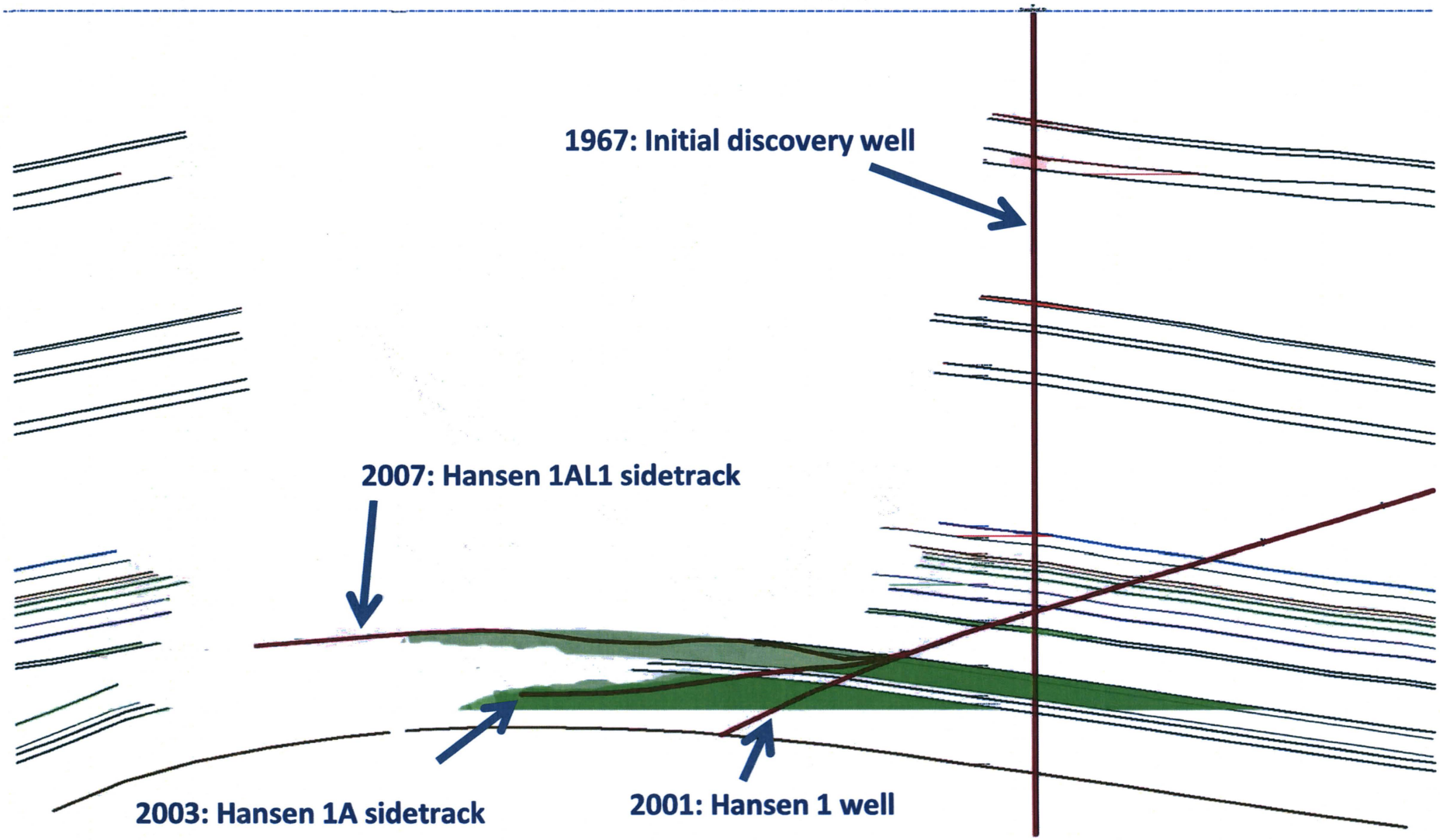
(Kenai - June 17, 2015)

BlueCrest Energy Inc. Overview

- Privately owned
- Experienced management with backgrounds in major oil companies and in Alaska
- Sole current focus is development of Cosmopolitan resources
  - 30 employees and contractors currently employed in Alaska
  - 250 anticipated peak Alaska jobs during construction operations in 2015/2016
  - Approximately 100 planned full-time Alaska jobs during routine drilling and production operations
  - Projected taxes and royalties:
    - Over $300 million of Alaska royalty payments and taxes paid during the initial 10 years
    - Over $600 million of Alaska state royalty payments and taxes paid over the entire field life
    - Over $20 million of State and Borough property taxes paid during the initial 10 years
  - Planned spending for the remainder of 2015: $80 million
  - Planned spending for 2016: $120 million
- As a small private company, development capital is limited
  - Capitalized to date through private investors and management: over $200 million
  - Spent since acquisition in 2012: $144 million
  - Tax credits/rebates received to date: $21 million
  - Currently no third-party debt – however:
    - Now finalizing $150 million private loan facility for Cosmopolitan oil development
    - Now finalizing $30 million AIDEA loan for onshore drilling rig purchase

2012: BlueCrest acquired leases from Pioneer

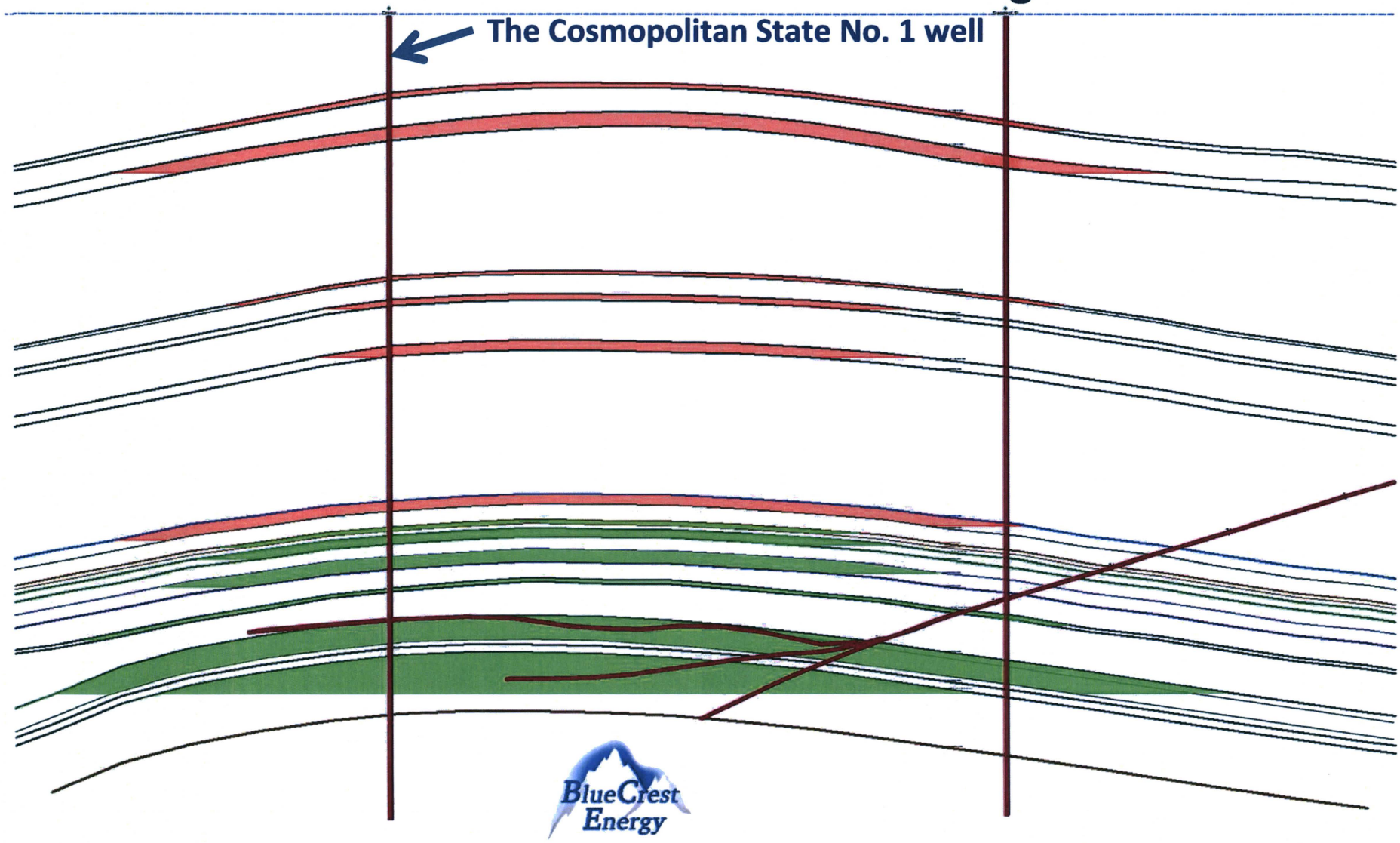
Subsurface information available when BlueCrest purchased Cosmopolitan from Pioneer in 2012



BlueCrest Energy

2013: BlueCrest drilled a vertical well from offshore

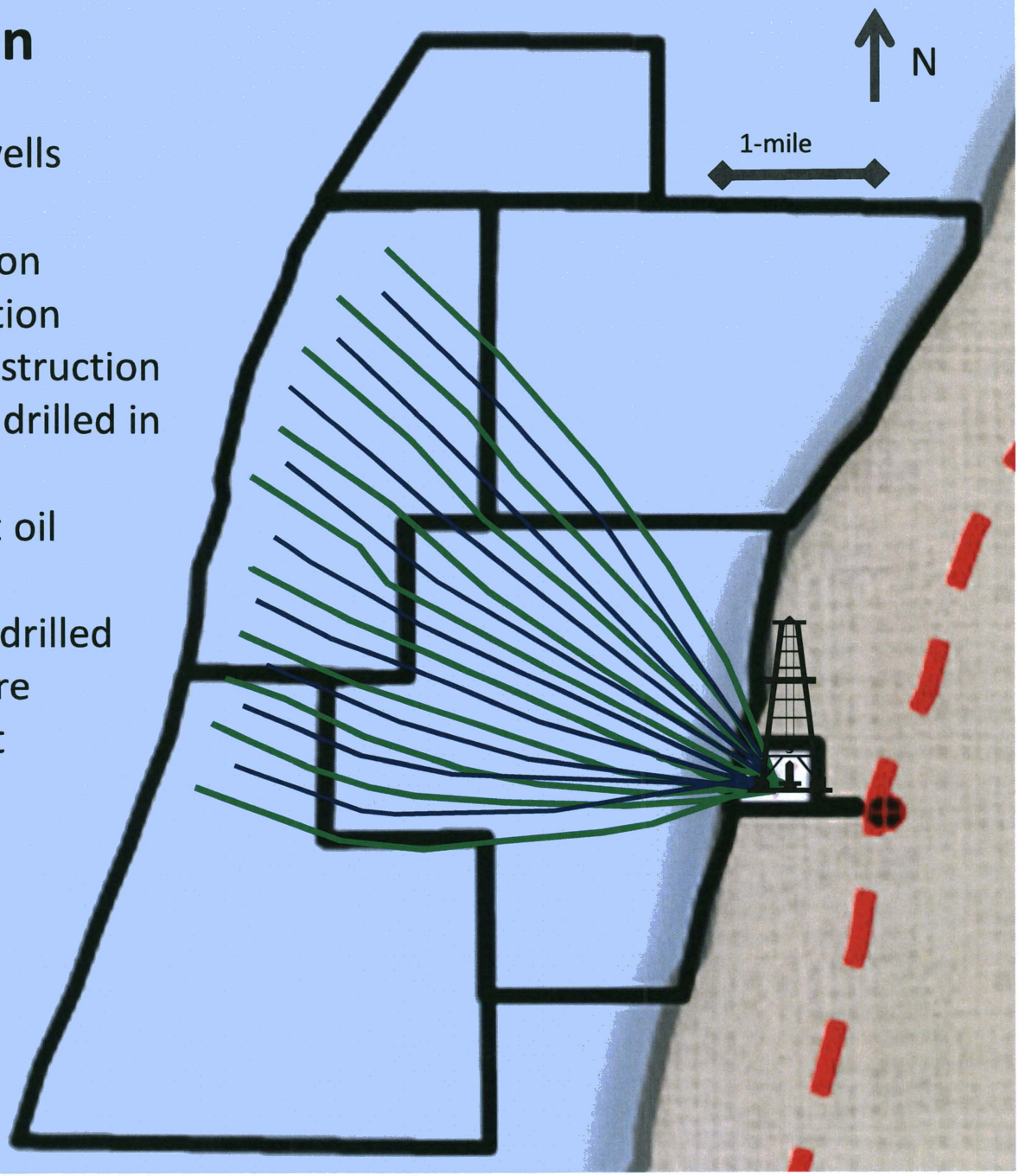
Confirmed substantial additional oil and gas reserves



BlueCrest Energy

Oil development plan

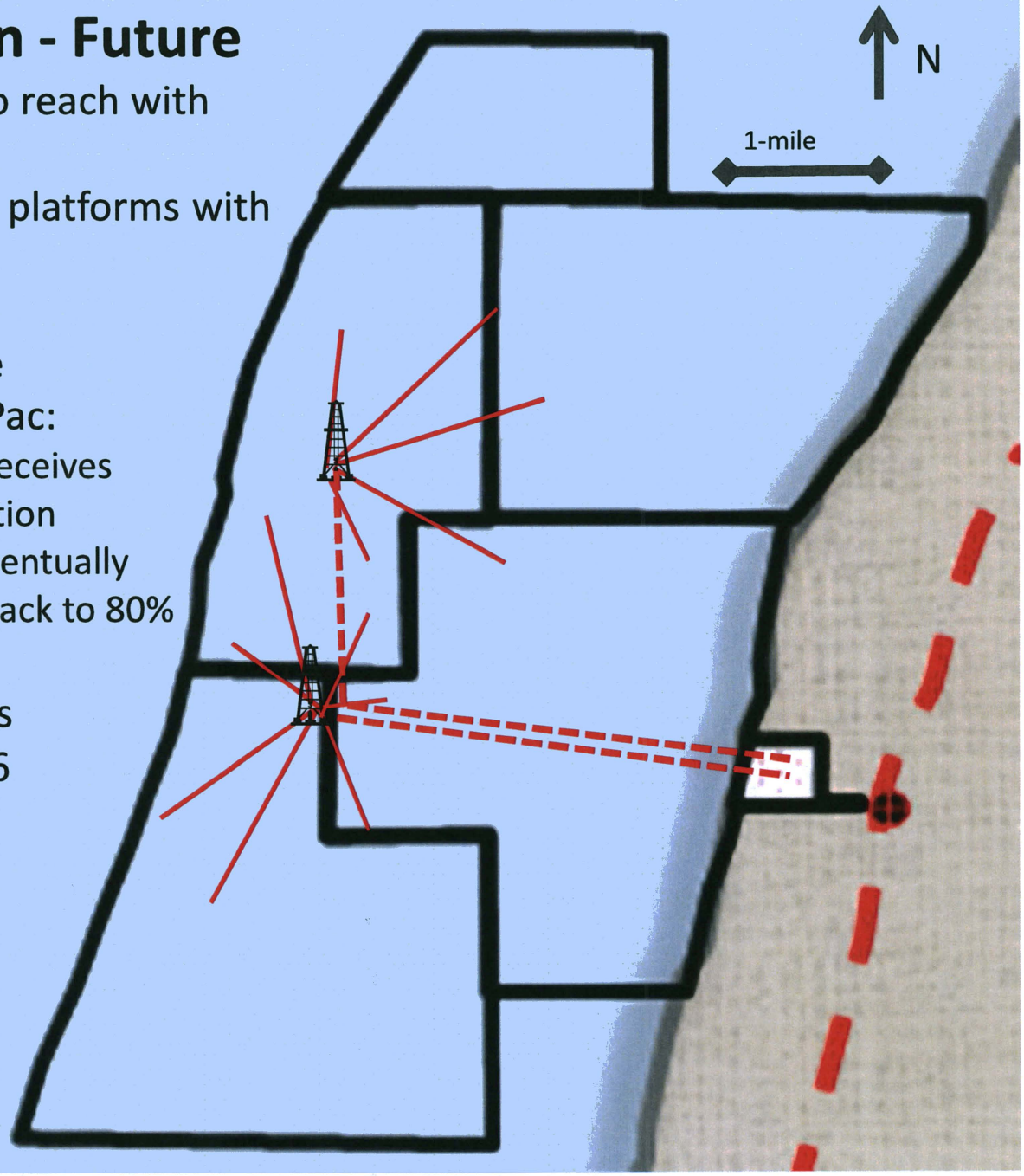
- Extended-reach horizontal wells drilled from onshore
  - No offshore oil production
- Onshore drilling and production facilities currently under construction
- Initial oil development wells drilled in 2016
- Facilities completed and first oil production by April 2016
- Future water injection wells drilled to maintain reservoir pressure
- Total projected development spending through 2019: $690 million



BlueCrest Energy

Gas development plan - Future

- Gas zones are too shallow to reach with onshore wells
- Requires two small offshore platforms with drilling by jack-up rig
- Dry-gas only
  - No oil production offshore
- Farmout planned with WesPac:
  - Wespac funds 100% and receives 100% of initial gas production
  - BlueCrest operates and eventually increases gas ownership back to 80%
- Cosmopolitan gas deliveries prioritized for Alaska's needs
- Development begins in 2016
- Production begins in 2018 - in time to avert local supply shortages beyond 2018



BlueCrest Energy

Cook Inlet Oil and Gas Characterization

- **Proven prolific basin**
  - **More than 1.3 billion barrels of oil and 7 TCF of gas produced to date**
- **Little exploration activity and no discoveries of large fields in decades**
  - **Large structures have been found**
  - **Good potential for new discoveries, but high risk and cost**
- **Easier access than North Slope, but Cook Inlet still has limited infrastructure compared to Lower 48**
- **Lower costs than North Slope, but still much higher than Lower 48:**
  - **Cosmopolitan State #1 (7400' vertical offshore exploration well) cost $45 million**
    - **Recent offshore Vermillion (GOM) 8,000' exploration well cost $8 million***
  - **Cosmopolitan onshore 5000' horizontal development wells will cost approximately $30 million each**
    - **Permian Wolfcamp 9,000' horizontal wells typically cost $8-9 million each***
    - **Bakken 10,000' horizontal wells typically cost $7-9 million each***
    - **Eagle Ford 8,000' horizontal wells typically cost $6-7 million each***

* Source: Citi internal analyst report

Considerations for Alaska O&G Industry Future

- Alaska exploration and development projects are expensive but offer large resource potential
- Major oil companies:
  - Well-suited for ultra-large development projects
- Well-run independent companies:
  - Well-suited for exploration and development of smaller projects
  - Strong technical ability
  - Efficient operations
  - Innovativeness
  - Nimbleness
  - Willing to pursue smaller projects
  - Limited internal capital

Considerations for Alaska O&G Industry Future (continued)

- **Most (but probably not all) new Alaska discoveries will be smaller (likely too small for majors' focus)**
  - **Typical evolution of basin development throughout the world:**
    - **Usually started by majors with largest fields**
    - **Independents typically fill in behind the majors and re-invent the resources**
    - **Permian Basin Example:**
      - **One of oldest and most prolific basins in the world, estimated to hold 20-25% of all US oil**
      - **Majors sold most of their assets to independents in 1970's – 1990's, "too mature"**
      - **Permian basin produced 2 million BOPD in the 1970's but declined to 850,000 BOPD in 2005 as majors left**
      - **Independents employed new technology (horizontal drilling and fracking)**
      - **Mostly through actions of independents, current production is now over 1.3 million BOPD**
- **Future Alaska investments must compete with opportunities in other areas**
  - **Since capital to smaller companies is limited, investors strongly prefer to invest where they can make the highest return**

Importance of Alaska's Tax Credit Programs

- Credits help offset the higher Alaska costs and encourage more Alaskan investments
- Credits are a critical factor in obtaining private investments required to develop the resources
  - Confidence that the credits will continue into the future is required for commitment now to long-term development
- Impact on BlueCrest
  - BlueCrest would not be here without them
    - Credits were critical factor in obtaining investment funding
  - BlueCrest could not continue full Cosmopolitan oil development without them
    - Budgets for development over the next 5 years include credits that offset costs
    - Private capital is limited, loss of credits would necessitate reduction of development

Continuation of the tax credits can be a good investment

Example: Cosmopolitan oil development

- Projected future tax credits would amount to approximately $190 million through 2019
  (approximately 35% of total Cosmopolitan spending during that time)
- State royalties for oil and gas produced from those wells would be more than $600 million (assuming $65 average oil price received)
  - 200% Return on Investment
- Local oil and gas produced can be used by Alaskans to lower energy costs


BlueCrest
Energy

CAELUS
Energy Alaska

Joint Resources Committee
June 17, 2015

J. Patrick Foley
Senior Vice President, Alaska Operations

Introduction to Caelus Energy Alaska

- "Caelus" – Roman God of the Sky
- Privately-held Independent E&P company
- MAPA attracted us to Alaska, and encouraging strong company investment

Alaska North Slope Operations:

- 70% w.i. and operator of Oooguruk
- 15,000 BOPD gross production
- 80 + full-time Alaska employees
- Heavy contractor load last winter
  - Frac program, Nuna gravel, seismic
- **$220+ million 2015 capital budget**
  - Roughly 65%/35% ODS/Nuna
  - ODS costs shared with Eni

Caelus Energy Alaska's Operations: Technology @ Work

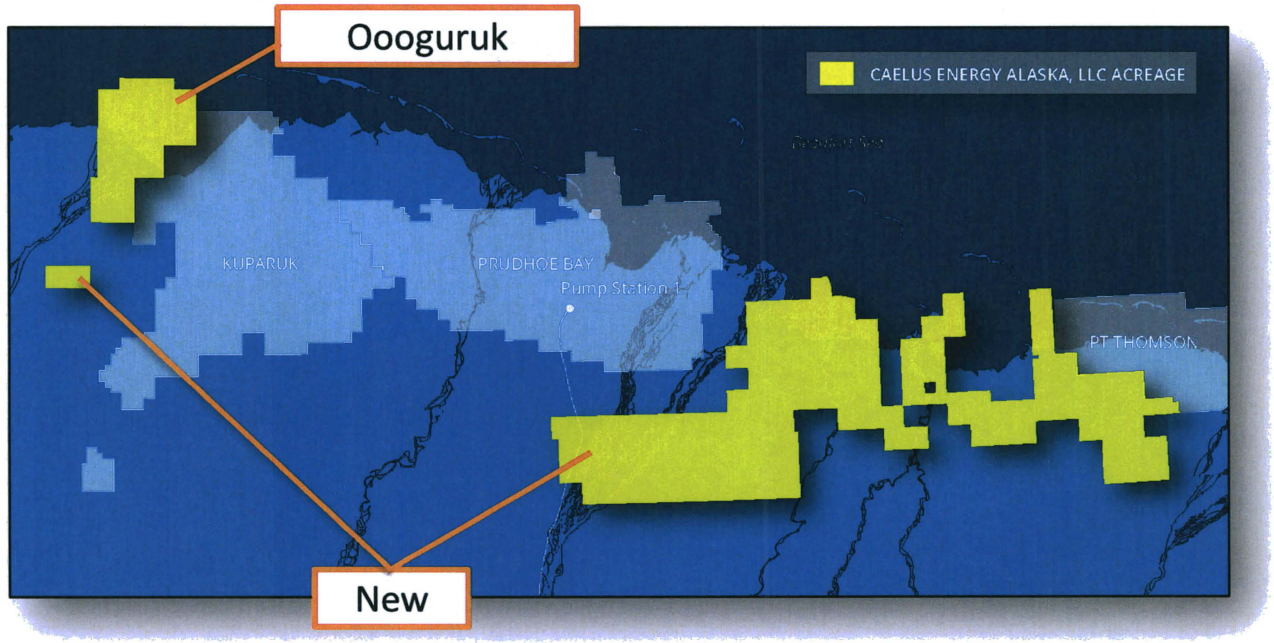
New Record : Oooguruk Field Enhancements

- North Slope leader of new frac technology utilization
- Largest frac treatments on North Slope to date
- Oooguruk production record: 22,531 b.o.p.d., (May 23)

Caelus Energy Alaska's Operations: Growing the Pie

New Acreage:

- 323,000 NEW acres
- 3D Seismic Programs
  - 2 large 3D acquisition winter programs
  - Future exploration program



New Project: Nuna

- Project sanctioned
- Gravel pad and road installed
  - 600,000 CY Gravel
  - 27,000 loads
- First oil 2017

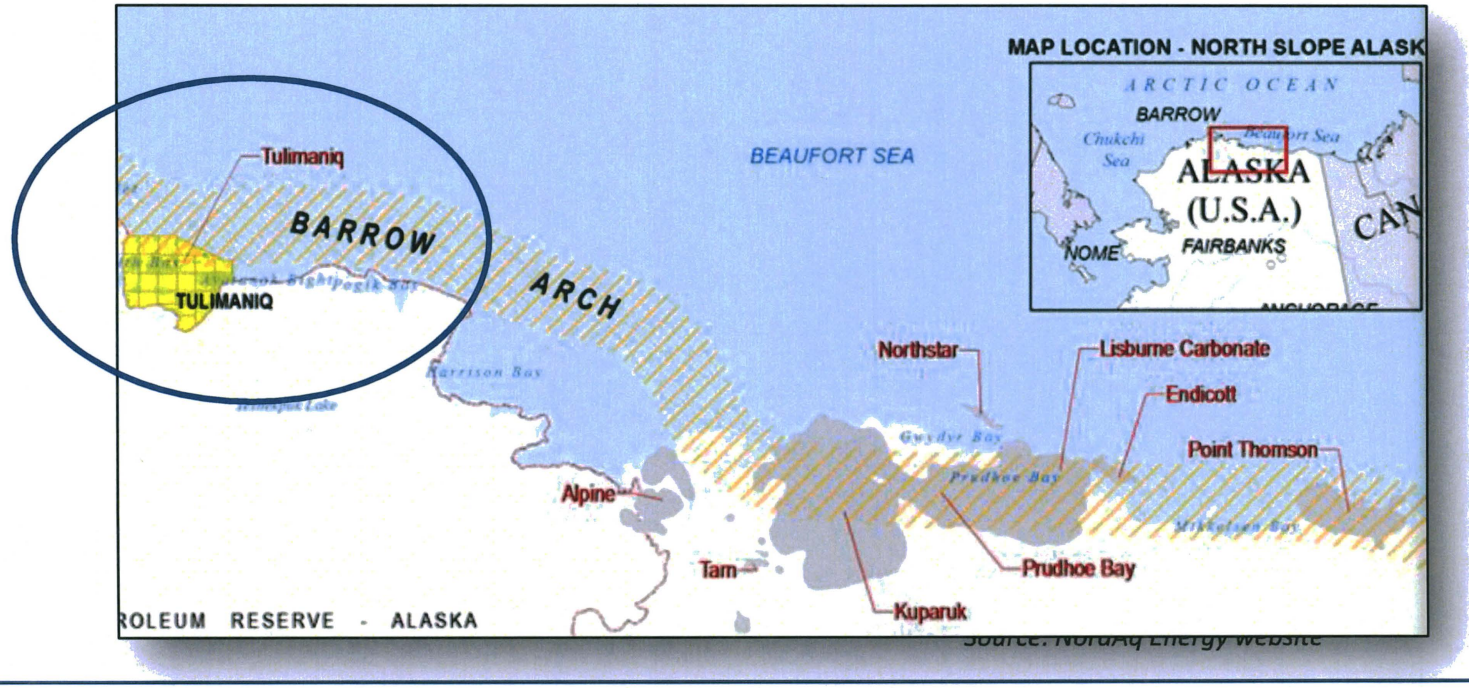
Caelus Energy Alaska's Operations: Growing the Pie

New Acquisition:

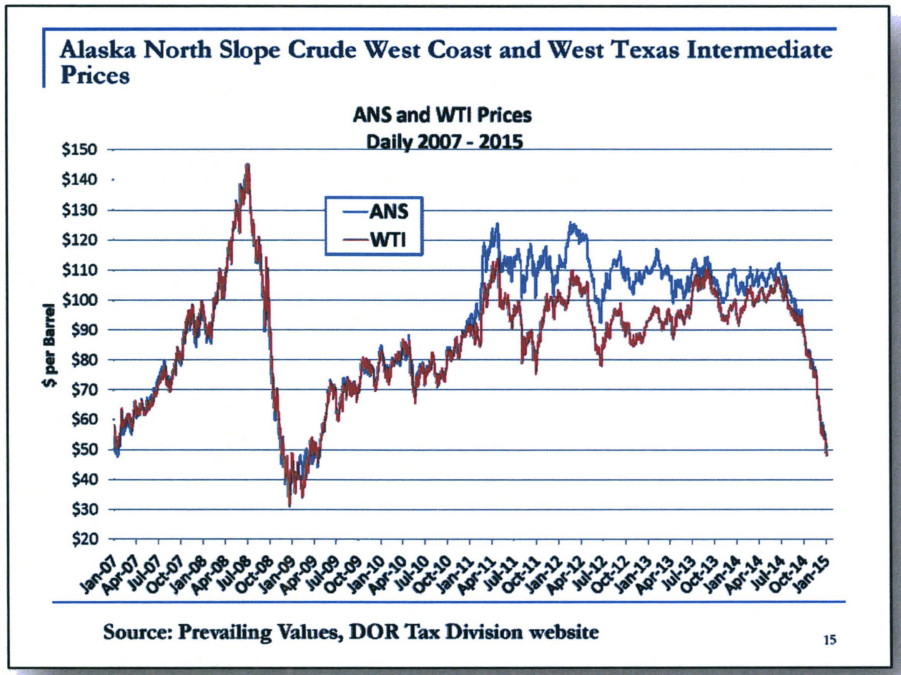
- Tulimaniq leases / Smith Bay
- 26 leases / ~117,000 acres
- 75 % w.i. owner and operator
- Highly prospective oil play
  - Westward extension of Barrow Arch

Large scale winter exploration program:

- ~ 400 personnel
- 1-2 vertical exploration wells
- Teaming with Doyon Drilling and Cruz Construction



Low Oil Prices: Finding Efficiencies and Opportunities



Caelus Activities:

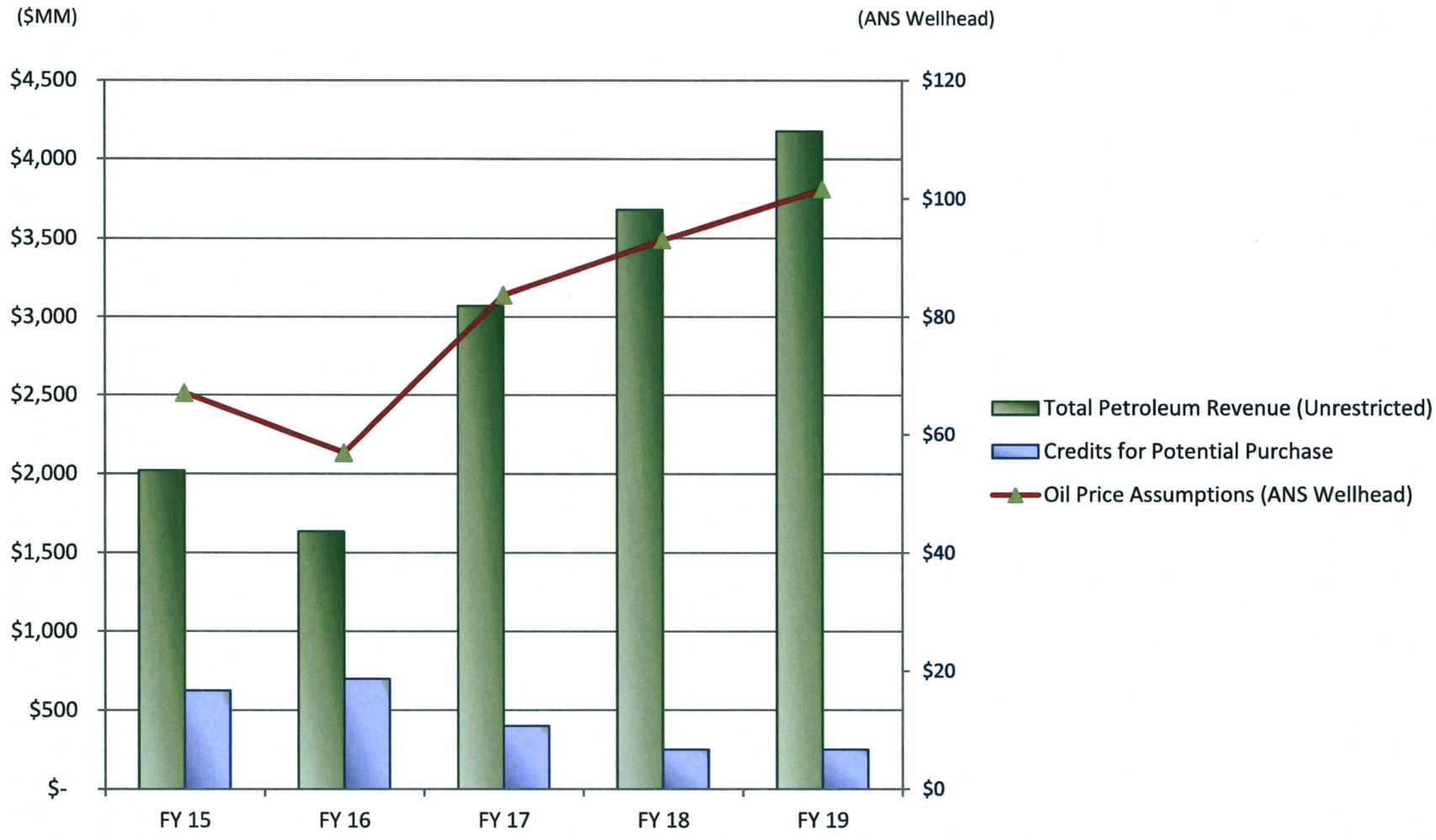
- Identify priorities
- Focus on objectives
- Seek opportunities
- Keep moving forward

PRICE & CREDITS:

"The credits do not work in a vacuum. The entire oil fiscal scheme needs to be viewed as an integrated system, especially in view of the high amount of royalties received at low prices. As a result the fiscal system is functional and competitive across a broad spectrum of prices. "

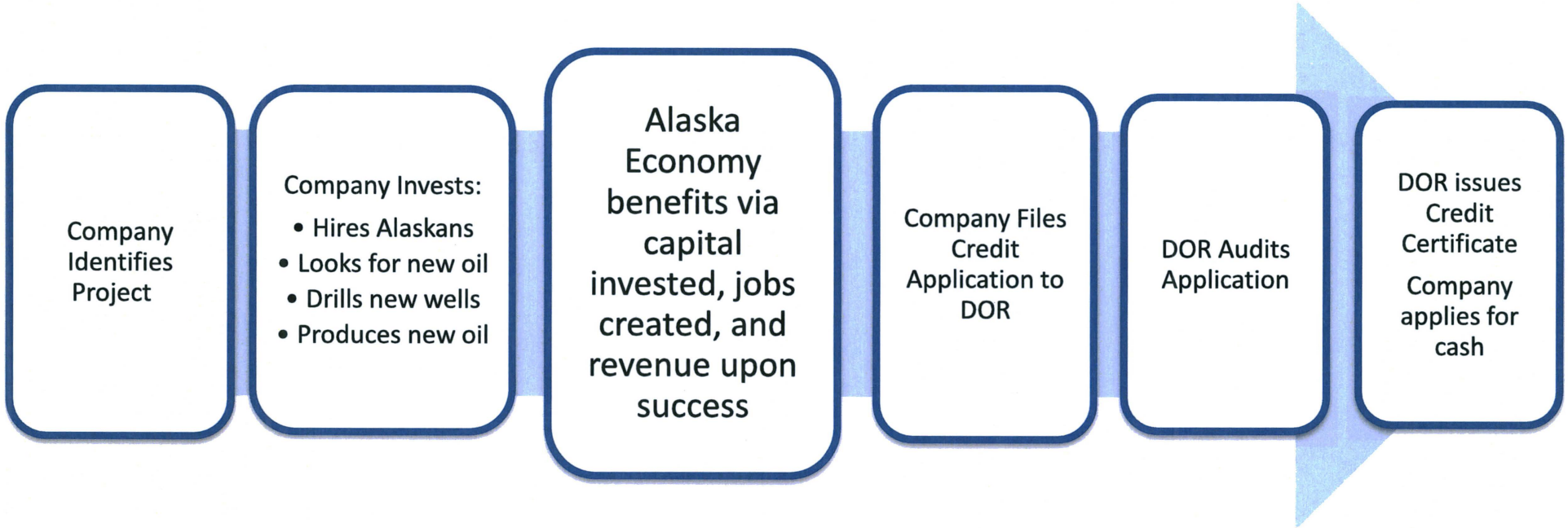
Roger Marks, Anchorage Daily News
April 25, 2015

Forecasted Petroleum Revenue (Unrestricted) vs Refundable Credits



Source: Department of Revenue , Revenue Sources Book Fall 2014

Credit Process: Economic Benefits & Time Value of State Dollars



AS 43.55.023 (b)
Net Operating Loss Credit

Activity, Application and Processing: 18-24 months

AS 43.55.025
Alternative Credit for Exploration

Activity, Application and Processing: 30 - 40 months

Economic Benefits of Industry Investment

- Oil and gas activity in Alaska generated **$6 Billion in** combined public and private **payroll** in 2013
- It is estimated that 1/3 of all Alaska's wage and salary jobs, **approximately 110,000**, are tied to the oil and gas industry

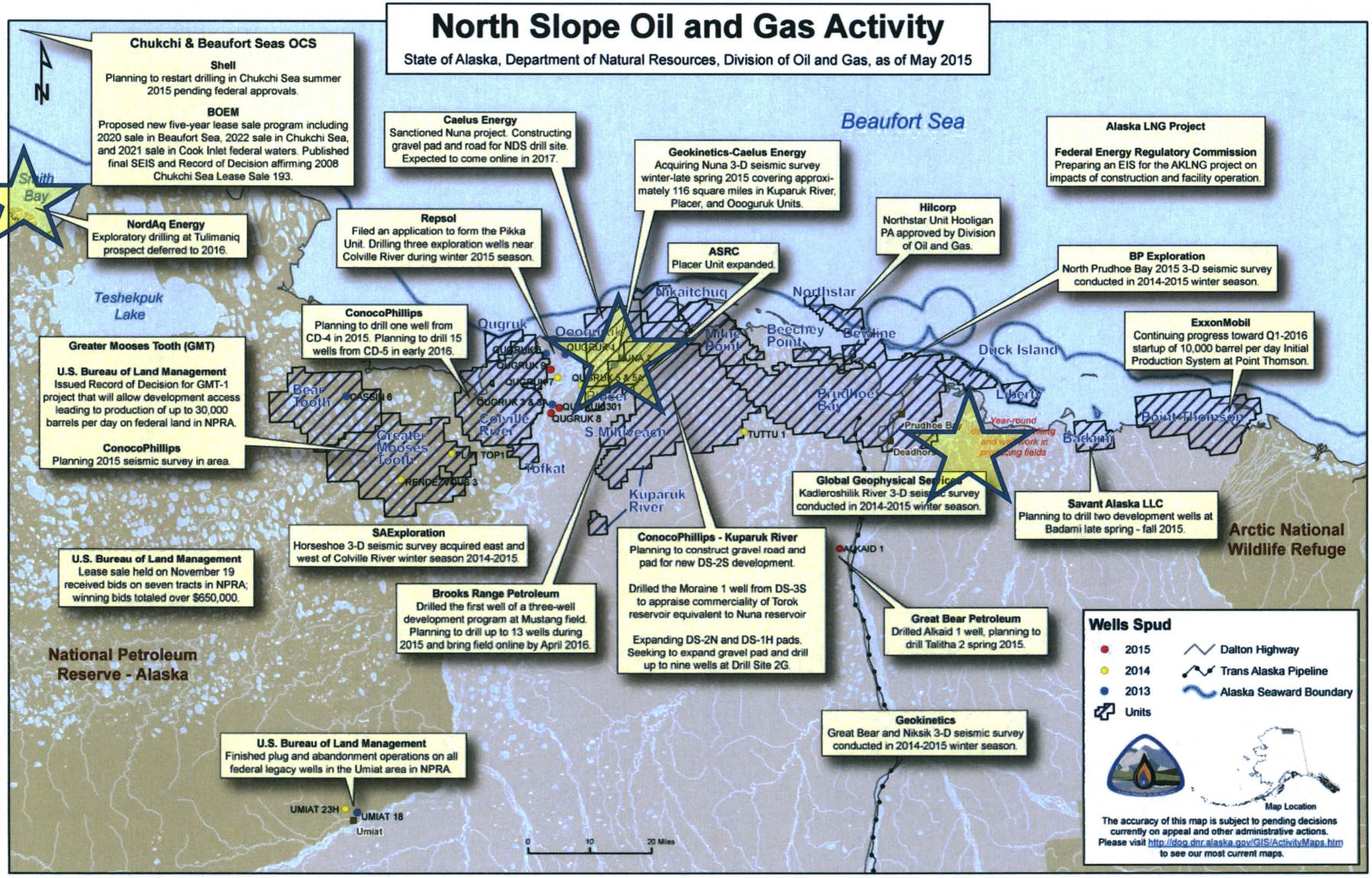
1 oil and gas industry job generates 20 other jobs through industry spending:

9 private sector jobs and 11 government jobs.

Source: "The Role of the Oil and Gas Industry in Alaska's Economy," McDowell Group, May 2014

Source: "The Role of the Oil and Gas Industry in Alaska's Economy" presented by the McDowell Group

Is Alaska's North Slope Oil and Gas Fiscal Policy Working?



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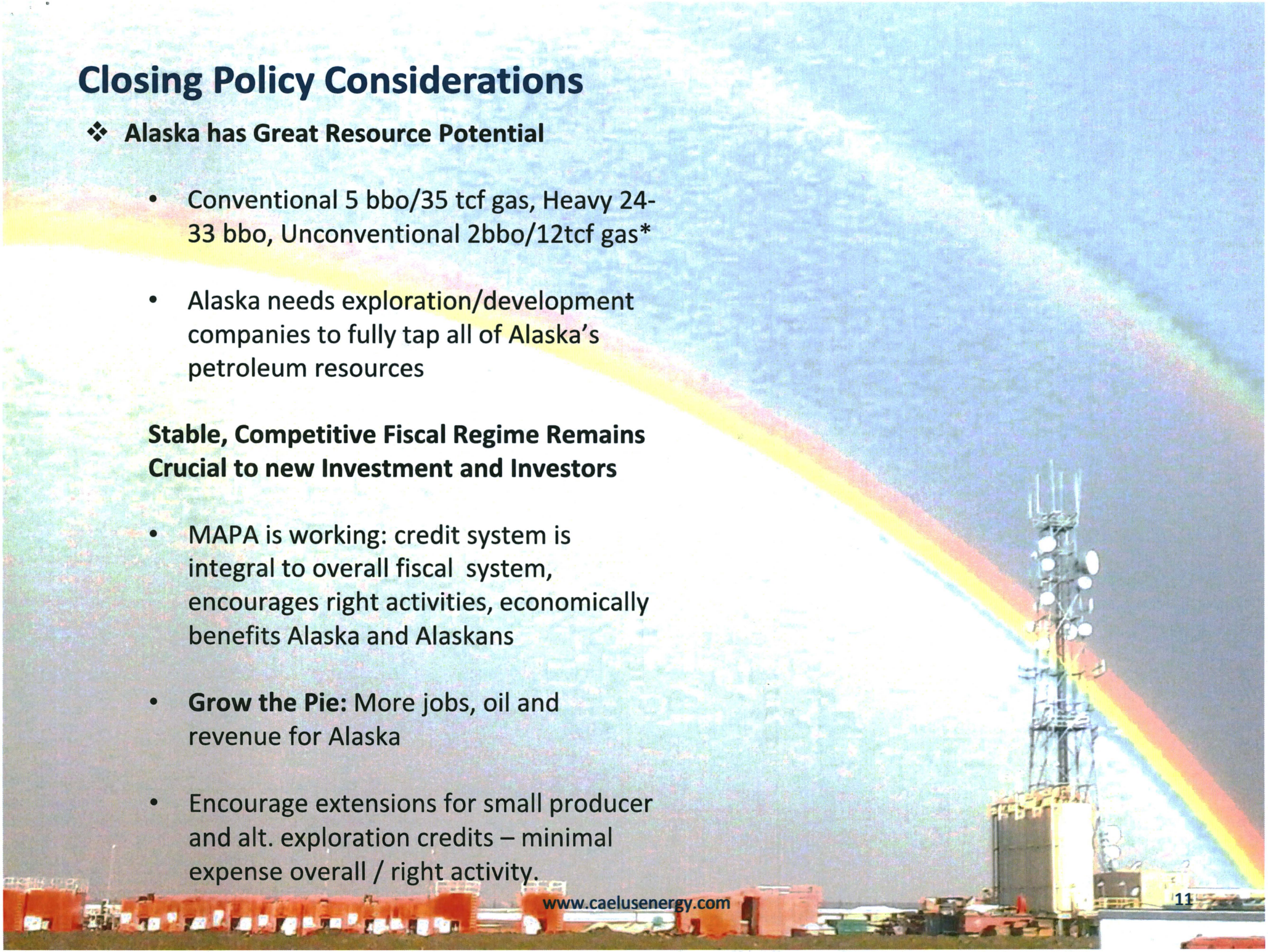
Closing Policy Considerations

❖ **Alaska has Great Resource Potential**

- Conventional 5 bbo/35 tcf gas, Heavy 24-33 bbo, Unconventional 2bbo/12tcf gas*
- Alaska needs exploration/development companies to fully tap all of Alaska's petroleum resources

Stable, Competitive Fiscal Regime Remains Crucial to new Investment and Investors

- MAPA is working: credit system is integral to overall fiscal system, encourages right activities, economically benefits Alaska and Alaskans
- **Grow the Pie:** More jobs, oil and revenue for Alaska
- Encourage extensions for small producer and alt. exploration credits – minimal expense overall / right activity.



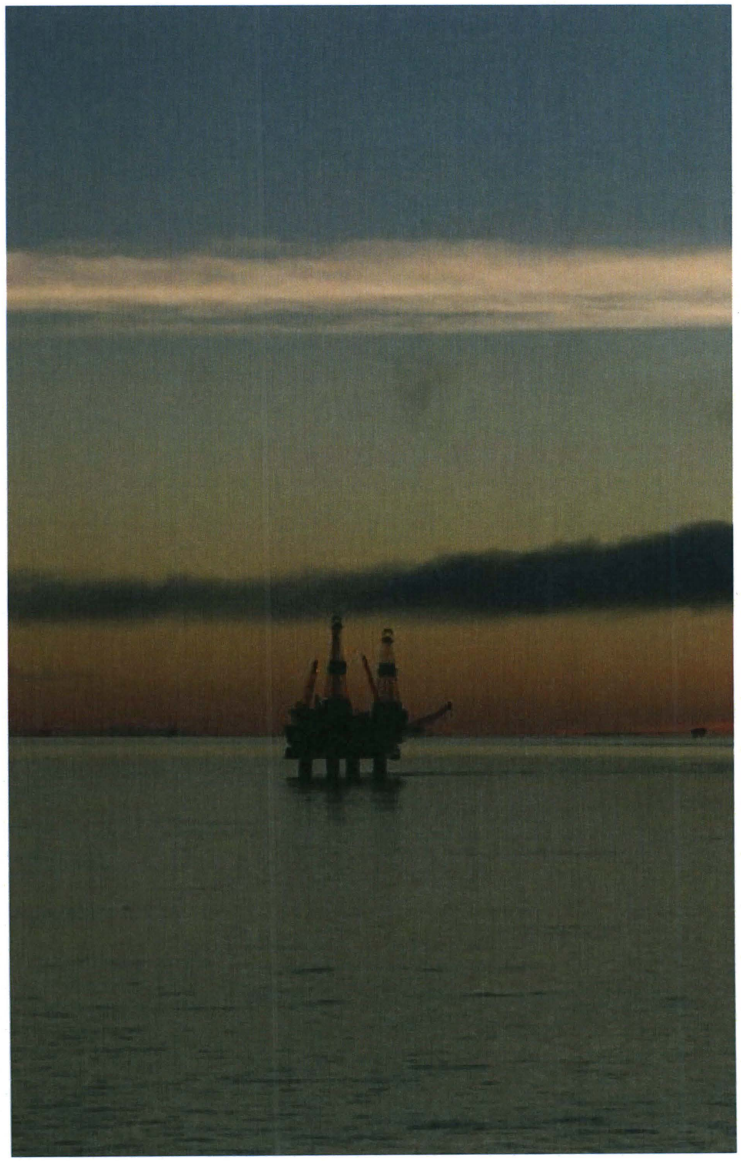

Hilcorp
Integrity • Urgency • Ownership • Alignment • Innovation

Our Success Story

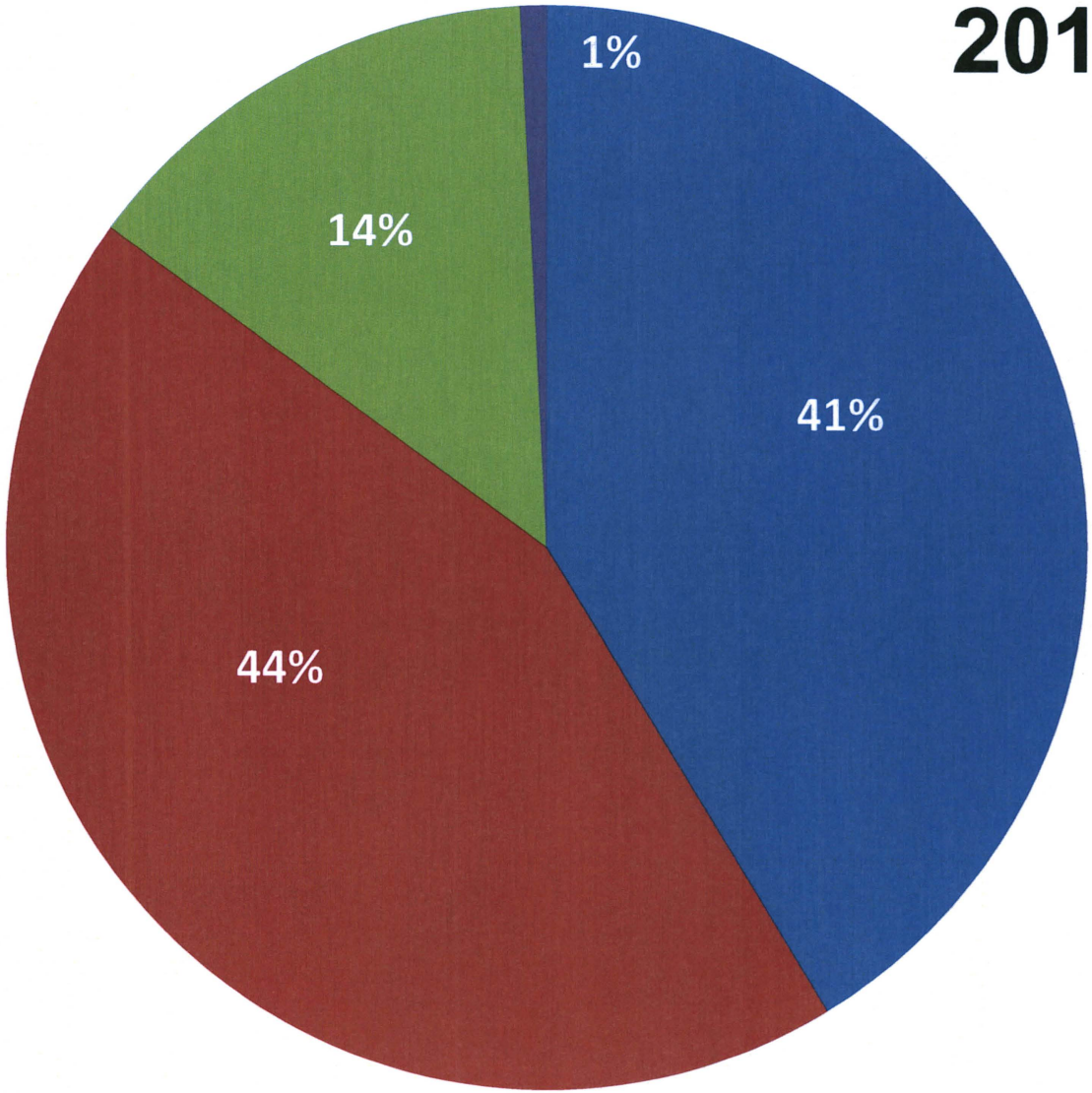
Creating efficiencies that extend field life and increase asset values

Increasing capital investment to develop additional oil and gas reserves

Capturing adjacent opportunities for additional value creation potential



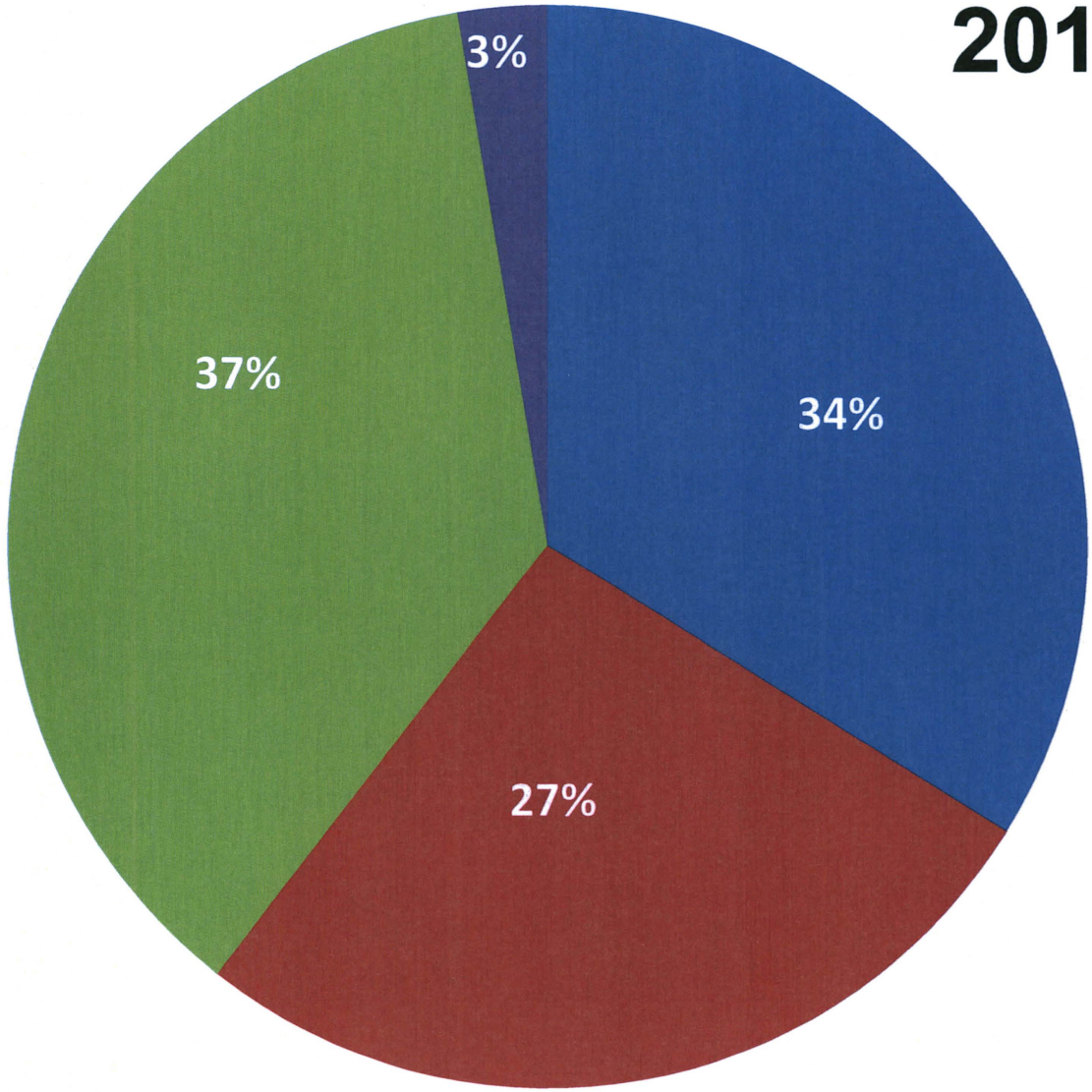
Alaska Investment



2014 Investment
$374.5 MM

- Capital Projects
- Drilling
- Facility/Expense
- Seismic Work

Alaska Investment



2015 Investment
$340 MM
(Forecasted)

- Capital Projects
- Drilling
- Facility/Expense
- Seismic Work

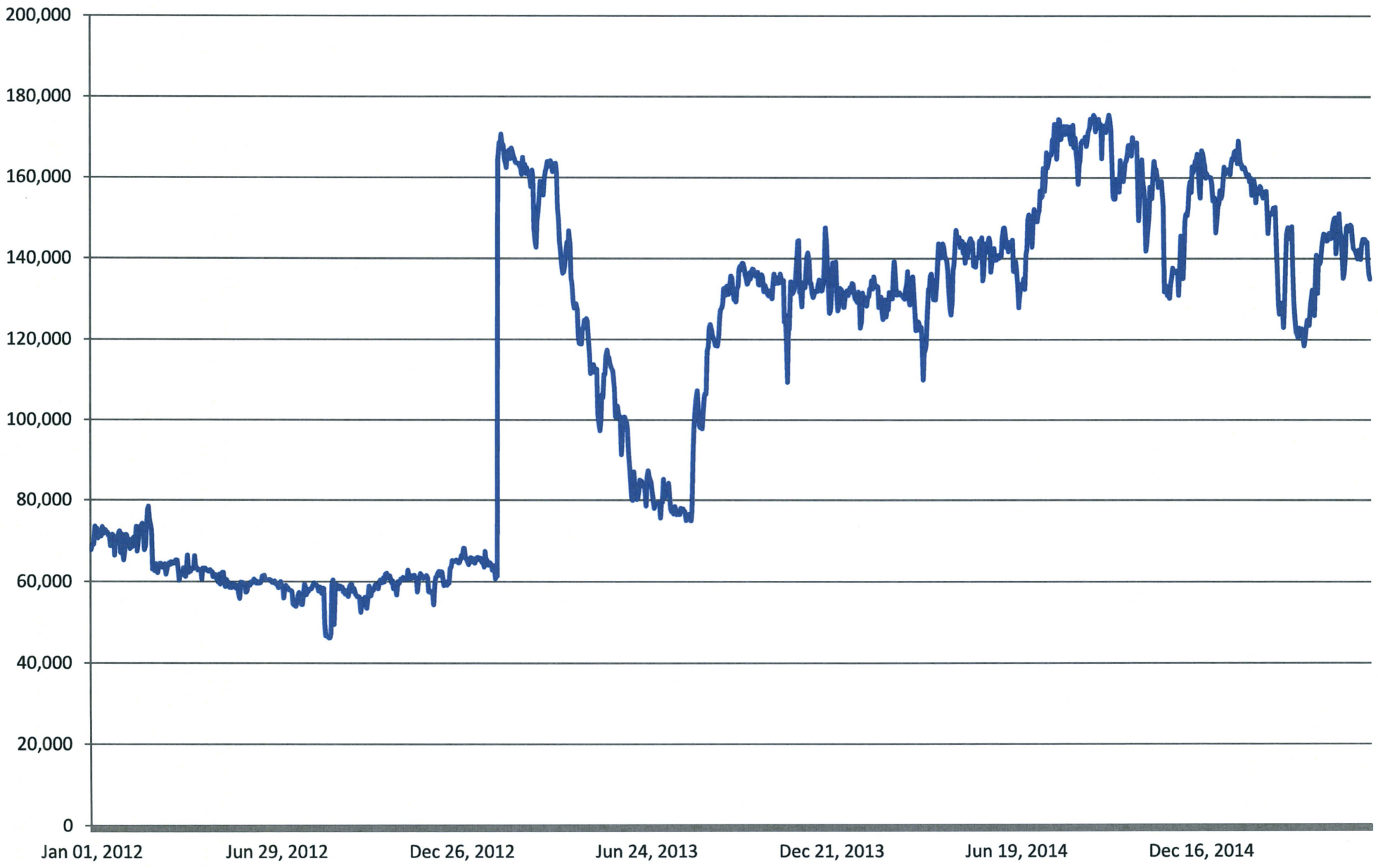
Hilcorp Alaska Workforce

Year End 2012
255 Employees
96% Alaska Residents

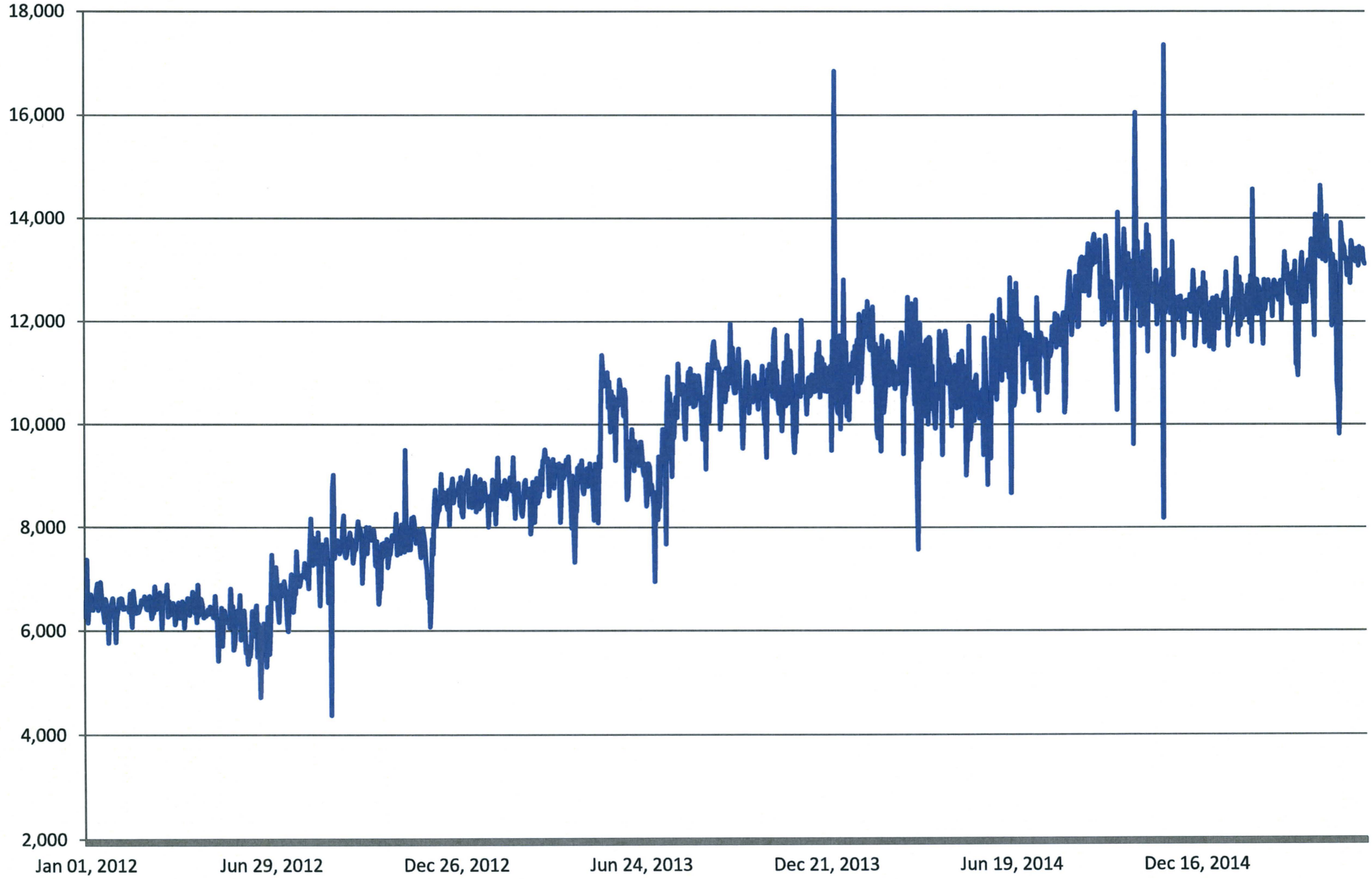
Year End 2013
316 Employees
97% Alaska Residents

Year End 2014
505 Employees
88% Alaska Residents

Cook Inlet Gas Production

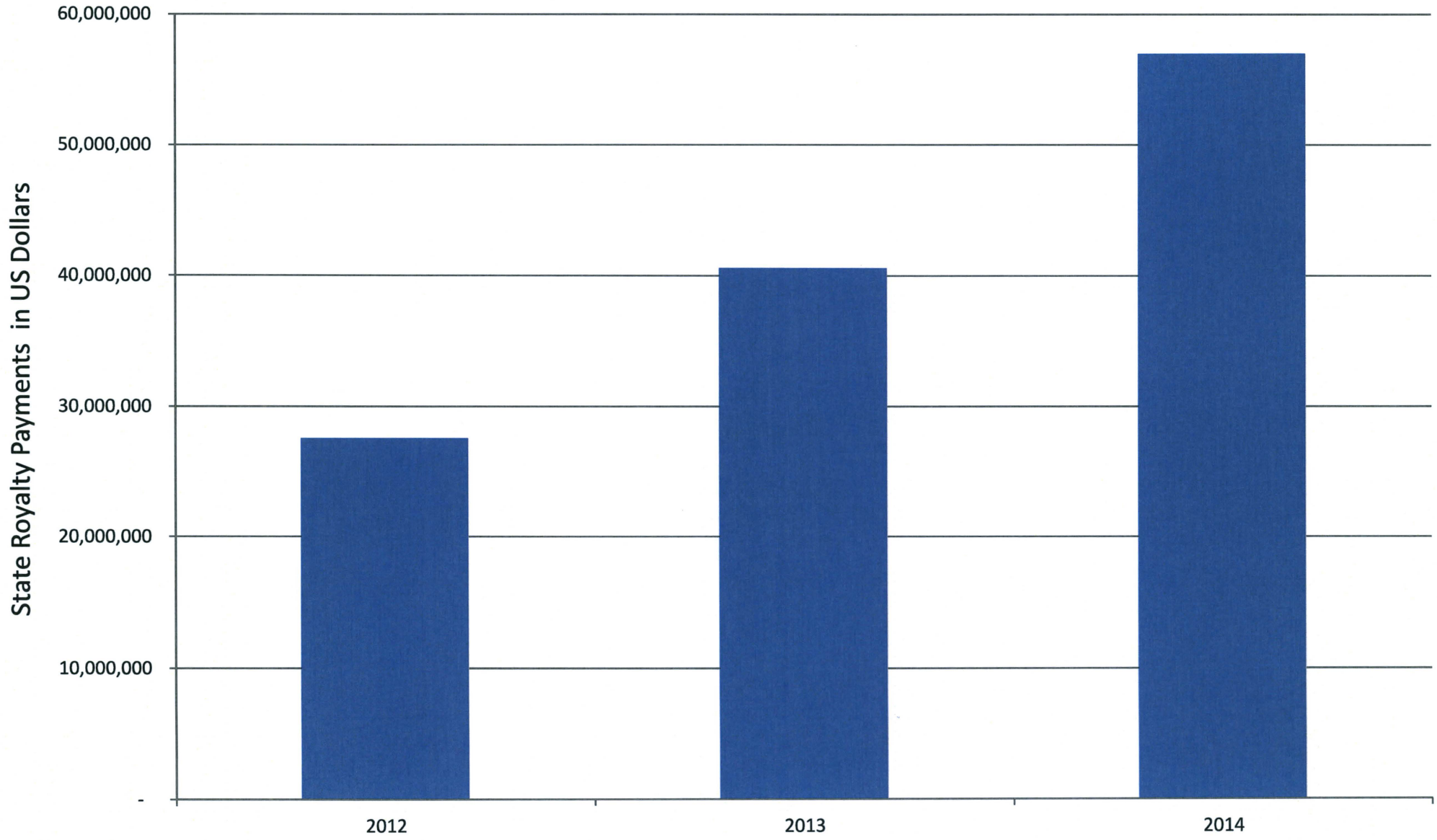


Cook Inlet Oil Production

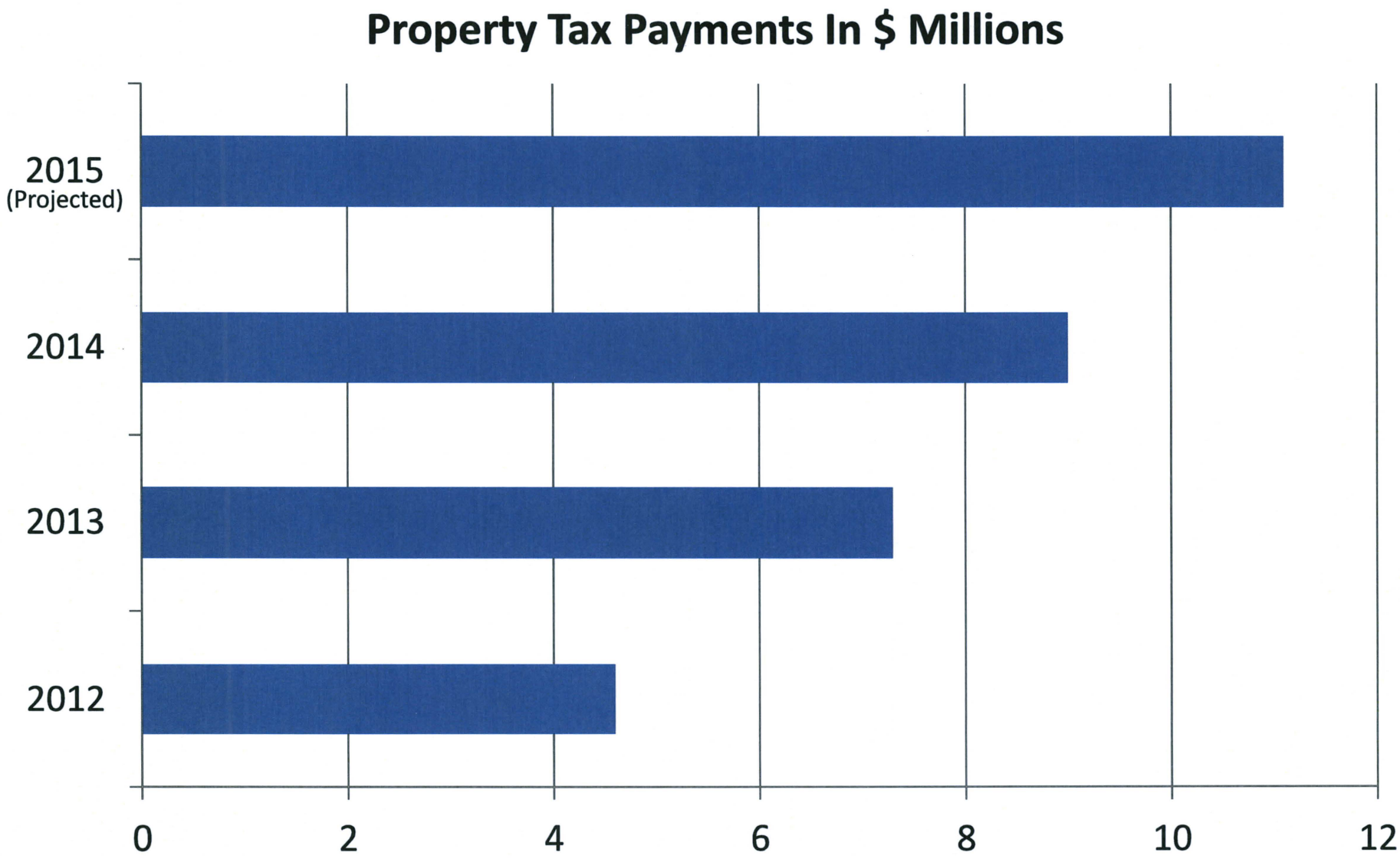


North Slope Oil Production

State Royalties: Cook Inlet



Cook Inlet: Property Taxes



Invest More, Produce More