

SB

130

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Governor Bill Walker
STATE OF ALASKA

January 15, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to oil and gas tax credits and the minimum tax amount for certain oil and gas production.

This bill proposes through four elements to protect the State's fiscal future while instituting cautious reforms to the oil and gas tax credit system. First, the bill would simplify the oil and gas tax credit system by repealing numerous narrowly targeted credits. The bill would repeal the 20 percent tax credit under AS 43.55.023(a) for qualified capital expenditures incurred for exploration, development, or production of oil and gas south of 68 degrees North latitude and the 40 percent well lease expenditure credit under AS 43.55.023(l) for well lease expenditures incurred south of 68 degrees North latitude. The oil and gas tax credit system with the changes in the bill would move towards a system based on nontransferable production-based credits and transferable credits based on carried-forward annual losses. The bill would repeal unused exploration incentive credits under AS 38.05.180(i) and AS 41.09. Also, the bill would limit the lease expenditures and tax credits available to municipal entities in proportion to the taxable production of the municipal entity.

Second, the bill would strengthen the minimum tax amount for certain oil and gas produced north of 68 degrees North latitude ("North Slope") to protect the State's tax revenue stream. The bill would require the minimum tax amount on certain oil and gas produced on the North Slope to equal at least five percent of the gross value at the point of production regardless of the price of the oil and gas. The oil and gas tax credits would no longer be able to reduce the tax levied in AS 43.55.011(e) below the minimum amount calculated in AS 43.55.011(f). This credit limitation would take effect on January 1, 2016.

Third, the bill would reinvigorate the State's investment strategy in purchases of oil and gas tax credit certificates under AS 43.55.028(e) to focus on small companies that hire state residents. The State would only purchase tax credit certificates from an applicant with revenues of less than \$10,000,000,000 from its oil and gas business during the previous calendar year. The State would not purchase a certificate from an applicant with an outstanding liability to the State. Outstanding

The Honorable Kevin Meyer
Transmittal Tax Credit Reform
January 15, 2016
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liabilities to the State would include unpaid taxes, penalties, royalties, rental, interest, and fees. The State's purchases from each applicant would be limited to \$25,000,000 a year. The bill would limit the percentage of the State's purchase of a tax credit certificate to the percentage of the applicant's workforce in the state, in the previous calendar year, that were resident workers. This builds on my commitment to promote healthy and safe communities by encouraging employment of state residents in the state's vital natural resources industry.

Finally, the bill would institute a number of changes to promote good governance in tax administration. The bill would delete a number of inapplicable provisions from the tax statutes to provide greater clarity. The bill would increase the interest rate applicable to delinquent taxes. The bill would make public more information about taxpayers that claim oil and gas production tax credits. Most provisions of the bill would take effect on July 1, 2016.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Bill Walker". The signature is written in a cursive, flowing style.

Bill Walker
Governor

Enclosure



Sectional Analysis, SB 130
Governor's Oil and Gas Tax Credit Reform Bill
January 22, 2016

Sec. 1-5. Conforming language related to the repeal of AS 41.09 in Sec. 40 of the bill. The repeal is a currently unused exploration incentive credit program.

Sec. 6. Conforming language related to changes to reporting requirements and confidentiality rules in Sec. 8 of the bill.

Sec. 7. Changes the interest rate for delinquent taxes from 3 percent above the Federal Reserve Discount Rate to 7 percent above. This would currently result in an interest rate of about 8%; about halfway between the current 4% and the 11% that was in place before the passage of SB21 in 2013.

If the state were to begin using earnings from our major savings account, the Permanent Fund, to fund government operations, there would be an "opportunity cost" that comes from unpaid taxes. Our interest rate on these unpaid taxes should reflect the expected rate of earnings on our savings.

Sec. 8. Provides an exception to the general taxpayer confidentiality statutes, so that the name of each company claiming credits, the amount they claim, and a general description of their activities can be made public.

Sec. 9-11. Amends the Gas Storage Facility, LNG Facility, and In-State Refinery Tax Credits so that these cannot be paid if the taxpayer has any outstanding liability to the state. Currently this is restricted to only a tax liability.

Sec. 12. Increases the minimum tax rate in AS 43.55.011(f) to 5% at all oil prices. Currently it is 4% at any oil price above \$25 per barrel, stepping down at lower prices. The minimum tax applies only to production from the North Slope.

Sec. 13. Changes the description of monthly installment payments in AS 43.55.020(a), to conform with the higher minimum tax rate in Sec. 12. (*long technical section*)

Sec. 14-16. Conforming language related to the repeal of AS 43.55.020(a)(1) and (2) in Sec. 40 of the bill. The repeal is obsolete installment payment language related to production prior to 2014.

Sec. 17. Strengthens the minimum tax in two distinct ways:

(b) Prevents several credits that currently can be used to reduce payments below the 4% level from being used for this purpose. Those credits would be carried-forward until the taxpayer had sufficient tax liability against which to use them.

(c) Prevents the circumstance in which per-taxable-barrel credits that could not be used in the month in which they were earned, because of the limitations of the minimum tax, could be claimed at annual tax true-up. This effectively turns the per-taxable-barrel credit into a monthly rather than an annual calculation. Currently if there is substantial price volatility within a year it could result in large tax refunds.

Sec. 18. Modifies the carried-forward annual loss credit in AS 43.55.023(b) so that, for “new” oil production eligible to receive the Gross Value Reduction (GVR), the GVR cannot be used to increase the size of an annual loss. Thus, if a company has oil production but is operating at a loss, their loss credit is limited to the actual size of the loss. Currently there are circumstances in which a company could receive credit refunds for amounts in excess of 100% of their loss.

Sec. 19. Amends AS 43.55.023 so that credits in that section cannot reduce tax liability below the minimum tax, rather than zero as in current statute. Also establishes a sunset when certain credits must be carried forward instead of being cashed out; in these circumstances the credits can only be carried forward for 10 years.

Sec. 20. Establishes a sunset in which credit certificates can only be held for 10 years before they expire.

Sec. 21. Conforming language related to the repeal of AS 43.55.023(a) in Sec. 40 of the bill. The repeal is the “qualified capital expenditure” credit outside of the North Slope.

Sec. 22. New language adding the notice and data sharing requirements that are currently part of the alternative credit for exploration, and applying them to other credits. This will enable DNR to continue to receive seismic and downhole information after the sunset of the exploration credits.

Sec. 23. Amends AS 43.55.024 so that the small producer credit cannot be used to reduce tax liability below the minimum tax. Although this credit will be closed to new recipients in May of 2016, some companies will continue to receive this benefit until approximately 2024.

Sec. 24. Amends AS 43.55.024 so that the \$5 per-taxable-barrel credit received by GVR-eligible North Slope oil production cannot reduce tax liability below the minimum tax. Currently this can be reduced to zero; only the sliding-scale credit for non-GVR oil is limited by the minimum tax.

Sec. 25. Amends AS 43.55.025 so that exploration credits cannot reduce tax liability below the minimum tax.

- Sec. 26.** Amends AS 43.55.028(e) to add limitations on which companies can receive refunded tax credits versus which must hold their certificates and use them against tax liability:
- (2) Companies with any liability to the state are ineligible to receive payment for their tax credit certificates. Currently this is restricted to only a tax liability.
 - (5) Limits cash repurchase to only companies whose gross revenues in the previous year were less than \$10 billion.
 - (6) Limits annual per-company repurchase to \$25 million.
- Sec. 27.** Adds a new limitation to a company's ability to receive a cash repurchase of their tax credits. The state can only repurchase that percentage of a certificate that equals that company's percentage of Alaska resident hire in the previous calendar year.
- Sec. 28-30.** Conforming language related to the repeal of AS 43.55.023(a) and / or (l) in Sec. 40 of the bill. The repeal is the "qualified capital expenditure" and "well lease expenditure" credits outside of the North Slope.
- Sec. 31.** New section specifying that the Gross Value at the Point of Production, defined as sales price less eligible transportation costs, may not be less than zero
- Sec. 32.** Conforming language related to the repeal of AS 43.55.165(j) and (k) in Sec. 40 of the bill. The repeal is the "standard deduction" limitation on lease expenditure inflation that expired in 2010.
- Sec. 33-36.** Conforming language related to the repeal of AS 43.55.023(a) in Sec. 40 of the bill. The repeal is the "qualified capital expenditure" credit outside of the North Slope.
- Sec. 37.** In the case where a municipal entity has an interest in oil and gas production, and sells only a portion of that production to an outside party, their ability to deduct lease expenditures and claim credits is limited in proportion to their taxable production.
- Sec. 38.** Adds a definition for "qualified capital expenditure" to the general definitions section of AS 43.55. This replicates the definition that was in AS 43.55.023 which is repealed because the .023 "qualified capital expenditure" credit is also being repealed in Sec. 40. Most of the conforming sections that currently reference AS 43.55.023(a) use this definition.
- Sec. 39.** Adds a definition for "outstanding liability to the state." This conforms with the changes made in Sections 9, 10, 11, and part (2) of 26.
- Sec. 40.** Repeals multiple sections. All of these have been specifically referenced elsewhere in this analysis or are technical repeals that conform with other repealed statutes.

Sec. 41. Applicability section with multiple sub-parts. In general, ensures that the changes only apply to production after the effective date. Also provides that applications that come in later for credits related to expenditures before the effective date are protected under the former program. Clarifies the timing related to the new 10-year sunset for carried-forward annual loss credits.

Sec. 42-43. Transition language enabling DOR and DNR to draft regulations to implement the changes in this Act, and establishing that regulations may be retroactive to the effective date if they are finalized after the effective date.

Sec. 44. Section 17 is retroactive to January 1, 2016. This is the key floor-hardening provision preventing certain credits from being used against the minimum tax, and is related to the specific concern that one or more major producers could have an operating loss in 2015 and use the carried-forward credit to reduce 2016 tax payments below the minimum tax to zero.

This is the only provision of the bill for which we are seeking this retroactivity.

Sec. 45. Immediate effective date for the transition and regulatory language.

Sec. 46. Effective date of July 1, 2016 for the rest of the Act.



Sectional Analysis, CS SB 130(RES) \ H
Oil and Gas Tax Credit Reform Bill
April 13, 2016

- Sec. 1-5.** Conforming language related to the repeal of AS 41.09, an old DNR exploration incentive credit program, in Sec. 45 of the bill.
- Sec. 6.** Changes interest rates on delinquent taxes. The current rate is 3% above the Federal Reserve rate, with simple interest only. This is amended to 7% above the Fed rate, compounding quarterly, but for only the first three years after a tax becomes delinquent. After three years, a delinquent tax does not bear interest.
- Sec. 7-9.** Amends the Gas Storage Facility, LNG Facility, and In-State Refinery Tax Credits so that these cannot be paid if the taxpayer has any outstanding liability to the state. Currently this is restricted to only a tax liability. Conforms with new language in Sec. 28.
- Sec. 10.** Conforming language related to the zero tax rate and elimination of all credits in Cook Inlet, in Sec. 12 of the bill.
- Sec. 11.** Conforming language related to elimination of the "Gas Used in the State" (GUIS) tax cap on the North Slope, in Sec. 46 of the bill.
- Sec. 12.** Establishes that no tax is levied on oil and gas produced in Cook Inlet, and that no credits may be earned in Cook Inlet under this chapter, beginning in 2018.
- Sec. 13.** Conforming language related to elimination of the Cook Inlet and "Gas Used in the State" tax caps, in Sec. 46 of the bill.
- Sec. 14-16.** Conforming language related to the elimination of the Cook Inlet and "Gas Used in the State" in Sec. 46 and the associated changes in Sec. 13 of the bill.
- Sec. 17.** Reduces the Qualified Capital Expenditure (QCE) credit from 20% to 10% in 2017.
- Sec. 18.** Eliminates the Qualified Capital Expenditure (QCE) in Cook Inlet in 2018. Middle Earth QCE remains 10% until 2022.
- Sec. 19.** Reduces the carried-forward annual loss credit (also known as the NOL credit) for areas outside the North Slope from 25% to 15% in 2017. Modifies the NOL credit so that, for "new" oil production eligible to receive the Gross Value Reduction (GVR), the GVR cannot be used to increase the size of an annual loss.
- Sec. 20.** Eliminates the carried-forward annual loss credit (NOL) in Cook Inlet in 2018. Middle Earth NOL remains 15%.

- Sec. 21-22.** Effective in 2022, conforming language related to the repeal of AS 43.55.023(a), the Qualified Capital Expenditure Credit, in Sec. 47 of the bill.
- Sec. 23.** Reduces the Well Lease Expenditure (WLE) credit from 40% to 20% in 2017.
- Sec. 24.** Eliminates the Well Lease Expenditure (WLE) in Cook Inlet in 2018. Middle Earth WLE remains 20% until 2022.
- Sec. 25.** Extends the Frontier Basin 80% credit so that expenditures to complete a well spudded before the 7/1/16 expiration date are eligible for the credit.
- Sec. 26.** Amends AS 43.55.028(e) to add a limitation of \$85 million per company per year to state repurchase of credit certificates. Provides that a company cannot artificially divide themselves into multiple entities to receive more than the \$85 million cap.
- Sec. 27.** In the case where funds available to purchase credits are inadequate to meet the full demand, DOR must grant a priority preference to applicants with a workforce that is at least 75% state residents.
- Sec. 28.** Ensures the state cannot repurchase a credit certificate if the company has an outstanding liability to the state related to their oil and gas activity. The Department may use the withheld amount to satisfy the liability, with the applicant's consent. Adds a definition of "outstanding liability."
- Sec. 29-31.** Effective in 2022, conforming language related to the repeal of AS 43.55.023(a), the Qualified Capital Expenditure Credit, in Sec. 47 of the bill.
- Sec. 32-33.** Effective in 2018, conforming language related to the repeal of AS 43.55.011(j) and (k), and (o), the Cook Inlet and Gas Used in the State tax caps, in Sec. 46 of the bill.
- Sec. 34-35.** Establishes that North Slope oil production eligible for the Gross Value Reduction (GVR) reverts to the full "legacy" tax rate after five years. Oil and gas receiving the GVR benefit before the effective date shall revert to "legacy" in 2021.
- Sec. 36.** Effective in 2022, conforming language related to the repeal of the Standard Deduction in AS 43.55.165(j) and (k) in Sec. 47 of the bill.
- Sec. 37-38.** Effective in 2022, conforming language related to the repeal of AS 43.55.023(a), the Qualified Capital Expenditure Credit, in Sec. 47 of the bill.
- Sec. 39.** Effective in 2018, conforming language related to the repeal of the Gas Used in the State tax cap, in Sec. 46 of the bill.
- Sec. 40-41.** Effective in 2022, conforming language related to the repeal of AS 43.55.023(a), the Qualified Capital Expenditure Credit, in Sec. 47 of the bill.
- Sec. 42.** In the case where a municipal entity has an interest in oil and gas production, and sells only a portion of that production to an outside party, its ability to deduct lease expenditures and claim credits is limited in proportion to its taxable production.

- Sec. 43.** Effective in 2022, adds a definition for “qualified capital expenditure” to the general definitions section of AS 43.55. This replicates the definition that was in AS 43.55.023 which is repealed because the .023 “qualified capital expenditure” credit is also being repealed in Sec. 47. Most of the conforming sections that currently reference AS 43.55.023 use this definition.
- Sec. 44.** Adds a requirement that persons engaged in exploring for and developing oil or gas file a surety bond of \$250,000. The bond is intended to protect various unsecured creditors. The bond requirement is waived once the person produces oil or gas in commercial quantities.
- Sec. 45.** Repeals two unused DNR exploration incentive credit programs, AS 38.05.180(i) and AS 41.09 as well as other conforming and obsolete sections, in 2017.
- Sec. 46.** Repeals the Cook Inlet Oil and Gas, and Gas Used in the State tax caps in 2018.
- Sec. 47.** Repeals the QCE and WLE programs in AS 43.55.023(a) and (l), as well as the Standard Deduction provisions in AS 43.55.165(j) and (k), with related sections, in 2022.
- Sec. 48.** Applicability language related to the new requirements for purchasing transferable tax credit certificate through the Oil and Gas Tax Credit Fund.
- Sec. 49.** Transition language for the 2022 repeal of the QCE and WLE credits in Sec. 47; ensures that expenditures incurred before the repeal date are eligible for the credits.
- Sec. 50.** Transition language for the 2022 repeal of the former Standard Deduction provisions in Sec. 47.
- Sec. 51.** Transition language related to tax payment requirements and how they are changed by the repeal of the Cook Inlet and Gas Used in the State tax caps in the bill.
- Sec. 52.** Transition language related to tax calculations as impacted by the amendments related to the repeal of the Cook Inlet and Gas Used in the State tax caps.
- Sec. 53-54.** Transition language enabling DOR and DNR to draft regulations to implement the changes in this Act, and establishing that regulations may be retroactive to the effective date if they are finalized after the effective date.
- Sec. 55.** Immediate effective date for the extension of the Frontier Basin credit and the authority for DOR and DNR to write regulations for this bill.
- Sec. 56.** Effective date in 2018 for the repeal of the Cook Inlet taxes, tax caps, and credits.
- Sec. 57.** Delayed effective date of 2022 for the repeal of the QCE and WLE credits, the Standard Deduction, and various conforming sections related to these repeals.
- Sec. 58.** Effective date of January 1, 2017 for the remaining sections of the bill.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 130
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB130CS(RES)-DOR-TAX-04-15-16
Title: TAX;CREDITS;INTEREST;REFUNDS;O & G
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Senate Finance Committee

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues	0.0		0.0	0.0	0.0	5,000.0	10,000.0
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Estimated SUPPLEMENTAL (FY2016) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 1,200.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? **yes**
If yes, by what date are the regulations to be adopted, amended or repealed? **01/01/17**

Why this fiscal note differs from previous version:

Revised to conform to amendments made in the Senate Resources Committee to the governor's original version. Baseline scenario assumes the Final Spring 2016 Revenue Forecast. The cover sheet of this document only includes the revenue raising numbers, with any program expenditure savings noted in the detail table on p. 4.

Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax Division	Date:	04/15/2016 02:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	04/16/16
Agency:	Department of Revenue		

Analysis**Bill Background**

This legislation is a comprehensive attempt to reform and reduce the cost of Alaska's current program of providing direct tax credit rebates and other advantages to oil and gas companies. Various credits have been added to statute since 2003, with state repurchase beginning in 2007. Through the end of FY 2016, about \$8 billion in tax credits will be received by companies. This includes both credits used against tax liability and credits repurchased by the state; it also includes activity on both the North Slope and other areas of the state.

A substantial number of companies rely on these credits to support and subsidize their Alaska operations. For work done in 2015, in many cases the state is paying 55%-65% of the cost of a project during the development phase, and up to 85% of exploration costs. These large numbers result from "stacking" multiple credits. With the transition towards a system based mostly on operating loss credits, and the repeal or reduction of the expenditure credits that are stacked with those loss credits, the state's contribution towards many projects will be reduced roughly by half.

There are several themes, or goals, of this legislation as originally introduced. These include:

- * Reduce the state's annual cash outlay
- * Protect Net Operating Loss credits especially for exploration activity
- * Limit repurchases to companies who need the support
- * Strengthen the minimum tax and prevent abuses to the system
- * Be more open and transparent
- * Honor and pay credits earned to date and through any transition period.

To address the final bullet point, above, this legislation envisions a fund capitalization appropriation to cover any tax credits earned through the effective date. Savings due to reductions in future appropriations needed to repurchase tax credits will be captured in the separate fund capitalization fiscal note.

Summary of Fiscal Impact

With the revisions proposed in the Senate Resources Committee substitute, we anticipate additional revenue of -\$15 to \$40 million per year over the time period contained in the fiscal note, with the changes concentrated in the last two years of the period. Revenue reductions in 2022 result in the zero tax rate in Cook Inlet as the statutory tax caps are scheduled to sunset. Positive revenues will come from certain production moving from the lower "new oil" regime to the higher "legacy oil" regime after five years of production. A small indeterminate amount would come from the restoration of compound interest and an interest in the interest rate for assessed delinquent taxes.

Budget reduction impact of \$0 to \$140 million per year over the period of the fiscal note is due to the credit reductions, primarily in Cook Inlet, described in the detail of specific provisions on the next page.

Implementation Cost

The changes anticipated in this bill will require somewhat substantial reprogramming of the Tax Revenue Management System and Revenue Online tax portal. We have received a preliminary estimate from the software developer, which allows us to reduce our one-time cost to about \$1,200,000 to accomplish these changes. We do not anticipate any additional costs to administer the tax program.

There will also be a need for substantial amendments to existing regulations to fully implement the changes.

Analysis Continued**Detail of Specific Provisions****1) Repeal of certain credits and closing of loopholes**

The Resources committee substitute reduce Cook Inlet credits for Net Operating Losses (AS 43.55.023(b)) from 25% to 15% in 2017, and to zero in 2018. The Qualified Capital Expenditure credit (AS 43.55.023(a)) is reduced from 20% to 10% in 2017, and to zero in 2018. The Well Lease Expenditure credit (AS 43.55.023(l)) is reduced from 40% to 20% in 2017 and to zero in 2018. "Middle Earth" credits will remain at the 2017 Cook Inlet levels.

The net effect of these changes will be to reduce state contribution for new Cook Inlet projects from the current 45%-65% range to 25%-35% in 2017 and zero in 2018. A tax rate of zero for oil and gas production in Cook Inlet is also imposed in 2018, along with elimination of the current ELF-based "tax caps."

The bill also eliminates a loophole that enables companies who have production of "new oil" on the North Slope but also claim a net operating loss. With the changes, companies will no longer be able to use a Gross Value Reduction to increase the size of a net operating loss credit. Current law can result in situations where the credit received can be greater than 100% of a company's actual loss. It also eliminates another loophole that has been used by municipal utilities who also own oil or gas production. If a portion of that production is sold to an outside party, the proposed change ensures that these entities are only able to deduct or claim a pro-rated portion of their lease expenditures for the purpose of applying for credits.

2) Deferral or loss of eligibility for credit repurchase

Currently any company with less than 50,000 bbl / day of production in Alaska is eligible to have tax credit certificates repurchased by the state without limit, subject to appropriation. This legislation adds an additional restriction to repurchase, so that no single company can receive more than \$85 million per year in state cash repurchases. Although this would not have any impact based on currently forecasted activity, it provides an element of protection from large "outlier" projects that could otherwise result in very large state credit liability in advance of production.

3) Other changes

In the CS, the "gross value reduction" for new oil only applies for the first five years of production, and is lost on 1/1/21 for fields currently receiving that reduction.

Additionally, the bill restores quarterly compound interest for delinquent taxes, underpayments, and tax assessments. Current statute has included simple interest since 2014, which is believed to be an inadvertent amendment made in SB21. The interest rate is increased from 3% above the federal discount rate to 7% above for the first three years a tax is delinquent, going to zero interest thereafter.

There is a small extension to a Frontier Areas exploration credit to enable wells in-process on 7/1/17 to be completed under the program before it sunsets. The committee substitute also repeals several older and currently unused exploration incentive credit programs, and authorizes the Department of Revenue to use credit certificates to offset a company's other obligations to the state prior to repurchase. It also establishes a priority for companies with greater than 75% Alaska Hire in event that the available funds in the Oil and Gas Tax Credit Fund is inadequate to meet the demand.

Analysis Continued

Revised 4-12-16 by Department of Revenue

Provisions in CSSB 130(RES) and their Estimated Fiscal Impact as compared to Spring 2016 Forecast (\$millions) - FORECAST PRICE¹

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
1. The rate for net operating loss credits for Cook Inlet is changed to 15% effective 1/1/17, then to 0% on 1/1/18 (modeled separately from items 2 and 3).	\$0	\$0	\$0	\$0	\$0	\$0
2. The rates for QCE credits and WLE credits for Cook Inlet are changed to 10% and 20%, respectively, on 1/1/17; then to 0% for both on 1/1/18 (modeled separately from items 1 and 3).	\$0-\$5	\$0-\$5	\$10-\$15	\$10-\$15	\$10-\$15	\$30-\$40
3. Cook Inlet tax caps are repealed and a tax rate of 0% for Cook Inlet oil and gas is implemented effective 1/1/18 (modeled separately from items 1 and 2).	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$50)-(\$25)
4. The interest rate on delinquent taxes is changed to 7% above the Fed Res Discount rate, compounded quarterly for the first three years, then to zero interest thereafter.	Indeterminate					
5. The GVR cannot be used to create or increase a net operating loss.	\$0	\$0	\$0	\$0	\$0	\$5-\$15
6. GVR-eligible production qualifies for the GVR for a period of 5 years or until 1/1/21.	\$0	\$0	\$0	\$0	\$0-\$10	\$30-\$50
7. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax	Indeterminate					
8. Special tax treatment for qualifying "gas used in state" outside of Cook Inlet eliminated on 1/1/18 (currently tied to Cook Inlet gas ceiling)	Indeterminate					
Total Revenue Impact (does not include provisions 1-2)	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$10	(\$15)-\$40
A. Budget impact of change in net operating loss credits for Cook Inlet (provision 1 above)	\$0	\$5-\$10	\$10-\$20	\$10-\$20	\$10-\$20	\$10-\$20
B. Budget impact of change in QCE/WLE credits for Cook Inlet (provision 2 above)	\$5-\$10	\$30-\$40	\$30-\$40	\$30-\$40	\$75-\$100	\$75-\$100
C. Budget impact of change in net operating loss, QCE, and WLE credits for Middle Earth effective 1/1/17.	\$0-\$5	\$0-\$5	\$0-\$5	\$0-\$5	\$0-\$5	\$0-\$5
D. Budget impact of limiting refunds to \$85 million per company per year (only shifts timing of refunds - impact is after all other provisions of bill)	Limited impact under forecast - net neutral between FY18-19-20					
E. The GVR cannot be used to create or increase a net operating loss (provision 5 above)	\$0	\$10-\$20	\$20-\$30	\$15-\$25	\$5-\$15	\$0-\$10
F. Budget impact of exploration credit extension for well spudded by 7/1/16	(\$5)-\$0	(\$5)-\$0	\$0	\$0	\$0	\$0
G. Budget impact of GVR applying to fields for a period of 5 years (provision 6 above)	\$0	\$0	\$0	\$0	\$0	\$0
Total Budget Impact	\$0-\$15	\$40-\$75	\$60-\$95	\$55-\$90	\$90-\$140	\$85-\$135
Total Fiscal Impact - does not include revenue impacts from potential changes in investment²	(\$5) - \$15	\$35 - \$75	\$55-\$95	\$50-\$90	\$85-\$150	\$70-\$175
Non-refundable carry-forward credits balance at fiscal year end - current law ³	\$618	\$751	\$732	\$585	\$265	\$136
Non-refundable carry-forward credits balance at fiscal year end - proposed ³	\$605	\$718	\$677	\$508	\$242	\$128
Change in year-end balance due to bill	-\$13	-\$33	-\$55	-\$77	-\$23	-\$8

¹The impacts listed are based on production and prices as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between \$38.89 and \$61.64.

²NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.

³These rows include estimates of carried-forward credits for previous calendar years, plus estimates of credits that will be earned on activity through June 30 of the fiscal year.

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

STATE OF ALASKA
Department of Commerce, Community
and Economic Development



Lori Wing-Heier
Director

Division of Insurance
550 W. 7th Avenue, Suite 1560
Anchorage, AK 99501-3567
lori.wing-heier@alaska.gov

Phone: (907) 269-7900
Fax: (907) 269-7910
TTY: (907) 269-5437

www.commerce.alaska.gov/dnn/ins/Home.aspx

SB206
Best Estimate Consumer Impacts

Statistics Pulled from Division of Insurance 2015 Annual Report

<i>No. of Covered Lives</i>	<i>Market</i>
17,216	Single Employers 1-50
11,914	Single Employers 51-100
18,133	Single Employers 100+
7,617	Med Supp
150,652	Stop Loss
4,228	MEWA
316	Other Groups
820	Associations in Individual Market
22,105	Direct Individual Market
3,754	Individual Med Supp
24	Trust
236,779	Total Covered Lives

Federal Reinsurance Program - Affordable Care Act

<i>Year</i>	<i>Annual Fee</i>	<i>Per Member/Per Month</i>
2014	\$ 63.00	\$ 5.25
2015	\$ 44.00	\$ 3.67
2016	\$ 27.00	\$ 2.25

<i>Year</i>	<i>Estimated Taxes</i>	<i>Individual - Estimate Per Member/Per Month</i>	<i>Group - Estimate Per Member/Per Month</i>
2014	2.5%	\$ 25.00	\$ 15.00
2015	2.5%	\$ 25.00	\$ 15.00
2016	3%	\$ 30.00	\$ 18.00

SB206
Best Estimate Consumer Impacts

		Possible Reinsurance Annual Limit		
		<i>Estimated Covered Lives</i>	<i>Estimated Market Impact</i>	
		236,779		
\$	10,000,000	\$	42.23	
Per Member/Per Month		\$	3.52	
\$	25,000,000	\$	105.58	8% Premium Impact
Per Member/Per Month		\$	8.80	
\$	35,000,000	\$	147.82	
Per Member/Per Month		\$	12.32	
\$	45,000,000	\$	190.05	
Per Member/Per Month		\$	15.84	
\$	55,000,000	\$	232.28	15%-18% Premium Impact
Per Member/Per Month		\$	19.36	
\$	72,000,000	\$	304.08	25% Premium Impact
Per Member/Per Month		\$	25.34	
\$	81,000,000	\$	342.09	27%-29% Premium Impact
Per Member/Per Month		\$	28.51	

Provisions in CSSB 130(RES) and their Estimated Fiscal Impact as compared to Spring 2016 Forecast (\$millions) - FORECAST PRICE¹

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
1. The rate for net operating loss credits for Cook Inlet is changed to 15% effective 1/1/17, then to 0% on 1/1/18 (modeled separately from items 2 and 3).	\$0	\$0	\$0	\$0	\$0	\$0
2. The rates for QCE credits and WLE credits for Cook Inlet are changed to 10% and 20%, respectively, on 1/1/17; then to 0% for both on 1/1/18 (modeled separately from items 1 and 3).	\$0-\$5	\$0-\$5	\$10-\$15	\$10-\$15	\$10-\$15	\$30-\$40
3. Cook Inlet tax caps are repealed and a tax rate of 0% for Cook Inlet oil and gas is implemented effective 1/1/18 (modeled separately from items 1 and 2).	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$50)-(\$25)
4. The interest rate on delinquent taxes is changed to 7% above the Fed Res Discount rate, compounded quarterly for the first three years, then to zero interest thereafter.	Indeterminate					
5. The GVR cannot be used to create or increase a net operating loss.	\$0	\$0	\$0	\$0	\$0	\$5-\$15
6. GVR-eligible production qualifies for the GVR for a period of 5 years or until 1/1/21.	\$0	\$0	\$0	\$0	\$0-\$10	\$30-\$50
7. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax	Indeterminate					
8. Special tax treatment for qualifying "gas used in state" outside of Cook Inlet eliminated on 1/1/18 (currently tied to Cook Inlet gas ceiling)	Indeterminate					
Total Revenue Impact (does not include provisions 1-2)	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$0	(\$5)-\$10	(\$15)-\$40
A. Budget impact of change in net operating loss credits for Cook Inlet (provision 1 above)	\$0	\$5-\$10	\$10-\$20	\$10-\$20	\$10-\$20	\$10-\$20
B. Budget impact of change in QCE/WLE credits for Cook Inlet (provision 2 above)	\$5-\$10	\$30-\$40	\$30-\$40	\$30-\$40	\$75-\$100	\$75-\$100
C. Budget impact of change in net operating loss, QCE, and WLE credits for Middle Earth effective 1/1/17.	\$0-\$5	\$0-\$5	\$0-\$5	\$0-\$5	\$0-\$5	\$0-\$5
D. Budget impact of limiting refunds to \$85 million per company per year (only shifts timing of refunds - impact is after all other provisions of bill)	Limited impact under forecast - net neutral between FY18-19-20					
E. The GVR cannot be used to create or increase a net operating loss (provision 5 above)	\$0	\$10-\$20	\$20-\$30	\$15-\$25	\$5-\$15	\$0-\$10
F. Budget impact of exploration credit extension for well spudded by 7/1/16	(\$5)-\$0	(\$5)-\$0	\$0	\$0	\$0	\$0
G. Budget impact of GVR applying to fields for a period of 5 years (provision 6 above)	\$0	\$0	\$0	\$0	\$0	\$0
Total Budget Impact	\$0-\$15	\$40-\$75	\$60-\$95	\$55-\$90	\$90-\$140	\$85-\$135
Total Fiscal Impact - does not include revenue impacts from potential changes in investment²	(\$5) - \$15	\$35- \$75	\$55-\$95	\$50-\$90	\$85-\$150	\$70-\$175
Non-refundable carry-forward credits balance at fiscal year end - current law ³	\$618	\$751	\$732	\$585	\$265	\$136
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¹The impacts listed are based on production and prices as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between \$38.89 and \$61.64.

²NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.

³These rows include estimates of carried-forward credits for previous calendar years, plus estimates of credits that will be earned on activity through June 30 of the fiscal year.

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.

Comparison of Provisions of HB247- Oil and Gas Tax Credits Prepared by Dept. of Revenue Tax Division

Item	Current Law	GOV	CSHB247(RES)	CSHB247(FIN)	CSSB130(RES)
Cook Inlet Taxes	ELF caps until 2022	no change	no change	no change	Caps repealed and zero tax added 1/1/18
Cook Inlet Credits					
Net Operating Loss (NOL)	25%	25%	10%	10%	15% in 2017, 0% in 2018
Qualified Capital Expenditure (QCE)	20%	0%	20%	10%	10% in 2017, 0% in 2018
Well Lease Expenditure (WLE)	40%	0%	30% in 2017, 20% in 2018	30% in 2017, 20% in 2018	20% in 2017, 0% in 2018
Avg. Total Support for Developers	55%	25%	35% in 2017, 30% in 2018	30% in 2017, 25% in 2018	30% in 2017, 0% in 2018
Avg. Total Support for Producers	30%	0%	25% in 2017; 20% in 2018	20% in 2017; 15% in 2018	15% in 2017, 0% in 2018
Middle Earth Credits	same as CI	same as CI	same as CI	NOL stays 25%; WLE stays 30% through 2018	NOL / QCE / WLE stay at 15% / 10% / 20%
North Slope Minimum Tax "Floor"	4%, but many credits incl. NOLs can reduce to zero	Harden so all NS production must pay the min tax; increased 4% to 5%	No changes to current law	Partially harden so that credits can't reduce payments below 2%	No changes to current law
Repurchase Caps	none	\$25 million / company / year; none for large companies > \$10 billion revenue	\$200 million / company / year	\$100 million / company / year	\$85 million / company / year
Gross Value Reduction (North Slope new oil)					
GVR interaction with an Operating Loss	Loophole allows NOL credits to approach 100% of loss	GVR can't artificially increase size of an NOL	Kept GOV language	Kept GOV language	Kept GOV language

Comparison of Provisions of HB247- Oil and Gas Tax Credits Prepared by Dept. of Revenue Tax Division

Item	Current Law	GOV	CSHB247(RES)	CSHB247(FIN)	CSSB130(RES)
GVR oil reverts to "legacy" oil	GVR-eligible oil remains "new" forever	No change	No change	New oil becomes legacy oil after 5 years	New oil becomes legacy oil after 5 years
Interest on Delinquent Taxes	3% over fed, simple interest	7% over fed, compounding	3% over fed, compounding	5% over fed, compounding, for only 1st 4 years	7% over fed, compounding, for only 1st 3 years
Exploration Credits	Most sunset 7/1/16	Allow sunset, repeal older unused credits	Same as GOV	Same as GOV; extend Frontier credit to allow single well completion	Same as GOV; extend Frontier credit to allow single well completion
Effective Dates	n/a	Most 7/1/16	Most 1/1/17	Most 1/1/17	Most 1/1/17
Misc / Non-Dollar Issues					
Confidentiality	Absolute	Can report how much indiv. companies get in cash credits	not in CS	not in CS	not in CS
Alaska Hire	n/a	Limit repurchases to percent of AK hire	not in CS	not in CS	DOR must give repurchase priority to high % AK hire
Other obligation to the state	Can withhold part of credit if company owes tax	Can withhold part of credit if company has other obligation to the state (i.e. royalty)	Modified in CS, but kept GOV intent	Kept HRES language	Kept HRES language
Bonding / Bankruptcy Protection	n/a	none	\$250k surety bond for unsecured creditors	Modified HRES language	Modified HFIN language
Est. Fiscal Impact- FY18	n/a	\$440 million	\$70 million	\$125 million	\$55 million
Est. Fiscal Impact- FY19	n/a	\$390 million	\$50 million	\$145 million	\$70 million
Est. NOL carryforward- FY19	\$732 million	\$1,065 million	\$708 million	\$1,077 million	\$677 million

Laura Hosey

From: Renee Limoge <RLimoge@alaskaalliance.com>
Sent: Thursday, April 14, 2016 1:51 PM
To: Laura Hosey
Subject: RE: Senate Finance Testimony

I'm assuming they all testified on behalf of their businesses, which are listed below. If you're listening to the audio and they say they are testifying on their own behalf, please let that stand.

Thanks!

- Ben Schoffmann – CCI and Kakivik
- Reed Christensen – Dowland-Bach
- Terry Smith – Unified Operations
- Chantal Walsh – Petrotechnical Resources of Alaska
- Tom Walsh (had to leave before testimony began but wanted his name included) - Petrotechnical Resources of Alaska
- Mike Heiring – Udelhoven Oilfield System Services Inc.
- Nick Pepperworth – Udelhoven Oilfield System Services Inc.
- Cathy Duxbury – Udelhoven Oilfield System Services Inc.
- Scott Viera – Northstar Terminal & Stevedore
- Maynard Tapp – Hawk Consultants
- Drema Fitzhugh – Hawk Consultants
- Brian Benson – Air Liquide
- Dennis Hebner (he just changed companies and I can't remember their name)
- Maria Talasz - Stantek
- Patrick Walsh – Peak Oilfield Services
- Martha Peck – Alaska Process Industry Careers Consortium

- Cari-Ann Carty – Alaska Process Industry Careers Consortium
- Joseph Colonell - Cardno
- Pete Stokes – Petrotechnical Resources of Alaska
- Adam Crum – Northern Industrial Training
- Joey Crum – Northern Industrial Training
- Steve Post – North Star Equipment
- Jeff Bentz – North Star Equipment
- Renee Limoge Reeve – Alaska Support Industry Alliance

From: Laura Hosey [mailto:Laura.Hosey@akleg.gov]
Sent: Thursday, April 14, 2016 1:43 PM
To: Renee Limoge
Subject: Senate Finance Testimony

Hello Ms. Limoge,

I am working on the minutes from today's Senate Finance meeting (8am) at which several of your alliance members testified. Thanks very much for providing the names - could you possibly help me out with their affiliations as well?

Laura

Laura Hosey

Senate Finance Secretary

Alaska State Legislature

907-465-6367

From: Renee Limoge <RLimoge@alaskaalliance.com>

Date: April 14, 2016 at 9:06:14 AM AKDT

To: "betsy.dorn@akleg.gov" <betsy.dorn@akleg.gov>, "erin.shine@akleg.gov" <erin.shine@akleg.gov>

Subject: SB 130 Testimony from Alliance Members

Hi Ladies,

The following people testified at the Alliance offices this morning in opposition to SB 130:

- Ben Schoffmann
- Reed Christensen
- Terry Smith
- Chantal Walsh
- Tom Walsh (had to leave before testimony began but wanted his name included)
- Mike Heiring
- Nick Pepperworth
- Cathy Duxbury
- ✓ Scott Viera
- ✓ Maynard Tapp
- Drema Fitzhugh
- Brian Benson
- Dennis Hebner
- Maria Talasz
- ✓ Patrick Walsh
- Martha Peck
- Cari-Ann Carty
- Joseph Colonell
- ✓ Pete Stokes
- Adam Crum
- Joey Crum
- Steve Post
- ✓ Jeff Bentz
- Renee Limoge Reeve

Please let me know if you need anything further.

Best,

Renée Limoge Reeve

Deputy Director

Alaska Support Industry Alliance

907-563-2226

rlimoge@alaskaalliance.com

Auisan



Friday, April 08, 2016

Honorable Bill Walker
Governor of State of Alaska
Juneau, Alaska

Governor Walker:

Earlier this week our company had the difficult task of informing our employees, partners and contractors that due to the prolonged depression in oil prices and uncertainty in Alaska's oil tax system the company will need to make significant and immediate cost reductions. As a result, Caelus commenced efforts to reduce its workforce by approximately 25 percent and will suspend near-term drilling operations at Oooguruk. The reduction in force will take place over the next week while the Nabors 19AC drill-rig will go on standby by mid-May. Caelus currently employs approximately eighty Alaska based employees and utilizes many hundreds of contractors to run our overall Oooguruk unit operations.

The above actions are required to minimize our near-term capital expenditures and reduce our general and administrative expenses. These are the only remaining tools we can utilize to ensure solvency for the next several years, absent dramatic price recovery and stabilization. Notwithstanding any changes in our staffing or capital program, we will maintain our high standards for safety and environmental protection and excellence and keep a responsible vigilance on the maintenance of our wells, pipelines and production facilities. We will continue to produce oil at a rate of 11-15 m.b.o.p.d. from existing wells.

While extremely difficult, our actions reflect the reality of trying to operate a business in today's unstable price and political environment

As you are well aware, we came to Alaska as the new oil tax regime was implemented having purchased the Oooguruk Unit from Pioneer Natural Resources. During our short time in Alaska we have done exactly what we said we were going to do -- move swiftly but safely to explore for and produce new oil for Alaska. Since our arrival, Caelus has acquired ownership in over 400,000 new exploration acres, shot hundreds of miles of 3D seismic, built the Nuna gravel drill site and most recently drilled two exciting exploration wells at our holdings at Smith Bay. We truly believe that Caelus represents the type of company that represents the future of Alaska's North Slope.

We feel like the proverbial canary in the coal mine.



When combined with the price downturn, the constant barrage of anti-industry rhetoric and reflexive policy actions have only made a bad situation worse for our company and others looking to build a business in Alaska. The introduction of tax credit reductions and deferrals to the legislation have significantly damaged investor confidence on Alaska. At current oil prices, the level of government take on our field leaves us with nothing, yet under the current proposal that the state is trying to take an even larger piece! As the legislative experts stated, the government is seeking to extract value when there's no value to take. To put it another way, even though it is clear our industry loses money on every barrel we produce, this administration seeks to impose additional taxes and limit incentives.

The actions undertaken by this administration and the legislature are being watched acutely by outside investors. With the resulting erosion of confidence, it is nearly impossible for companies to obtain or attract new investment dollars in today's environment. Changes to the current tax credit system will:

- Caelus will have less capital to reinvest and planned projects will be delayed, reduced or eliminated financial markets will lose any and all confidence in Alaska as an attractive invest region,
- The State of Alaska will be successful in its quest to reduce near-term cash requirements but at the significant loss of future jobs, royalty, property taxes and the benefits they provide to the citizens,
- The new Alaskan oilfield players, like Caelus, will stop developing and expanding our business and enter a harvest mode in an attempt to recoup their failed investment as best they are able,

In short, we appreciate the significance of the struggle Alaska faces and understand the severity. We too are struggling. There is an opportunity to balance the current needs with long term stability. Policy instability will result in the failure and forced exit of those like us you have worked so hard to attract.

Caelus continues to see Alaska as a region with great resource and business potential. We continue to hope for oil price recovery and wiser heads in Juneau so that we can do what we do best, find and produce oil that will benefit Alaska and Alaskans alike.

Sincerely,

A handwritten signature in black ink, appearing to read 'James C. Musselman', written in a cursive style.

James C. Musselman
President & CEO

Cc: The Alaska State Legislature

Doniece Gott

From: Shelly Erickson <homerunoil@alaska.net>
Sent: Friday, April 15, 2016 9:43 AM
To: Senate Finance Committee; Rep. Paul Seaton; Sen. Peter Micciche
Subject: SB130

To: Senate Finance Committee:

I missed the deadline, and also did not hear about the public testimony in time to talk with you on 4/14/16. I have really strong feeling about some qualifications that need to be added to the bill for the protection of Alaskan businesses and the State of Alaska.

Buccaneer Energy Group came to the Homer area and did an exploratory well. We worked closely with them to get paid and we did. Unfortunately for us and many other unsecured vendors, Buccaneer filed for bankruptcy in Texas. They had 5 companies that they filed bankruptcy with. They received their tax credit. They are a foreign based company.

When they filed bankruptcy in Texas, it eliminated all of our Alaskan lawyers who were not licensed in Texas. That became a huge issue for all of us as it became a manipulative tool for the settlement lawyers to get more money out of our company, that we did not owe,(as the cost to go to Texas and get new lawyers would have been even greater).

In the process, people within that company at many levels have moved on to other Alaskan exploration jobs.

Our company was sued for fuel I bought, paid for, resold to Buccaneer, they paid for it, they used it, and the bankruptcy court made us pay Buccaneer the money back. This not only happened to me but other companies.

It cost us thousands of dollars we didn't have.. I know of another small company that has had to go to the bank to get a loan to pay them back for the services and products they used and are now forced to pay for Buccaneers bankruptcy. There is no grace period for paying back the bankruptcy courts.

My understanding is that they moved the lease to another company before the bankruptcy happened, and they are looking at reopening the well. There should not be a tax credit allowed again, as the rumor on the street is

that the well/ground was and is unstable. Tie the credit to one time lease, not multiple especially in a situation like we have experienced.

My understanding is there was no public or internal oversight on the tax credits to know what happened to the money from the state.

The oil tax credits need to have a provision in them that if a company goes bankrupt, they will not be given the oil tax credit, or there is serious oversight before any money is given to the bankrupt company to protect Alaskan businesses and the State of Alaska.

After Buccaneer Energy Group went bankrupt they came back through the bankruptcy courts and made all the small Alaskan businesses with unsecured debt pay thousands of dollars through the legalized stealing from the bankruptcy. They had received their tax credit. Following are recommendations that I feel need to be in the bill:

1. You can not file bankruptcy outside the state of Alaska
2. Any corporate officer, shareholders, people who worked high up within the company can not come back to the state of Alaska and work under another company for at least 5 years.
3. You can not file bankruptcy until 6 months after the job has been finished (the Claw Back Law which is (90 days), is what they used to steal from all of us)

If you need more explanation, I would be most happy to talk with you.

Shelly Erickson

HomeRun Oil Inc.

907-399-4700



MUNICIPAL
LIGHT & POWER

April 14, 2016

Senator Kevin Meyer
Senator Anna MacKinnon
Senator Cathy Giessel

Alaska State Legislature
Alaska State Capitol
Juneau, Alaska 99801

Dear Senators:

Thank you for the opportunity to provide input on the Cook Inlet Recovery Act of 2010. Municipal Light & Power/Municipality of Anchorage (ML&P/MOA) believes the Act provided the incentive needed to generate exploration of new resources in the basin.

New companies have brought new fields on-line such as Cook Inlet Energy, Furie Alaska, and Hilcorp Alaska. Several other companies have identified new prospects that have yet to be developed, such as Blue Crest Energy. These new reserves have alleviated near-term concerns related to gas supplies for South Central utilities.

If the State modifies or eliminates these incentives some of these companies may decide not to develop new reserves or prospects based on the economics.

ML&P/MOA believes the greatest impediment to long-term gas security and reserves is a robust market that does not currently exist. The current market does not have sufficient demand to support some of these new development and exploration companies. The ultimate solution to creating a viable supply is to create long-term demand, such as the Interior Energy Project, Agrium, and a reliable LNG export option.

Again, thank you for this opportunity to comment. Please feel free to contact me at 907-263-5202 with any follow-up questions.

Sincerely,

Mark A. Johnston
ML&P General Manager
johnstonma@muni.org

Doniece Gott

From: Sen. Anna MacKinnon
Sent: Thursday, April 14, 2016 9:19 AM
To: Senate Finance Committee
Subject: FW: Middle Earth or Frontier Tax Credits

From: Tom Maloney [mailto:tmaloney@ahtna.net]
Sent: Wednesday, April 13, 2016 4:44 PM
To: Sen. Anna MacKinnon <Sen.Anna.MacKinnon@akleg.gov>
Cc: Sen. Kevin Meyer <Sen.Kevin.Meyer@akleg.gov>
Subject: Middle Earth or Frontier Tax Credits

Senator Mackinnon,

First of all thanks for your service to all the citizens of the State of Alaska.

As you may know, Ahtna for the first time ever is being the Owner and Operator in regards to the Tolsona Gas Project. Unfortunately, this program is much more complex than either Ahtna or myself thought just a few short months ago. We always knew that it would be challenging to have an exploratory well, on State land near Glennallen. There is a tremendous shortage of infrastructure, service companies etc. A drill rig has to come from either the North Slope or Cook Inlet (we chose Cook Inlet) and many other logistical challenges. An unexpected total surprise was that our two other investors, Santa Petroleum and Rutter and Willbanks pulled out entirely on their Tolsona investment. This despite the current tax credit structure. Their reason is that they were both well underwater due to the collapse in oil and gas prices. Ahtna took the plunge, and we are now 100% going forward with this single exploratory well.

Work is progressing well. All of our employees, suppliers etc. are Alaskan. Our union Construction company is building the road and pad on State lands. This will be a multi generation benefit to State residents for recreational purposes(just like the seismic work which created a great trail system). Six of the nine Ahtna Construction hires are Ahtna shareholders. Our trucking company is part of the Michael Foster family of companies and is also shareholder friendly. Anna, as you know Ahtna's gas development efforts are entirely centered on economic benefits to the Region, including jobs and lower energy costs. All of our Board of Directors are Ahtna shareholders, and they truly want to leave a great legacy for current and future shareholders.

Senator, Ahtna would like this specific tax credit to be extended until 2022. This will allow us the opportunity to drill additional wells to fully determine what gas resource is out there and whether or not it is commercially viable. The Administration, in public presentations, also supports an extension.

The actual drilling will start around the first week of May. We would very much enjoy you coming out to the site and see real Alaskans gainfully employed.

Thanks again for all your efforts Senator Mackinnon.

Sincerely, TOM

Tom Maloney

Chief Executive Officer

Ahtna Netiyé' Inc.

110 W. 38th Ave. Suite 100

Anchorage, AK 99503

Ph(907)868-8201

tmaloney@ahтна.net

Ahtna
Netiyé'

Doniece Gott

From: Delice Calcote <aitc.dcalcote@gmail.com>
Sent: Thursday, April 14, 2016 9:13 AM
To: Senate Finance Committee
Subject: Fwd: BREAKING NEWS: Federal Court Affirms Constitutional Rights and Denies Motions of Govt/Fossil Fuel Industry

----- Forwarded message -----

From: **Delice Calcote** <aitc.dcalcote@gmail.com>
Date: Thu, Apr 14, 2016 at 8:56 AM
Subject: BREAKING NEWS: Federal Court Affirms Constitutional Rights and Denies Motions of Govt/Fossil Fuel Industry
To: senator.bertha.gardner@legis.state.ak.us, Bill Wielechowski <Senator.Bill.Wielechowski@akleg.gov>, John Coghill <Senator.John.Coghill@akleg.gov>, "Senator.Donny.Olson@akleg.gov" <Senator.Donny.Olson@akleg.gov>, Senator.Peter.Micciche@akleg.gov, Senator.Anna.Mackinnon@akleg.gov, "Rep. Les Gara" <rep.les.gara@akleg.gov>, rep.david.guttenberg@akleg.gov, representative.andrew.josephson@akleg.gov, Representative.Scott.Kawasaki@akleg.gov, representative.harriet.drummond@akleg.gov, Representative.Sam.Kito@akleg.gov

BREAKING! Federal Court Affirms Constitutional Rights of Kids, AND Denies Motions of Government and Fossil Fuel Industry to Dismiss to Dismiss their Landmark Climate Case!

Press release:

http://www.ourchildrenstrust.org/sites/default/files/16.04.08MTD.Decision.PR_.pdf

OUR CHILDRENS TRUST court case Decision is a Wonderful Victory... for our childrens and grandchildren future... Clean Air, Clean Water, Clean Lands...

The Senate Finance Committee is currently taking Testimony on SB 130 Raising Taxes on the Oil Industry... I'm on hold, waiting to testify.

Tax credits are an investment in the fossil fuel industry; and there are significant other ways that the State is INVESTING in the fossil fuel industry...

The Alaska Permanent Fund corporation/employees have invested in the oil, gas, mining and chemical industry this is the link to the 175 page report dated December 31, 2015 the INVESTMENT REPORT.

I'm wondering if we're invested in the COAL Utility Industry in China...more sources of dirty air in Alaska, impacting and causing acidification of the waters also. There are a lot of Chinese Corporations that are INVESTED in too. pages and pages of them are listed..

<http://www.apfc.org/home/Media/investments/stockholdings.pdf>

Delice Calcote
Executive Director
Alaska Inter-Tribal Council
email: aitc.dcalcote@gmail.com

April 14, 2016

Senator Pete Kelly

Senator Anna MacKinnon

Alaska Forest Association comments regarding SB 130

Dear Senators,

The Alaska Forest Association supports the current oil tax policy in Alaska

The Alaska Forest Association (AFA) is a non-profit business association that was formed in 1957 to represent the interests of the timber industry in Alaska. The AFA currently manages a pension program, a group health insurance program, a scholarship program for the timber industry and also sponsors the Sustainable Forestry Initiative program for Alaska.

According to the information provided by AOGA, many of the oil and gas businesses in Alaska are currently operating at or below a break even and raising their taxes at this time could result in job losses. The Alaska Forest Association does not support raising taxes on the oil industry while the industry is already struggling to remain profitable.

The timber industry in Alaska pays competitive rates for timber sales and, similar to the oil and gas companies, the stumpage rates are usually a small percentage of the overall cost of business. However, when market prices are low, the stumpage rates can mean the difference between operating and shutting down. Similarly, increasing oil taxes may result in oil and gas job losses in the short term and who knows how that will impact the industry in the long term.

We urge you to encourage more private business activity through efforts to create a more friendly business environment rather than increasing taxes. For instance, the State timber sales in Southeast Alaska are designed to be much less costly to operate than timber sales on adjacent federal land. These lower costs make State timber sales more profitable for both the timber industry and the State. That is one reason why we are seeking to establish a larger State Forest in Southeast Alaska. Perhaps the State can work with the oil industry to find similar savings so that the oil industry can increase production and employment.

Sincerely,

Owen Graham
Executive Director
Alaska Forest Association.

Doniece Gott

From: Sen. Anna MacKinnon
Sent: Thursday, April 14, 2016 9:02 AM
To: Senate Finance Committee
Subject: FW: CS for SB 130 testimony

From: Greg Sanders [mailto:Greg.Sanders@caelusenergy.com]
Sent: Thursday, April 14, 2016 8:49 AM
To: Sen. Pete Kelly <Sen.Pete.Kelly@akleg.gov>; Sen. Anna MacKinnon <Sen.Anna.MacKinnon@akleg.gov>
Subject: CS for SB 130 testimony

My comments:

- Changing oil taxes again sends the wrong message to investors around the world that Alaska is not friendly to a stable business environment
- Increasing taxes on the businesses that are already suffering losses due to low commodity prices, just makes the situation worse, and will accelerate TAPS decline, the lifeblood of the State
- Smart tax credits will encourage risk taking, and help with the economic future of the State

Thanks,

Greg Sanders

Reservoir Engineer Advisor

Caelus Energy Alaska, LLC

3700 Centerpoint Dr. Suite 500 | Anchorage, AK 99503

Direct 907.343.2118 | Cell 907.227.4718



Statement of Confidentiality:

This message may contain information that is privileged or confidential. If you receive this transmission in error, please notify the sender by reply e-mail and delete the message and any attachments.

Doniece Gott

From: Sen. Anna MacKinnon
Sent: Wednesday, April 13, 2016 9:20 AM
To: Senate Finance Committee
Subject: FW: SB 130 comment - Oil Production Tax Credits

From: hansonak@gci.net [mailto:hansonak@gci.net]
Sent: Tuesday, April 12, 2016 9:42 PM
To: Sen. Pete Kelly <Sen.Pete.Kelly@akleg.gov>; Sen. Anna MacKinnon <Sen.Anna.MacKinnon@akleg.gov>; Sen. Peter Micciche <Sen.Peter.Micciche@akleg.gov>; Sen. Click Bishop <Sen.Click.Bishop@akleg.gov>; Sen. Mike Dunleavy <Sen.Mike.Dunleavy@akleg.gov>; Sen. Lyman Hoffman <Sen.Lyman.Hoffman@akleg.gov>; Sen. Donny Olson <Sen.Donny.Olson@akleg.gov>
Subject: SB 130 comment - Oil Production Tax Credits

This was testimony given before the Senate Resource Committee on April 9, 2016.

My name is Dave Hanson, and I am a fiscal-conservative, 40-year Alaska resident.

I respect the work of the oil industry in Alaska. It is amazing what the State and industry have accomplished over the past 40 years. However, with the crash of oil prices, we must adapt to our new reality.

We can no longer afford the existing Oil Production Tax Credit Program.

In FY 2013, the program cost \$54 million. By FY 2017, it will cost over \$825 million, or over 1/5 of our State budget. The State Tax Division says program costs are headed toward \$1 billion to \$1.5 billion a year.

The tax credit program made great sense when oil prices were high and oil production taxes were being paid. With oil prices now in the \$30 to \$50 range with no production taxes being paid on oil priced below \$73 a barrel, the program makes no sense.

The credits program is also not the most effective way to increase oil production. Some credit money has helped produce oil, some has helped efforts that did not work out, and some was used to bailout companies from bankruptcy.

It's time to be creative. I suggest a three-point plan that will be sustainable and serve the interest of both the oil companies and the people of Alaska:

- 1) Use part of the Governor's generous SB 130 to pay for credits used through FY 2016 even though the credits were subject to appropriation and not guaranteed.
- 2) Use Senator Stedman's approach beginning in FY 2017 and eliminate the oil production taxes and credits until the price of oil reaches \$73 a barrel. This will help reduce our immediate budget deficit.

3) Expand the AIDEA direct loan program so that all credible oil company efforts can get financing during these tough times. This will help continue oil development efforts.

Thank you.



Senate Finance Committee

◦ Kara Moriarty –President/CEO

April 13, 2016

OIL & GAS:
FUELING
ALASKA'S
ECONOMY

AOGA
Alaska Oil and Gas Association

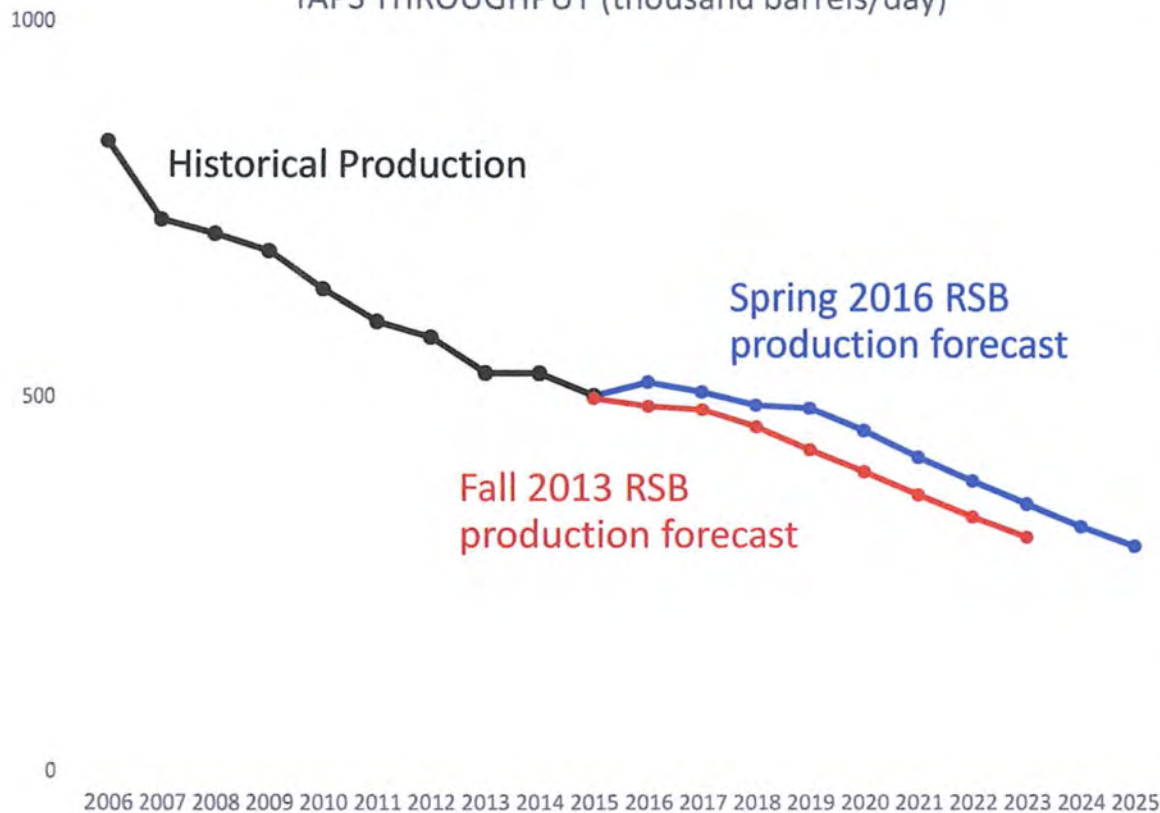
Policy Questions for SB 130

- *What effect will the policy have on overall oil and gas production in the state?*
- *Will the policy make Alaska more or less competitive on a global scale?*
- *Will the policy provide stability to the industry and the State of Alaska?*
- *Will the policy provide predictability to companies looking to make huge investment decisions?*

Alaska has MORE production *FIRST time since 2002*

TAPS Throughput Historical & Forecasted

TAPS THROUGHPUT (thousand barrels/day)



Year	Fall 2013 Forecast	Spring 2016 Forecast
2016	487.6	520.2
2017	482.7	507.1
2018	459.5	488.8
2019	429.1	484.4
2020	399.6	454.1
2021	368.8	418.6
2022	340.1	387.1
2023	312.9	356.8
2024		327.0
2025		300.5

Source: DOR Spring RSB, April 2016

Hilcorp's Monopod example

January 2012

- Price: \$95/barrel
- Production: 600 bpd
- Royalty to State: \$90,000/month

Today, April 2016

- Price: \$35/barrel
- Production: 3,000 bpd
- Royalty to State: \$500,000/month
- Added 20+ years production life & 8 million barrels of future production

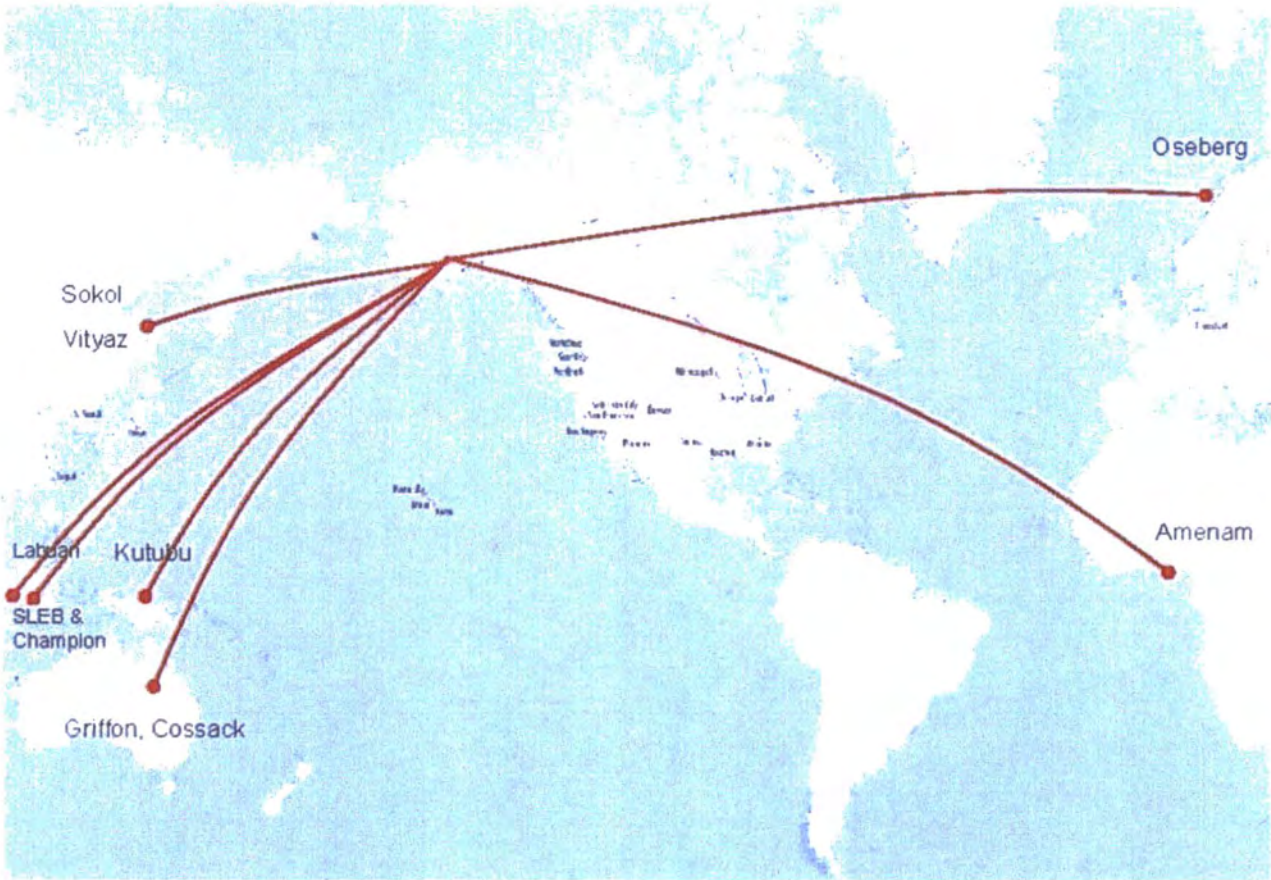
Since Hilcorp's entrance in 2012:

- Oil production doubled
- Oil royalty increased \$70 million



Importing foreign crude for Alaska refineries

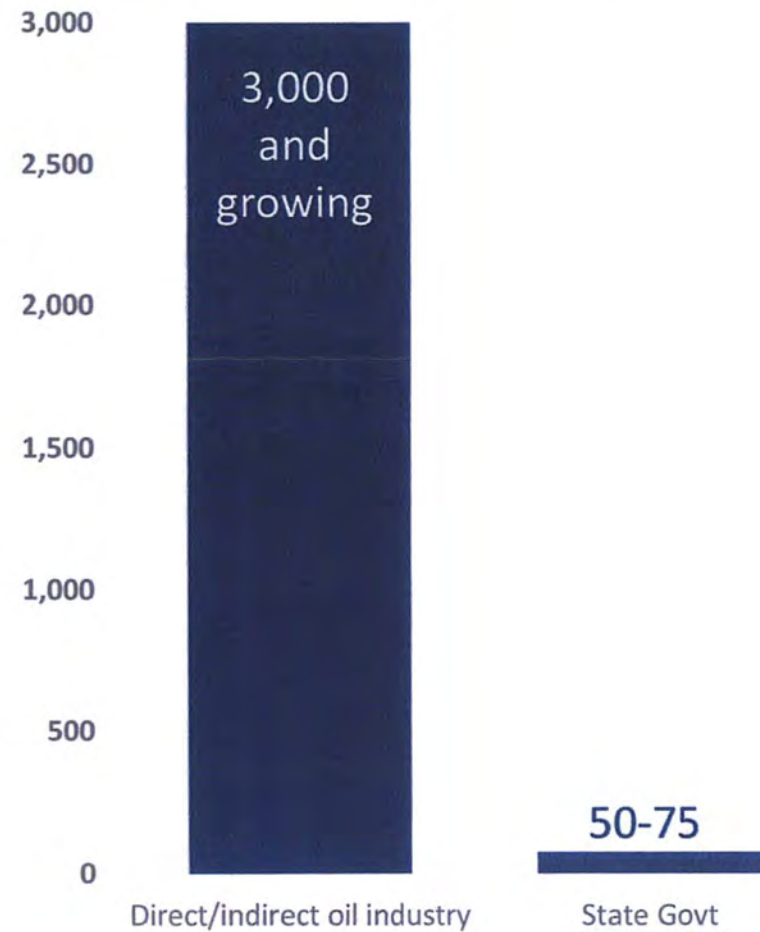
Foreign Crude



Low oil prices taking their toll on jobs



Estimated jobs lost in 2016

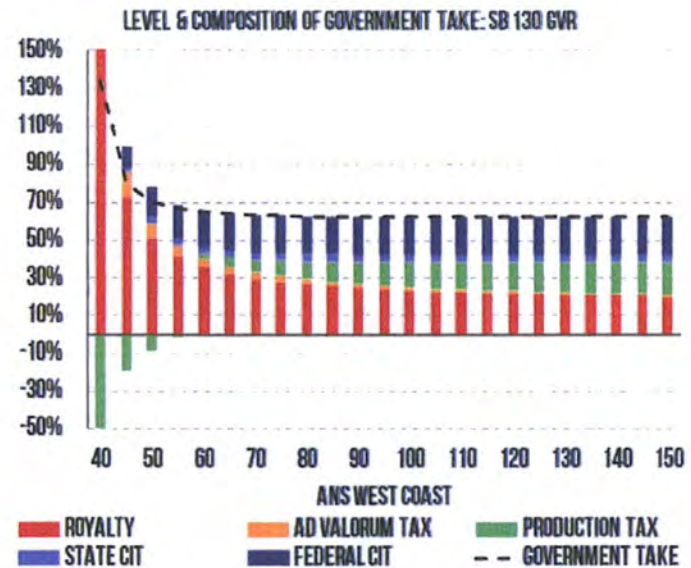
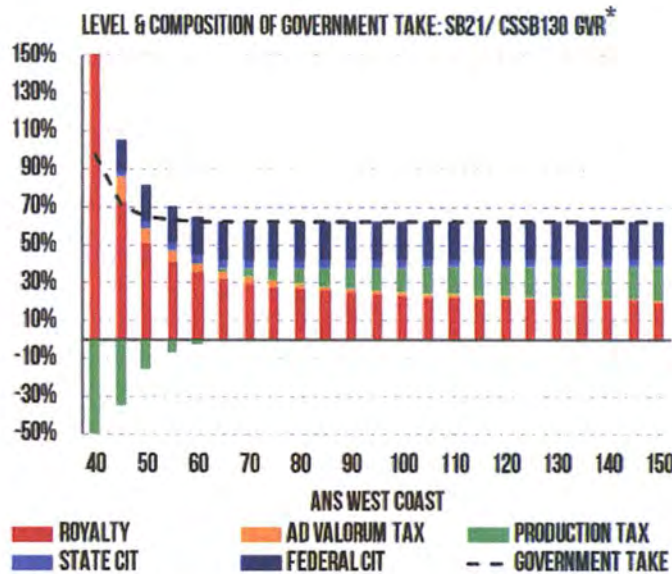


CS AVOIDS MAKING REGRESSIVE SYSTEM EVEN MORE SO

State of Alaska making negative production tax in today's prices; but overall gov't take is still high

Floor hardening of original bill shifts up government take in lower oil prices

In times of high investment / low prices (as in 2016), **effective government take exceeds 100%**



* EXCLUDES IMPACT OF 5 YR GVR LIMIT

Specific Concerns with CS for SB 130

- *Nuclear Bomb for Cook Inlet*
- *GVR Limits/Elimination = Lost value for projects*
- *Changing Value of GVR/NOL*
- *Set limits on credits- discouraging investments by smaller company*
- *Interest rates increase significantly*
- *Retroactivity provisions*
- *Alaska Hire provisions*

Concerning provisions not in CS

- *Raising the minimum tax by at least 25% for companies*
- *“Hardening” the floor*
- *Confidentiality protections jeopardized*
- *Disguised tax increase through the change of the application of Gross Value at the Point of Production*

Policy Changes = Economic Impacts

AOGA is not asking for assistance from the state of Alaska in this downturn, but does ask for careful consideration of any policy changes.

In this price environment, any change will have a negative impact on industry and will result in Alaskans losing jobs, less production, and less long-term revenues for the state.

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ALASKA

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Pulling Together to Build Our Future

**Oil and Gas Tax Credit Reform
CS SB130(RES)**

Department of Revenue

Initial Overview for Senate Finance Committee

April 13, 2016

History of Oil and Gas Production Tax Credits

FY 2007 thru 2015, \$7.4 Billion in Credits

North Slope

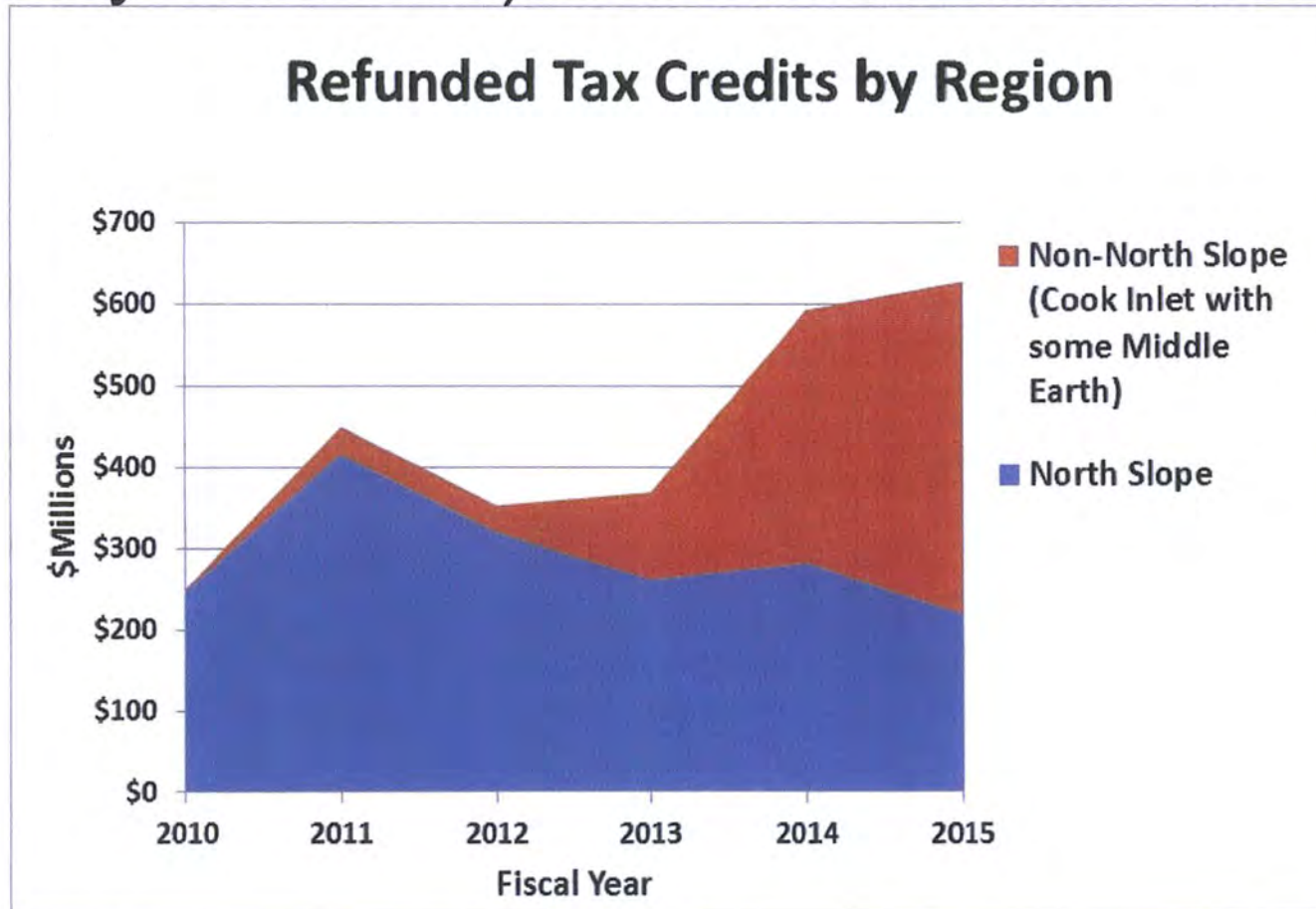
- \$4.3 billion credits against tax liability
 - Major producers; mostly 20% capital credit in ACES and per-taxable-barrel credit in SB21
- \$2.1 billion refunded credits
 - New producers and explorers developing new fields

Non-North Slope (Cook Inlet & Middle Earth)

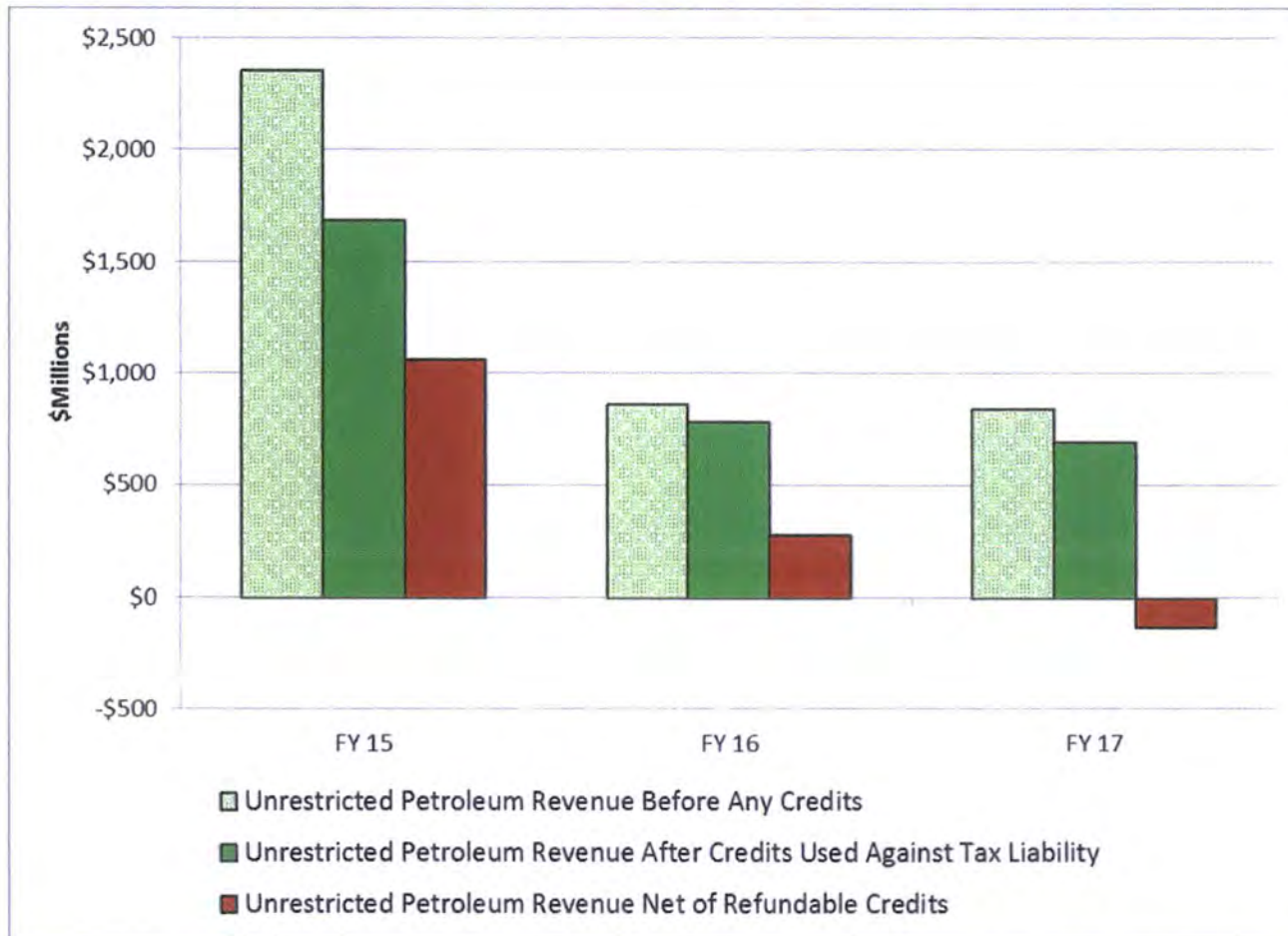
- \$100 million credits against tax liability
 - Another \$500 to \$800 million Cook Inlet tax reductions (through 2013) due to the tax cap still tied to ELF
- \$900 million refunded credits (most since 2013)

History of Oil and Gas Production Tax Credits

- Tremendous growth in non-North Slope (almost entirely Cook Inlet) refunded credits since FY10



Forecast of O&G Revenue and Tax Credits



*This graph shows net tax credits versus unrestricted petroleum revenue, which includes the petroleum property tax, petroleum CIT, production tax, oil and gas hazardous release surcharge, oil and gas conservation surcharge, rents, and petroleum royalties, bonuses, rents, and interest. Net tax credits include certain refinery credits under AS 43.20.

Source : Department of Revenue - Spring 2016 forecast

Work Done Since Last Session

- Governor's line-item veto capped FY16 spending at \$500 million
 - Temporary liquidity crisis; many meetings with industry and others to help reassure lenders
- Multiple presentations with history, current practice, and possible changes
 - Joint Resources in Kenai, June 17
 - Three "regional" presentations to Senate Working Group September through November
 - All presentations on BASIS; we're prepared to go through similar information for the committee
- Development of reform legislation including plan for transition from current system

Major Bill Themes

1. Reduce the state's annual cash outlay
2. Protect Net Operating Loss credits as a playing field leveler between legacy producers and newcomers
3. Limit repurchases
4. Strengthen the minimum tax
5. Be more open and transparent
6. Honor and pay credits earned to date and through any transition period

Major Bill Concepts in Governor's Proposal

- 1. Exploration Credits-** *sunset and transition*
- 2. Cook Inlet Drilling Credits-** *phase out while retaining operating loss credits*
- 3. Repurchase Limits-** *limit cash outlay*
- 4. Remove Exceptions / Loopholes**
- 5. Strengthen Minimum Tax-** *prevent certain credits from going below the floor, plus increase to 5%*
- 6. Other Provisions-** *technical cleanup, transparency, interest rate reform*

Changes made in Senate Resources

- Kept and improved many of the technical fixes, including inadvertent “double dip” credit for new oil on the North Slope
- GVR “new oil” reverts to legacy after 5 years
- Phased out all Cook Inlet credits in 2018, while also establishing a zero tax on Cook Inlet oil and gas
- Increased repurchase “cap” to \$85 million / company / year without large company exclusion
- Removed changes to minimum tax “floor,” transparency provisions, and migrating credits
- 7%+Fed / compounding interest only for 3 years
- Surety bond for local creditors / bankruptcy protect
- Alaska Hire precedence for credit repurchase

Current Status of CSHB247(FIN) amended

- Also kept and improved many of the technical fixes
- GVR “new oil” reverts to legacy after 7 years
- Reduced Cook Inlet credits to NOL only on faster timeline; Cook Inlet tax working group
- Increased repurchase “cap” to \$100 million / company / year without large company exclusion
- Partially hardened minimum tax: credits can reduce to 2%, retains 4% hard floor for per-barrel credits
- Removes transparency provisions and several smaller provisions
- 5%+Fed / compounding interest only for 4 years
- Surety bond for local creditors / bankruptcy protect
- Alaska Hire precedence for credit repurchase

Summary of Fiscal Impact

Summary Analysis of Bill Versions (\$millions) (based on Spring 2016 Forecast)

	FY17			FY18			FY19		
	SB130	CS HB247(FIN) amd	CS SB130(RES)	SB130	CS HB247(FIN) amd	CS SB130(RES)	SB130	CS HB247(FIN) amd	CS SB130(RES)
Reduced Spending									
Credits Eliminated or Reduced									
North Slope	\$15	\$0	\$0	\$25	\$15	\$15	\$20	\$15	\$25
Cook Inlet / Mid Earth	\$35	\$25	\$10	\$65	\$50	\$40	\$45	\$50	\$50
Credits Deferred									
North Slope	\$275	\$0	\$0	\$50	\$0	\$0	\$25	\$0	\$0
Cook Inlet / Mid Earth	\$275	\$0	\$0	\$50	\$0	\$0	\$25	\$0	\$0
Budget Subtotal	\$600	\$25	\$10	\$190	\$65	\$55	\$115	\$65	\$75
Increased Revenue									
Floor "Hardening"	\$125	\$15	\$0	\$180	\$85	\$0	\$215	\$85	\$0
Floor Increase to 5%	\$50	\$0	\$0	\$55	\$0	\$0	\$50	\$0	\$0
CI Credit Repeal	\$10	\$0	\$0	\$10	\$10	\$0	\$10	\$10	\$0
Revenue Subtotal	\$185	\$15	\$0	\$245	\$95	\$0	\$275	\$95	\$0
Total Bill Impact	\$785 **	\$40	\$10	\$435	\$160	\$55	\$390	\$160	\$75

** Actual FY17 impact of Governor's bill would likely be less due to need to clarify effective dates regarding when credits are earned vs. cashed

Content of Future Presentations

We have provided nine different presentations to three prior committees; all are on BASIS

- History and development of our credit system
- History and application of the minimum tax
- Various credits and how they have been used, which ones haven't been, and what is sunseting
- Current application status, impact of Spring Revenue Forecast, and NOL Carry-forward issue
- Details and modeling of specific bill provisions
- Explanation of changes made in prior committees
- Life cycle modeling of typical new projects, with impact of legislation

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Thank You!

Contact Information

Randall Hoffbeck
Commissioner
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Ken Alper
Director, Tax Division
Department of Revenue
Ken.Alper@Alaska.gov
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Senate Finance SB 130 Testimony

April 13, 2016

J. Patrick Foley
Senior Vice President, Alaska Operations



Caelus Energy Alaska: Key Facts & Information

- ❖ Privately-held E&P company focused exclusively on Alaska's NS
- ❖ \$2Bn capital investment in Alaska since 2002
- ❖ ~\$300MM 2016 capital budget
- ❖ Total Alaska workforce is equivalent to over 600 full-time positions
 - ~70 full-time Alaska employees
 - Nearly 400 contractors on the North Slope today
- ❖ Operational Highlights & Accomplishments:
 - 23MMBO gross cumulative production since 2008
 - 4MMBO gross annual production 2015
 - 2015 best safety record, 0.65 OSHA recordable injury rate
 - Longest Oooguruk well length to date: 23,209'MD (ODS N-7i)
- ❖ Direct Financial Benefits to the State:
 - \$67 MM paid in royalties to the State of Alaska
 - \$60 MM paid to the State of Alaska / NSB in property taxes
- ❖ Proven & Potential Reserves:
 - ~85 MMBO remaining at ODS
 - ~100 MMBO remaining at Nuna
- ❖ 350,000 undeveloped State of Alaska leases on the North Slope



North Slope Exploration & Development Program



Smith Bay Exploration 'Tullimaniq



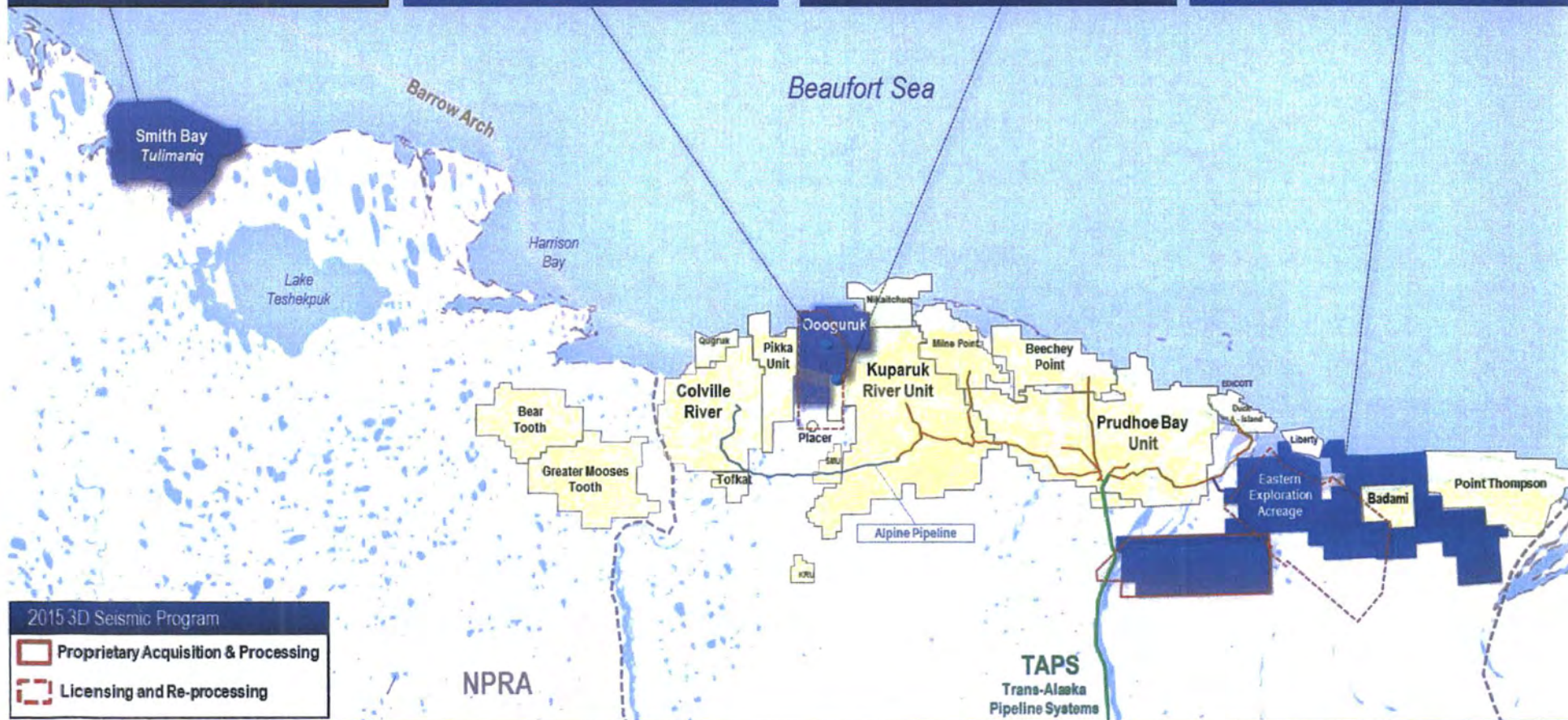
Oooguruk Unit (ODS / OTP)



Nuna Drill Site



Eastern ANS Exploration Acreage

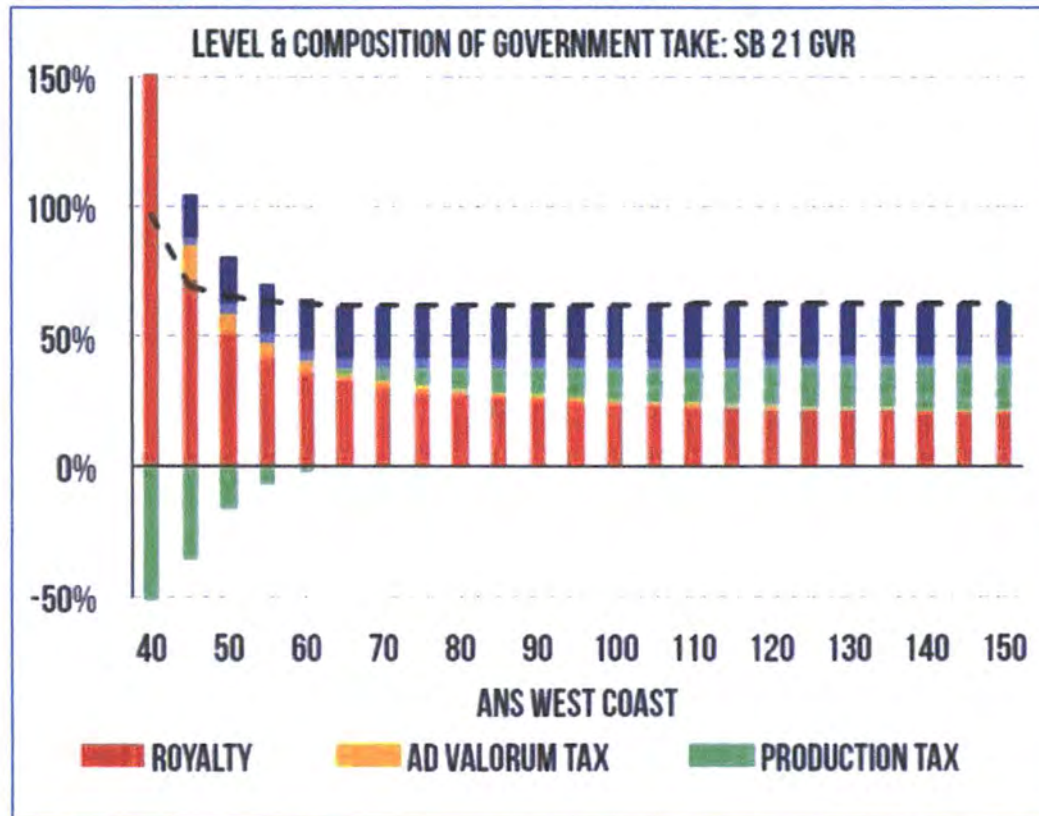


2015 3D Seismic Program

- Proprietary Acquisition & Processing
- Licensing and Re-processing

Alaska : An Attractive Investment Opportunity?

World Class Resources?	Yes
Access to Substantial Leasehold of Interest?	Yes
Access to G&G Data and Information	Yes
Expert Contractor Community?	Yes
Hospitable Regulatory Environment?	Yes
Access to Existing Infrastructure?	Yes
Favorable Logistics?	No – remote, harsh conditions, seasonal limitations
Favorable Fiscal Regime?	Yes, under SB21. No, under proposed system changes
Stable Fiscal Regime?	No, 5 significant changes in a decade
Lender & Equity Provider’s Confidence?	Historically low participation & experience Confidence in stability is low Apollo has backed Caelus Other equity providers are “watching” Bank of America committed but spooked by change ING backed out when changes began Wells Fargo disengaged when changes began



“At \$40 per barrel and below, (the government) is taking so much value, when there is not value to take”

~Janak Mayer, enalytica,
House Resources Committee
Feb. 25, 2016

CURRENT BILL PROVISION(S)

❖ CS SB 130 (RES) AM

- LIMITS GVR to 5 years
- CAPS earned credits to \$85 MM per company
- Min Tax: No change from current law

❖ CS HB 247 (FIN) AM*

- LIMITS GVR to 7 years
- CAPS earned credits to \$100 MM
- NEW Alaska hire provision of 80%
- HARD 2% floor

*TBD

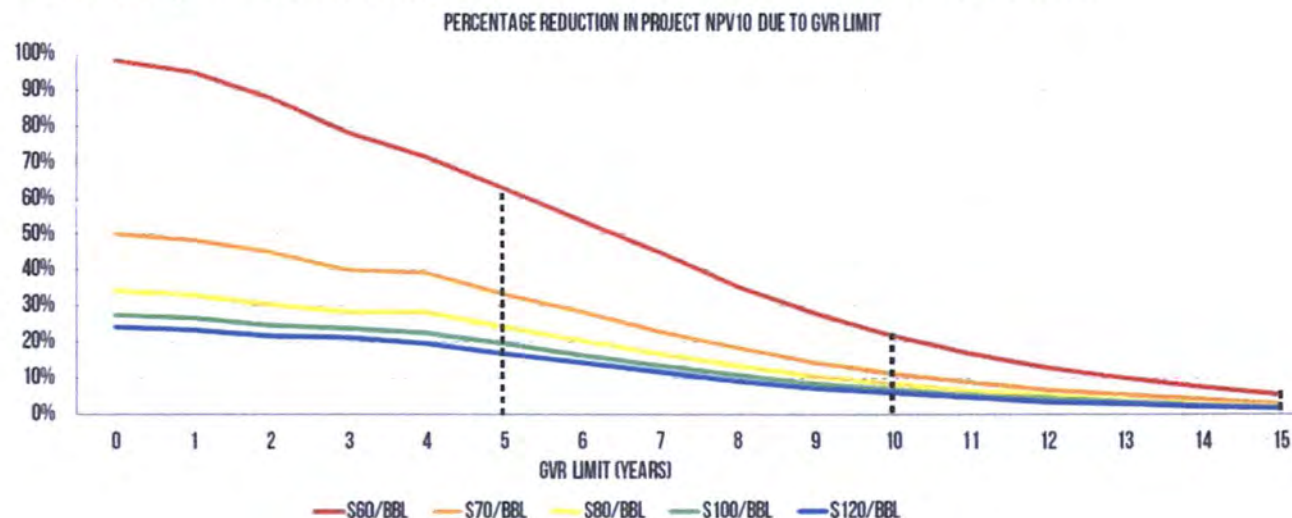
5-YEAR GVR LIMIT HAS MAJOR IMPACT ON PROJECT VALUE

Project is marginal at \$60/bbl; elimination of GVR can **wipe out** all value at that price

Because most tax liability occurs after end of major spending, **short GVR limit provides little benefit**

5-year GVR limit destroys over **60% of project value** at \$60/bbl, relative to status quo

Impact of 10 year limit much lower; 15 year limit preserves almost all of status quo value



Source: ~Janak Mayer, enalytica,
Senate Resources Committee
April 12, 2016

First oil Late 2018 IF Prices recover & confidence in favorable / stable fiscal terms exist

- ❖ Caelus holds 100% interest
- ❖ 100+ MMBO 2P reserves
- ❖ 20,000 to 25,000 BOPD peak production in 2021

Economically Benefits Alaska

- ❖ 300 FTE contractor construction jobs for two years
- ❖ 300 FTE contractor drilling jobs for 4 to 5 years
- ❖ \$1.75 Bn in future payments to the State of Alaska
 - ~ \$900MM in future royalty payments*
 - ~ \$500 MM in future NPSL payments*
 - > \$250 MM in future production tax payments*
 - ~ \$100 MM in future Ad Valorem taxes
- ❖ <\$250MM in future NOL cash payments from the State of Alaska

* Values are undiscounted based upon a Flat \$70/bbl Brent Price Assumption



❖ Alaska has Great Resource Potential

- Alaska needs more exploration & production companies to fully develop its petroleum resources
- Caelus continues to be very optimistic on Alaska
- SB 21 is a balanced system that is working for Alaska

❖ Recommendations

- GVR
 - 10 – 15 years
- Credit caps
 - > \$100 mm
- Minimum Tax Floors
 - Allow small producers to use credits against
- Thoughtful policy considerations:
 - Will policy increase production?
 - Short- and Long-Term Vision



Thank you



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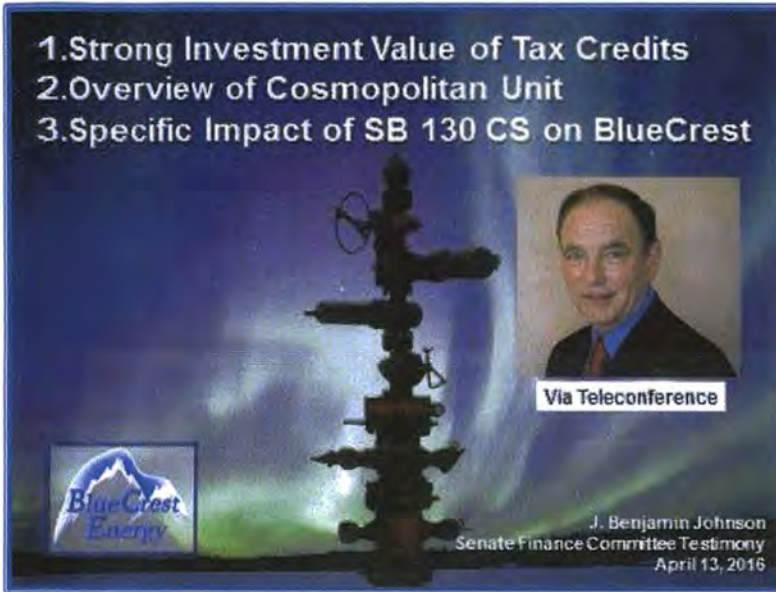
Fax: +1 (214) 234.0270

Anchorage

3700 Centerpoint Dr., Suite 500
Anchorage, AK 99503

Main: +1 (907) 277-2700

Fax: +1 (907) 343-2190



Slide 1

Good afternoon Madam Chair and members of the Committee.

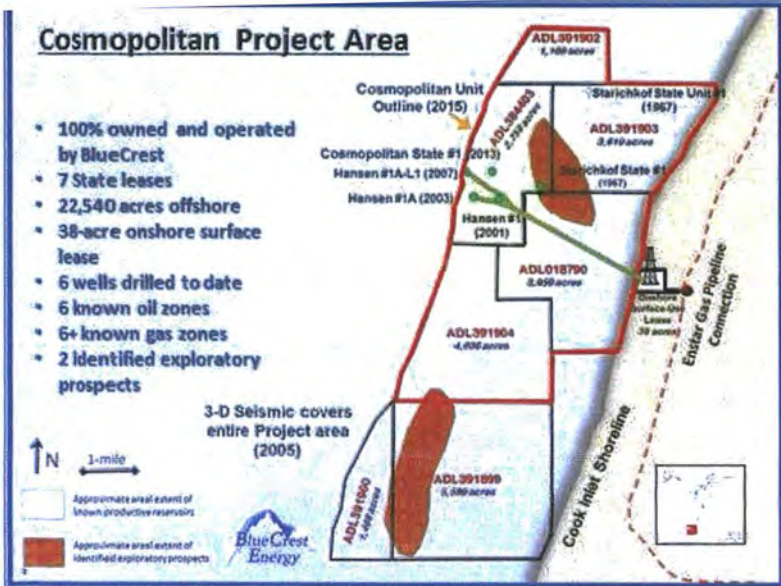
For the record, my name is J. Benjamin Johnson, and I'm the president / CEO of BlueCrest Energy Inc.

Since BlueCrest only has operations in the Cook Inlet at this time, I will only speak to the issues particular to the Cook Inlet, with a specific focus on the following points:

First, I want to emphasize that, specifically with regard to what BlueCrest is doing in the Cook Inlet, the tax credit program is an extremely good investment for the State.

Second, the State's investment in Cosmopolitan through the credit program will provide significant future positive value to the State, even at low oil prices. And it is the State's investment through the tax credits that has facilitated success in the Cosmopolitan Unit. I'm going to show you that the State's investments in the Cosmopolitan tax credits will provide high returns even at low oil prices. In fact, the tax credit investments under the current laws can actually provide higher rates of return to the State than the average investments in the Permanent Fund.

Third, I will speak to several specific issues we have identified in SB 130 and the CS from Resources.



Slide 2

For your reference, the Cosmopolitan Unit is located about three miles offshore in the Cook Inlet, a few miles north of Anchor Point. All of the productive area in the unit is on State leases.

Cosmopolitan Unit Development Concept

- Separate oil and gas reservoirs are located approximately three miles offshore in the Cook Inlet
- The oil reservoirs can be reached by drilling wells from onshore
- The gas reservoirs are not as deep and can only be reached with offshore wells and platforms
 - Gas development is now on hold due to:
 - Economic limitations
 - Market demand constraints

The diagram illustrates the geological structure of the Cosmopolitan Unit. It shows a cross-section of the earth with a blue sky, a brown landmass on the right, and a blue ocean on the left. On the land, there are two oil wells with green lines representing pipelines leading to a red 'Gas Reservoir' and a green 'Oil Reservoir' located offshore. A text box on the right states: 'Onshore oil development began in 2014 and is now underway, relying on the existing tax credit structure'. In the ocean, there is an offshore platform with a red tower and a green line representing a pipeline leading to the 'Gas Reservoir'. The 'Oil Reservoir' is shown as a green area below the 'Gas Reservoir'.

Onshore oil development began in 2014 and is now underway, relying on the existing tax credit structure

Gas Reservoir

Oil Reservoir

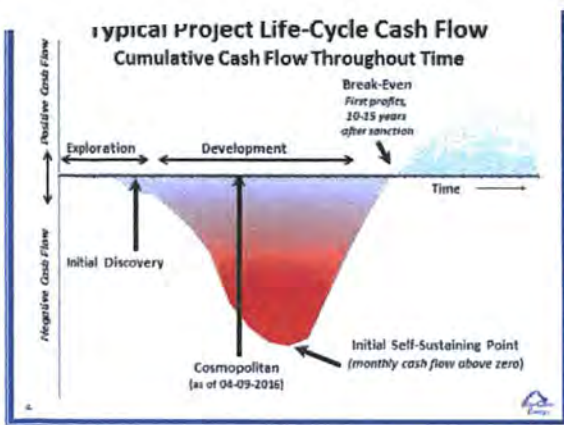
BlueCrest Energy

Slide 3

The Cosmopolitan Unit actually consists of two separate development projects. There are numerous productive gas zones directly above underlying oil zones, and the gas reservoirs are not connected to the oil reservoirs.

We haven't yet started developing the Cosmopolitan gas zones. The offshore Cosmopolitan gas development is now on hold, due to economic questions on tax credits, costs and confirmation of stable long-term market demand.

But development of the deeper oil reservoirs was more straightforward. And two years ago, based on the tax regime in the Cook Inlet under current laws, we committed to begin development of the oil reserves. BlueCrest is a small private company with a singular focus of developing the Cosmopolitan Unit, and we are very careful in development of our business plans. This is a large project for our company, and we were faced with the challenge of how to pay for development of the new field. We teamed up with a group of oil industry investors, and we very carefully created our plan with them for financing the development of Cosmopolitan.



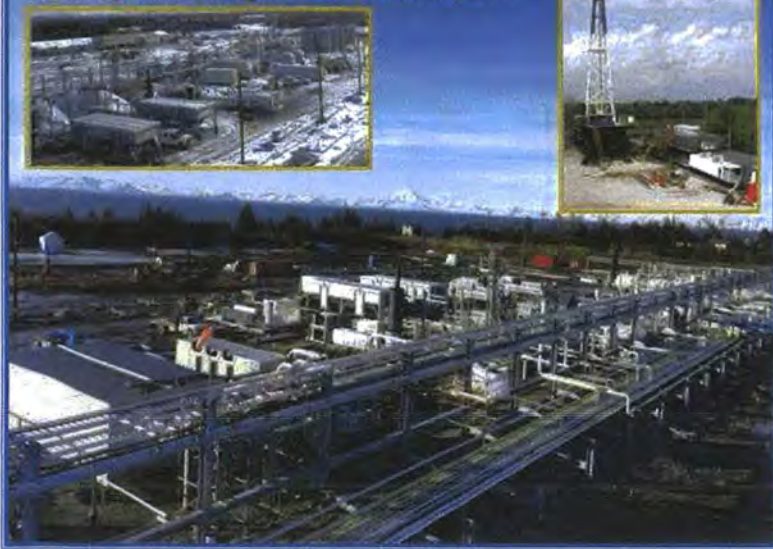
Slide 4

I have shown this conceptual slide in previous testimony, so I won't go into the details. However, the main point to see here is that any oil and gas development is a long process. It takes a lot of spending just to get to the point where we are bringing in enough cash to cover our monthly costs without additional investment or borrowing.

We estimate that it will have taken investments of over \$500 million to reach that point for Cosmopolitan, and BlueCrest is within about 6-9 months of getting there.

As you can see, we still have considerable additional investments to make in drilling a few new wells later this year that should provide enough cash flow to at least make our debt service payments going forward. And we've already committed to that spending, based on the existing tax credit structure. So the timing of any changes over the next few months is very important to us.

Cosmopolitan Progress as of 04/13/2016



Slide 5

So let's talk specifically about Cosmopolitan. We've been working on the oil development for over two years, and right now, we are literally a few days away from the very first commercial production of oil. Next, we will bring in our new specialized drilling rig and start drilling new wells to bring on the production that can finally start paying off our loans. And that new drilling cannot begin until the second half of this year.

These photos show the progress we have made so far with the onshore Cosmo production facility. The total site is 38 acres, and contains the drill sites for up to 20 wells and the facilities to process the oil. We are almost complete in our construction process, and we are now running the final operational tests today. We will have our new drilling rig in place to begin drilling the new wells by July 1 of this year.

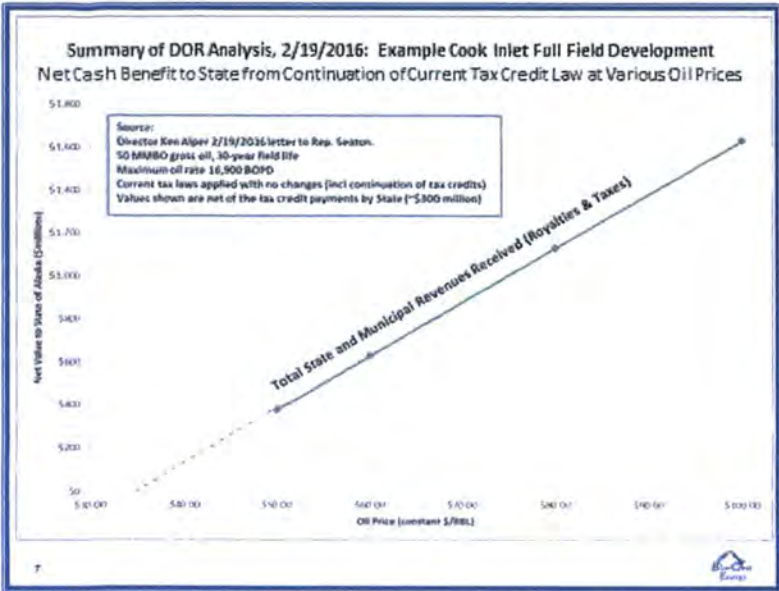
Tax credits for development of previously-discovered proven reserves are a solid, low-risk investment for Alaska.



Slide 6

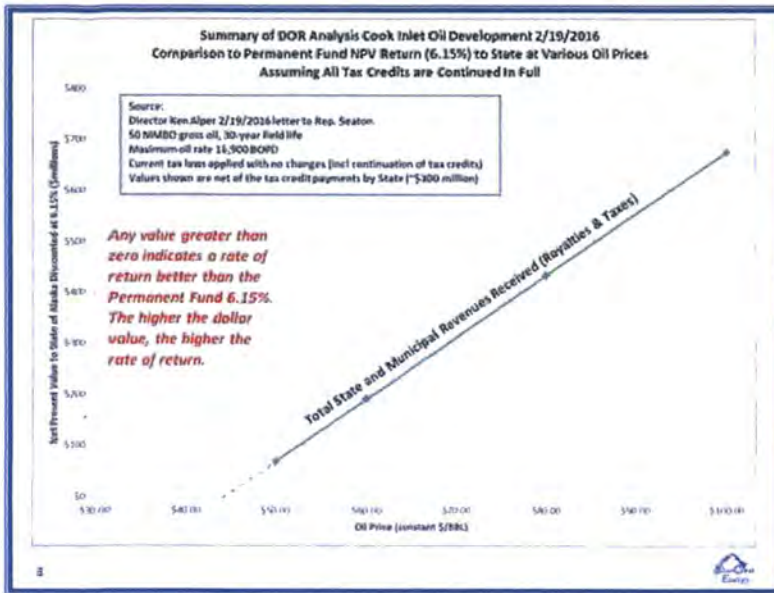
So let's look at what the tax credits from a successful development project like Cosmopolitan actually mean to Alaska. When the tax credits are used for development of new proven reserves in the State, they are – without question – a valuable low-risk investment. The tax credits make new projects work, and they bring new sources of long-term revenues to the State for decades into the future. At Cosmo, we are sitting on a large proven resource of future oil and gas that now simply requires additional new investments to bring it to full production.

On February 19, the DOR provided its analysis of the financial impact to the State on development of a new Cook Inlet oil field, assuming that no changes are ever made to the existing tax laws. DOR's analysis modeled an "example" Cook Inlet field that happens to be somewhat similar to Cosmopolitan – but is more expensive and less productive than the actual Cosmopolitan oil development. So the DOR's calculations are, in fact, conservative with regard to Cosmo.



Slide 7

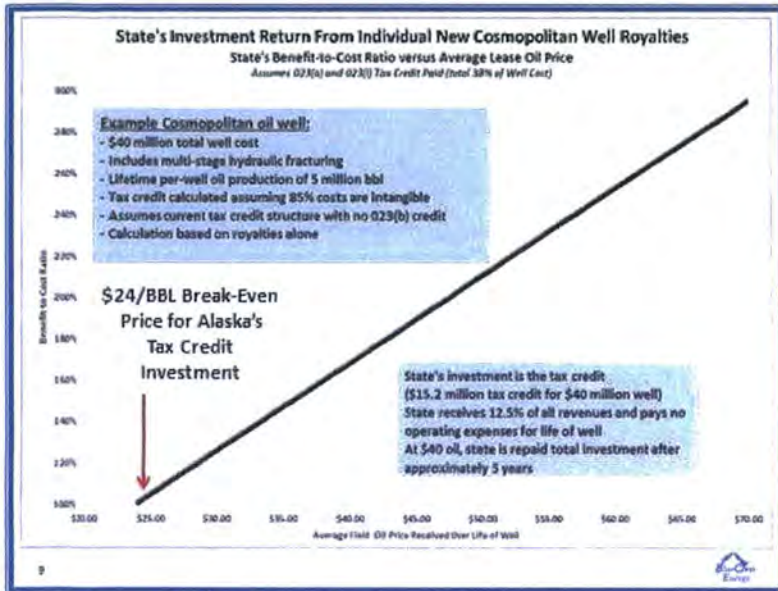
This chart is a summary of the calculations the DOR provided for their “example” field. It shows the total net future benefit received by the State and municipalities, as a function of various future oil prices. It shows that, even for this conservative example, the State would receive back 100% of its investments in the tax credits if oil prices over the entire field life average only about \$35 per barrel (assuming no changes to the current law). At about \$59 per barrel average oil price, the State would receive back triple its investment in the tax credits.



Slide 8

The DOR also provided discounted-cash-flow calculations for this example field, with a head-to-head comparison to the investments by the Permanent Fund. At any point on this chart greater than zero, the State would earn a better return through its investments in the tax credits than its investments in the Permanent Fund.

This chart shows that, even in the case where there are never any changes to the tax system in the Cook Inlet, the State's investment in those tax credits for the example field is still better than the average investment in the Permanent Fund as long as oil prices over the next 30 years average only \$44 per barrel.



Slide 9

Now I'd like to show you BlueCrest's internal analysis of the value to the State in keeping the Qualified Capital and Well Lease Expenditure credits as they apply to new oil wells drilled at Cosmopolitan. We projected the net return to the State using a conservative calculation including only the incremental royalty for each single new Cosmopolitan oil well drilled.

This chart shows the calculated return on investment to the State from the WLE and QCE. A 100% return on investment means that 100% of the tax credit would be repaid to the State at an average oil price of only \$24 per barrel. At \$40 per barrel, the total return would be about 170%, and at \$60 per barrel, the return would be about 250%. So you can see that these credits, at least for Cosmo, are likely to be a very good low-risk investment for the State.

Reduction/Elimination of Cook Inlet Credits

Particularly in low oil price environments, continuing work on new developments after start-up is mostly impacted by the QCE and WLE credits. The existing WLE credit facilitates drilling of new wells at \$10/bbl lower oil prices.

The NOL credit is less important for continuation of existing developments (low risk, high return for the state) .

10



Slide 10

The bottom line here is that, in periods of low oil prices, the QCE and WLE credits allow us to continue drilling the Cosmopolitan oil wells at approximately \$10 lower oil prices than without the credits. This is likely to be an important factor over the next few years and may allow us to continue drilling instead of shutting down the rig.

For us, the NOL credit is less important as we begin producing. So the most important credit for continuation of drilling in a development like Cosmo is the WLE.

Reduction or priority of the credit payment amount by the percentage of non-Alaskan workers in the previous year is impractical.

Investments have already been made and contracts entered into based on the current tax laws.

Any change in future credit payments based on resident hire prior to the effective date of any new law would be a retroactive change.



Slide 11

Under the CS, the tax credit repurchases would receive priority for payment based on the resident hire percentage in the prior year. While we certainly agree that we want to hire Alaskans for our operations, imposition of any reductions in credit payments for expenditures that were made prior to the effective date of a new law is truly a retroactive tax change.

For credits filed in 2016 (for 2015 expenditures) and those filed in 2017 (for 2016 expenditures prior to the new law taking effect), there would have been no way for us to even keep records. Retroactively changing the laws is grossly unreasonable. If this provision is adopted, a longer transition time should be considered.



Slide 12

For the record, BlueCrest is strongly committed to hiring Alaskans. At this point, 100% of all our long-term operations employees are Alaskans. But making the future credit payments subject to hiring in the past is probably impossible to even measure. We can do it going forward, but I don't know how we go back in time.

Per-company limits for cash payments:

- Arbitrary – different developments have different needs
- Particularly disadvantages small companies like BlueCrest who have invested but do not yet have production
- BlueCrest has invested in good faith, based on the tax policy in existence when the investments were committed
- BlueCrest has financed the Cosmopolitan development assuming the credits would be paid on time
- BlueCrest has already entered into (and financed) spending commitments, based on the State's existing credit repurchase practice
- A strong disincentive for future investments

-2



Slide 13

Another factor in SB 130 was setting a limitation in the credits that can be paid annually. If this limit is too low, it would be particularly damaging to small companies like BlueCrest who have already invested in good faith, based on the tax policy in existence when we entered into the commitments for our investments. We came to Alaska based on the credits. We invested our cash, and we have borrowed a lot of money and committed to spending a lot more – all based on the tax credits. And the timing of the receipt of those payments for the credits is paramount in our ability to make the payments on the loan obtained for those investments.

Effective Date

An effective date prior to March 31, 2017 is too soon for substantial reductions in tax credits for ongoing work that has already been contracted for and now underway.

BlueCrest's funding plan for initial Cosmopolitan oil development

Total cost: \$525 million

Funding sources

Cash investment by shareholders:	\$200 million
AIDEA loan on drilling rig:	\$30 million
Development loan:	\$150 million
Tax credits received to date:	\$24 million
Tax credits for 2015-2016 spending under current law:	\$121 million

Slide 14

Most important of any of these provisions to BlueCrest is the timing of implementation of any changes, whatever they may be. It is now April, and the proposed changes in the original SB130 were supposed to take place on July 1. The CS has somewhat moved that date back, which would certainly help but may not completely solve the problem.

It's important to understand that, before we ever started the oil development project, we made sure that we would have enough funds to allow us to complete construction of the onshore drill site, production facilities, bring in the most powerful drilling rig in Alaska, and use that rig to drill at least the first two new oil wells. We calculated that we would need approximately \$525 million to reach that point of self-sufficiency (where we no longer have to keep borrowing additional money to put into the project). The timing here is very important, because we expect that should happen in the first half of 2017.

As I mentioned a few minutes ago, based on existing law, we very carefully planned how we could pay for development of the Cosmo project before we ever started. Our shareholders invested approximately \$200 million in cash. We borrowed \$30 million from AIDEA for a loan on the drilling rig (kind of like a car loan but for a drilling rig). We have already received a total of \$24 million to date in tax credits. Under current laws, \$121 million would come from future payment of credits earned for 2015 and 2016 spending (that's the total for two years). We then made up the difference by securing a \$150 million high-interest development loan. We have spent a lot of money to get to the point where we can now start drilling these new wells, but an abrupt termination of the tax credits on which we have based our entire financial planning would be devastating. Any reduction in the credits for our spending through at least early 2017 would mean that we have to come up with that money from some other source. That's not easy in this oil price environment, and it may just simply be unworkable.

We have finally reached the point – by completing all this work and spending all this money– to where we will finally have our rig ready to drill in the second half of this year. We need the production from the first new wells to pay for the costs we have spent so far. Those drilling costs – at least through early 2017 – are all based upon the assumption that we will be able to obtain the credits under *existing* law for those investments. We have done all this work and spent all this money to date, and it seems only reasonable for us to be able to claim the existing credits for the spending that is the result of our investments based on the expectation that the State would honor its share of the investments. **We need to be able to be able to get to the finish line.** If the date for changes is too soon, we won't have the full funding for finishing the project, although we have already committed those investments. We've signed contracts, bought a drilling rig, built facilities – all based on the current laws in effect.

**When we are driving on
slippery icy roads, the most
dangerous thing we can do is
suddenly slam on the brakes!**

-3



Slide 15

In conclusion, I'd like to reemphasize the importance of phasing-into any changes over a reasonable time period. Everyone in Alaska understands that when we are driving on slippery icy roads, the most dangerous thing we can do is suddenly slam on the brakes.

Thank you.

Continuation of the 023(a) and 023(l) credits (QCE and WLE) is a solid investment for the State for development of Cosmopolitan oil.

Termination or severe reductions of the 023(a) and 023(l) credits will result in a significant reduction of BlueCrest's ability to continue drilling at Cosmopolitan.

Continuation of the credits facilitates Cosmopolitan continued drilling at ~\$10/BBL lower oil prices.

The NOL credit is most important for exploration and new development work prior to production. Continuing work on new developments after start-up is mostly impacted by the 023(a) and 023(l) credits.



Slide 9

First of all, termination or severe reduction of the Qualified Capital and Well Lease Expenditure credits would result in a significant reduction in our ability to continue making investments in the Cosmo oil wells, resulting in less future revenues to the State. The Governor's original bill SB 130 completely eliminated the Well Lease Expenditure credits, effective immediately. Although we haven't yet seen the latest version, the House Resources and Finance committees have suggested reducing the credits by various amounts and phased-in over a longer time frame.

The NOL credit is valuable to a company in the exploration or early development phase prior to reaching the point of positive cash flow. But, as a company (like BlueCrest) continues expanding a known resource, the NOL credit becomes far less important and the Well Lease Expenditure credit becomes vital to continually increasing production through drilling new wells. In fact, the WLE credit (at its current level) effectively makes the oil price threshold for investing in drilling wells about \$10 lower than without it.

1. Strong Investment Value of Tax Credits
2. Overview of Cosmopolitan Unit
3. Specific Impact of SB 130 CS on BlueCrest



Via Teleconference



J. Benjamin Johnson
Senate Finance Committee Testimony
April 13, 2016

Cosmopolitan Project Area

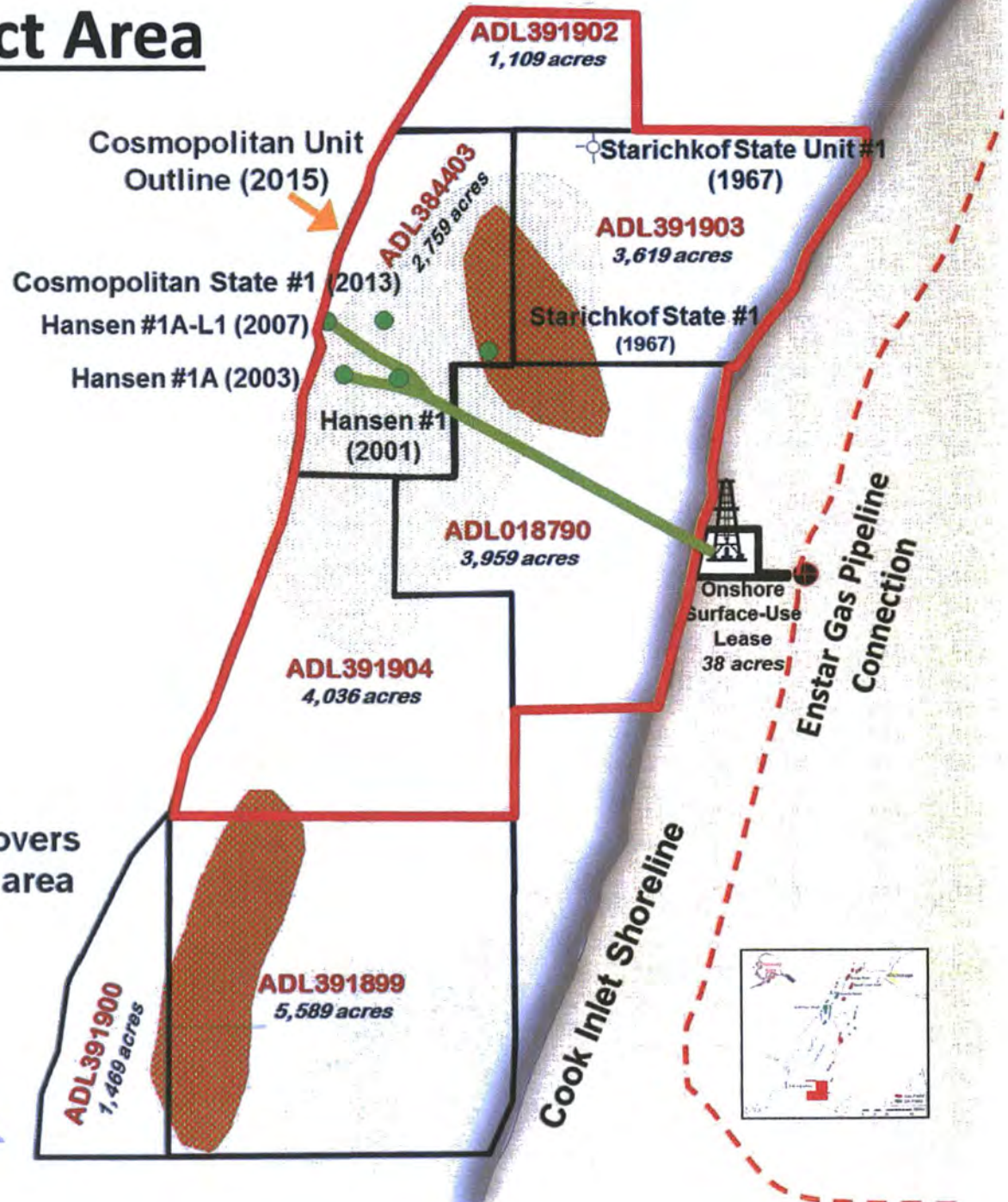
- 100% owned and operated by BlueCrest
- 7 State leases
- 22,540 acres offshore
- 38-acre onshore surface lease
- 6 wells drilled to date
- 6 known oil zones
- 6+ known gas zones
- 2 identified exploratory prospects

3-D Seismic covers entire Project area (2005)



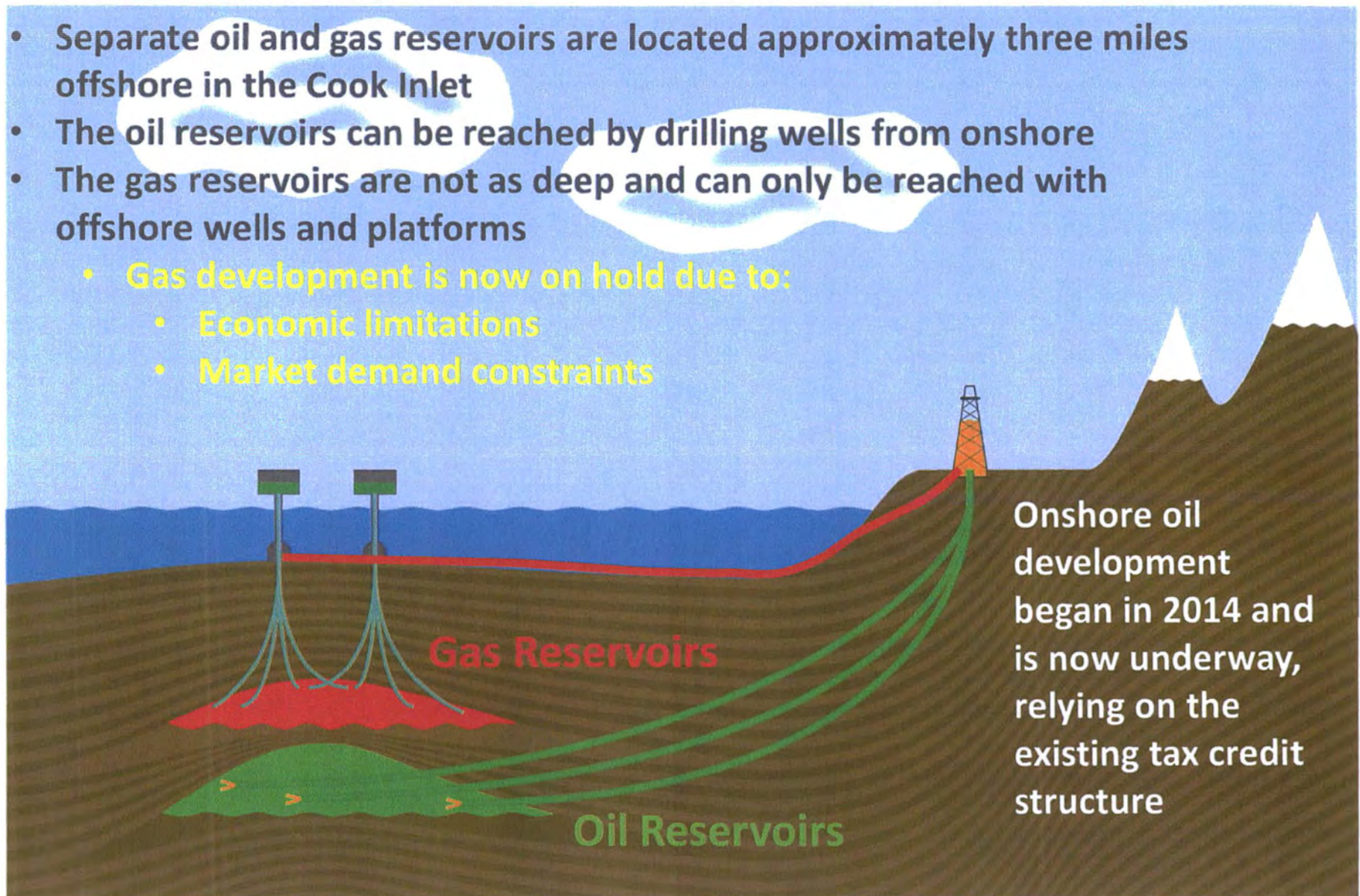
Approximate areal extent of known productive reservoirs

Approximate areal extent of identified exploratory prospects



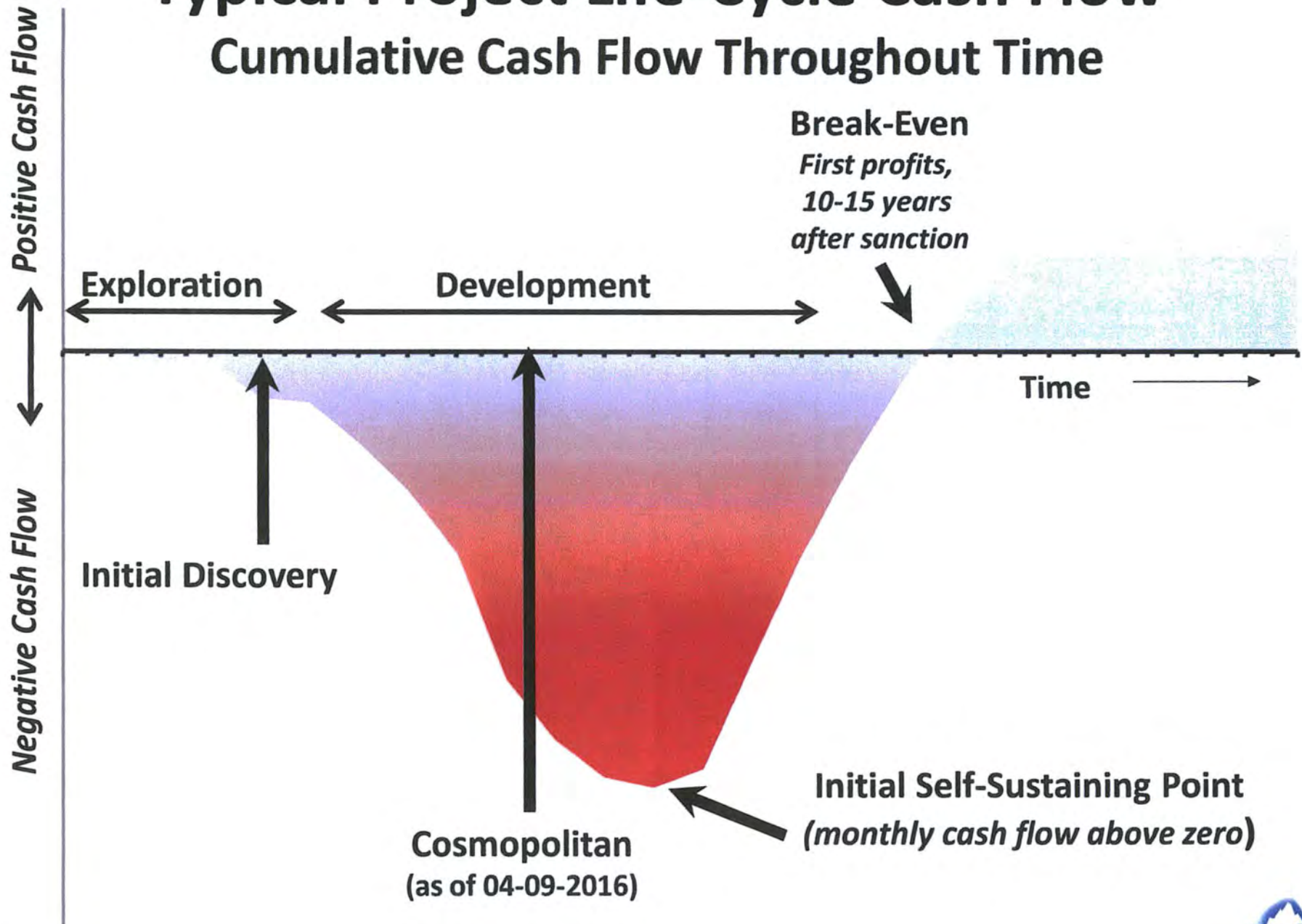
Cosmopolitan Unit Development

- Separate oil and gas reservoirs are located approximately three miles offshore in the Cook Inlet
- The oil reservoirs can be reached by drilling wells from onshore
- The gas reservoirs are not as deep and can only be reached with offshore wells and platforms
 - Gas development is now on hold due to:
 - Economic limitations
 - Market demand constraints

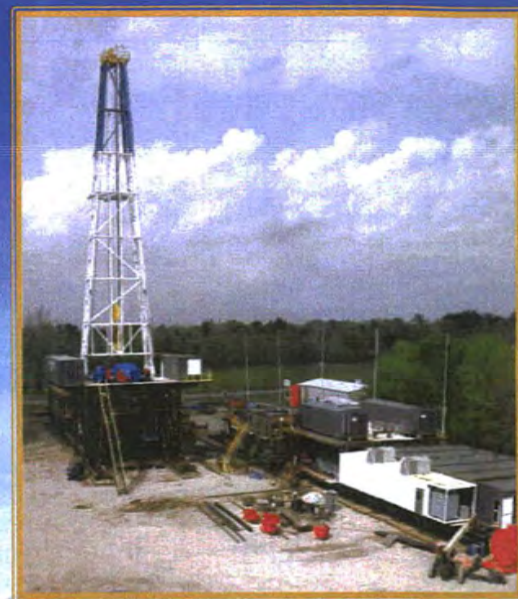


Typical Project Life-Cycle Cash Flow

Cumulative Cash Flow Throughout Time



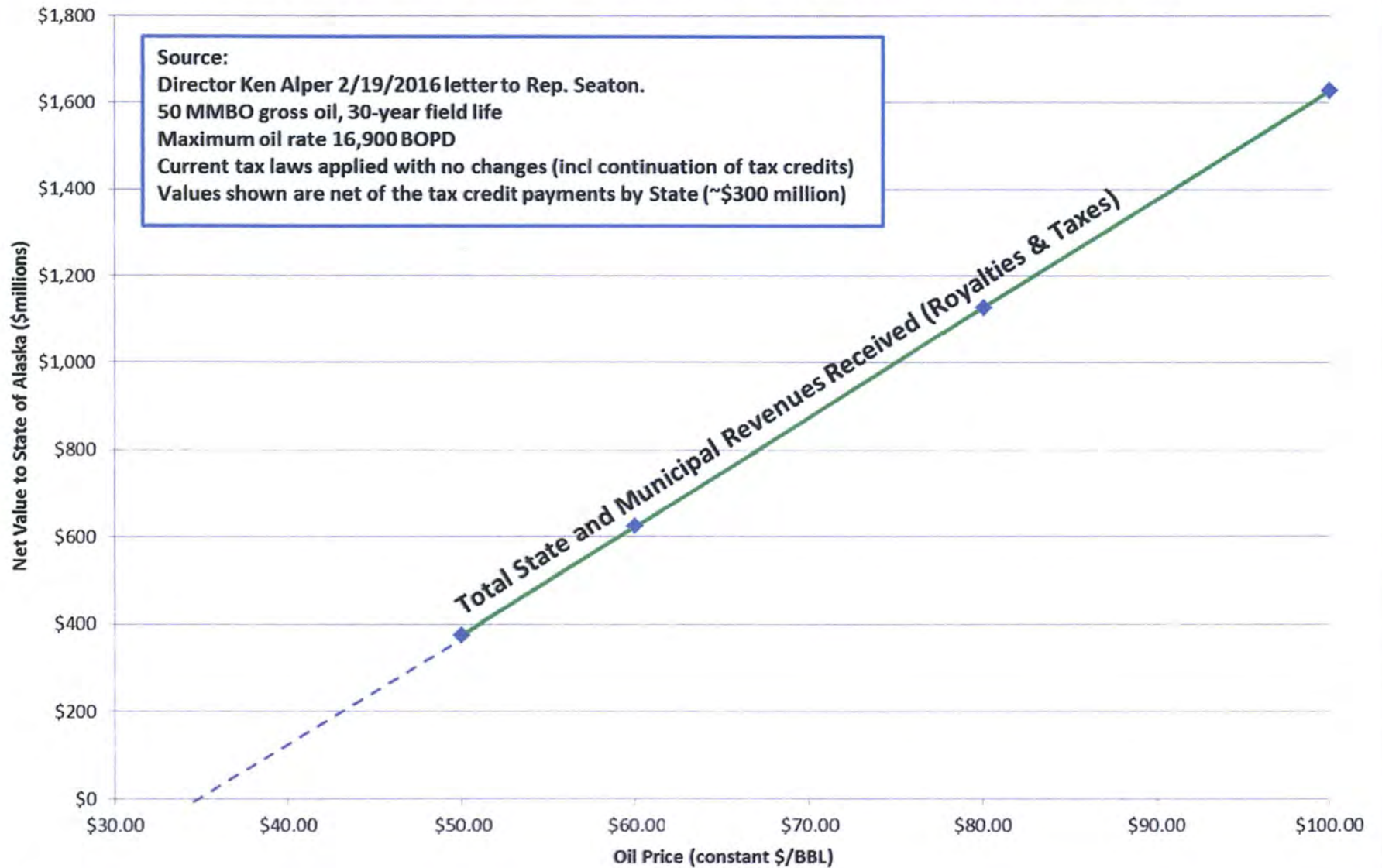
Cosmopolitan Progress as of 04/13/2016



Tax credits for development of previously discovered proven reserves are a solid, low-risk investment for Alaska.

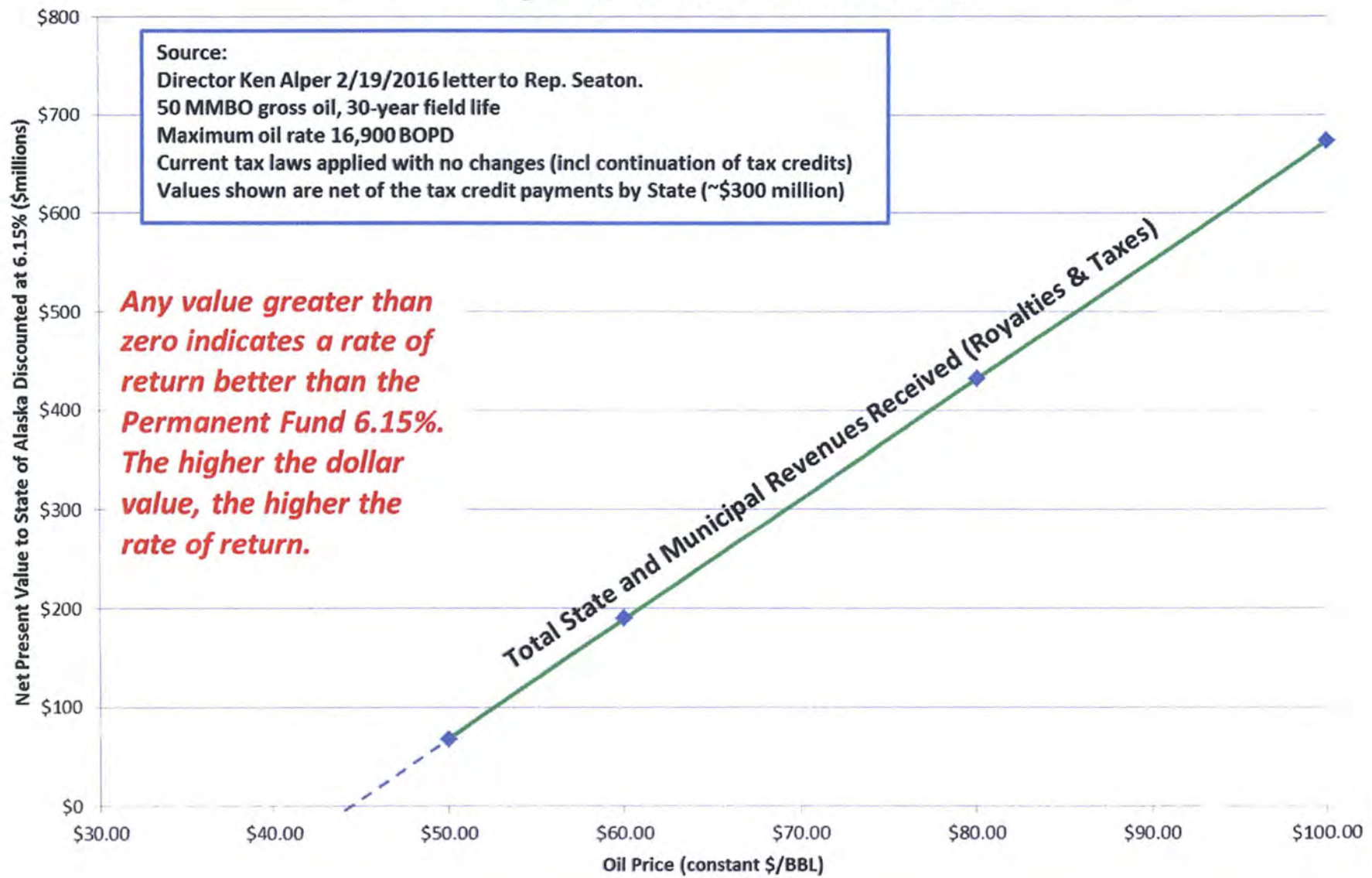
Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016

Net Cash Benefit to State With Continued Tax Credits at Various Oil Prices



**Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016
Comparison to Permanent Fund NPV Return (6.15%) to State at Various Oil Prices
Assuming All Tax Credits are Continued In Full**

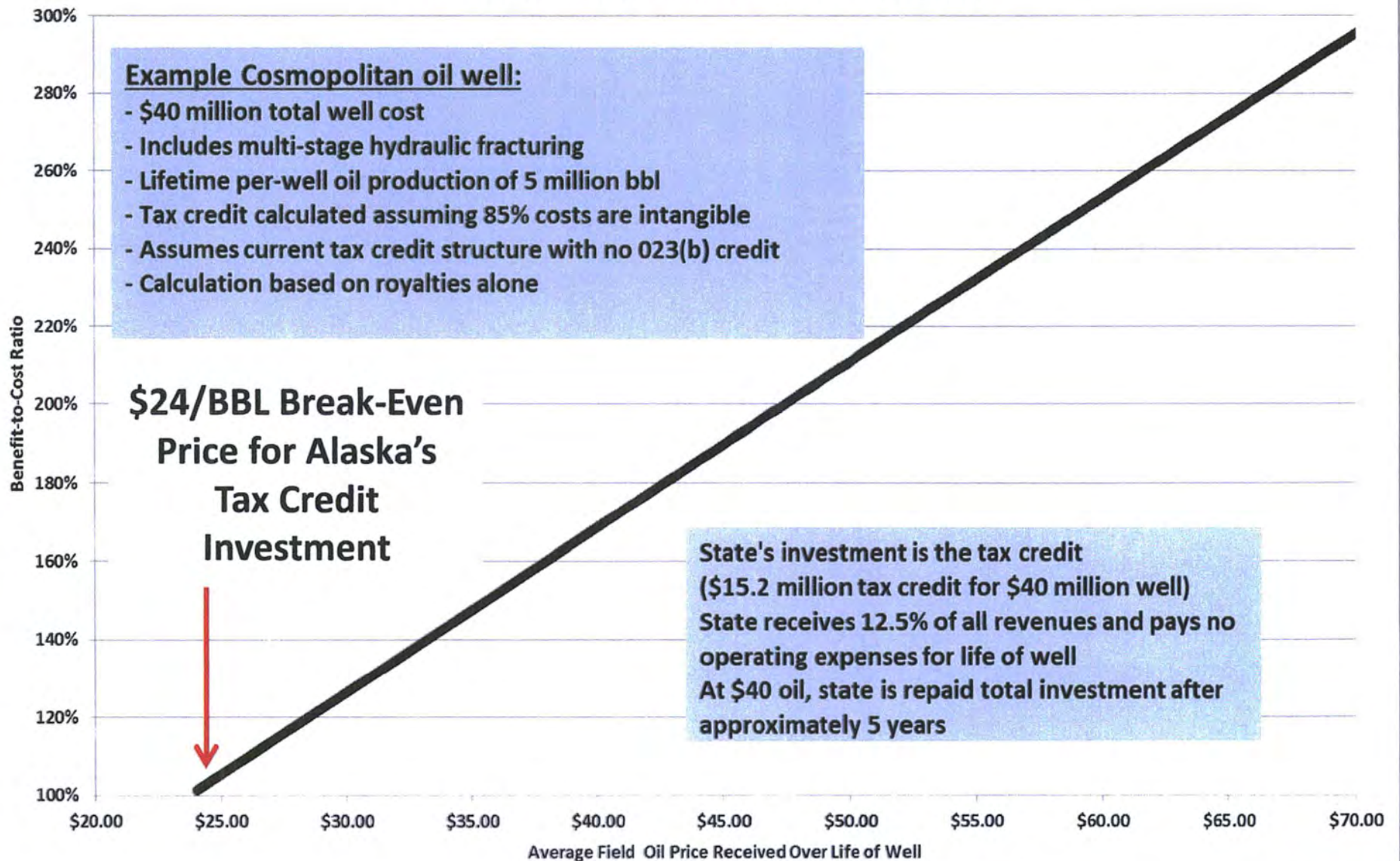
Source:
 Director Ken Alper 2/19/2016 letter to Rep. Seaton.
 50 MMBO gross oil, 30-year field life
 Maximum oil rate 16,900 BOPD
 Current tax laws applied with no changes (incl continuation of tax credits)
 Values shown are net of the tax credit payments by State (~\$300 million)



State's Investment Return From Individual New Cosmopolitan Well Royalties

State's Benefit-to-Cost Ratio versus Average Lease Oil Price

Assumes 023(a) and 023(l) Tax Credit Paid (total 38% of Well Cost)



Reduction/Elimination of Cook Inlet Credits

Particularly in low oil price environments, continuing work on new developments after start-up is mostly impacted by the QCE and WLE credits. The existing WLE credit facilitates drilling of new wells at \$10/bbl lower oil prices.

The NOL credit is less important for continuation of existing developments (low risk, high return for the state) .

Reduction or priority of the credit payment amount by the percentage of non-Alaskan workers in the previous year is impractical.

Investments have already been made and contracts entered into based on the current tax laws.

Any change in future credit payments based on resident hire prior to the effective date of any new law would be a retroactive change.



100% Alaska hire for long-term field operations employees.

Per-company limits for cash payments:

- **Arbitrary – different developments have different needs**
- **Particularly disadvantages small companies like BlueCrest who have invested but do not yet have production**
- **BlueCrest has invested in good faith, based on the tax policy in existence when the investments were committed**
- **BlueCrest has financed the Cosmopolitan development assuming the credits would be paid on time**
- **BlueCrest has already entered into (and financed) spending commitments, based on the State's existing credit repurchase practice**
- **A strong disincentive for future investments**

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Senate Resources Committee Presentation

David Elder
Chief Financial Officer

Bruce Webb
Senior Vice President

April 13, 2016



FURIE
Operating Alaska LLC



Overview: Tax Credits = Jobs



- Tax credits support current and future investments in Alaska
- Investments create jobs and bring revenue to the State and local governments
- Furie has invested over \$700 million in Alaska (drilled 5 wells, installed offshore platform, 15+ miles of subsea pipeline, and Nikiski onshore processing facility)
- During 2015, Furie directly employed over 300 people in Alaska
- 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

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 all Alaskans

- Lower energy prices from increased competition and additional supplies of natural gas
- Increased State revenues from royalties, leases rentals, and property taxes
- New jobs (direct and indirect) and influx of income to local businesses
- Lowers risk of future shortfalls in natural gas supply
- Reduced energy costs in Cook Inlet reduces, heating oil, diesel, jet fuel, and transportation costs of goods shipped throughout Alaska



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)
 - Economics of future investments are at risk without tax credits
- Financing of tax credits provides liquidity required to support capital intensive projects, certainty going forward is needed

Benefits for Alaska

Tax credits are an investment in Alaska's economy that will ensure low-cost energy security and provide a return to the State and its citizens for many years to come.

- Over 300 jobs at peak of development, high probability of future developments
- 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 current 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

Short-list 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	Foss 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	GRL 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	Petro49
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 Heath 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 Lower Gas Prices to Southcentral Alaska



09/20/2015

HEA secures lower price on gas deal with Furie

"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%



03/18/2016

Price drops in Enstar, Furie gas deal

"...the gas price would be...less than...under a contract...with Hilcorp..."

Base Load Prices	<u>2016</u>	<u>2017</u>	<u>2018</u>
Hilcorp Consent Decree	7.42	7.72	8.03
Furie Enstar GSA ¹	-	-	6.70
Reduction %	-	-	-17%

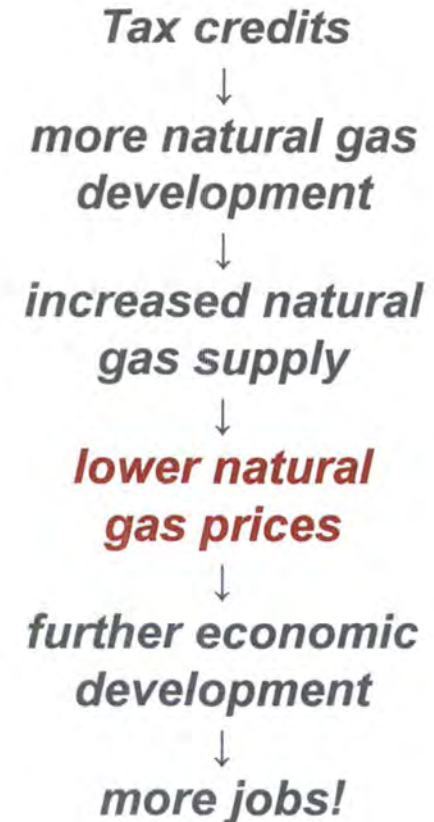


08/12/2015

Chugach, Hilcorp agree on gas supply contract

"...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
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 SB 130 / 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 are due to Alaska's historical support of the oil & gas industry and tax credit programs (low perceived "political risk")

- Lower cost of capital helps fund existing and future development of Alaska's resources

- Lenders require certainty and have now stopped lending
 - Veto of 2015 appropriations almost crippled Furie's ability to access funding in the middle of the infrastructure installation
 - 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
 - E&P companies 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 the Governor's version of SB 130 / HB 247 been passed prior to 2015, Furie would not have been able to continue exploration nor complete it's first development in the Cook Inlet.
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 programs through AIDEA are 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**



Senate Finance Committee

CSSB130

Scott Jepsen, VP External Affairs

Paul Rusch, VP Finance

ConocoPhillips Alaska

April 13, 2016

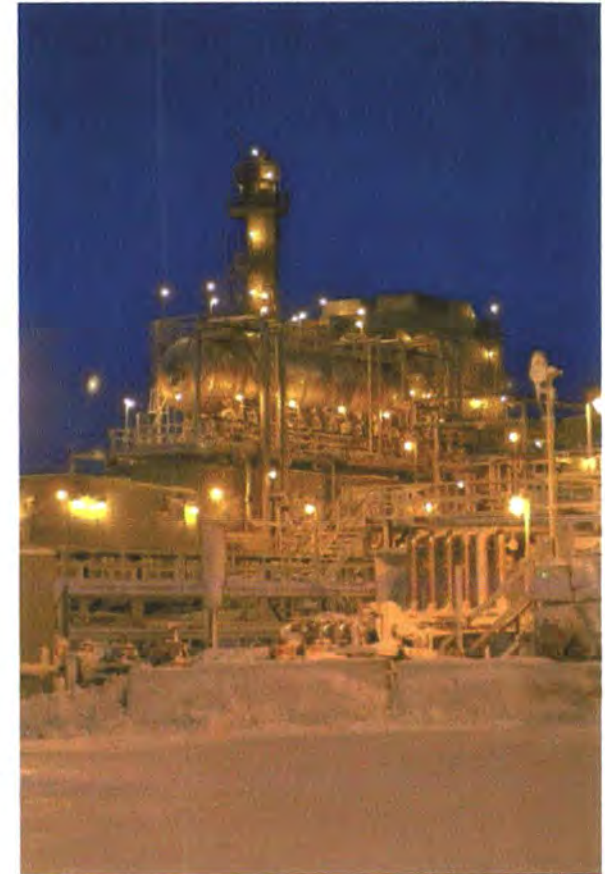
A dark blue decorative bar is located in the bottom right corner of the slide.

Agenda

- Look back since SB21 passed
- Economic Environment
- Key Concerns with SB130
- Observations

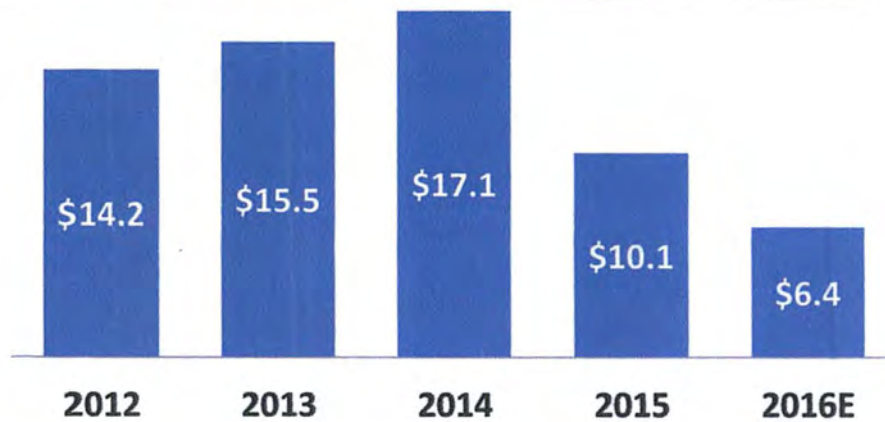
Activities Since Tax reform (MAPA) Passed

- **Added two rigs to the Kuparuk rig fleet**
 - Investment has decreased Kuparuk Unit decline
- **Two new-build rigs are on order – deliver 2016**
- **New Drill site at Kuparuk (DS 2S) – on stream October 12, 2015**
 - Estimated 8,000 BOPD peak production rate
 - About \$500 million gross cost to develop
 - 250+ construction jobs
- **Viscous oil expansion in Kuparuk (1H NEWS)**
 - About 8,000 BOPD gross, 100+ construction jobs
 - About \$450 million gross cost to develop
 - Under construction – first oil 2017
- **New development in NPRA (GMT1)**
 - Final investment decision made late 2015
 - About \$900 million gross cost to develop; peak gross rate ~30,000 BOPD
 - About 600-700 construction jobs
 - First oil 2018
- **Permitting underway for GMT2**
 - \$1+ billion gross investment
 - Will create 600-700 jobs during construction
- **Active Exploration Program**
 - Two wells drilled in 2014
 - Acquired GMT1 Seismic – 2015
 - Three wells in 2016 (NPRA)



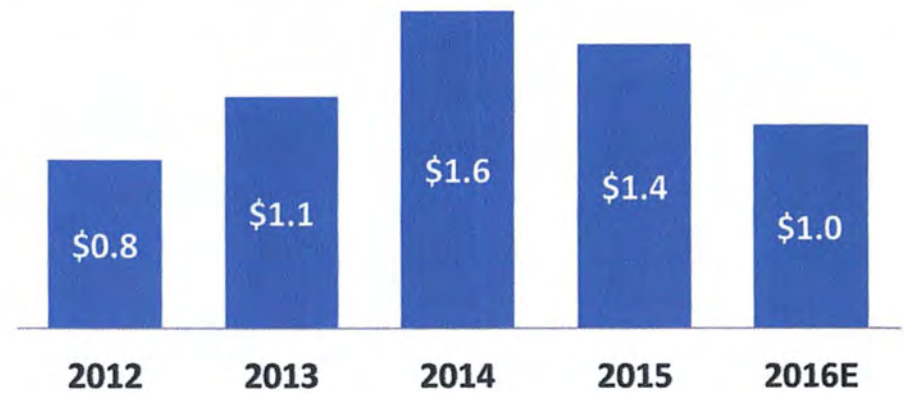
Capital Spending Trends

ConocoPhillips Capital Spend (\$B)



Total Company capital reduced 63% since 2014

ConocoPhillips Alaska Capital Spend (\$B)

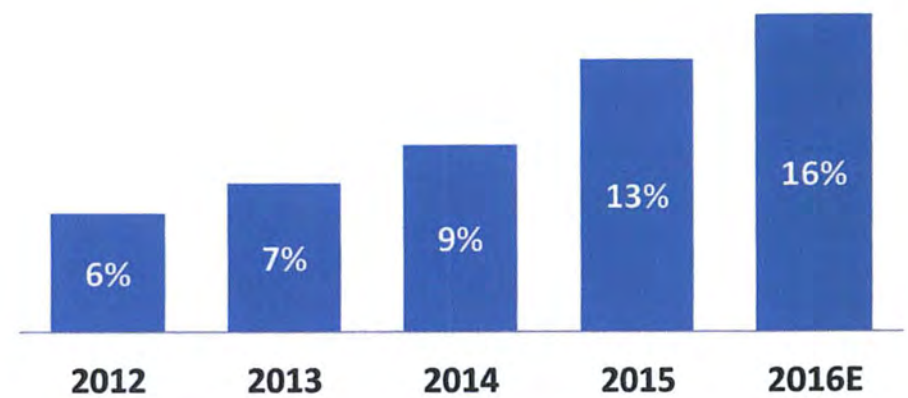


2016E Alaska capex ~ 25% higher than ACES years (~\$0.8 B/yr 2007-2012)

ANS WC Oil Prices (\$/bbl)



Alaska Capex as % of COP Total



North Slope Investors Negative at Current Pricing

2017 FY Cash Flow - Spring 2016 RSB assumptions



State share shown excludes tax credits other than production tax credits

Key Concerns with Original SB130 Bill

- Increase in minimum tax from 4% to 5%
 - 25% tax increase when industry in negative cash flow position
 - ConocoPhillips in excess of \$100 MM cash flow negative in 2015
- Hard minimum tax floor
 - Represents a potential tax increase when oil prices are low – moving in the wrong direction
- Increase interest rate on taxes due
 - Current tax system leads to uncertainty on final tax amount due until audits have been completed
 - Pace of completing audits and appeals (6+ years) leads to excessive interest charges
- Restricting per barrel credits to the monthly installment contradicts the principle of an annual tax levy
- Taxpayer confidentiality

Observations

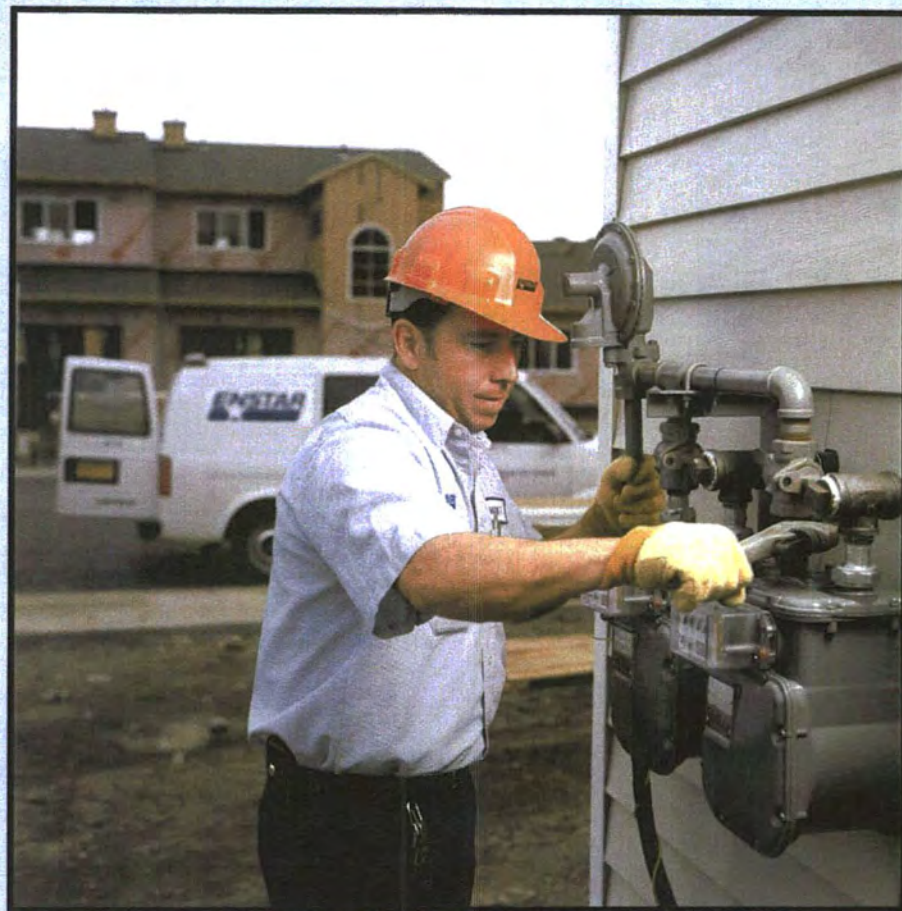
- Senate Resource CSSB130 an improvement over original bill, however we have some concerns:
 - 1) Interest rate too high on amounts owed
 - 2) Time limit on GVR
 - 3) Impacts of removal of the ceiling tax on NS gas used in-state
- Any changes that increase tax burden/costs could adversely impact ConocoPhillips current and future investments
- Significant changes in tax law would validate concerns regarding State's ability to implement a stable oil and gas fiscal policy
 - Only 19 months since SB21 ratified by voters
 - Long-term investment requires durable, reasonable fiscal framework



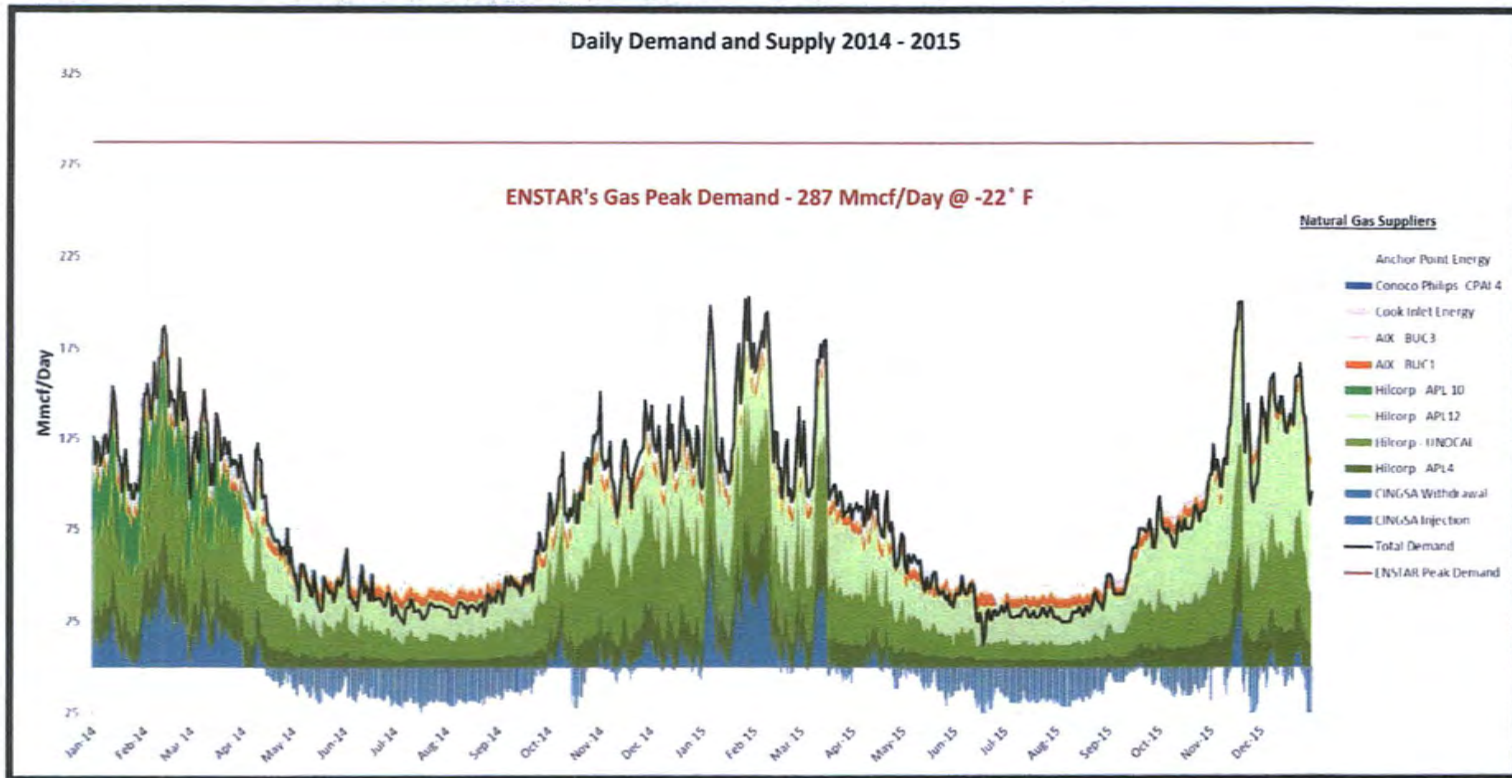
Presentation to the
Senate Finance Committee
April 13, 2016

Natural Gas Supply Needs

- 141,075 Customers
- Anchorage, Anchor Point, Big Lake, Girdwood, Homer, Houston, Kenai, Palmer, Soldotna, Wasilla, and Whittier
- 33 Bcf/year
- Peak deliverability 287 MMcf/day

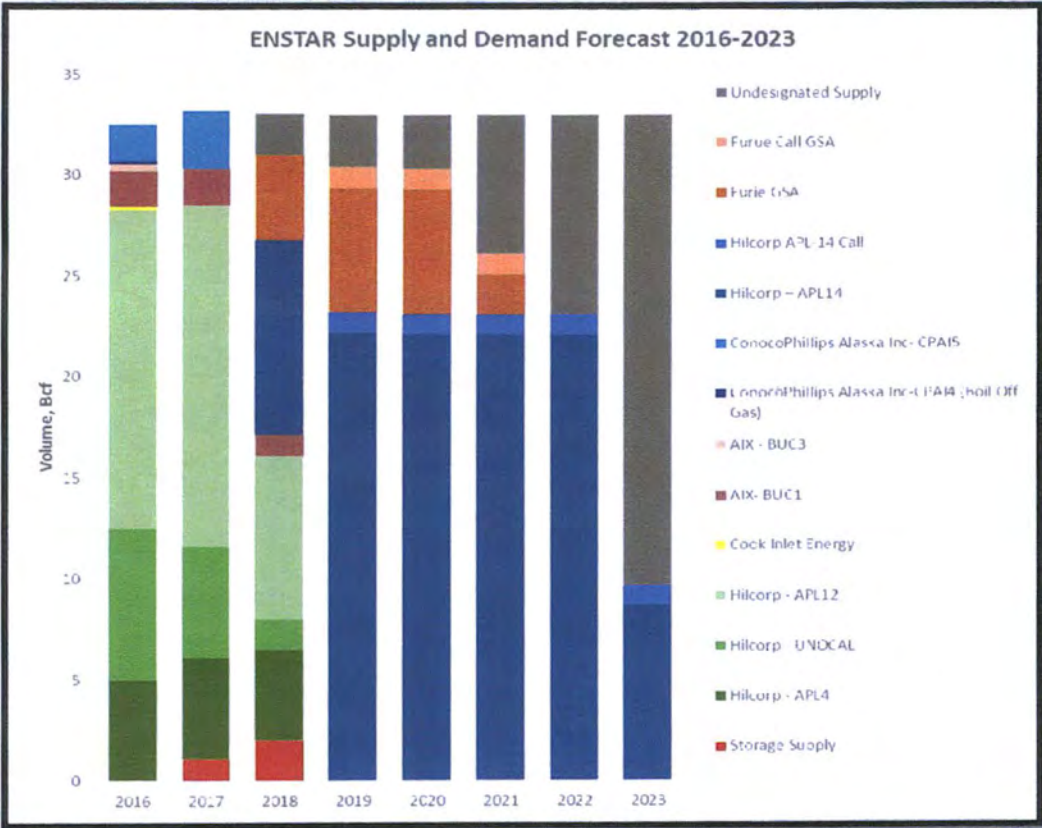


Supply and Demand



Senate Finance Committee

Supply Contracts 2016-23



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Pulling Together to Build Our Future

**Oil and Gas Tax Credit Reform
CS SB130(RES)**

Department of Revenue

**Additional Information and Response to Questions
Presentation to the Senate Finance Committee**

April 14, 2016

**Responses to
Committee Questions
from 4/13 Hearing**

Historic Credits compared to Revenue

FY 2007 thru 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
- \$2.1 billion refunded credits
 - New producers and explorers developing new fields

Non-North Slope (Cook Inlet & Middle Earth)

- \$100 million credits against tax liability
 - Another \$500 to \$800 million Cook Inlet tax reductions (through 2013) due to the tax cap still tied to ELF
- \$900 million refunded credits (most since 2013)

Historic Credits compared to Revenue

Total Petroleum Revenue FY 2007 thru 2015

North Slope

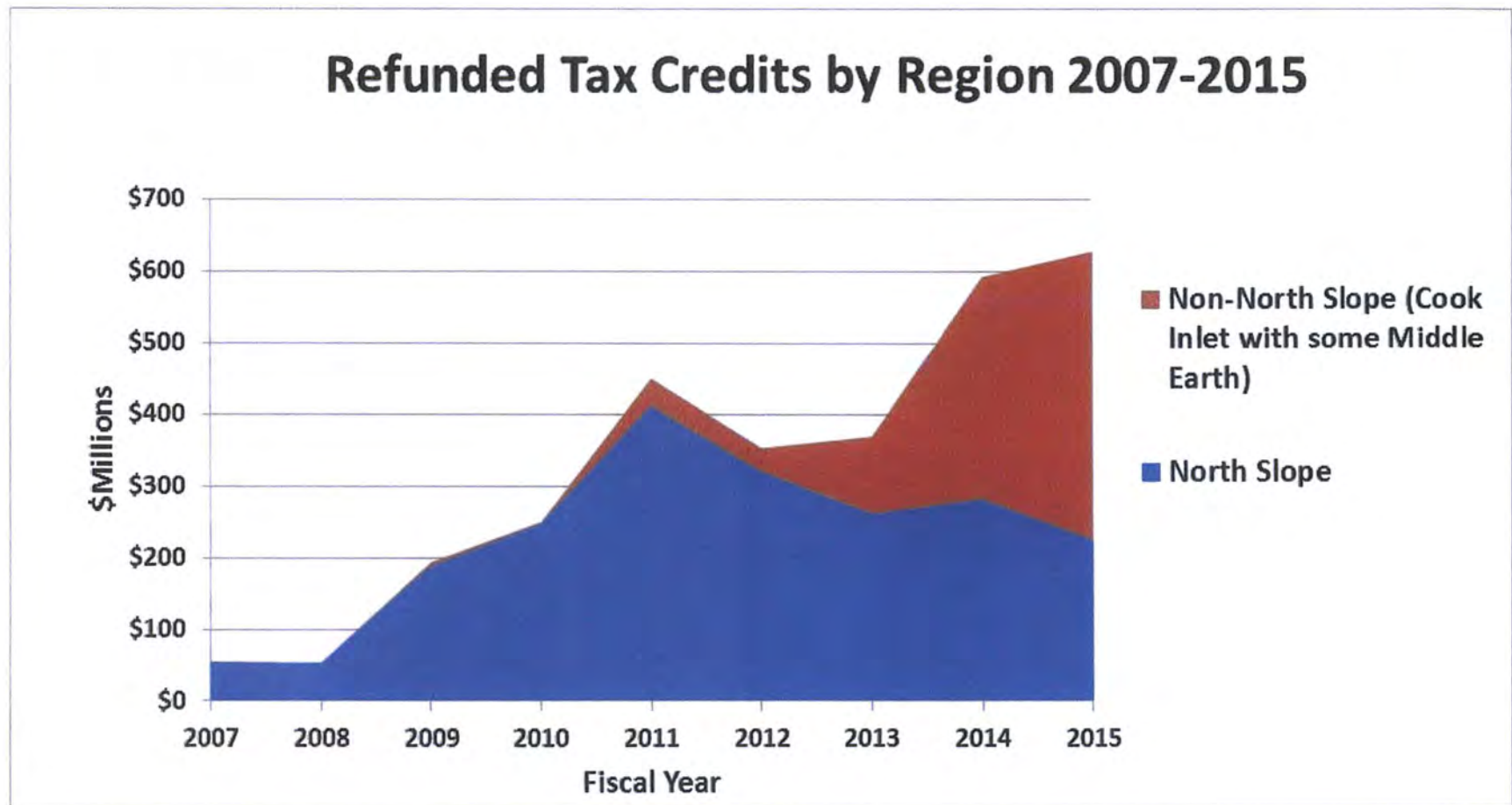
Production Tax	\$32.8 billion
Royalties (unrestricted)	\$15.0 billion
Other GF Revenue	\$4.7 billion
<u>Restricted Revenue</u>	<u>\$8.7 billion</u>
Total	\$61.1 billion

Non-North Slope (Cook Inlet & Middle Earth)

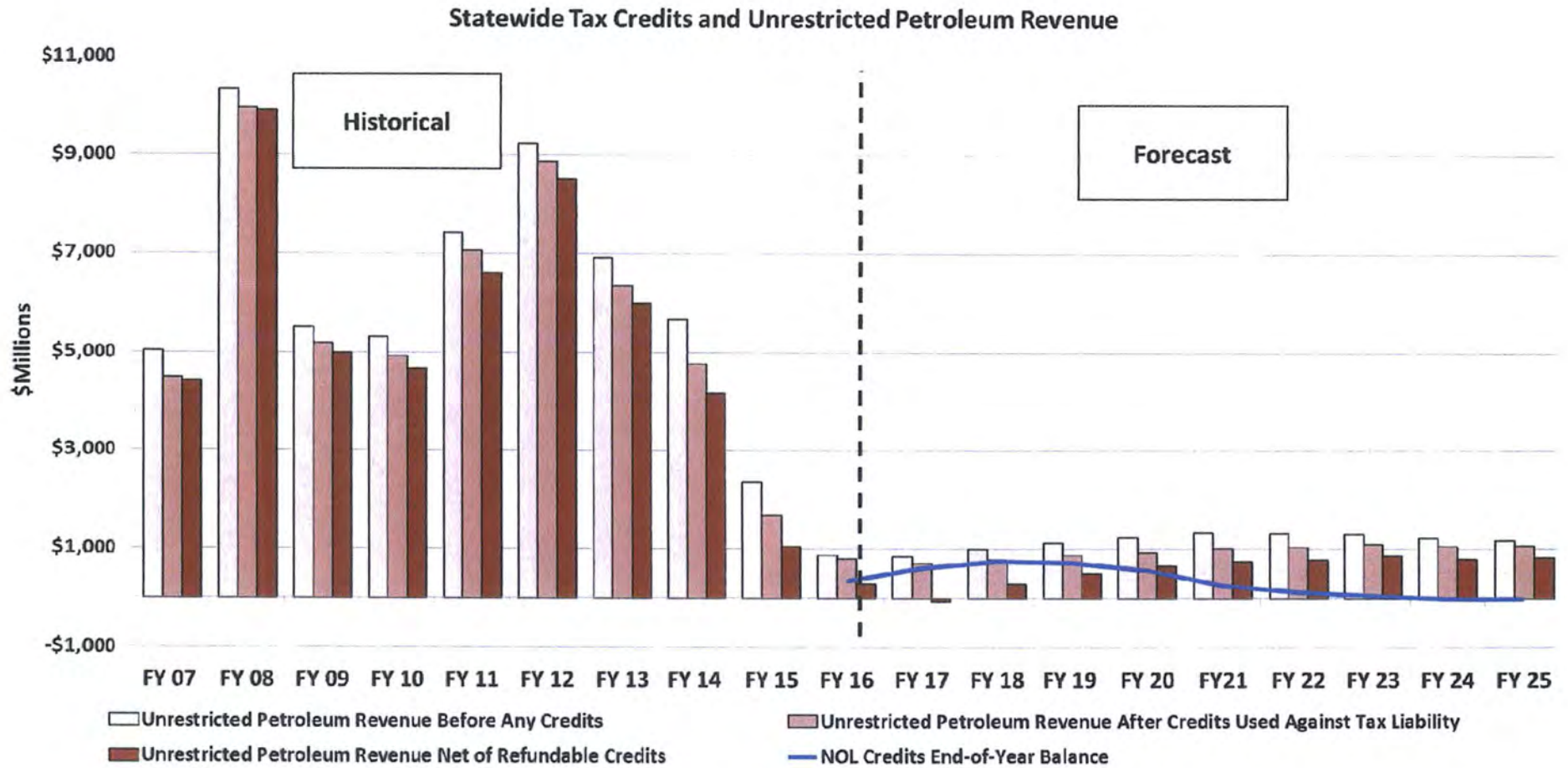
Production Tax	<\$0.1 billion
Royalties (unrestricted)	\$0.5 billion
Other GF Revenue	\$0.3 billion
<u>Restricted Revenue</u>	<u>\$0.2 billion</u>
Total	\$1.0 billion

Historic Credits compared to Revenue

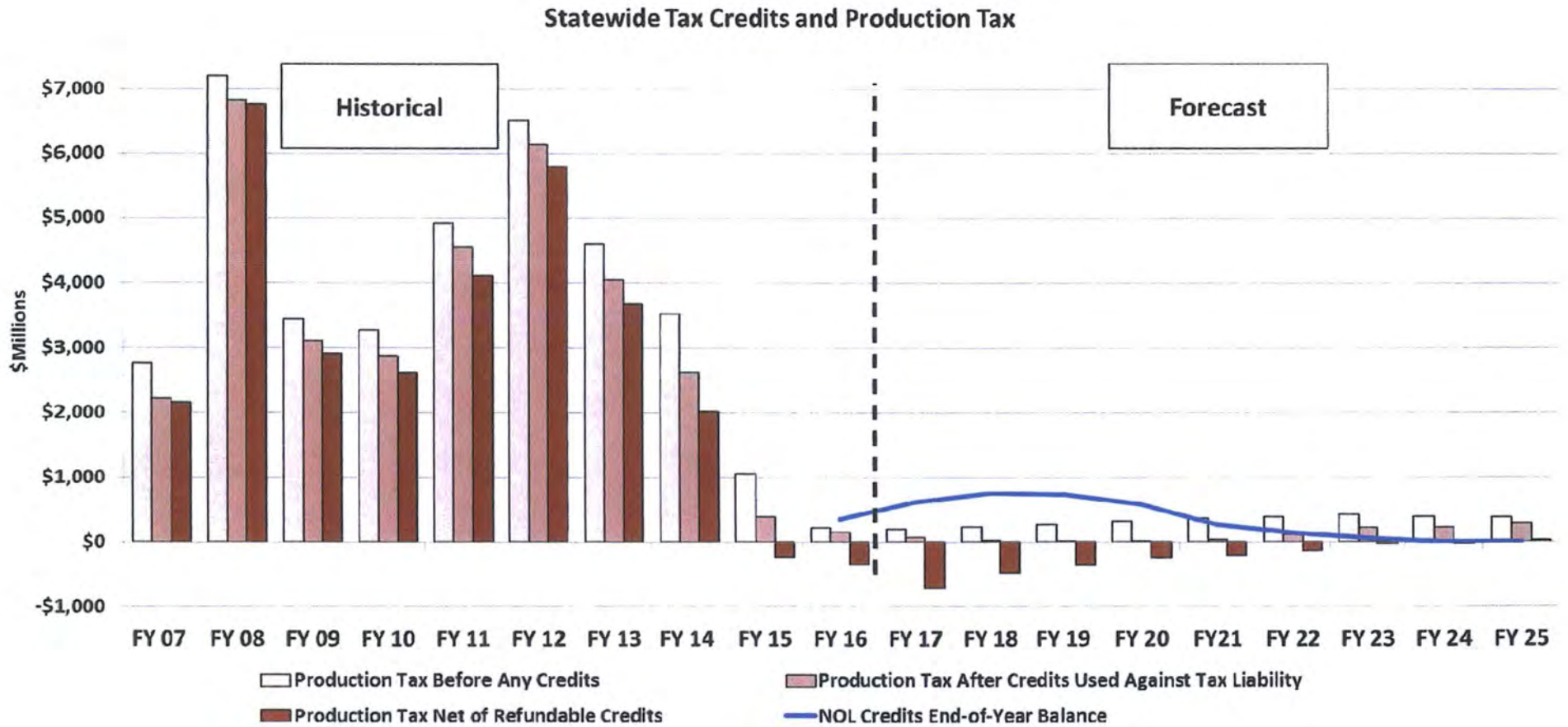
- Tremendous growth in non-North Slope (almost entirely Cook Inlet) refunded credits since FY10



Historic and Forecasted O&G Revenue and Tax Credits



Historic and Forecasted Production Tax and Credits



Status of Credit Fund Demand for FY16-17

- **FY16 Appropriation Capped at \$500 million**
 - \$473 million paid out to date
 - About \$200 million North Slope, \$273 million non-North Slope
 - \$27 million left in fund with \$4 million in-process claims
- **Current DOR Work Pool \$675 million**
 - \$10 million in older NOL credits
 - \$22 million in older exploration credits
 - \$552 million in 2015 NOL, QCE, WLE credits
 - \$60 million in 2015 exploration credits
 - \$31 million additional 2015 NOL, QCE, WLE expected via amended returns

Status of Credit Fund Demand for FY16-17

Detail on Current Tax Division Work Pool of Refundable Credit Applications

(All amounts in \$millions)

Amount	Description	North Slope	CI / ME
\$10	Older NOL Credits	\$7	\$3
\$22	Older Exploration Credits	\$0	\$22
\$552	2015 NOL, QCE, WLE	\$335	\$217
\$60	2015 Exploration	\$53	\$7
\$31	Additional 2015 Amended	\$27	\$4
\$675		\$422	\$253

Status of Credit Fund Demand for FY16-17

Status of Credit Fund / Demand for FY16-17

- All the “in hand” applications, if eligible, result in a known demand for FY2017 of **\$652 million**
- This is very current information, based on the CY15 tax “true-up” which was due on Thursday 3/31
- Expected credit applications during CY2016, which could also be paid in FY17:
 - Another \$40 million in quarterly requests for QCE and WLE outside the North Slope
 - Another \$60 million in “last minute” exploration claims
 - About \$20 million in LNG storage and refinery claims
- Total, matching “final” Spring 2016 forecast, \$775 million- slight reduction from \$825 million “prelim”

Potential NOL Carry-Forward Liability

Growing Carried Forward NOL's: A New Problem

- Since the beginning (2007) all companies except the three major producers have been able to receive cash for their tax credits. Majors must “carry them forward”
 - Companies producing less than 50,000 bbl /day
 - Hilcorp crossed over this threshold in 2015
- One or more of the majors had an operating loss in 2015. That becomes an NOL credit that can be used against taxes starting this January (to reduce payments below the minimum tax, as far as zero)
 - This only partly offsets minimum tax payments this calendar year. We still have some positive production tax income.
- With the Spring Revenue Forecast, we now see all three majors with much larger losses in 2016, and possibly for years beyond

Potential NOL Carry-Forward Liability

Oil and Gas Tax Credit Fund: Budgeted vs. Actual vs. Statutory Tax Credit Fund Transfer Cap
(Beginning with the first budget cycle after the passage of ACES in November 2007)

Fiscal Year	Original Appropriation (\$million)	Actual Claimed Credits (\$million)	Actual Production Tax (\$million)	Plus Credits Against Liab (\$million)	AS 43.55.011 Revenue (\$million)	Oil Price Per Spring 16 Forecast	Credit Cap per AS 43.55.028(c)	End Year Fund Balance	Non-Cashable Carried-Forward Liability	Total Credit Oblig
Actual										
FY09	not to exceed \$175	\$193	\$3,101	\$334	\$3,435	\$85.73	\$343	\$150	\$0.0	n/a
FY10	unspec **	\$250	\$2,861	\$412	\$3,273	\$65.70	\$327	\$228	\$0.0	n/a
FY11	est. \$180	\$450	\$4,543	\$361	\$4,904	\$73.32	\$490	\$268	\$0.0	n/a
FY12	est. \$400	\$353	\$6,137	\$363	\$6,500	\$94.70	\$650	\$565	\$0.0	n/a
FY13	est. \$400	\$369	\$4,043	\$550	\$4,593	\$110.44	\$459	\$655	\$0.0	n/a
FY14	est. \$400	\$593	\$2,589	\$919	\$3,508	\$109.61	\$351	\$413	\$0.0	n/a
FY15	est. \$450	\$628	\$363	\$664	\$1,027	\$95.24	\$103	(\$112)	\$0.0	(\$112)
FY16	est. \$700	\$500	\$133	\$70	\$203	\$39.52	\$30	(\$582)	(\$357)	(\$939)
Forecasted										
FY16	est. \$700	\$500	\$134	\$70	\$204	\$39.99	\$500	\$0	(\$357)	(\$357)
FY17	\$73.4 (tent)	\$775	\$59	\$135	\$194	\$38.89	\$29	(\$746)	(\$618)	(\$1,364)
FY18	n/a	\$500	\$16	\$205	\$221	\$43.79	\$33	(\$1,213)	(\$751)	(\$1,964)
FY19	n/a	\$375	\$11	\$250	\$261	\$48.89	\$39	(\$1,549)	(\$732)	(\$2,281)
FY20	n/a	\$270	\$13	\$305	\$318	\$54.48	\$48	(\$1,771)	(\$585)	(\$2,356)
FY21	n/a	\$250	\$33	\$325	\$358	\$60.29	\$36	(\$1,985)	(\$265)	(\$2,250)
FY22	n/a	\$250	\$110	\$275	\$385	\$61.64	\$39	(\$2,197)	(\$136)	(\$2,333)
FY23	n/a	\$250	\$217	\$205	\$422	\$63.05	\$42	(\$2,404)	(\$59)	(\$2,463)
FY24	n/a	\$250	\$212	\$170	\$382	\$64.45	\$38	(\$2,616)	\$0	(\$2,616)
FY25	n/a	\$250	\$275	\$95	\$370	\$65.90	\$37	(\$2,829)	\$0	(\$2,829)

Potential Revenue Loss from Reduced Credits

- CSSB130 (RES) does impact project economics
 - As part of a broader structural reform to Alaska's finances, the state will be in a better position to meet the credit obligations it does have and provide a more stable fiscal climate overall.
 - DOR cannot predict specific projects that may be accelerated or deferred as a result of CSSB 130 (RES) or other fiscal reforms
- Testimony by others has compared the impact of SB 130 to total royalty revenue received by the state
 - The following table shows how those two amounts compare under the Spring 2016 revenue forecast
 - By the final year of the fiscal note, the midpoint impact of CSSB 130(RES) represents approximately 14% of anticipated petroleum revenue

Potential Revenue Loss from Reduced Credits

Production would have to drop by an additional 9% for the cost to the state from lost royalties to exceed the benefit of the bill. In 2022, this would mean about 35k bbl / day

- This assumes that the “lost” production would pay taxes and royalties at the same rate as average production; more likely the marginal projects would pay less
- Also, much of the fiscal impact of CSSB130 is specific to Cook Inlet, where revenue per barrel is substantially less

CSSB130(RES) Estimated Fiscal Impact vs Spring 2016 Total Petroleum Revenue Forecast

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Midpoint Fiscal Impact (\$millions)	\$5	\$55	\$75	\$70	\$118	\$123
Total Petroleum Revenue (\$millions)	\$1,027	\$1,135	\$1,258	\$1,344	\$1,414	\$1,427
Ratio	0%	5%	6%	5%	8%	9%

Fiscal impact is midpoint of range per DOR fiscal note dated 4-12-16. Total petroleum revenue is per Spring 2016 forecast and includes restricted revenue such as Permanent Fund / School fund royalties.



Credit Cost in Perspective

Credit Cost in Perspective

Of the \$3 billion in state-refunded credits through the end of FY15:

- \$1.45 billion went to six North Slope projects that now have production
- \$650 million went to 13 North Slope projects that do not have any production. Some of these are abandoned, and some are in process
- \$450 million went to six non-North Slope projects that have production
- \$450 million went to eight non-North Slope projects that do not have any production

Credit Cost in Perspective

North Slope Refundable Credits

Of the \$1.45 billion that was spent between FY07-FY15 supporting six producing projects:

- Total production through end of FY15 is 38.5 million barrels
- Total credits = **\$37.30** / barrel
 - This number will decrease over time due to additional production from these fields
- Lease expenditures for these projects, through FY15, were \$4.94 billion
 - Credit support was **29%** of lease expenditures

Credit Cost in Perspective

Cook Inlet Refundable Credits

Of the \$450 million that was spent between FY07-FY15 supporting six producing projects:

- Total production through end of FY15 is 55.9 million BOE (much of this was gas)
- Total credits = **\$7.80** / BOE or about **\$1.30** / mcf
 - This number will decrease over time due to additional production from these fields
- Lease expenditures for these projects, through FY15, were \$1.09 billion
 - Credit support was **40%** of lease expenditures

Credit Cost in Perspective

Cook Inlet Tax Caps

- Estimated value to industry \$550-\$850 over the years 2007-2013
- Total Production Estimate
 - Gas: ~ 250 million cubic feet / day for seven years = 640 BCF of gas or 106 million BOE
 - Oil: ~ 10,000 barrels / day for seven years = 26 million BOE
 - Total Production = 132 million BOE
- Using midpoint \$700 million estimate, value of caps = **\$5.30** / barrel or **\$0.88** / mcf
- **Sum of Credits + Tax Caps: \$2.18 / mcf**



Key Bill Provisions / Decision Points

Key Bill Provisions and Decision Points

Preventing certain credits from being used against the minimum tax, or “floor”

This is really three different issues / policy questions
All of these only pertain to the North Slope:

- 1) Net Operating Loss for producers not eligible for refundable credits**
(should major producers be able to go below the floor?)
- 2) Per-Barrel Credits for GVR “New” Oil**
(should the tax on production from new fields be allowed to go to zero? Relation to GVR “graduation?”)
- 3) Small Producer / Exploration Credits**
(should everyone, not just major producers, pay a minimum tax?)

Key Bill Provisions and Decision Points

Repurchase Limits

Historic Notes on large annual credits:

Over the 2007-2016 history of the tax credit program:

- There has only been **one** instance of a company who ever received **> \$200** million in a single year
- **Five** times ever when one company received between **\$100 - \$200** million in one year
- **11** times ever when one company received between **\$50 - \$100** million in one year

Key Bill Provisions and Decision Points

To-date cost of Sunsetting Credits


Exploration Credits (various) 2007-sunset

- North Slope Refunded: \$270 million
- North Slope Against Liability: \$190 million
- Non-North Slope Refunded: \$160 million
- Non-North Slope Against Liability: \$0

Small Producer Credits 2007-2016

- North Slope Against Liability: \$340 million
- Non-North Slope Against Liability: \$60 million
- (these cannot be refunded)

Total: slightly over \$1 billion



Overview of Tax and Credit Calculations

Overview of Tax and Credit Calculations

How the Production Tax Works at \$100 oil

Tax on a single barrel of taxable North Slope oil.

We currently have about 160 million taxable barrels / year

Market Price	\$100
<u>Transport Cost</u>	<u>\$10</u>
Gross Value	\$90
<u>Lease Expenditures</u>	<u>\$35</u>
Production Tax Value	\$55
Tax @ 35%	\$19.25
<u>Per-Barrel Credit</u>	<u>\$6.00</u>
Net Payment	\$13.25
Minimum Tax Gross x 4%	\$3.60
<u>Higher Of (Actual Tax)</u>	<u>\$13.25</u>
Approx. Annual Revenue	\$2.1 billion

Overview of Tax and Credit Calculations

At \$70 Oil, the “minimum tax” takes over

Market Price	\$70
Transport Cost	\$10
<hr/>	
Gross Value	\$60
Lease Expenditures	\$35
<hr/>	
Production Tax Value	\$25
Tax @ 35%	\$8.75
Per-Barrel Credit	\$8.00
<hr/>	
Net Payment	\$0.75
Minimum Tax Gross x 4%	\$2.40
Higher Of (Actual Tax)	\$2.40
<hr/>	
Approx. Annual Revenue	\$380 million

Overview of Tax and Credit Calculations

At \$40 Oil, producers have operating losses

Market Price	\$40
Transport Cost	\$10
<hr/>	
Gross Value	\$30
Lease Expenditures	\$35
<hr/>	
Production Tax Value	(\$5)
<i>Approx. Operating Loss</i>	<i>\$800 million</i>
Tax @ 35%	(\$1.75)
Per-Barrel Credit	\$8.00
<hr/>	
Net Payment	(\$9.75)
Minimum Tax Gross x 4%	\$1.20
Higher Of (Actual Tax)	\$1.20
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Approx. Annual Revenue	\$190 million
<i>Carried Forward Loss Credit 35%</i>	<i>\$280 million</i>

Overview of Tax and Credit Calculations

\$40 for second year means Operating Loss credits can be used to reduce payments below the minimum tax

	Year 1	Year 2
Market Price	\$40	\$40
Transport Cost	\$10	\$10
Gross Value	\$30	\$30
Lease Expenditures	\$35	\$35
Production Tax Value	(\$5)	(\$5)
<i>Approx. Operating Loss</i>	<i>\$800 million</i>	<i>\$800 million</i>
Tax @ 35%	(\$1.75)	(\$1.75)
Per-Barrel Credit	\$8.00	\$8.00
Net Payment	(\$9.75)	(\$9.75)
Minimum Tax Gross x 4%	\$1.20	\$1.20
Higher Of (Actual Tax)	\$1.20	\$1.20
Approx. Annual Revenue	\$190 million	\$190 million
Less Carried-Forward Loss Credit		(\$190 million)
Actual Tax Payment	\$190 million	\$0
<i>Carried-Forward Loss Credit 35%</i>	<i>\$280 million</i>	<i>\$370 million</i>



Intro, Samples, and Summary of Scenario Analysis Model

Introduction to Scenario Analysis

- The Tax Division has developed a new model, looking at project life cycles
- Cash flow over the 30-40 year life of a project, for the state's production tax and credits, all state revenue, the producer's cash flow, and discounted (NPV)
- Scenarios Analyzed at \$40, \$60, \$80, and Fall Forecast oil price
- Status quo modeled vs. Governor's original bill
- Full modeling runs can be provided as a separate document

Introduction to Scenario Analysis

Fields Analyzed:

North Slope Oil Scenarios

- 50 million barrel
- 750 million barrel (12.5% Royalty / 20% GVR)
- 750 million barrel (16.67% Royalty / 30% GVR)
- 750 million barrel (50% Private Royalty)

Cook Inlet Oil Scenarios

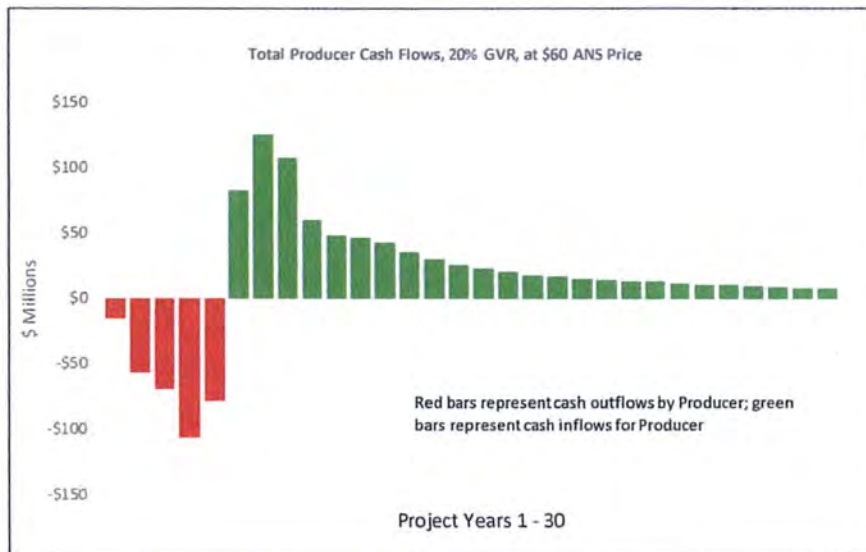
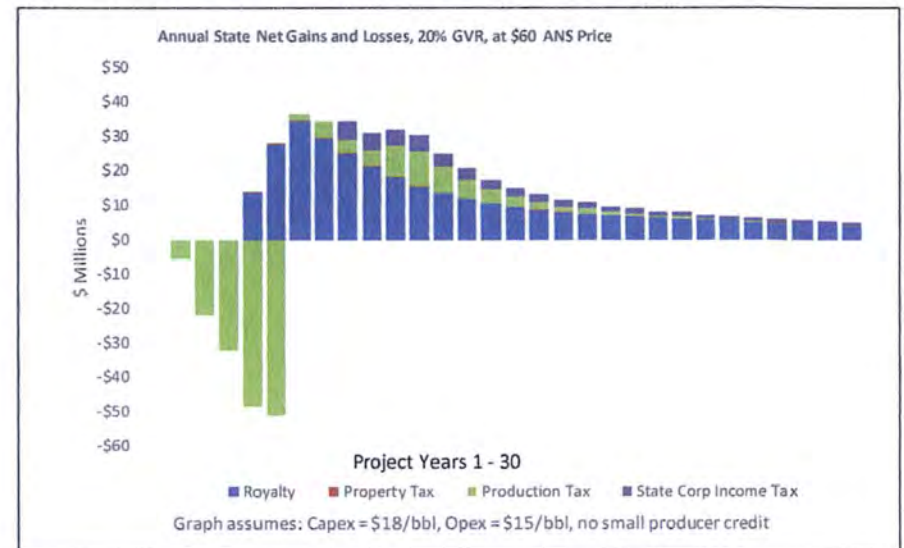
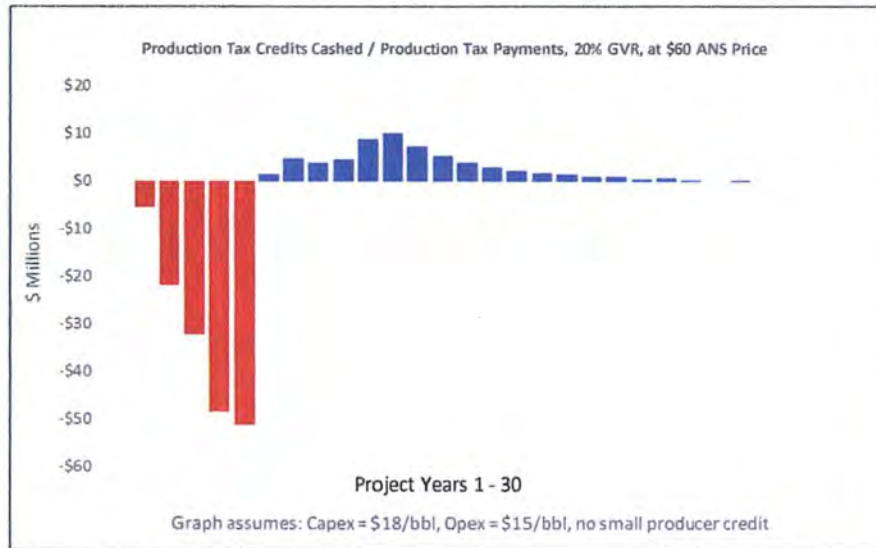
- 50 million barrel (tax caps sunset)
- 50 million barrel (tax caps extended)

Gas Scenarios

- 670 bcf Cook Inlet Gas (tax cap sunset and extended)
- 670 bcf Middle Earth Gas

Sample of Scenario Analysis

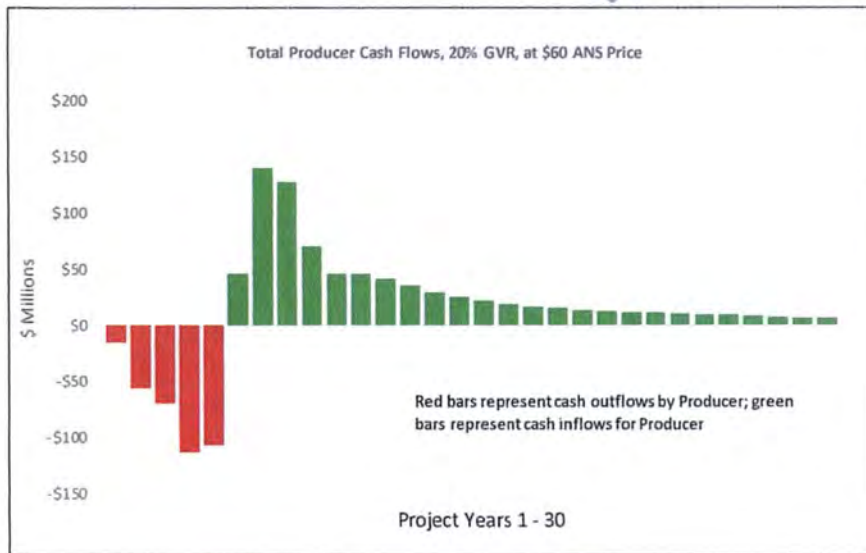
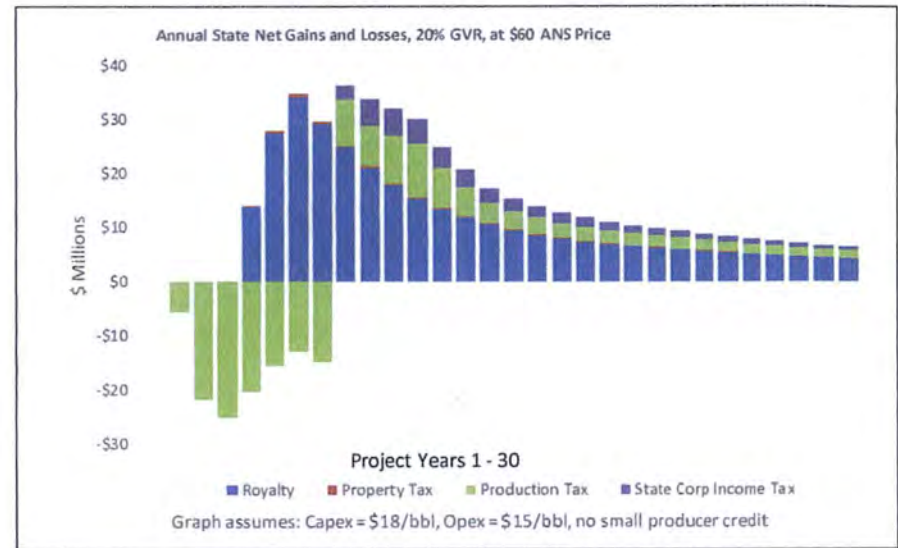
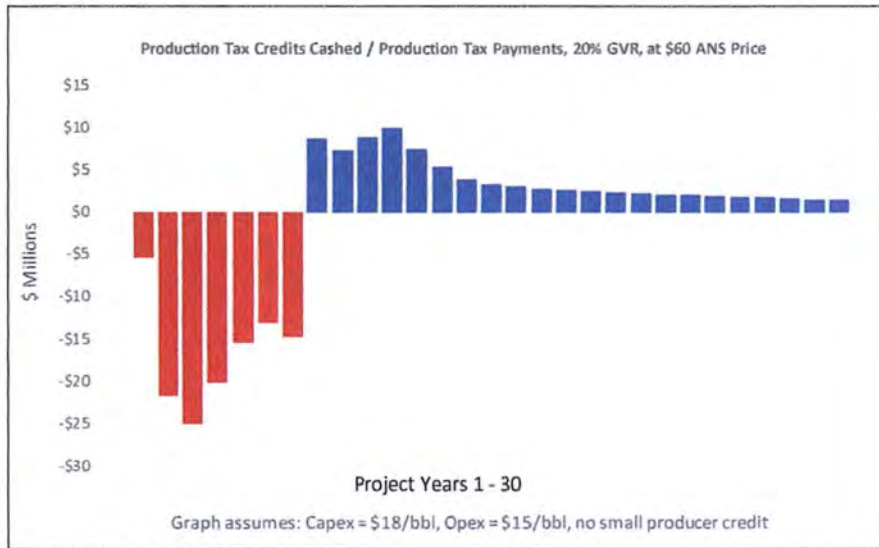
North Slope- 50 mmbo Status Quo, \$60/bbl (revised)



Life Cycle Totals	\$Millions
Production Tax Credits Cashed	159
Production Tax Paid	61
Net Production Tax	-97
Production Tax NPV 6.15%	-91
Total Annual State Losses	117
Total Annual State Gains	387
Net State Gain (Loss)	270
State NPV 6.15%	87
Total Producer Cash Out	327
Total Producer Cash In	808
Net Producer Cash Flow	481
Producer Cash NPV 6.15%	146

Sample of Scenario Analysis

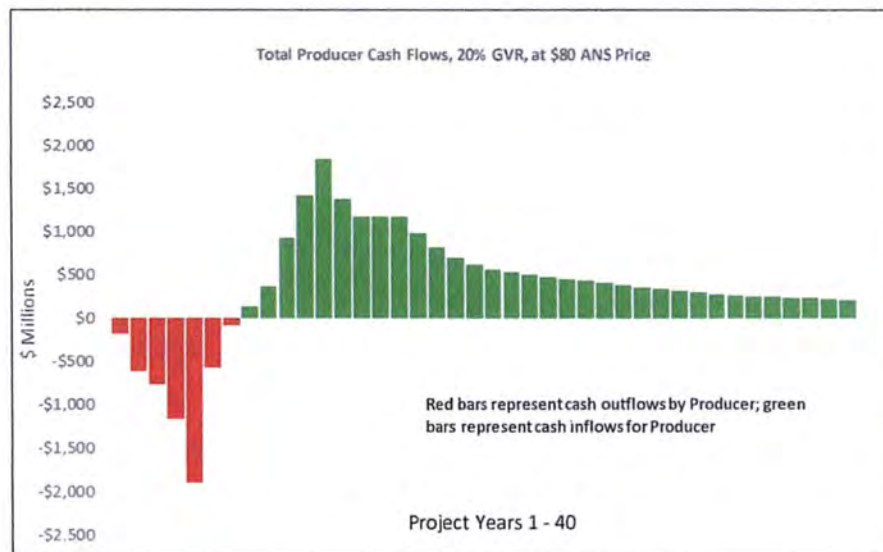
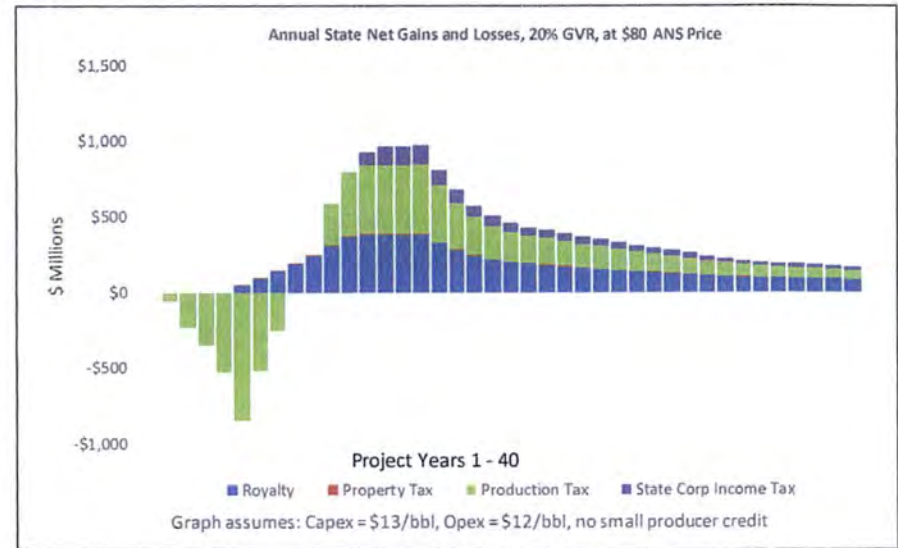
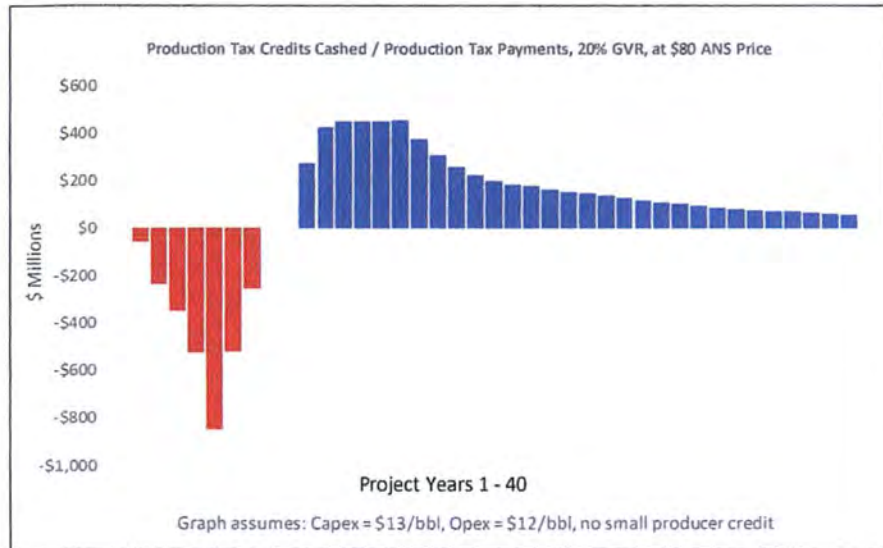
North Slope- 50 mmbo SB130, \$60 / bbl (revised)



Life Cycle Totals	\$Millions
Production Tax Credits Cash	116
Production Tax Paid	84
Net Production Tax	-32
Production Tax NPV 6.15%	-51
Total Annual State Losses	59
Total Annual State Gains	390
Net State Gain (Loss)	332
State NPV 6.15%	124
Total Producer Cash Out	362
Total Producer Cash In	803
Net Producer Cash Flow	441
Producer Cash NPV 6.15%	33 119

Sample of Scenario Analysis

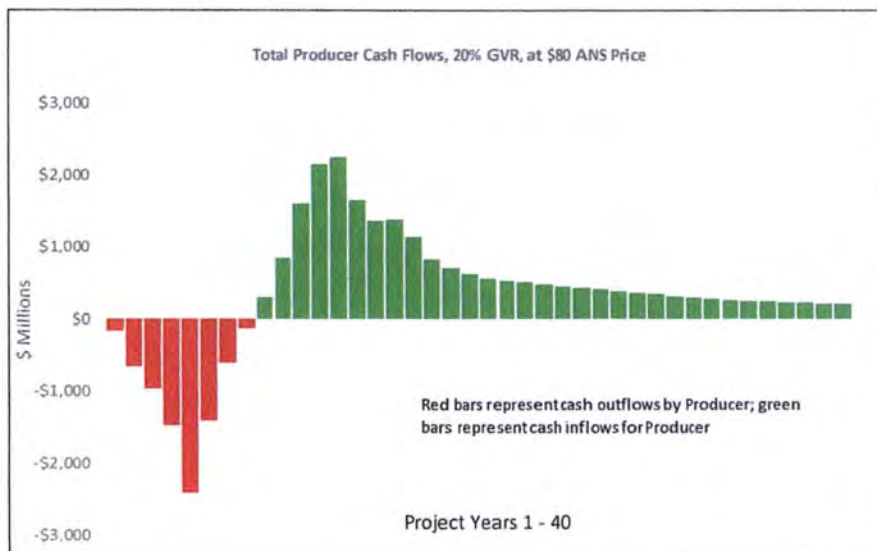
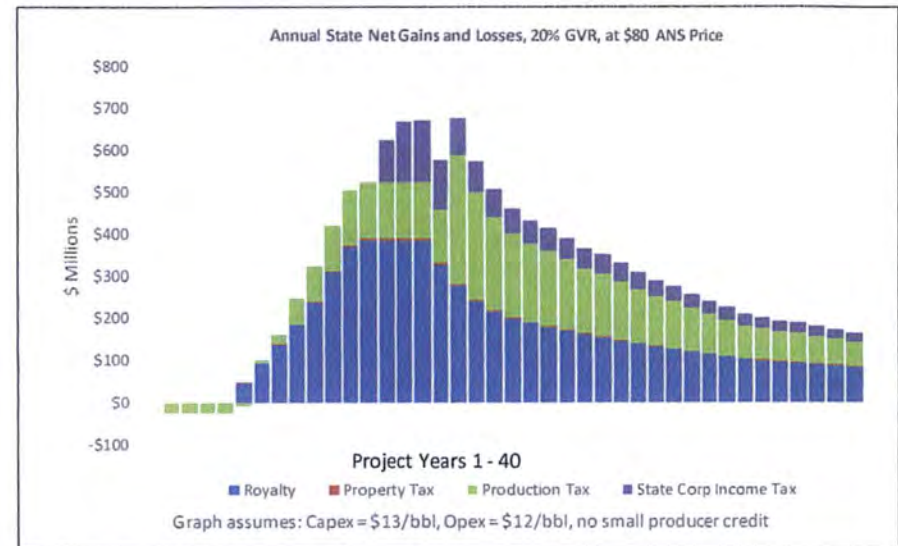
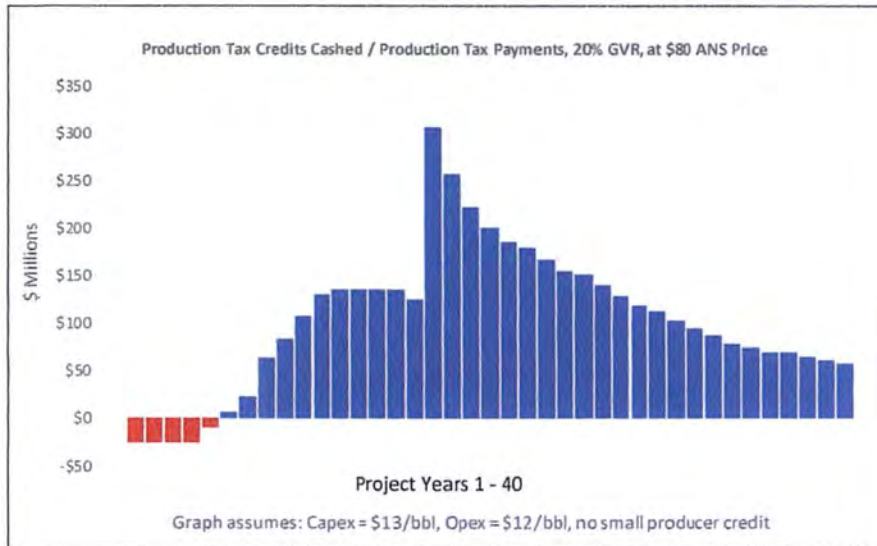
North Slope- 750 mmbo Status Quo, \$80/bbl (revised)



Life Cycle Totals	\$Millions
Production Tax Credits Cashed	2,797
Production Tax Paid	5,972
Net Production Tax	3,176
Production Tax NPV 6.15%	-58
Total Annual State Losses	2,520
Total Annual State Gains	13,868
Net State Gain (Loss)	11,348
State NPV 6.15%	2,660
Total Producer Cash Out	5,258
Total Producer Cash In	19,772
Net Producer Cash Flow	14,514
Producer Cash NPV 6.15%	2,803

Sample of Scenario Analysis

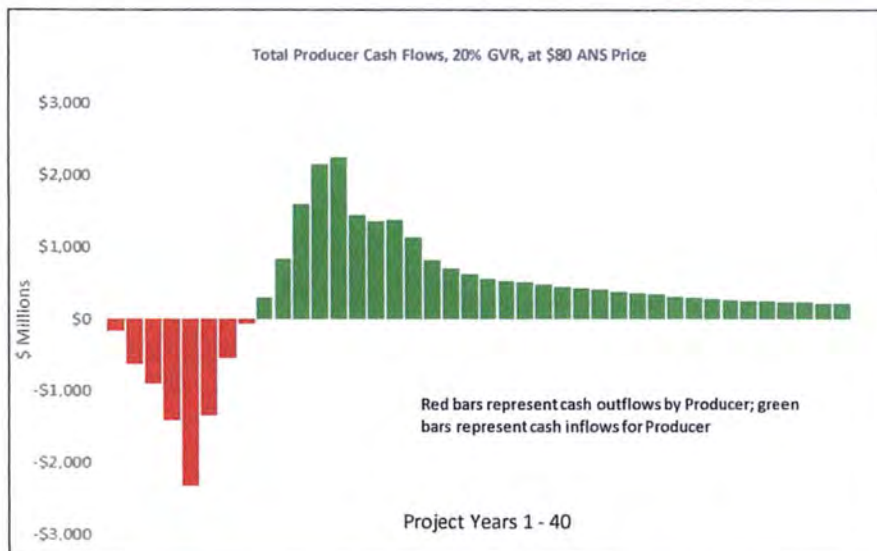
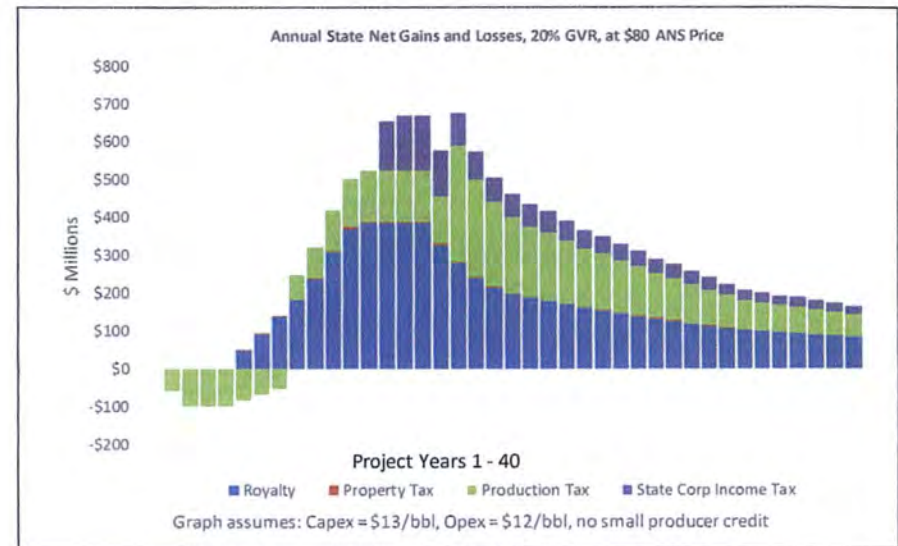
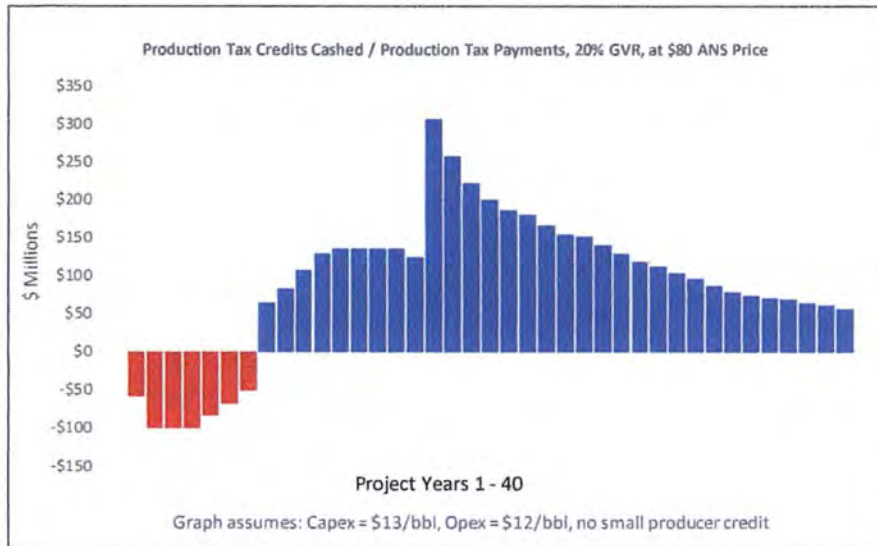
North Slope- 750 mmbo SB130, \$80 / bbl (revised)



Life Cycle Totals	\$Millions
Production Tax Credits Cashed	109
Production Tax Paid	4,163
Net Production Tax	4,054
Production Tax NPV 6.15%	1,108
Total Annual State Losses	100
Total Annual State Gains	12,269
Net State Gain (Loss)	12,169
State NPV 6.15%	3,797
Total Producer Cash Out	7,832
Total Producer Cash In	21,811
Net Producer Cash Flow	13,980
Producer Cash NPV 6.15%	1,816

Sample of Scenario Analysis

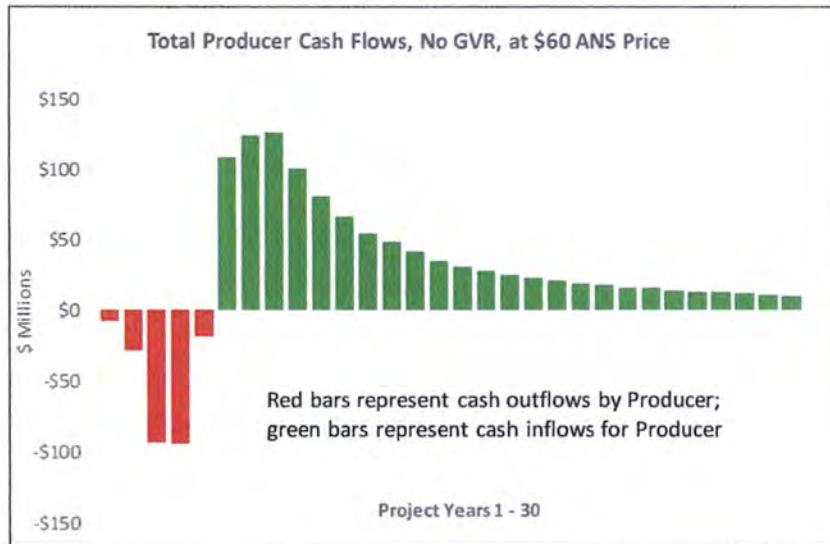
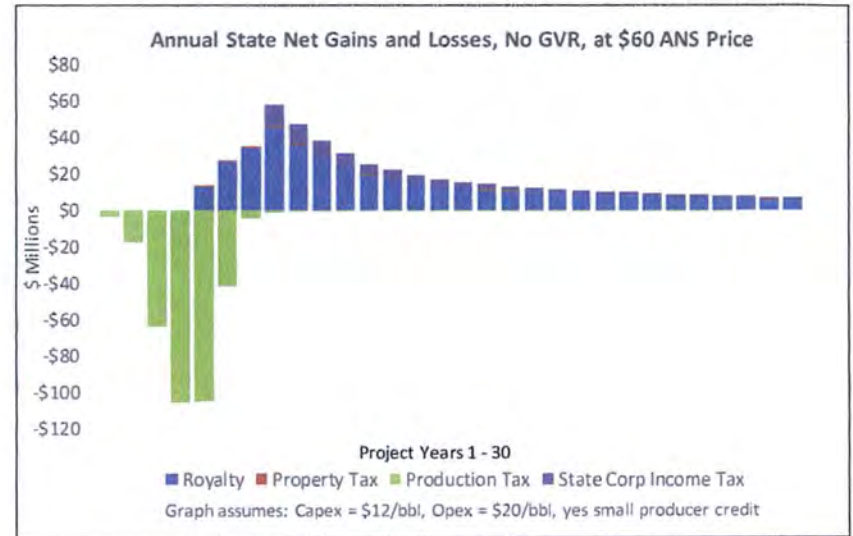
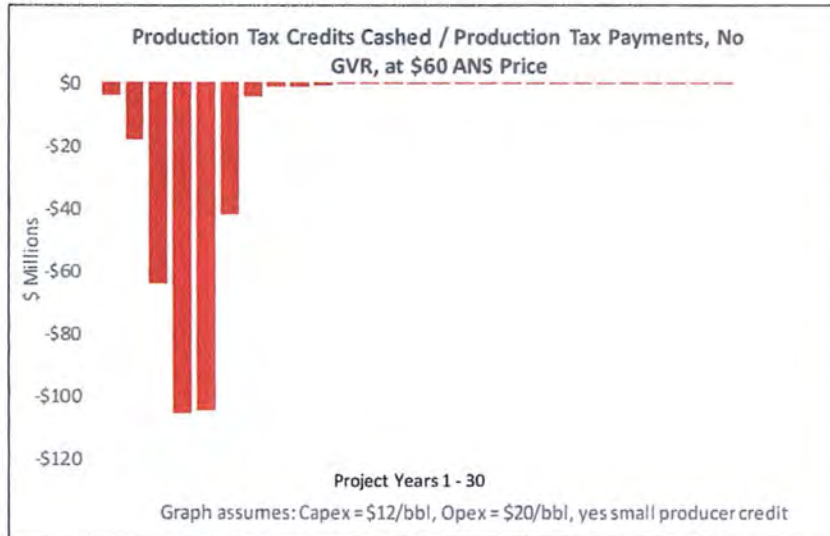
North Slope- 750 mmbo SB 130 with \$100M credit cap, \$80 / bbl



Life Cycle Totals	\$Millions
Production Tax Credits Cashed	564
Production Tax Paid	4,134
Net Production Tax	3,570
Production Tax NPV 6.15%	752
Total Annual State Losses	397
Total Annual State Gains	12,114
Net State Gain (Loss)	11,716
State NPV 6.15%	3,454
Total Producer Cash Out	7,347
Total Producer Cash In	21,621
Net Producer Cash Flow	14,274
Producer Cash NPV 6.15%	2,090

Sample of Scenario Analysis

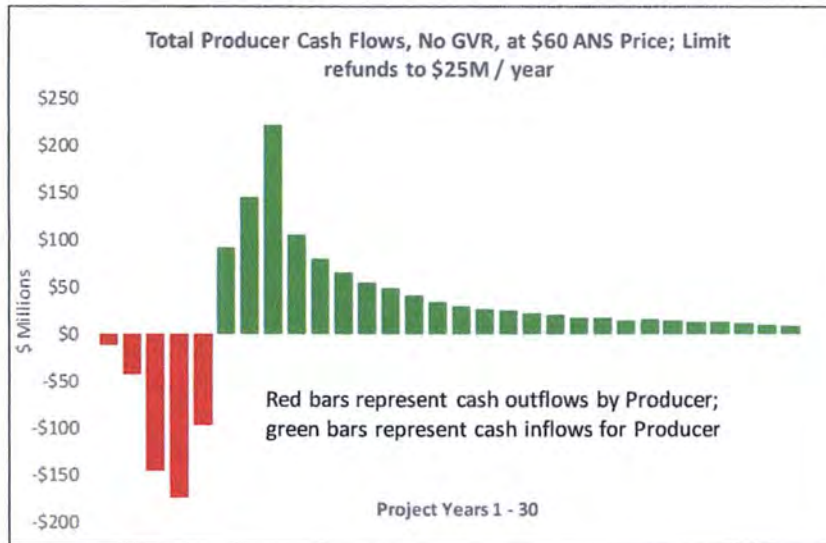
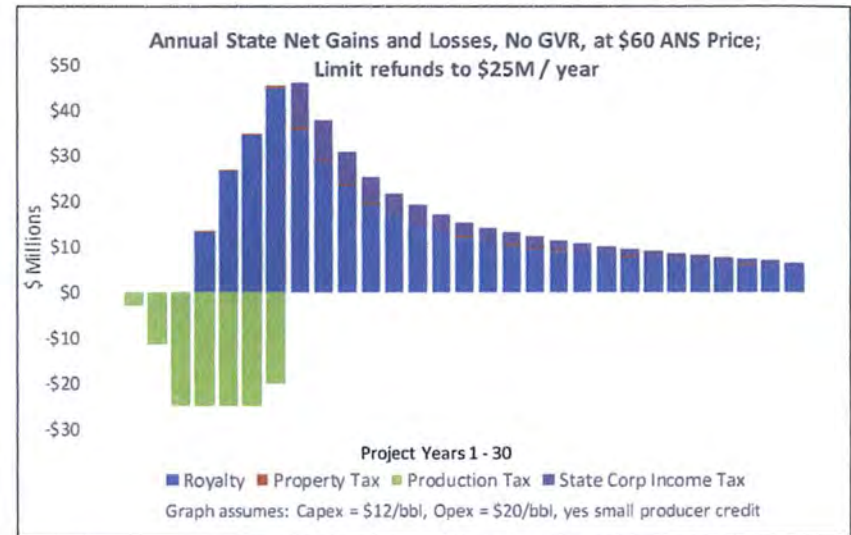
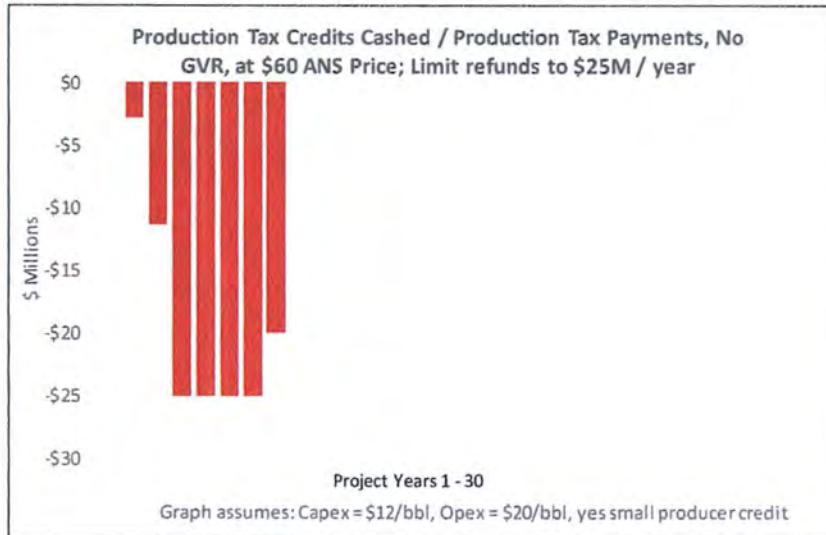
Cook Inlet- 50 mmbo Status Quo, Tax Caps extended, \$60/bbl



Life Cycle Totals	\$Millions
Production Tax Credits Cashed	349
Production Tax Paid	0
Net Production Tax	-349
Production Tax NPV 6.15%	-269
Total Annual State Losses	297
Total Annual State Gains	431
Net State Gain (Loss)	134
State NPV 6.15%	-37
Total Producer Cash Out	241
Total Producer Cash In	1,058
Net Producer Cash Flow	817
Producer Cash NPV 6.15%	335

Sample of Scenario Analysis

Cook Inlet- 50 mmbo SB130, Tax Caps extended, \$60/bbl



Life Cycle Totals	\$Millions
Production Tax Credits Cashed	134
Production Tax Paid	0
Net Production Tax	-134
Production Tax NPV 6.15%	-97
Total Annual State Losses	51
Total Annual State Gains	385
Net State Gain (Loss)	335
State NPV 6.15%	126
Total Producer Cash Out	473
Total Producer Cash In	1,159
Net Producer Cash Flow	686
Producer Cash NPV 6.15%	214

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Thank You!

Contact Information

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CS SB 130: KEY ISSUES & ASSESSMENT

Presentation to Senate Finance Committee
Juneau, Alaska › Thursday, April 14, 2016

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CS SB 130: SUMMARY OF KEY ISSUES

NORTH SLOPE: FISCAL REGIME OVERVIEW

NORTH SLOPE: CHANGES PROPOSED

COOK INLET: KEY ISSUES AND PROPOSED CHANGES

CS SB 130: SUMMARY OF KEY ISSUES

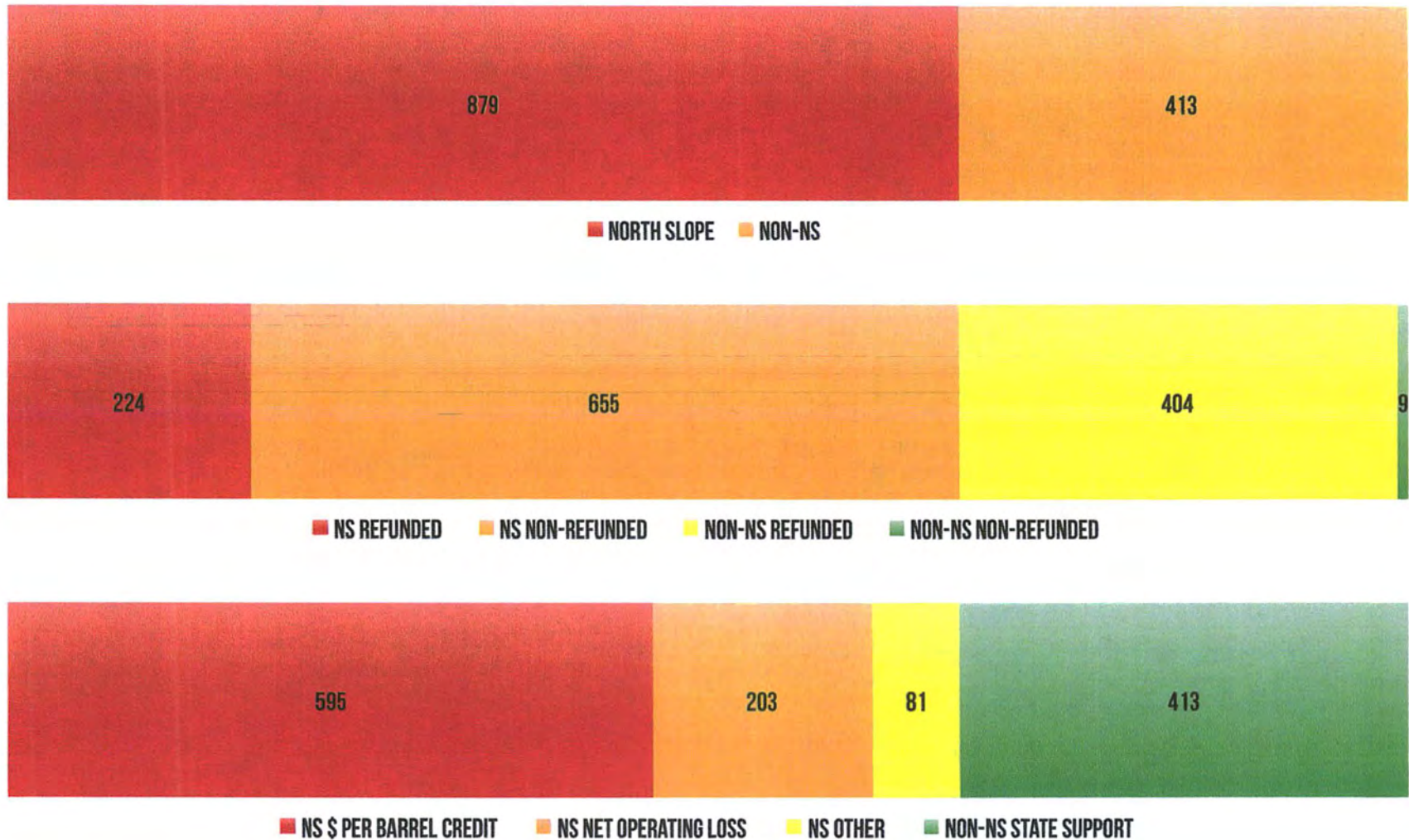
APPENDIX

Issue	Status Quo	CS HB 247 (FIN) / CS SB 130 (RES)	Impact
Gross value reduction and net operating loss credit	Because GVR artificially reduces Production Tax Value, 35% NOL credit can be claimed on amount greater than actual loss - more than 35% support for spending.	Assess NOL credit on actual loss (not including GVR), so NOL is for 35% of actual loss, and all producers have 35% support for spending.	Make North Slope state support for spending uniform at 35%. Interaction is arguably an unintended consequence under SB21, though fixing has negative impact for current GVR new developments.
Time limit on gross value reduction	No current time limit on how long new developments benefit from GVR.	Allow GVR benefit only for 5 years from first production (or until 1/1/2021).	Short limit effectively <u>eliminates much of the GVR benefit</u> . Major negative impact on recently sanctioned eligible developments.
Refundable credit withholding	Liabilities against production tax withheld from refundable credits, but not other liabilities.	Any exploration/development/production related liabilities to the state can be withheld from refundable credit payments.	Companies in dispute over liabilities will have those amounts withheld. Companies that wish to have withholding used to settle liability may do so.
.025 'Middle Earth' exploration credit	\$25 mm or 80% credit, sunsets July 1 2016.	Extend to allow for completion of wells spudded before July 1.	
Municipal production expense deduction	Munis that own production and only sell portion can deduct all expenses and claim credits.	Credits and deductions can only be claimed in proportion to taxable production.	
Surety bond	No bond requirement.	Add \$250,000 bond as license requirement.	

Issue	Status Quo	CS HB 247 (FIN)	CS SB 130 (RES)	Impact
Cook Inlet Tax credits & fiscal system	25% Net Operating Loss credit, 20% Qualified Capital Expenditure credit, 40% Well Lease Expenditure credit; up to 65% gov't support for spending and minimal production tax.	Reduce NOL credit to 10%, QCE to 10%, WLE to 20% by 2018. Restrict eligibility for NOL. Working group on Cook Inlet regime.	Reduce NOL credit to 15%, QCE to 10%, WLE to 20% by 2017. No Credits and no production tax from 2018 Onward.	Cook Inlet credit regime is clearly unsustainable in current environment; degree of ramp-down / elimination has fiscal-note impact, but also potential impacts on future investment.
North Slope gross minimum tax	4% rate, binding for legacy output if net value is positive. If net value is negative, NOL can 'pierce' floor. "New," GVR-eligible production can take to zero due to \$5/bbl and small producer credit.	Introduce additional, 'harder' 2% gross floor; no credits can reduce tax liability below this.	Maintain status quo - no further floor hardening.	Hardening has high fiscal-note impact, but most is revenue brought forward from future (NOL), not truly additional. Makes regressive system more so, and adds strain to cashflow-negative companies.
Refundable credit cap	Producers with >50 mb/d production must carry NOL forward, others can be reimbursed by the state. Major new NS development could place significant strain on state cashflow.	\$100mm per company annual limit on reimbursement.	\$85mm per company annual limit on reimbursement.	Low limit substantially increases capital needs for new developments & raises hurdle rates/break-even prices. \$100mm likely not binding on companies now given current spending plans; \$85mm may have negative impact on some.

Feature	Status Quo	CS HB 247 (FIN)	CS SB 130 (RES)	Impact
'Middle Earth' credits	25% Net Operating Loss credit, 20% Qualified Capital Expenditure credit, 40% Well Lease Expenditure credit.	Maintain NOL at 25%, reduce QCE to 10%, WLE to 30% by 2018. WLE may sunset in 2019?	Reduce NOL credit to 15%, QCE to 10%, WLE to 20% by 2017.	Fiscal impact of 'Middle Earth' credits currently minimal, but questions about capital credits may arise if significant development occurs.
Interest due on 'delinquent' taxes	Fed Discount Rate + 3% Simple Interest on delinquent taxes (up to 6-year audit statute of limitations).	Fed + 5% compounded quarterly for 3 yrs, then Fed + 5% simple interest (up to 6-year audit statute of limitations)	Fed + 7% compounded quarterly for 3 yrs, then no interest (up to 6-year audit statute of limitations)	Current simple interest arguably a drafting oversight from SB21 debate. Core issues here determine 'fair' rate vs companies' concerns over impact of long audit backlog on interest bills when interest rate is higher and compounded.
Alaska hire	Alaska hire not currently given preferential treatment in tax code (significant constitutional restrictions).	No change	No preferential treatment in amount of refunded credits, but companies with >75% Alaska hire placed higher in queue for refundable credit payments	

VISUALIZING ALASKA'S CREDIT SYSTEM (FY 2015)



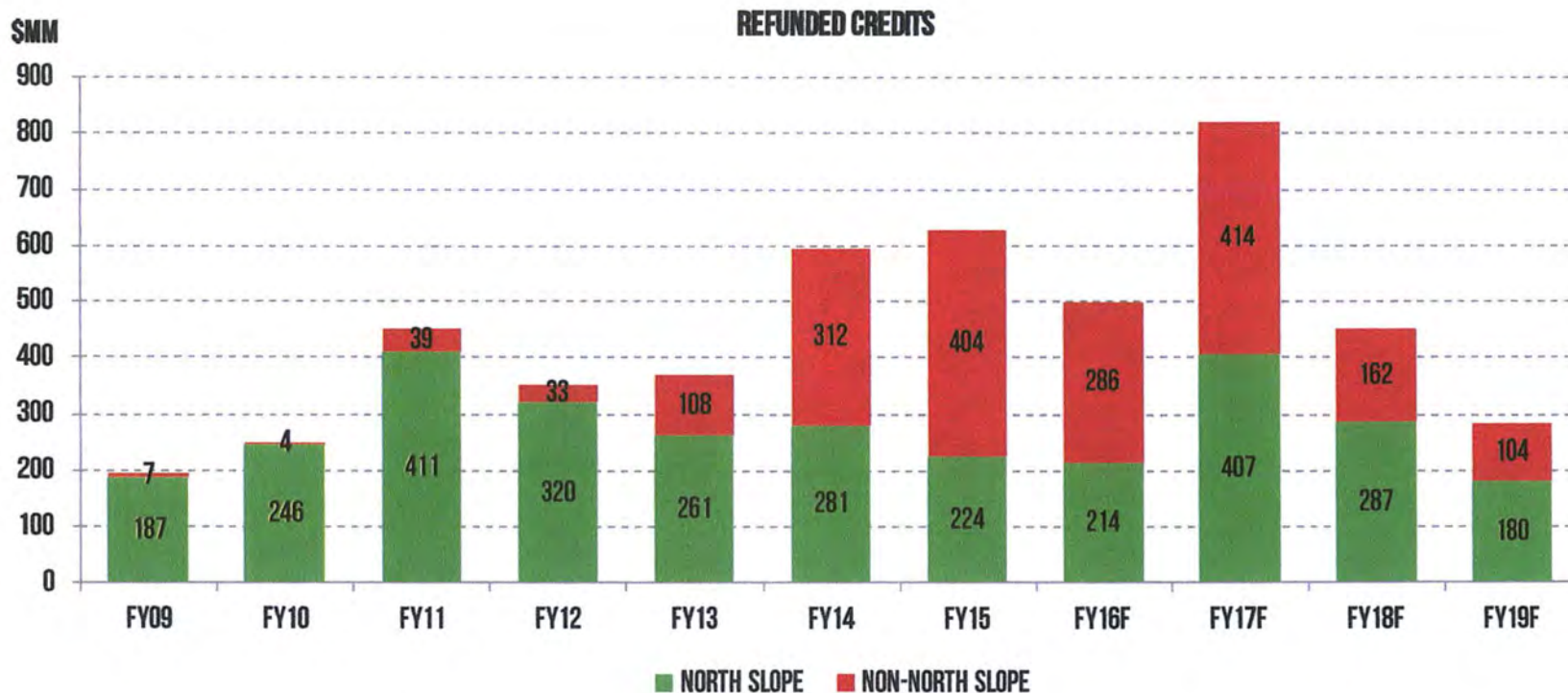
SOURCE: ALASKA DEPARTMENT OF REVENUE, TAX DIVISION

REFUNDED CREDITS REACHED NEW HIGH IN FY 2015

Refundable credits in FY 2015 reached \$628 mm, the highest point ever

In both 2014 and 2015, the majority of these credits went to non-North Slope producers

Under DOR's current forecast, credits will exceed \$1.3 billion across FY 2016 and FY 2017



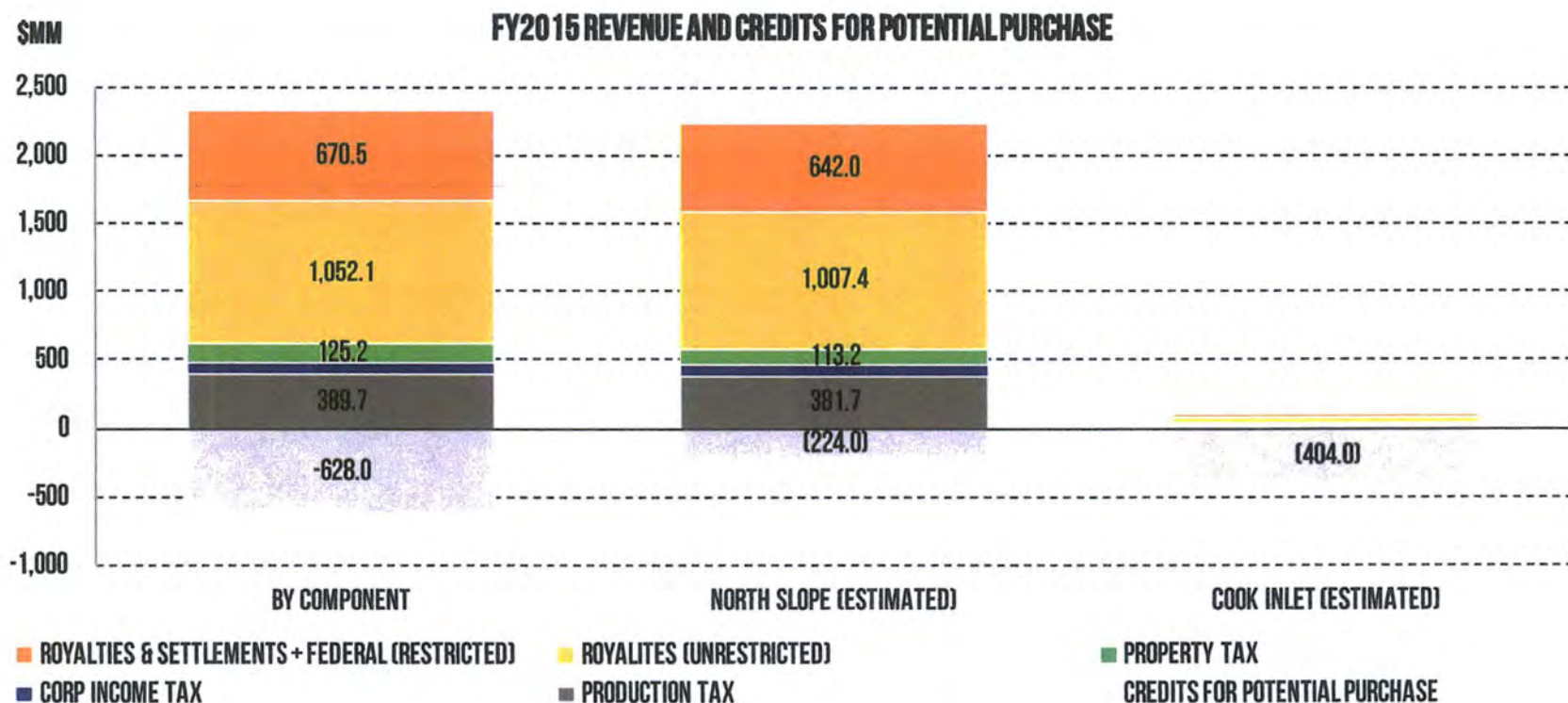
SOURCE: ALASKA DEPARTMENT OF REVENUE, TAX DIVISION

BIG DIFFERENCE BETWEEN NORTH SLOPE AND COOK INLET

The majority of refundable credits go to Cook Inlet producers

Cook Inlet production, however, generates limited direct revenue for the state

Credits on the North Slope are more limited but also a far smaller fraction of total value generated



SOURCE: ALASKA DEPARTMENT OF REVENUE, REVENUE SOURCES BOOK; TAX DIVISION; ANALYTICA ESTIMATES

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HARD TO BE BOTH NORWAY & N. DAKOTA AT SAME TIME

Gross taxes

Less volatile, shift risk to private sector

Simple and easy to administer

High/low government take at low/high prices

Disadvantages marginal investment

Net taxes

More volatile revenues for government

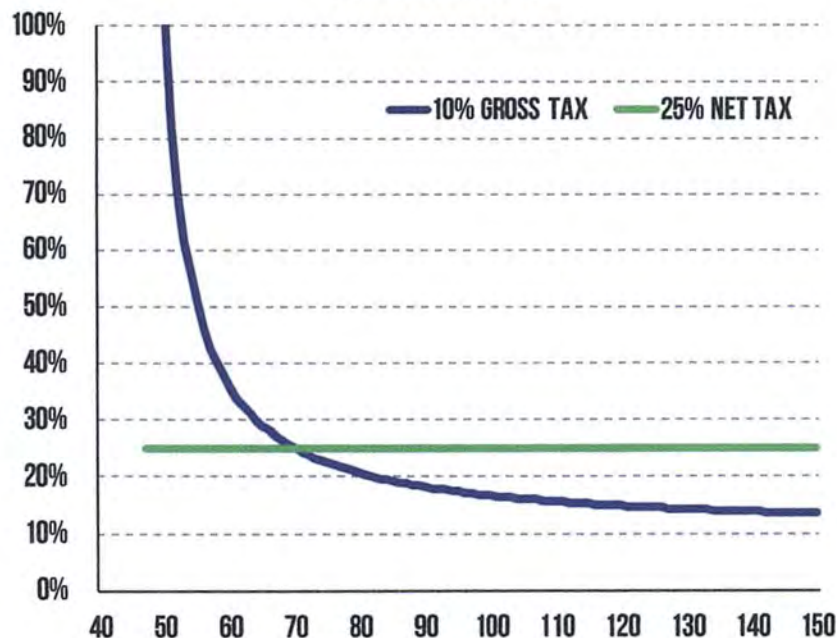
Harder to administer

Efficient—do not distort decision-making

Enable investment across commodity cycle

ANS WC	40	60	80	100	120	140
TRANSPORT	10	10	10	10	10	10
GVPP	30	50	70	90	110	130
OPEX	18	18	18	18	18	18
CAPEX	18	18	18	18	18	18
PTV/BBL	-6	14	34	54	74	94
10% GROSS TAX	3	5	7	9	11	13
% GROSS	10%	10%	10%	10%	10%	10%
% NET	#N/A	36%	21%	17%	15%	14%
25% NET TAX	-1.5	3.5	8.5	13.5	18.5	23.5
% GROSS	-5%	7%	12%	15%	17%	18%
% NET	25%	25%	25%	25%	25%	25%

EFFECTIVE TAX RATES



CASHFLOW TAXES: MORE EFFICIENT, MORE VOLATILE

Purpose of net tax is to **minimize distorting impact** on investment

Best achieved by making the state's fiscal cost/benefit as close as possible to **equity investor**

Results in **outflows** during development, **receipts** during production

HIGHLY SIMPLIFIED CASHFLOW AND INCOME EXAMPLE

YEAR	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PRODUCTION (THOUSAND BBLs)	-	-	-	1,000	1,000	900	810	729	656	590
ANS WC	60	60	60	60	60	60	60	60	60	60
TRANSPORT	10	10	10	10	10	10	10	10	10	10
GVPP/BBL	50	50	50	50	50	50	50	50	50	50
GVPP (\$THOUSANDS)	-	-	-	50,000	50,000	45,000	40,500	36,450	32,805	29,525
OPEX	-	-	-	18,000	18,000	16,200	14,580	13,122	11,810	10,629
CAPEX	20,286	60,857	33,809	20,286	-	-	-	-	-	-
PRE-TAX CASHFLOW	(20,286)	(60,857)	(33,809)	11,714	32,000	28,800	25,920	23,328	20,995	18,896
ASSET VALUE	-	-	-	135,238	108,190	86,552	69,242	55,393	44,315	35,452
DEPRECIATION	-	-	-	27,048	21,638	17,310	13,848	11,079	8,863	7,090
NET INCOME	-	-	-	4,952	10,362	11,490	12,072	12,249	12,132	11,805
25% CASHFLOW TAX	(5,071)	(15,214)	(8,452)	2,929	8,000	7,200	6,480	5,832	5,249	4,724
25% INCOME TAX	-	-	-	1,238	2,590	2,872	3,018	3,062	3,033	2,951

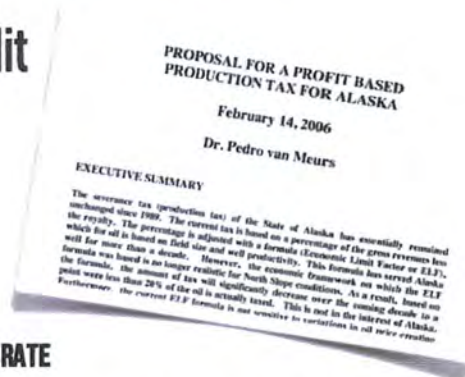
ALASKA'S PRODUCTION TAX: ORIGINS IN 2006 PROPOSAL

PPT as proposed by Dr Pedro van Meurs useful to understand core of system and evolution to date

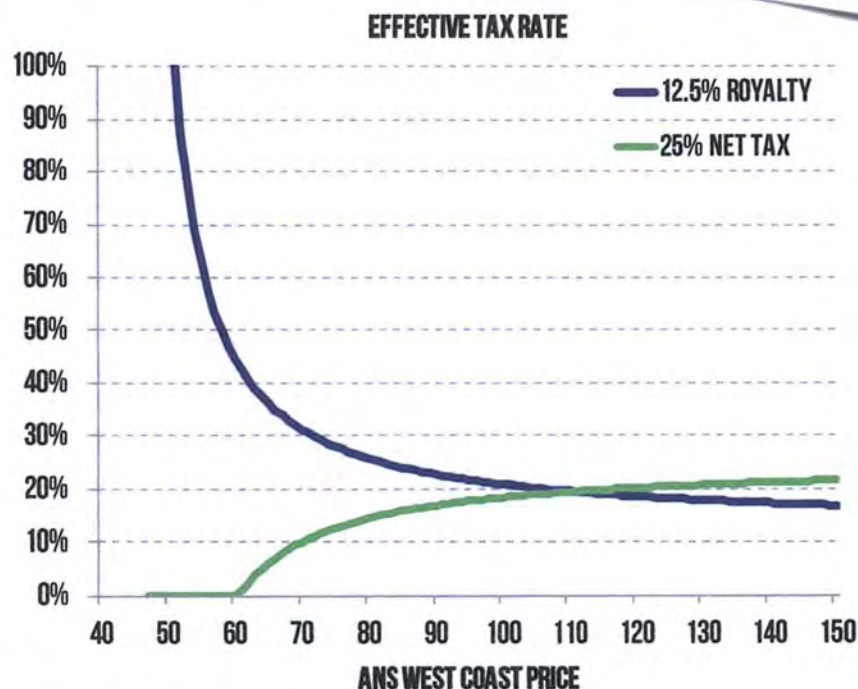
25% flat cashflow tax, 25% credit for net operating losses (NOLs), 20% capital credit

45% government support for spending for new and incumbent players alike

Statewide floor of zero (credits tradable rather than reimbursable)



ANS WC	40	60	80	100	120	140
TRANSPORT	10	10	10	10	10	10
GVPP	30	50	70	90	110	130
OPEX	18	18	18	18	18	18
CAPEX	18	18	18	18	18	18
PTV/BBL	(6.0)	14.0	34.0	54.0	74.0	94.0
25% NET TAX	(1.5)	3.5	8.5	13.5	18.5	23.5
CAPITAL CREDIT	3.6	3.6	3.6	3.6	3.6	3.6
TAX AFTER CREDITS	(5.1)	(0.1)	4.9	9.9	14.9	19.9
% GROSS	-17%	0%	7%	11%	14%	15%
% NET	#N/	-1%	14%	18%	20%	21%



NOL CREDIT AIMS TO EQUALIZE TAX SYSTEM IMPACT

Incumbent can deduct spending against liability at marginal tax rate: **25% gov't spending support**

Aim for NOL credit to **ensure same impact for new developer** with no liability

Alternative is to **carry forward**: same cash impact over time, but disadvantages new developer economics

In original proposal, credits **not refundable but tradable**

Aim was for **new developers** to **sell to incumbent producers** at close to face value

In reality credits sold for much less than face value - much **value captured by incumbents**

As a result, credits **made refundable** by the treasury, to direct full value to new developers

HIGHLY SIMPLIFIED CASHFLOW AND INCOME EXAMPLE

YEAR	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PRODUCTION (THOUSAND BBLs)	-	-	-	1,000	1,000	900	810	729	656	590
ANS WC	60	60	60	60	60	60	60	60	60	60
TRANSPORT	10	10	10	10	10	10	10	10	10	10
GVPP/BBL	50	50	50	50	50	50	50	50	50	50
GVPP (\$THOUSANDS)	-	-	-	50,000	50,000	45,000	40,500	36,450	32,805	29,525
OPEX	-	-	-	18,000	18,000	16,200	14,580	13,122	11,810	10,629
CAPEX	20,286	60,857	33,809	20,286	-	-	-	-	-	-
PRE-TAX CASHFLOW	(20,286)	(60,857)	(33,809)	11,714	32,000	28,800	25,920	23,328	20,995	18,896
25% CASHFLOW TAX	(5,071)	(15,214)	(8,452)	2,929	8,000	7,200	6,480	5,832	5,249	4,724

ACES: STEEP PROGRESSIVITY, HIGH SPENDING SUPPORT

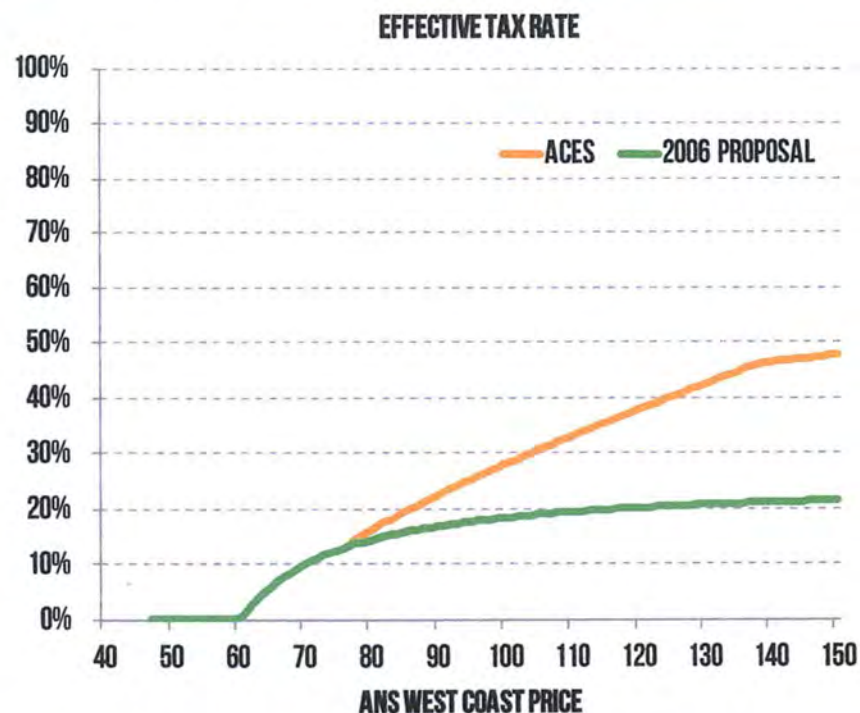
Tax rate 25% to 75% (variable with PTV/bbl), 20% capital credit, 40% exploration credit, 25% NOL credit

High progressivity: **high marginal tax rates** (up to 86%, higher at yet-unseen prices)

High marginal rates + credits = **very high state support for spending** (from 45% to over 100%)

With **high prices and low spending**, brought huge revenue; low prices and high spending **major risks**

ANS WC	40	60	80	100	120	140
TRANSPORT	10	10	10	10	10	10
GVPP	30	50	70	90	110	130
OPEX	18	18	18	18	18	18
CAPEX	18	18	18	18	18	18
PTV/BBL	(6.0)	14.0	34.0	54.0	74.0	94.0
NET TAX RATE	25%	25%	27%	35%	43%	50%
NET TAX CALC	-	3.5	9.0	18.7	31.5	47.1
4% GROSS FLOOR	1.2	2.0	2.8	3.6	4.4	5.2
TAX BEFORE CREDITS	1.2	3.5	9.0	18.7	31.5	47.1
NOL CREDIT	1.5	-	-	-	-	-
CAPITAL CREDIT	3.6	3.6	3.6	3.6	3.6	3.6
TAX AFTER CREDITS	(3.9)	(0.1)	5.4	15.1	27.9	43.5
% GROSS	-13%	0%	8%	17%	25%	33%
% NET	#N/A	-1%	16%	28%	38%	46%



SB21: PROTECT ON THE LOW END, GIVE BACK AT THE HIGH

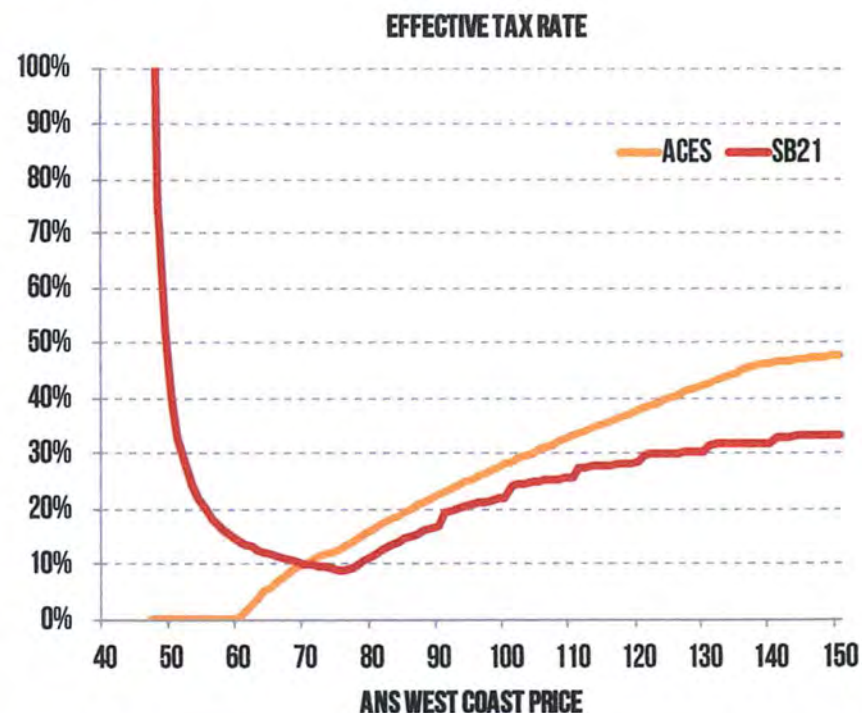
Tax rate 35%, \$0 to \$8 per-bbl credit, hardened gross floor, 35% NOL credit

Key aim was to **reduce state support for spending** and make predictable: **35% for everyone**

Reduced rates at high prices for competitiveness, but **4% gross floor binding** to protect at low end

Significantly reduced the risks brought by low prices and high spending

ANS WC	40	60	80	100	120	140
TRANSPORT	10	10	10	10	10	10
GVPP	30	50	70	90	110	130
OPEX	18	18	18	18	18	18
CAPEX	18	18	18	18	18	18
PTV/BBL	(6.0)	14.0	34.0	54.0	74.0	94.0
NET TAX RATE	35%	35%	35%	35%	35%	35%
NET TAX PRE \$/BBL	-	4.9	11.9	18.9	25.9	32.9
\$/BBL CREDIT	8.0	8.0	8.0	7.0	5.0	3.0
NET TAX CALC	(8.0)	(3.1)	3.9	11.9	20.9	29.9
4% GROSS FLOOR	1.2	2.0	2.8	3.6	4.4	5.2
TAX BEFORE NOL	1.2	2.0	3.9	11.9	20.9	29.9
NOL CREDIT	2.1	-	-	-	-	-
TAX AFTER CREDITS	(0.9)	2.0	3.9	11.9	20.9	29.9
% GROSS	-3%	4%	6%	13%	19%	23%
% NET	#N/A	14%	11%	22%	28%	32%



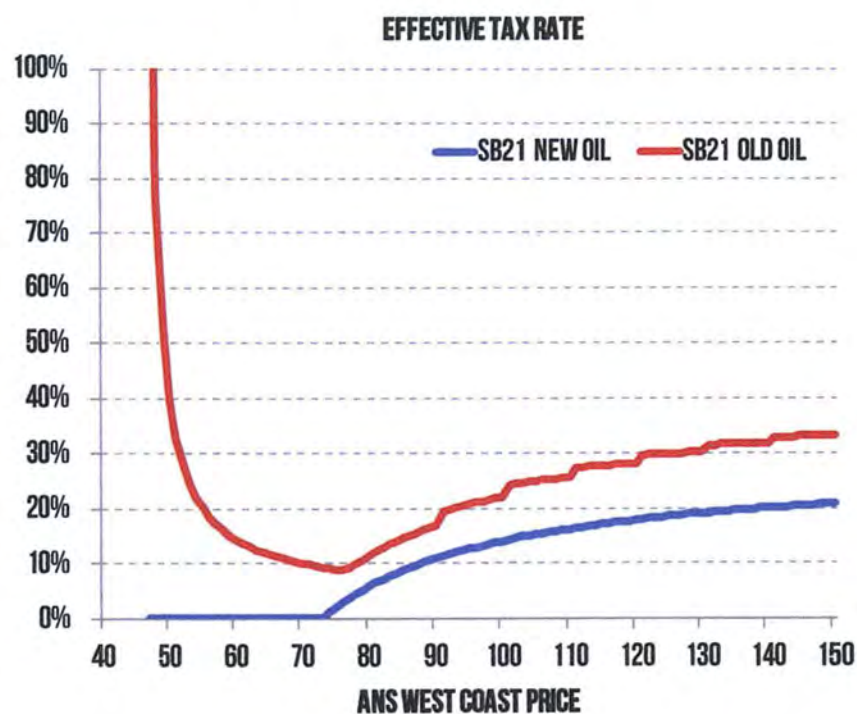
SB21: SPECIAL INCENTIVES FOR “NEW OIL”

Gross Value Reduction (GVR) - reduce GVPP by 20% or 10% for certain units / participating areas

Purpose of GVR - **reduce effective tax rates** for particular fields **without ring-fencing costs**

GVR-eligible production receives **fixed \$5/bbl credit**, not variable \$0-\$8/bbl, **no hard floor**

ANS WC	40	60	80	100	120	140
TRANSPORT	10	10	10	10	10	10
GVPP BEFORE GVR	30	50	70	90	110	130
GVPP AFTER GVR	24	40	56	72	88	104
OPEX	18	18	18	18	18	18
CAPEX	18	18	18	18	18	18
PTV/BBL BEFORE GVR	(6.0)	14.0	34.0	54.0	74.0	94.0
PTV/BBL	(12.0)	4.0	20.0	36.0	52.0	68.0
NET TAX RATE	35%	35%	35%	35%	35%	35%
NET TAX	-	1.4	7.0	12.6	18.2	23.8
4% GROSS FLOOR	1.0	1.6	2.2	2.9	3.5	4.2
\$/BBL CREDIT	5.0	5.0	5.0	5.0	5.0	5.0
TAX BEFORE NOL	(4.0)	(3.4)	2.0	7.6	13.2	18.8
NOL CREDIT	4.2	-	-	-	-	-
TAX AFTER CREDITS	(8.2)	(3.4)	2.0	7.6	13.2	18.8
% GROSS	-27%	-7%	3%	8%	12%	14%
% NET	#N/A	-24%	6%	14%	18%	20%



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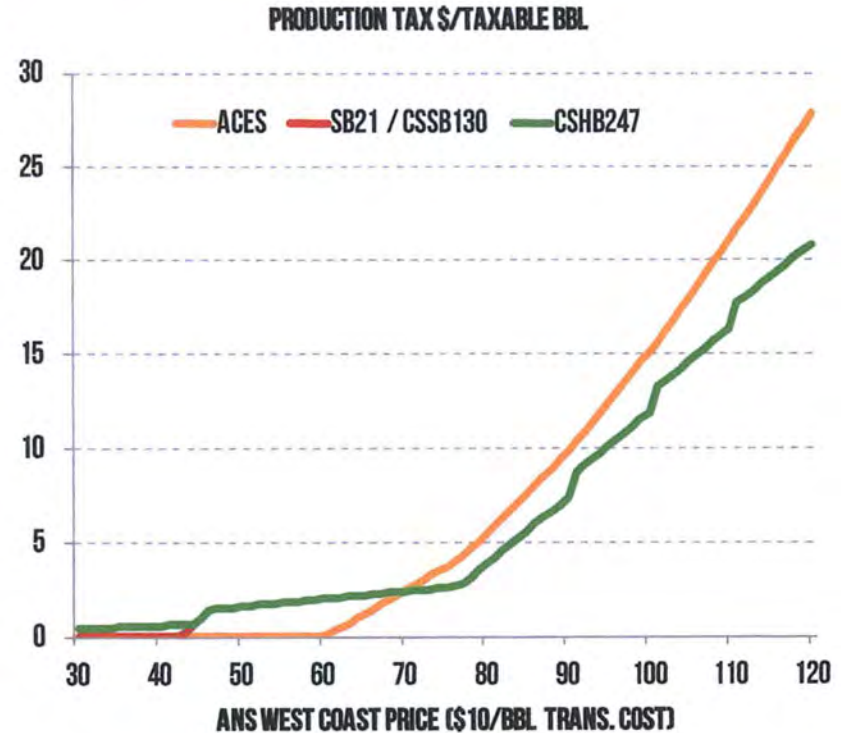
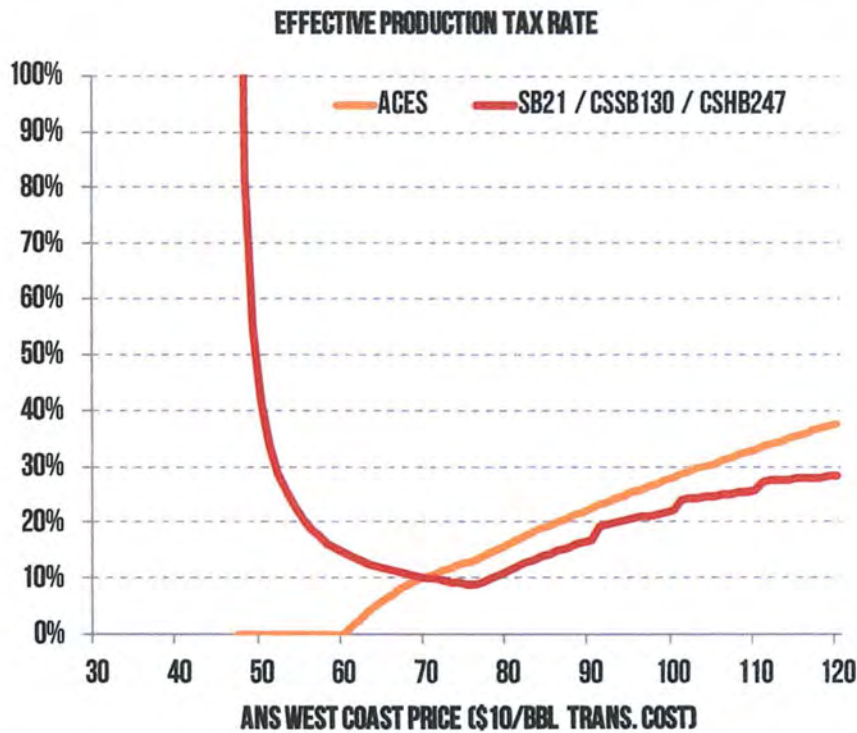
NOL-HARDENING SHIFTS REVENUE, TAXES LOSSES

Effective tax rate under ACES could fall to zero because capital credits were applied after gross floor

SB21 applied a **hard gross floor** under \$/bbl credits - meaning skyrocketing net tax rate at low prices

Concern to **protect state at low prices** always valid, but must **balance risk and reward** at low and high end

Preventing NOL credit from 'piercing' floor **moves state revenue from future to present**; total is the same

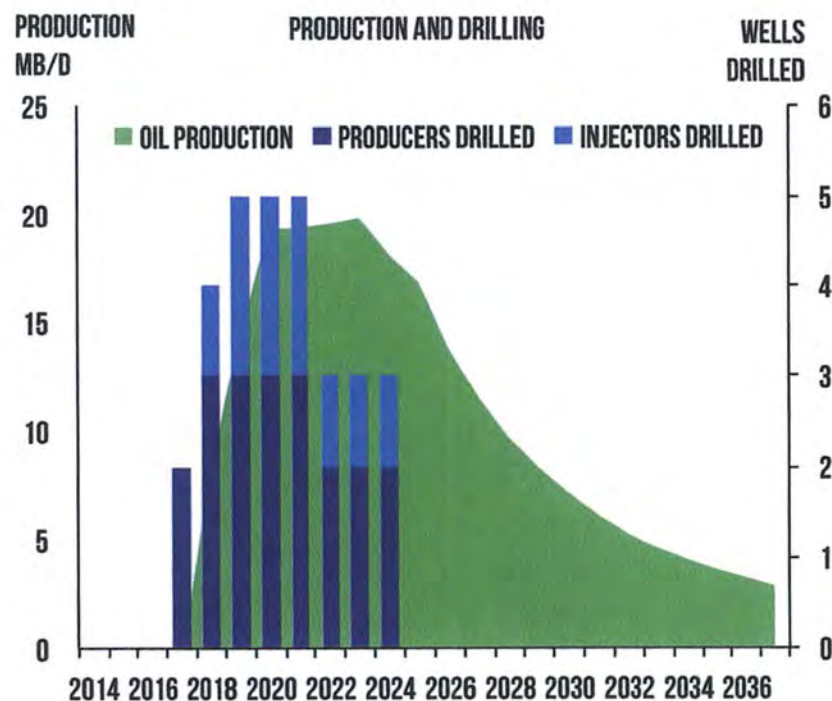
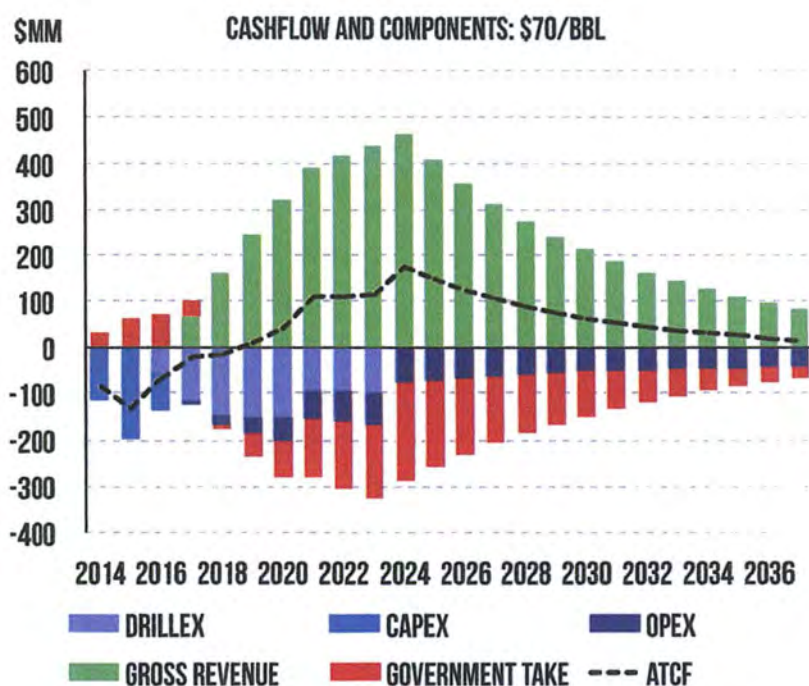


HOW DO CHANGES IMPACT NEW FIELD DEVELOPMENT?

Sample NS investment: Cumulative CAPEX and DRILLEX of \$1.3 bn; average annual OPEX of about \$15/bbl

Peak production of 20 mb/d; 30 wells (production and injection) drilled over 8 years

Ongoing DRILLEX in early years means **bulk of tax liability occurs only after several years of production**



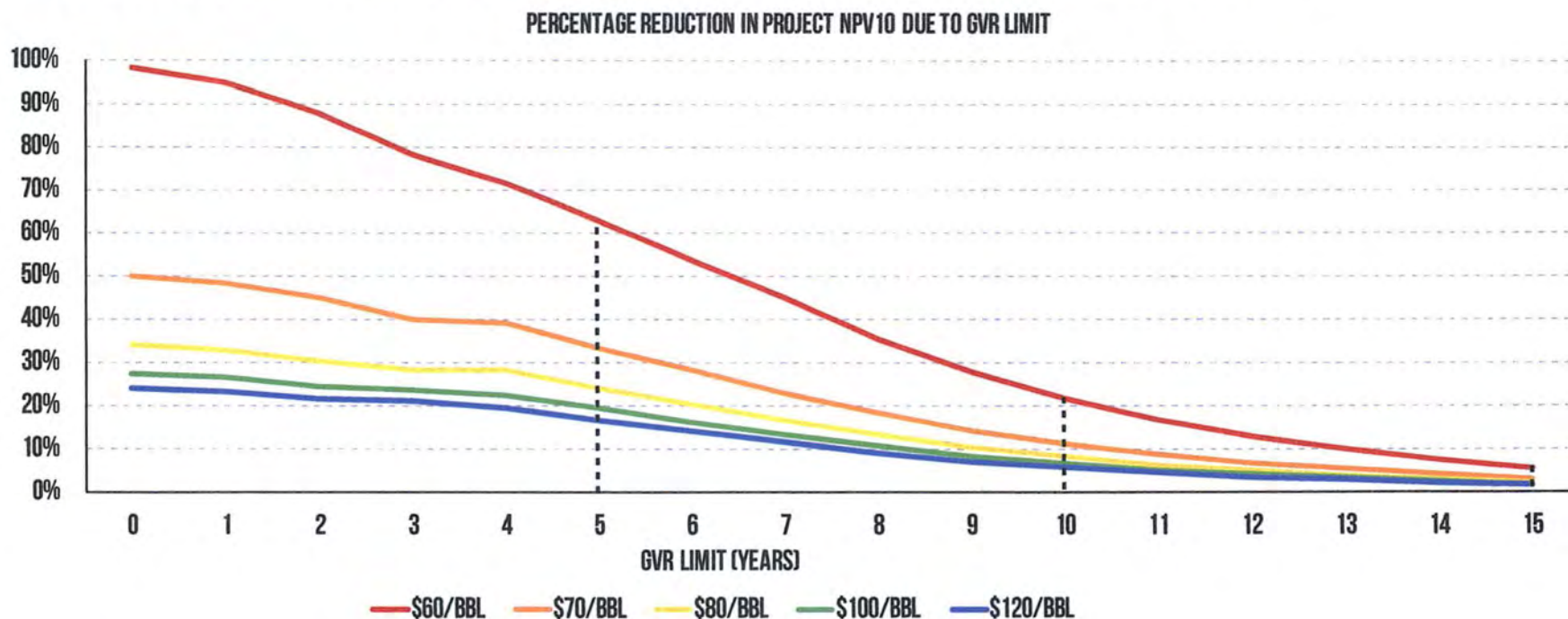
5-YEAR GVR LIMIT HAS MAJOR IMPACT ON PROJECT VALUE

Project is marginal at \$60/bbl; elimination of GVR can **wipe out** all value at that price

Because most tax liability occurs after end of major spending, **short GVR limit provides little benefit**

5-year GVR limit destroys over **60% of project value** at \$60/bbl, relative to status quo

Impact of 10 year limit much lower; 15 year limit preserves almost all of status quo value



PREVENT GVR RAISING NOL ABOVE 35% OF ACTUAL LOSS

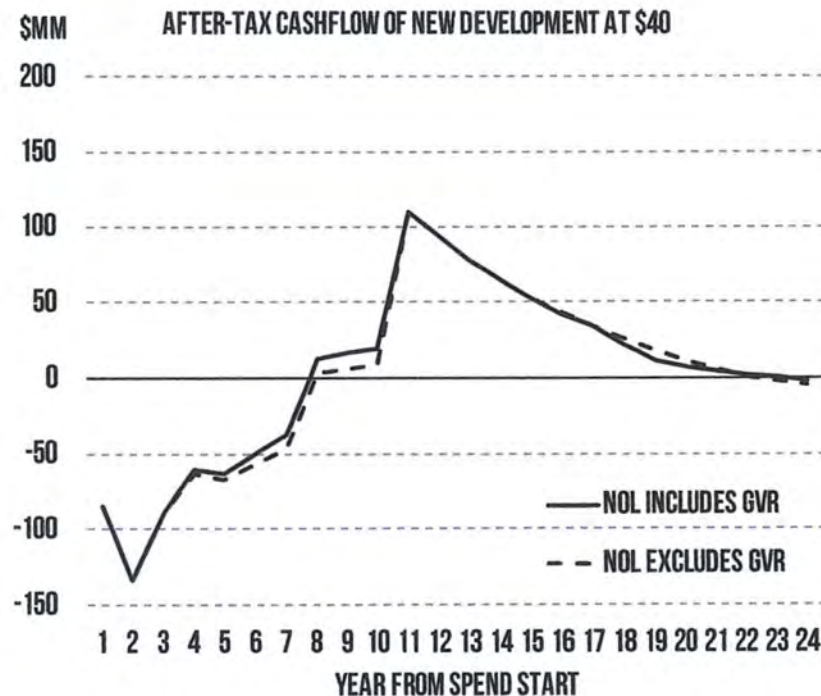
The purpose of the Gross Value Reduction (GVR) is to **lower the effective tax rate** on new production

One surprising and counter-intuitive effect is to **raise the effective rate of the NOL** credit

Issue after production from new development starts, but ongoing drilling costs mean NOL eligible

Exacerbated at low prices, but impact <\$10mm yr for 20mb/d new development

	SB 21 GVR	CS SB130
ANS WC	40	40
TRANSPORT	10	10
GVPP BEFORE GVR	30	30
GVPP AFTER GVR	24	24
OPEX	18	18
CAPEX	18	18
PTV/BBL BEFORE GVR	(6.0)	(6.0)
PTV/BBL	(12.0)	(12.0)
NET TAX RATE	35%	35%
NET TAX	-	-
4% GROSS FLOOR	1.0	1.0
S/BBL CREDIT	5.0	5.0
TAX BEFORE NOL	(4.0)	(4.0)
NOL CREDIT	4.2	2.1
TAX AFTER CREDITS	(8.2)	(6.1)
CREDIT % PTV (BEFORE)	-70%	-35%

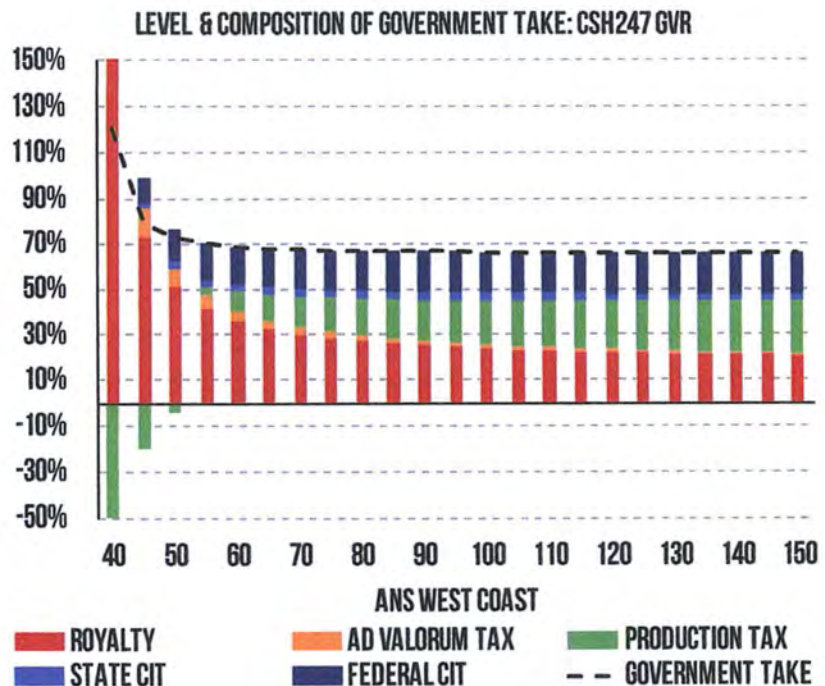
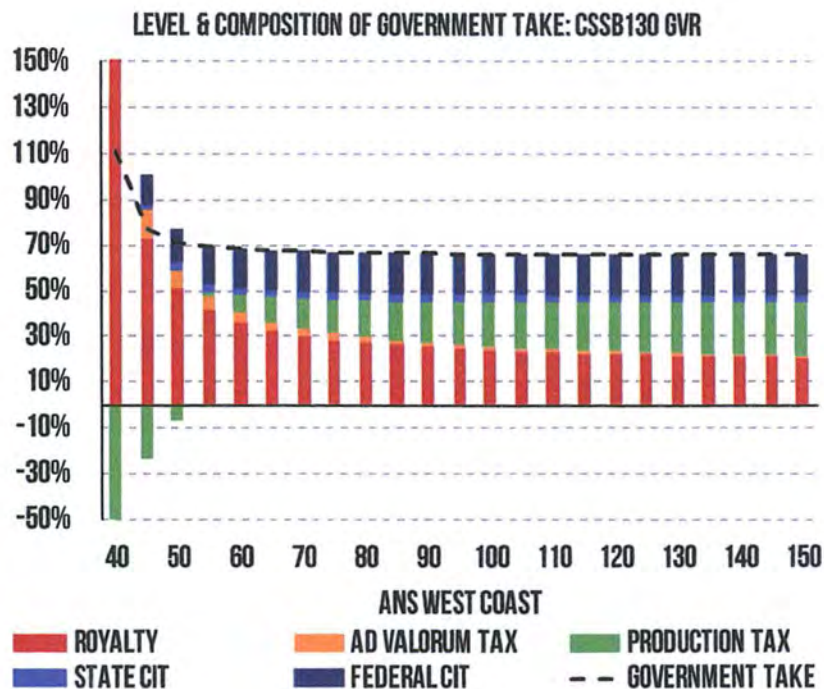


FLOOR HARDENING MAKES TAX SYSTEM MORE REGRESSIVE

State of Alaska making negative production tax in today's prices; but overall gov't take is still high

Impact of floor hardening is to shift up government take in lower oil prices

In times of high investment / low prices (as in 2016), **effective government take exceeds 100%**



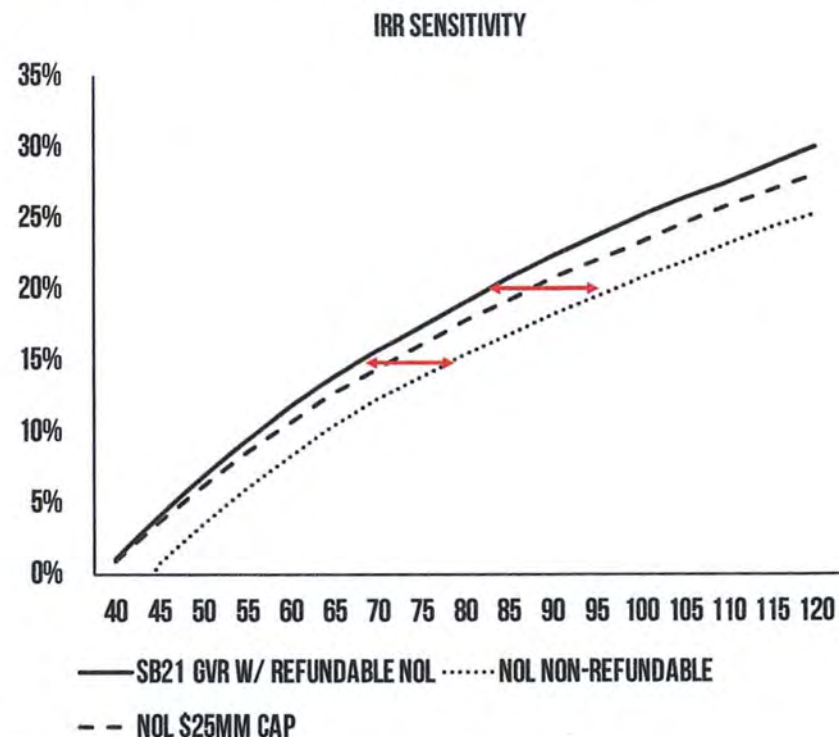
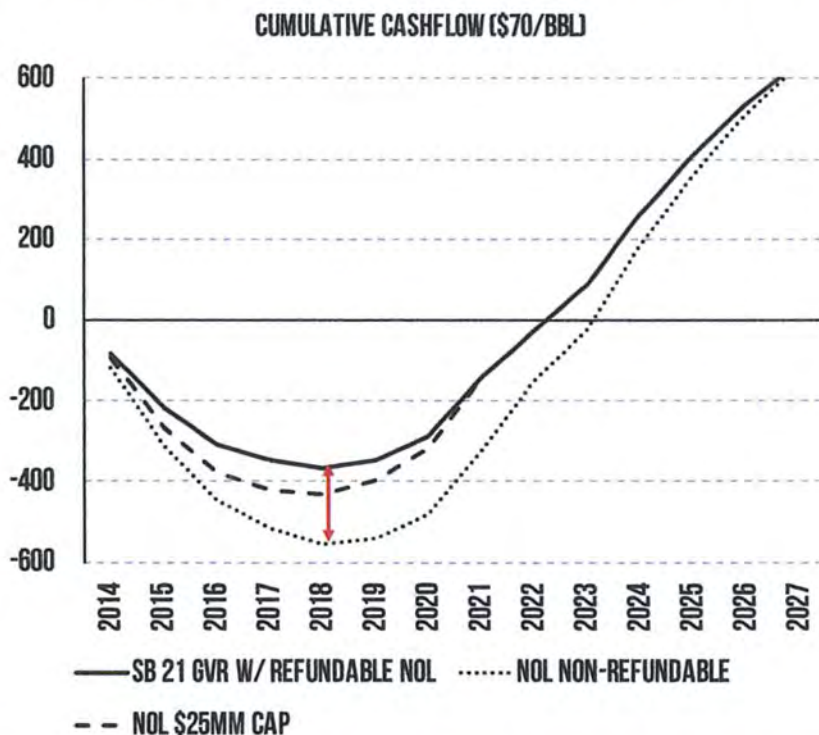
REFUND LIMITS BOOST CAPITAL NEEDS AND LOWER IRR

Refundable credit limit would **increase capital needs** by up to 50% (from \$350mm to \$400–\$550mm)

Application to projects currently under development could have **major adverse impacts**

Near-Kuparak-sized new development could easily incur **>\$2bn in NOL credits** in development years

If per-company limit on refundability is the solution, what is the right level? \$100mm? \$85mm?



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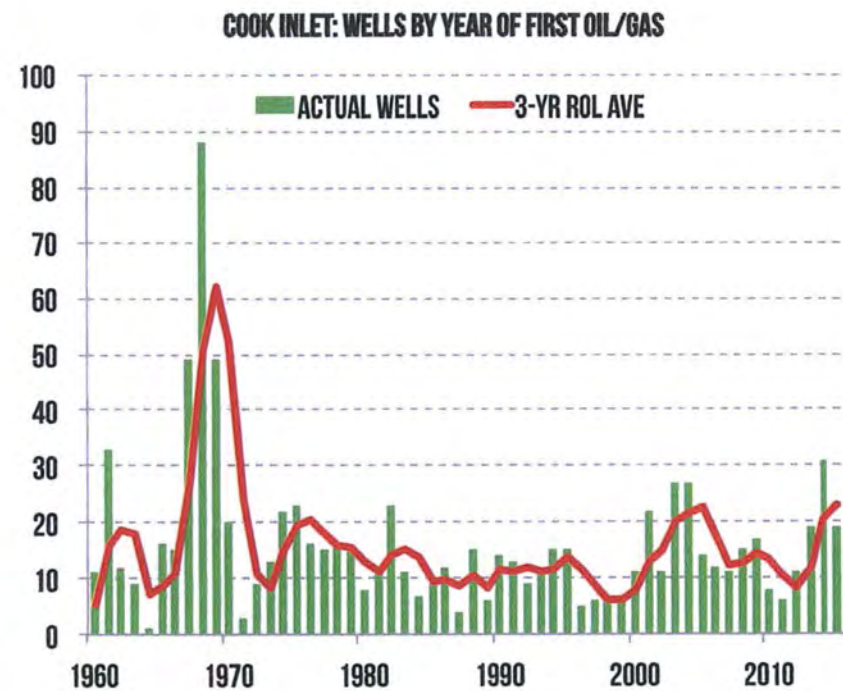
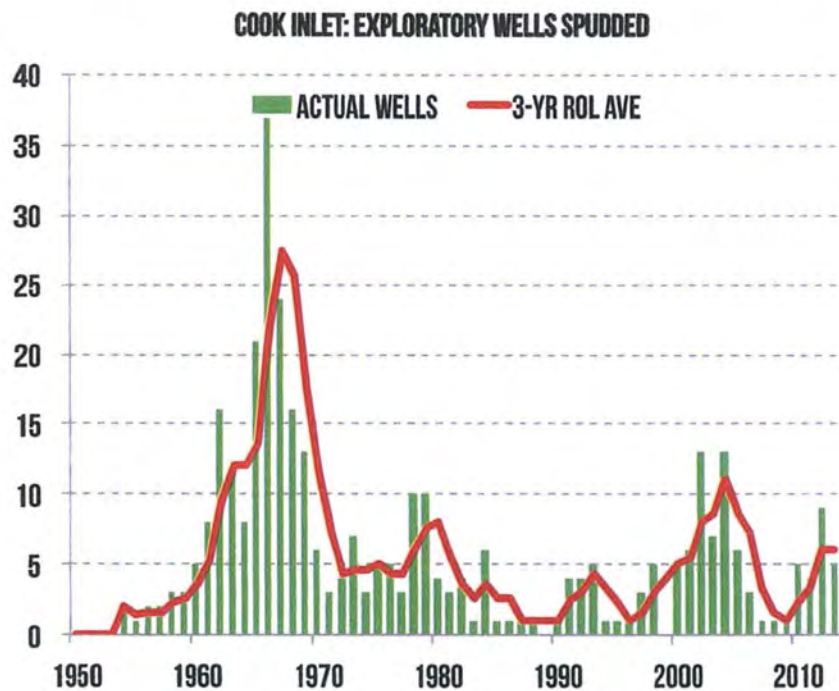
ACTIVITY HAS RESPONDED IN RECENT YEARS

Exploration drilling in Cook Inlet has gone through several cycles since 1950s

Recent exploration activity (post 2010) on par with previous exploration peaks

Development drilling has been more stable over the years

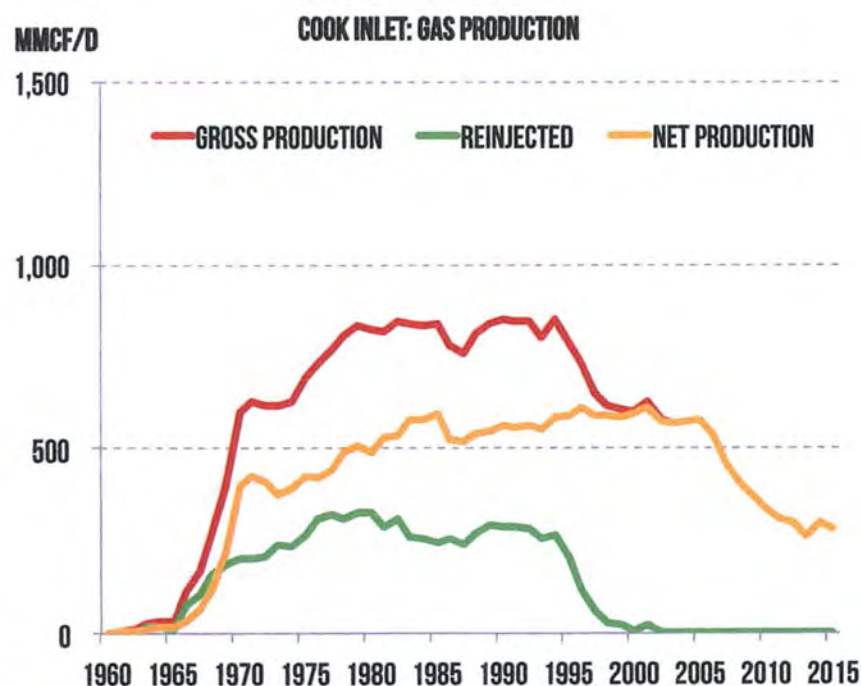
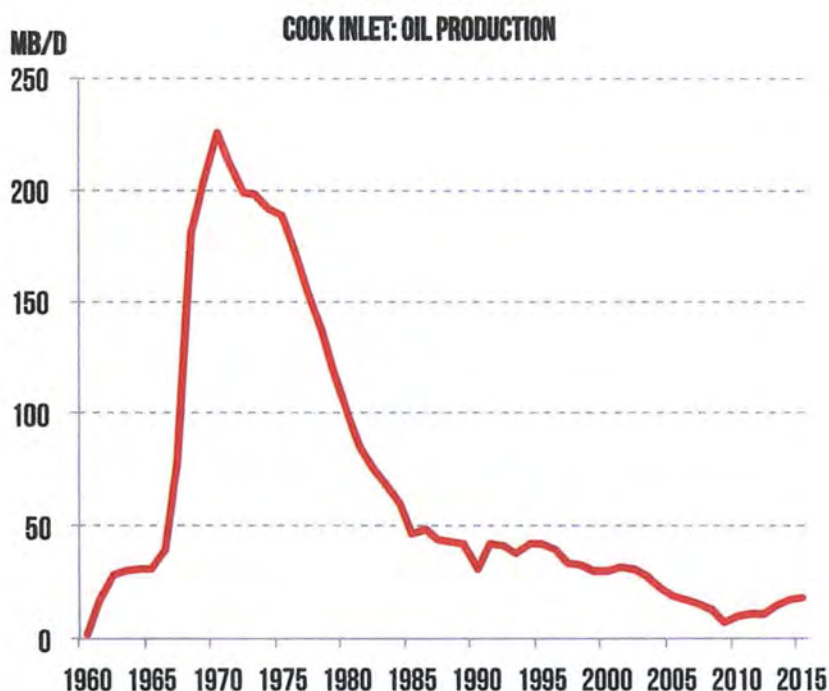
Recent growth placing three-year rolling average among highest in state's history



SOURCE: ALASKA OIL AND GAS CONSERVATION COMMISSION, OIL AND GAS DATA WEB APPLICATION (DATA THROUGH DECEMBER 2015)

COOK INLET OIL AND GAS PRODUCTION: BASIC FACTS

- Oil** Peak in 1970 at 226 mb/d; trough in 2009 at 7.5 mb/d; upturn post 2010 (+10.5 mb/d)
- Gross Gas** Peak in 1990 at 853 mmcf/d; big drops in 1994–1998 and 2005–2013; stable in 2014–15
- Net Gas** Peak in 1996; 1990s plateau from blowdown at Swanson River; fall post 2005, then stable



SOURCE: ALASKA OIL AND GAS CONSERVATION COMMISSION, OIL AND GAS DATA WEB APPLICATION (DATA THROUGH DECEMBER 2015)

THE COOK INLET OIL AND GAS MARKET: A SCORECARD

What has happened to oil and gas production and activity in the Cook Inlet in recent years?

Oil production has risen from 7.5 mb/d in 2009 to almost 18 mb/d

Gas production has stabilized after years of steadier decline

How has the gas market adjusted in recent years?

Cook Inlet has undergone major transition in supply, demand, prices, competition and expectations

Some of these changes are typical in mature basins—others are unique to Cook Inlet

What's the outlook and how sensitive is the outlook to changes in oil/gas fiscal system?

DNR: 1,183 bcf in remaining 2P reserves; 1,600 bcf w/ Cosmopolitan and Kitchen Lights (ballpark)

Continued drilling at old fields plus Cosmopolitan and Kitchen Lights: current market well supplied

At current (gas) price levels, brownfield investment should be profitable under stricter fiscal regime

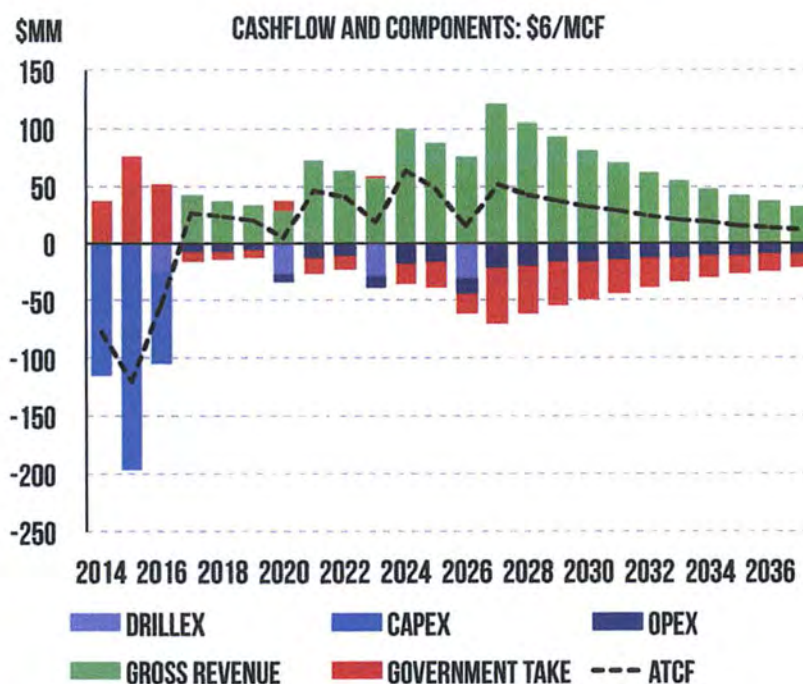
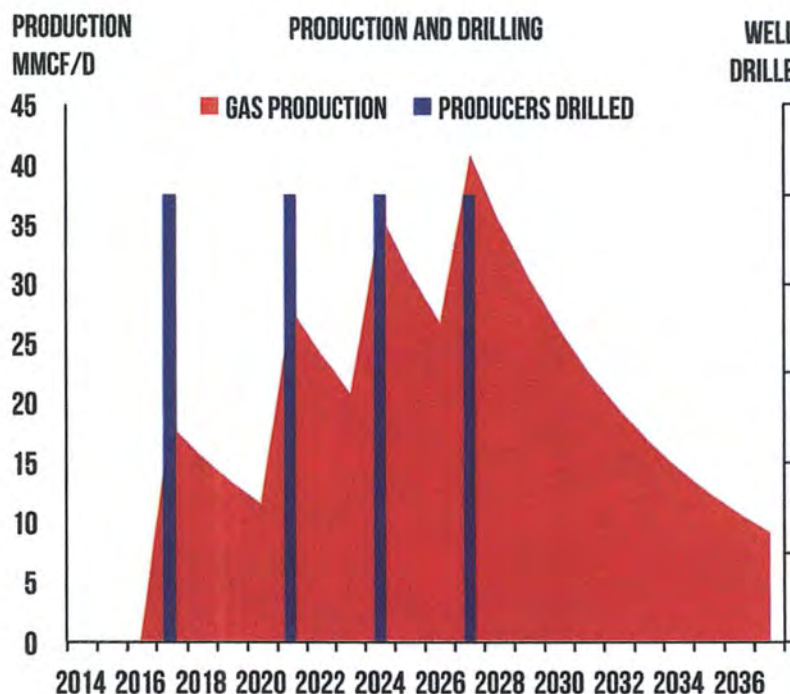
Credits more important for developing new resources, especially with demand constraints

Currently much uncertainty over future regime - setting a stable, sustainable system is paramount

PROJECT #1: MARKET CONSTRAINED (ASSUMPTIONS)

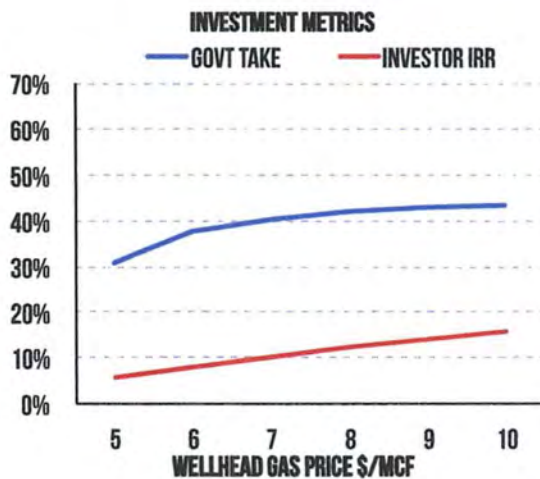
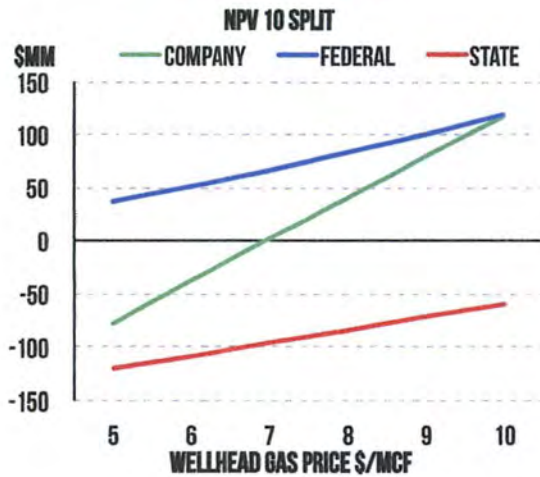
Large upfront investment but constrained gas market

Limited ability to sell gas: can only drill a well every few years

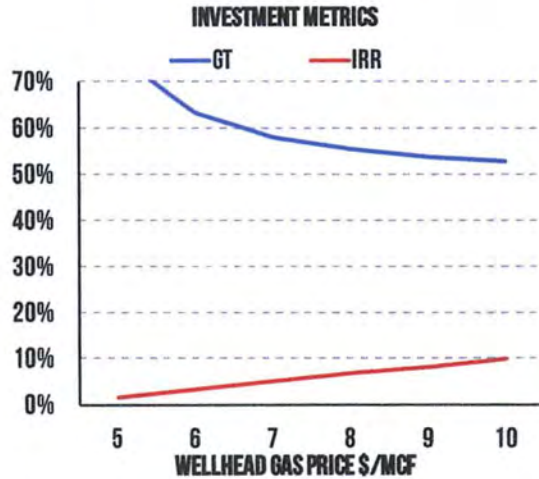
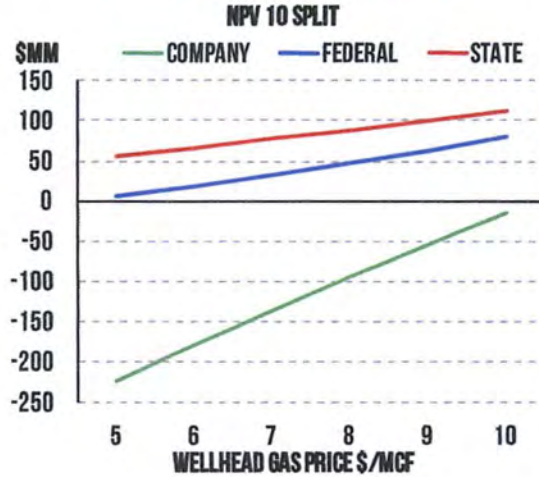


PROJECT #1: MARKET CONSTRAINED (RESULTS)

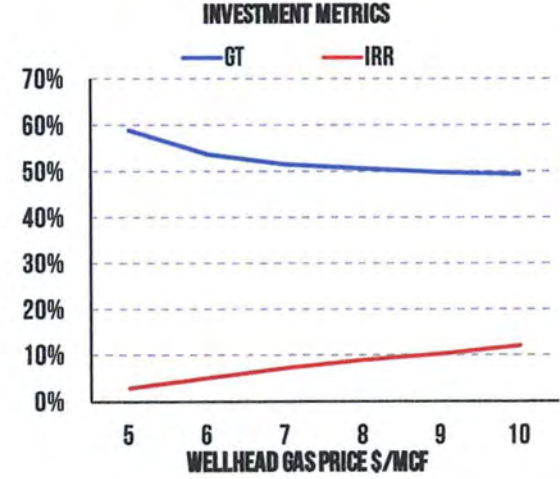
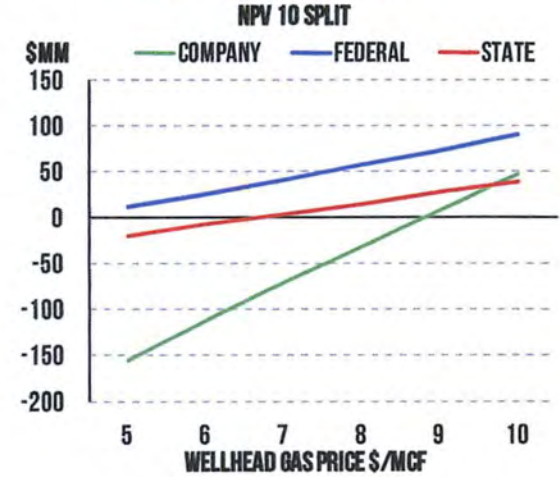
STATUS QUO



CS SB 130 (RES)



CS HB247 (FIN)

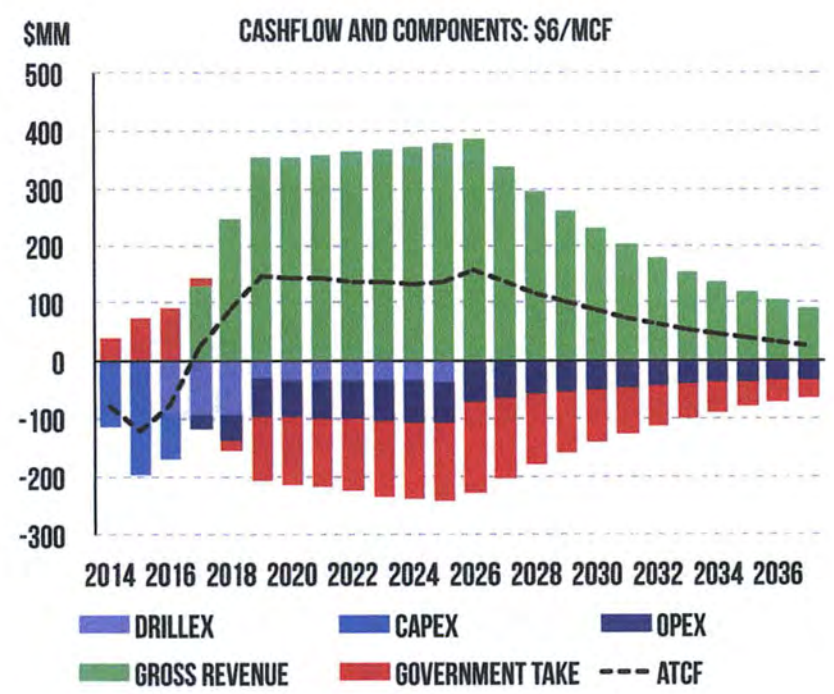
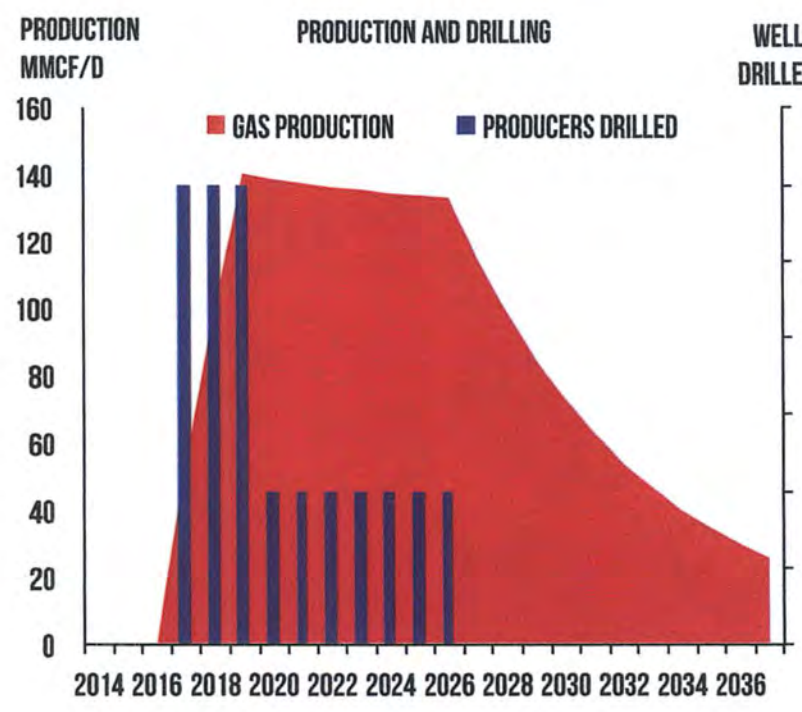


PROJECT #2: MARKET UN-CONSTRAINED (ASSUMPTIONS)

Large upfront investment but un-constrained gas market

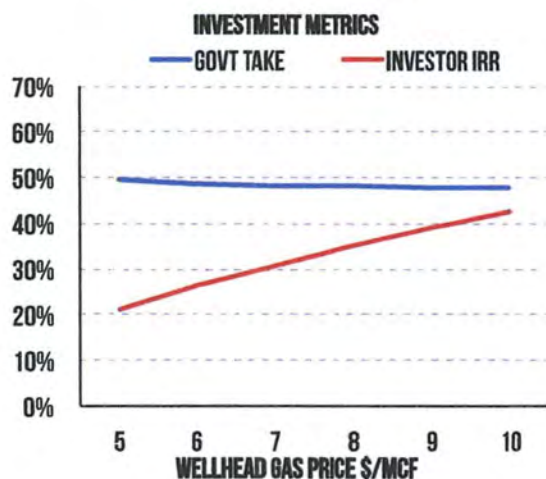
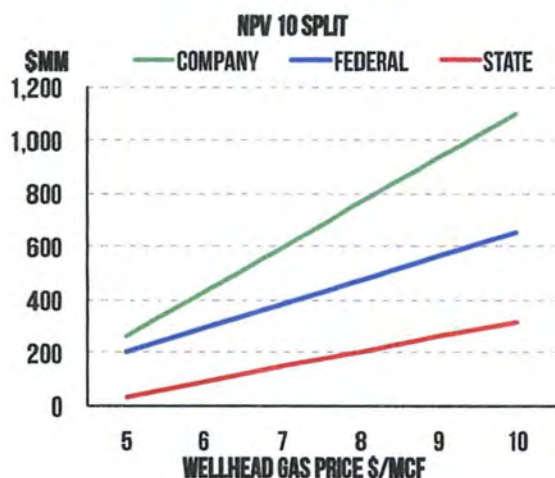
Continued drilling lead to a plateau of 130 mmcf/d

Scenario would require a step change in existing supply-demand dynamics in Cook Inlet

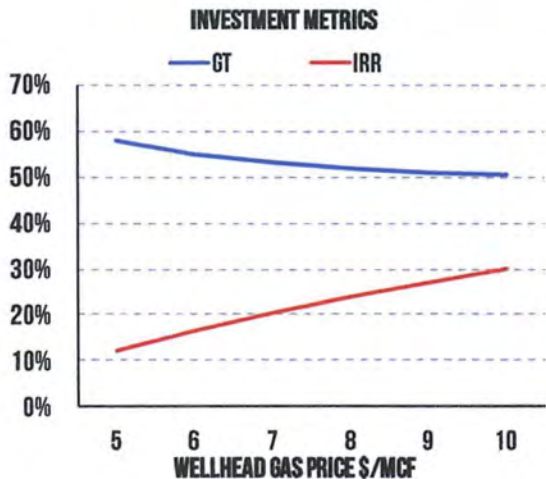
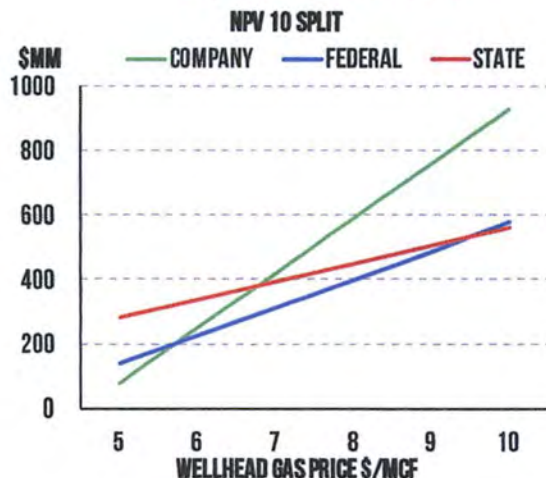


PROJECT #2: UN-CONSTRAINED (RESULTS)

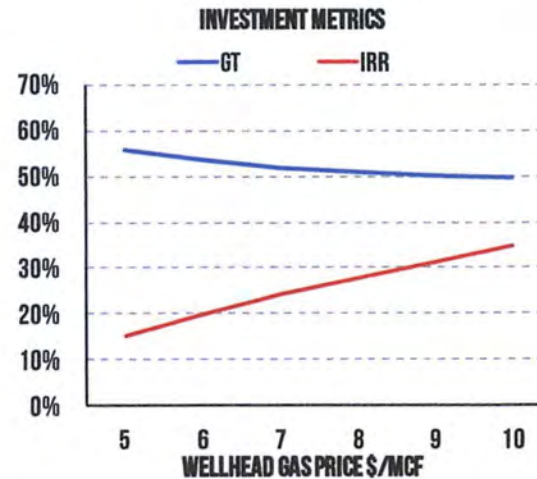
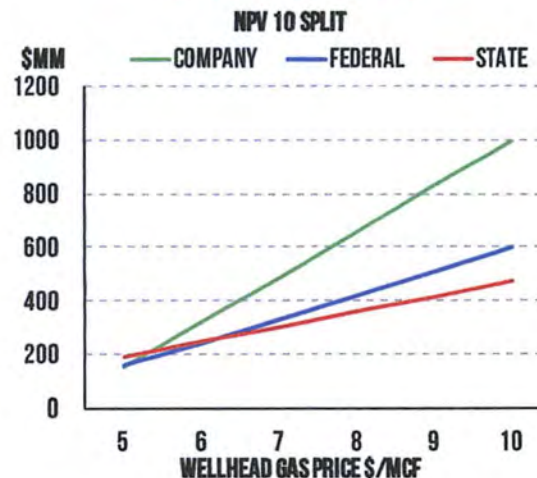
STATUS QUO



CS SB 130 (RES)



CS HB247 (FIN)

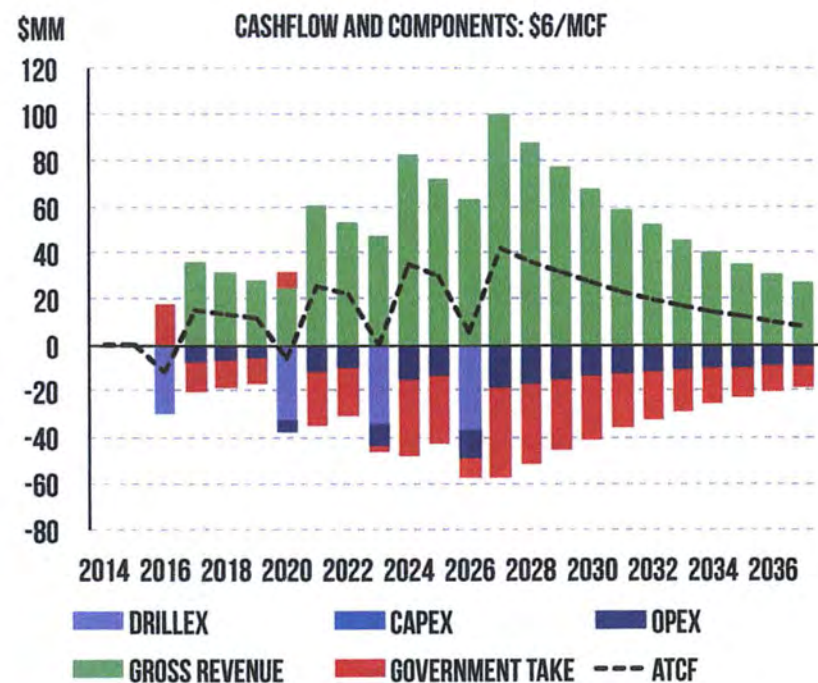
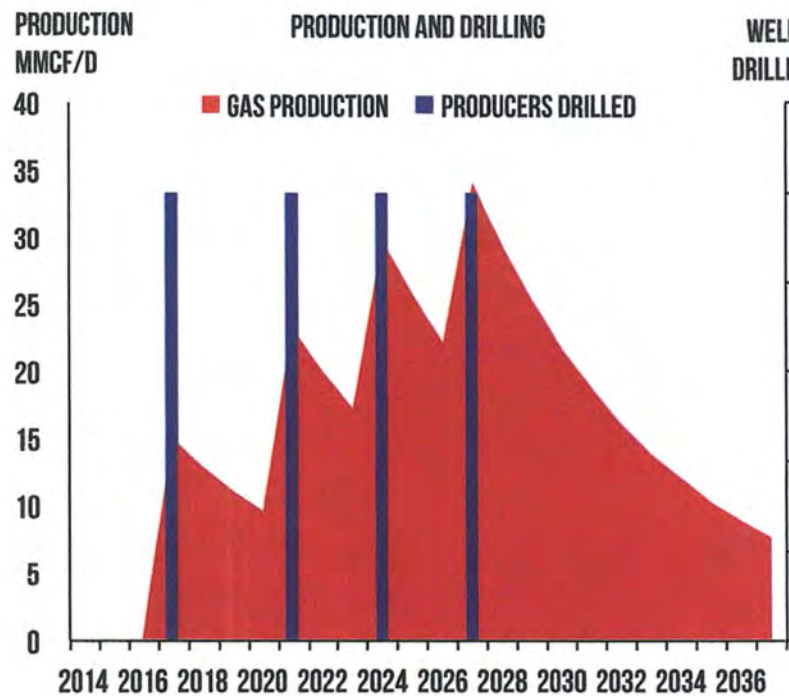


PROJECT #3: DRILLING IN EXISTING FIELD (ASSUMPTIONS)

Drilling expenditures at existing production—smaller upfront investment

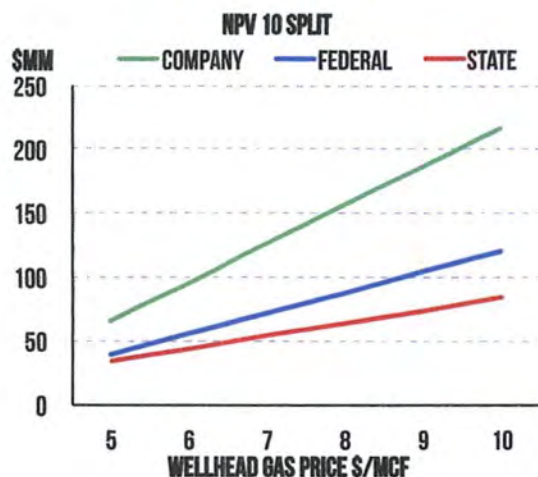
No market constrains assumed

This is a point-forward analysis—it ignores sunk, entry or acquisition costs

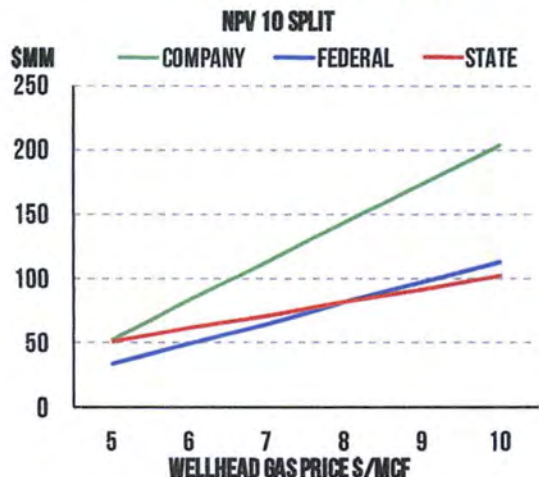


PROJECT #3: DRILLING EXISTING FIELD (RESULTS)

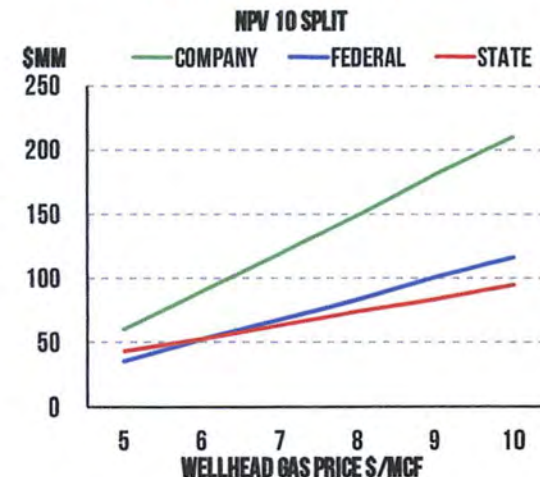
STATUS QUO



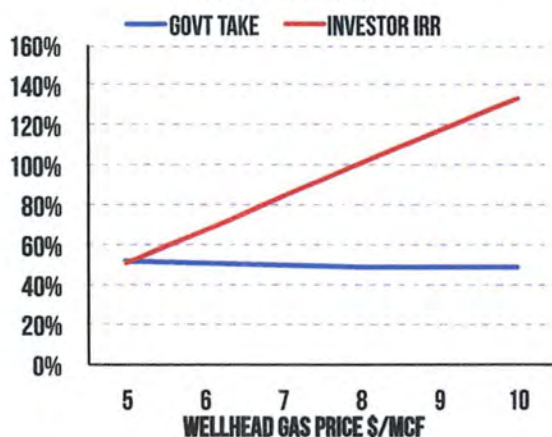
CS SB 130 (RES)



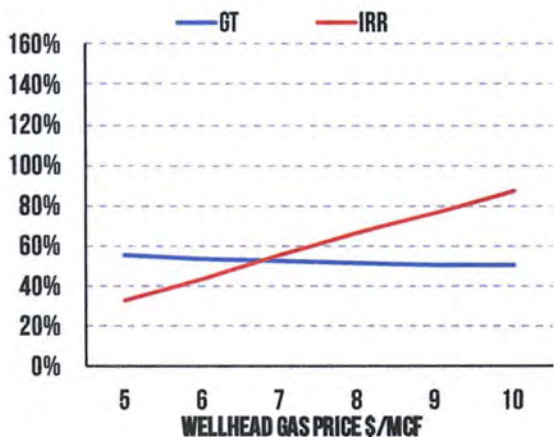
CS HB247 (FIN)



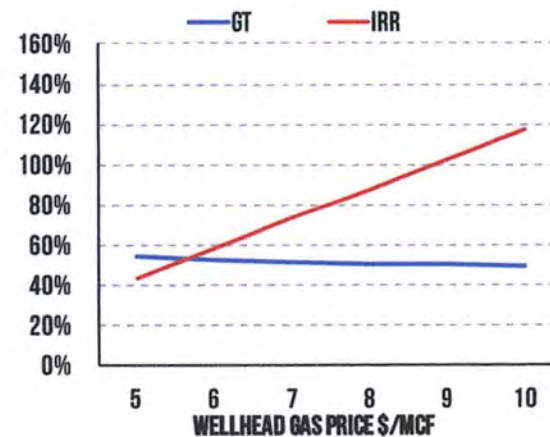
INVESTMENT METRICS



INVESTMENT METRICS



INVESTMENT METRICS



AGENDA

CS SB 130: SUMMARY OF KEY ISSUES

NORTH SLOPE: FISCAL REGIME OVERVIEW

NORTH SLOPE: CHANGES PROPOSED

COOK INLET: KEY ISSUES AND PROPOSED CHANGES

CS SB 130: SUMMARY OF KEY ISSUES

APPENDIX

Issue	Status Quo	CS HB 247 (FIN) / CS SB 130 (RES)	Impact
Gross value reduction and net operating loss credit	Because GVR artificially reduces Production Tax Value, 35% NOL credit can be claimed on amount greater than actual loss - more than 35% support for spending.	Assess NOL credit on actual loss (not including GVR), so NOL is for 35% of actual loss, and all producers have 35% support for spending.	Make North Slope state support for spending uniform at 35%. Interaction is arguably an unintended consequence under SB21, though fixing has negative impact for current GVR new developments.
Time limit on gross value reduction	No current time limit on how long new developments benefit from GVR.	Allow GVR benefit only for 5 years from first production (or until 1/1/2021).	Short limit effectively <u>eliminates much of the GVR benefit</u>. Major negative impact on recently sanctioned eligible developments.
Refundable credit withholding	Liabilities against production tax withheld from refundable credits, but not other liabilities.	Any exploration/development/production related liabilities to the state can be withheld from refundable credit payments.	Companies in dispute over liabilities will have those amounts withheld. Companies that wish to have withholding used to settle liability may do so.
.025 'Middle Earth' exploration credit	\$25 mm or 80% credit, sunsets July 1 2016.	Extend to allow for completion of wells spudded before July 1.	
Municipal production expense deduction	Munis that own production and only sell portion can deduct all expenses and claim credits.	Credits and deductions can only be claimed in proportion to taxable production.	
Surety bond	No bond requirement.	Add \$250,000 bond as license requirement.	

Issue	Status Quo	CS HB 247 (FIN)	CS SB 130 (RES)	Impact
Cook Inlet Tax credits & fiscal system	25% Net Operating Loss credit, 20% Qualified Capital Expenditure credit, 40% Well Lease Expenditure credit; up to 65% gov't support for spending and minimal production tax.	Reduce NOL credit to 10%, QCE to 10%, WLE to 20% by 2018. Restrict eligibility for NOL. Working group on Cook Inlet regime.	Reduce NOL credit to 15%, QCE to 10%, WLE to 20% by 2017. No Credits and no production tax from 2018 Onward.	Cook Inlet credit regime is clearly unsustainable in current environment; degree of ramp-down / elimination has fiscal-note impact, but also potential impacts on future investment.
North Slope gross minimum tax	4% rate, binding for legacy output if net value is positive. If net value is negative, NOL can 'pierce' floor. "New," GVR-eligible production can take to zero due to \$5/bbl and small producer credit.	Introduce additional, 'harder' 2% gross floor; no credits can reduce tax liability below this.	Maintain status quo - no further floor hardening.	Hardening has high fiscal-note impact, but most is revenue brought forward from future (NOL), not truly additional. Makes regressive system more so, and adds strain to cashflow-negative companies.
Refundable credit cap	Producers with >50 mb/d production must carry NOL forward, others can be reimbursed by the state. Major new NS development could place significant strain on state cashflow.	\$100mm per company annual limit on reimbursement.	\$85mm per company annual limit on reimbursement.	Low limit substantially increases capital needs for new developments & raises hurdle rates/break-even prices. \$100mm likely not binding on companies now given current spending plans; \$85mm may have negative impact on some.

Feature	Status Quo	CS HB 247 (FIN)	CS SB 130 (RES)	Impact
'Middle Earth' credits	25% Net Operating Loss credit, 20% Qualified Capital Expenditure credit, 40% Well Lease Expenditure credit.	Maintain NOL at 25%, reduce QCE to 10%, WLE to 30% by 2018. WLE may sunset in 2019?	Reduce NOL credit to 15%, QCE to 10%, WLE to 20% by 2017.	Fiscal impact of 'Middle Earth' credits currently minimal, but questions about capital credits may arise if significant development occurs.
Interest due on 'delinquent' taxes	Fed Discount Rate + 3% Simple Interest on delinquent taxes (up to 6-year audit statute of limitations).	Fed + 5% compounded quarterly for 3 yrs, then Fed + 5% simple interest (up to 6-year audit statute of limitations)	Fed + 7% compounded quarterly for 3 yrs, then no interest (up to 6-year audit statute of limitations)	Current simple interest arguably a drafting oversight from SB21 debate. Core issues here determine 'fair' rate vs companies' concerns over impact of long audit backlog on interest bills when interest rate is higher and compounded.
Alaska hire	Alaska hire not currently given preferential treatment in tax code (significant constitutional restrictions).	No change	No preferential treatment in amount of refunded credits, but companies with >75% Alaska hire placed higher in queue for refundable credit payments	

AGENDA

CS SB 130: SUMMARY OF KEY ISSUES

NORTH SLOPE: FISCAL REGIME OVERVIEW

NORTH SLOPE: CHANGES PROPOSED

COOK INLET: KEY ISSUES AND PROPOSED CHANGES

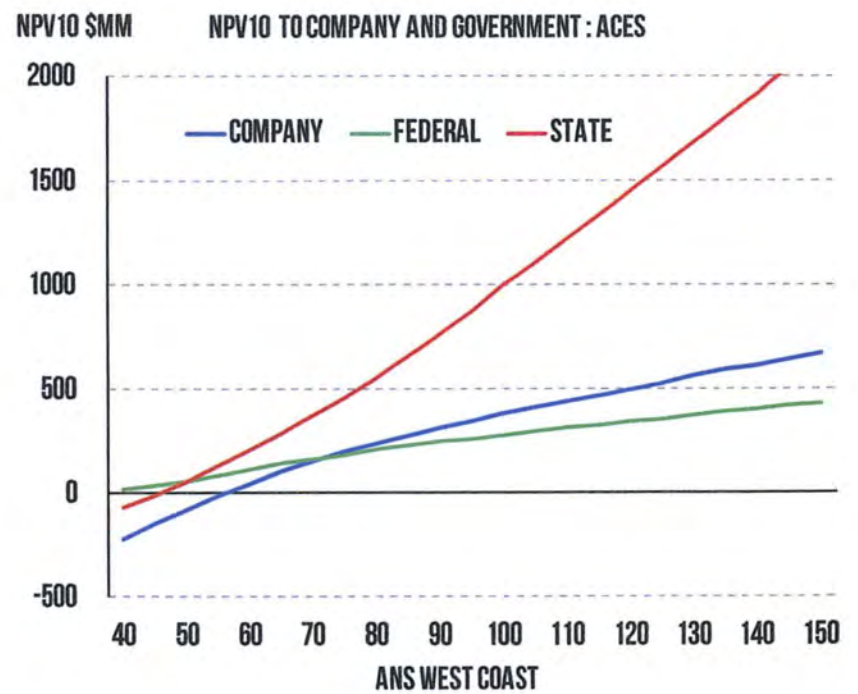
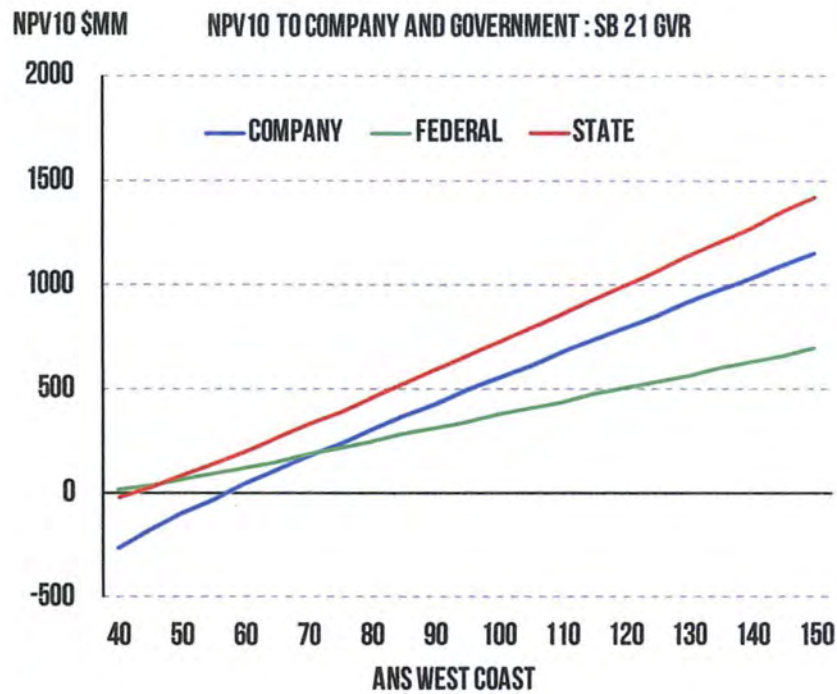
CS SB 130: SUMMARY OF KEY ISSUES

APPENDIX

SB21 WITH GVR: VALUE SPLIT

Using sample NS investment, examining total value over lifecycle to all stakeholders at range of prices:

- SB21 GVR Split of total value between state and company relatively even over a wide range of prices
- SB21 GVR state NPV10 higher than that for company at all prices, and at low prices, higher than ACES



COOK INLET GAS HAS GONE THROUGH **MAJOR TRANSITION**

Old Cook Inlet Gas Market

Surplus gas exported (via LNG and Agrium)

Low wellhead prices

Market view is that gas is long

Gas produced by large, international players

Secure local supply via long-term contracts

Producers offered high seasonal flex

Seasonal flex coming largely from supply

New Cook Inlet Gas Market

Limited surplus; gas absorbed in local market

High wellhead prices

Market view is that gas is short

Gas produced by smaller, focused players

Shorter term sales contracts b/w producers, utilities

Mature fields have much more limited seasonal flex

Seasonal flex largely from storage and demand

GAS SUPPLY AND DEMAND DYNAMICS IN COOK INLET

Supply and resources

2015 production: 103 bcf

Estimated 2P reserves: 1,600 bcf (DNR, 2015)

Legacy fields: 1,183 bcf

Kitchen Lights/Cosmo: 417 bcf (ballpark)

Yet to find estimates are much higher

Existing + new fields should be enough for current demand 10+ years; demand upside needs more gas

Demand

2015 consumption around 100 bcf

In-state demand: 80-85 bcf/yr

Exports: 13–16 bcf (2014–2015)

AGDC 2030 forecast: 115 to 130 bcf/yr (ex. nitrogen)

Nitrogen demand upside: 28 bcf/yr per train (2 trains)

State support due to gas “shortage,” yet developers say they lack markets to develop new fields; why?

Maybe issue is timing (market covered by existing contracts, window opens later)

Or a natural negotiation process (buyers and sellers looking for the “right” pricing point)

Or different views about resource certainty, especially for developing new demand (Agrium)

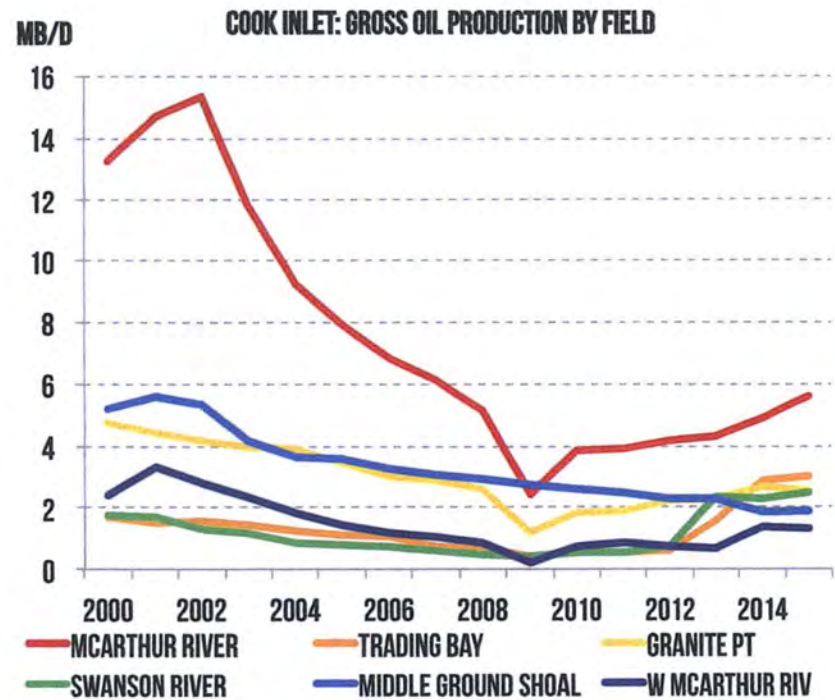
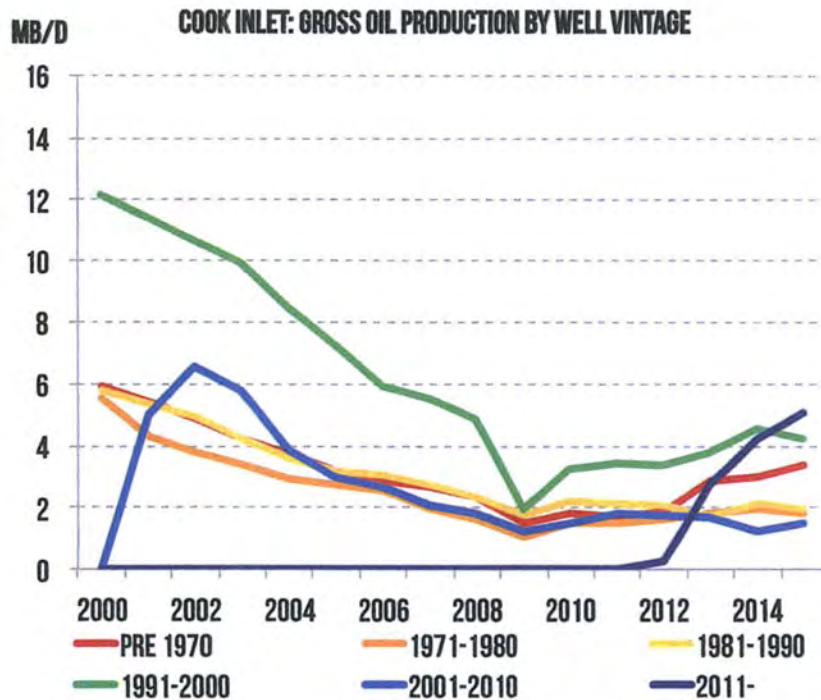
SOURCE: DEPARTMENT OF NATURAL RESOURCES; ALASKA OIL AND GAS CONSERVATION COMMISSION; ALASKA GASLINE DEVELOPMENT CORPORATION; MCDOWELL GROUP (NITROGEN DEMAND)

OIL UP FROM WORKOVERS, NEW WELLS IN EXISTING FIELDS

Production from old wells has risen, especially from wells drilled before 1970 and in 1990s

New wells drilled after 2011 have also added about 5 mb/d of production

Production is up in most fields; biggest gains from McArthur River field



SOURCE: ALASKA OIL AND GAS CONSERVATION COMMISSION, OIL AND GAS DATA WEB APPLICATION (DATA THROUGH DECEMBER 2015)

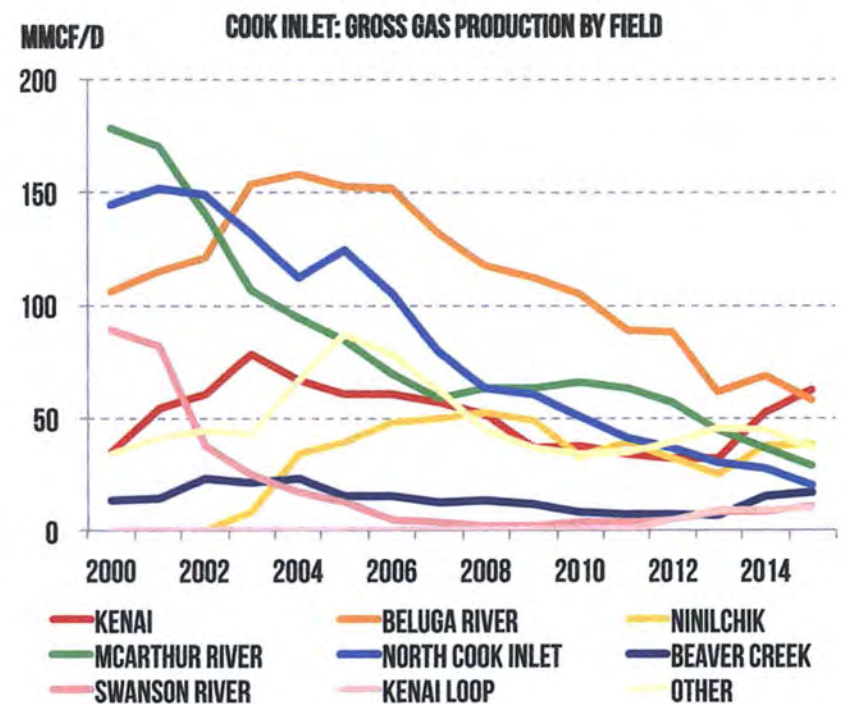
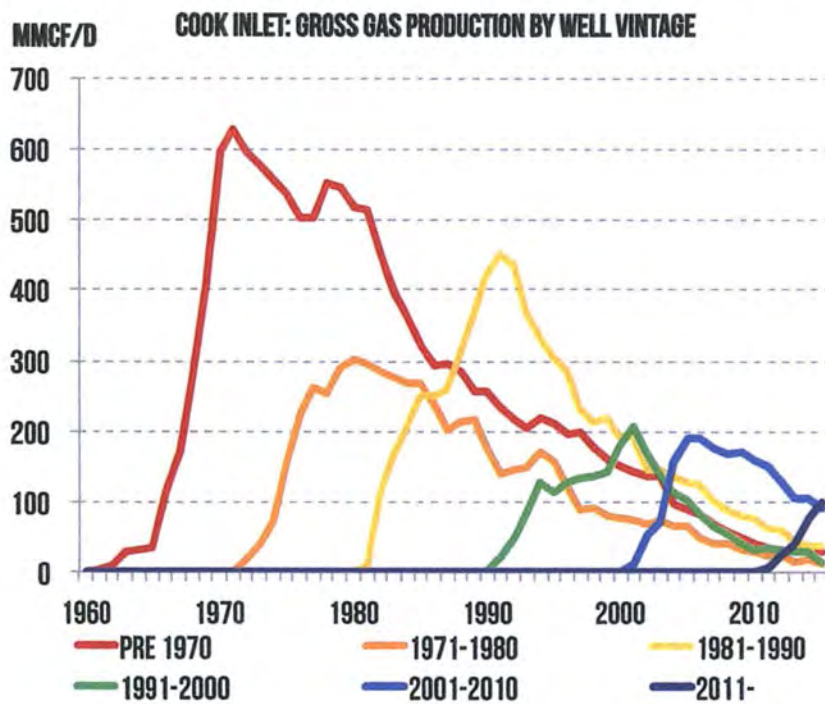
GAS FLATTENING FROM NEW WELLS IN EXISTING FIELDS

Wells drilled after 2011 have added about 100 mmcf/d of new production

Production from Beluga River, Ninilchik, and North Cook Inlet declined by 85.7 mmcf/d in 2011–2015

Growth from Kenai (+28 mmcf/d), Beaver Creek (+10), Kenai Loop (+9.7), and Swanson River (+7.3)

Only Kenai Loop is (major) new field (first gas in 2012); other growth from workovers and new wells



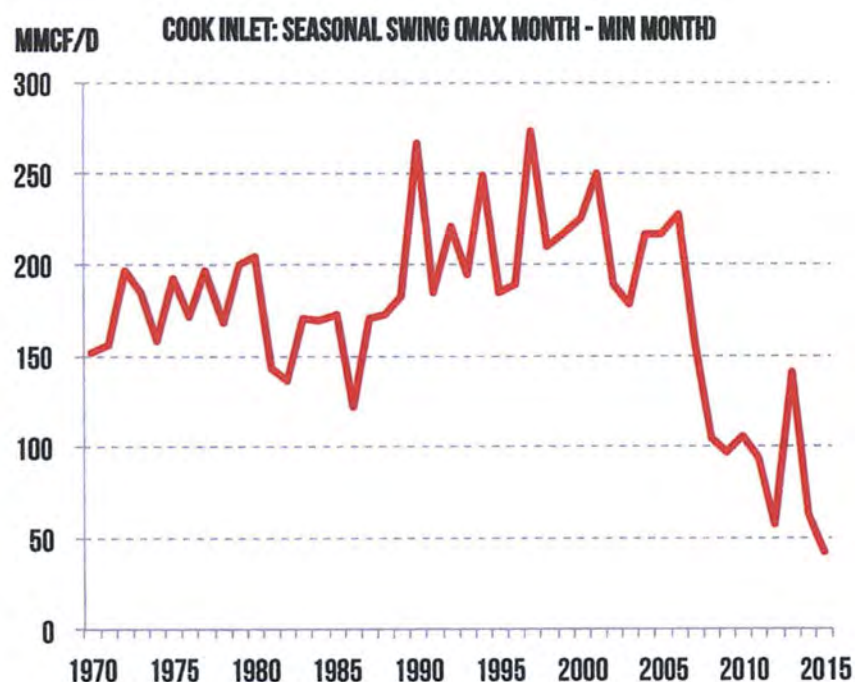
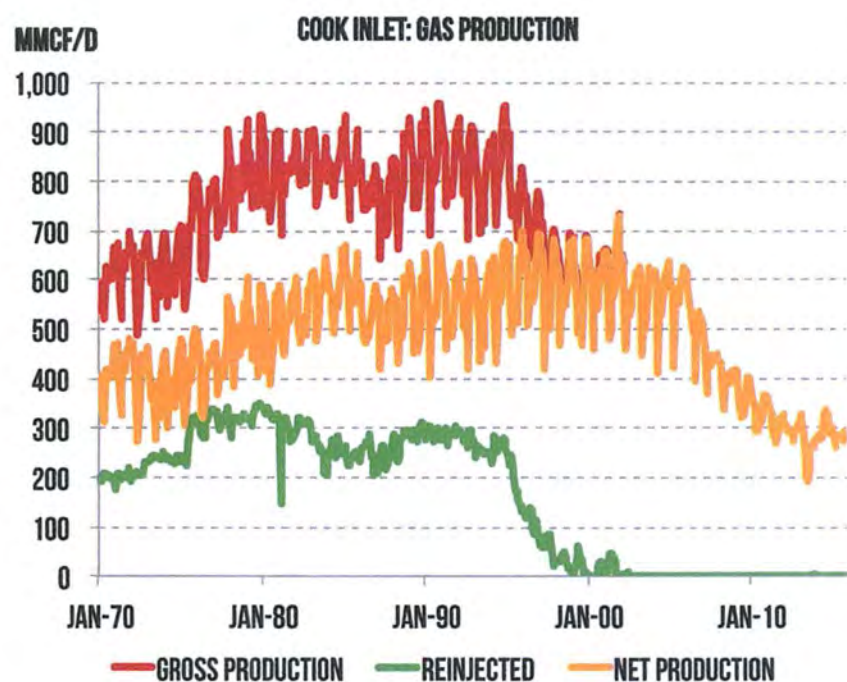
SOURCE: ALASKA OIL AND GAS CONSERVATION COMMISSION, OIL AND GAS DATA WEB APPLICATION (DATA THROUGH DECEMBER 2015)

MATURE BASIN HAS **LIMITED SEASONAL** PRODUCTION FLEX

Historically, gas production in Cook Inlet has provided seasonal flex

As production has matured, that seasonality has gone away

Since 2006, we have seen the seasonal swing (max-min month) drop to below 100 mmcf/d



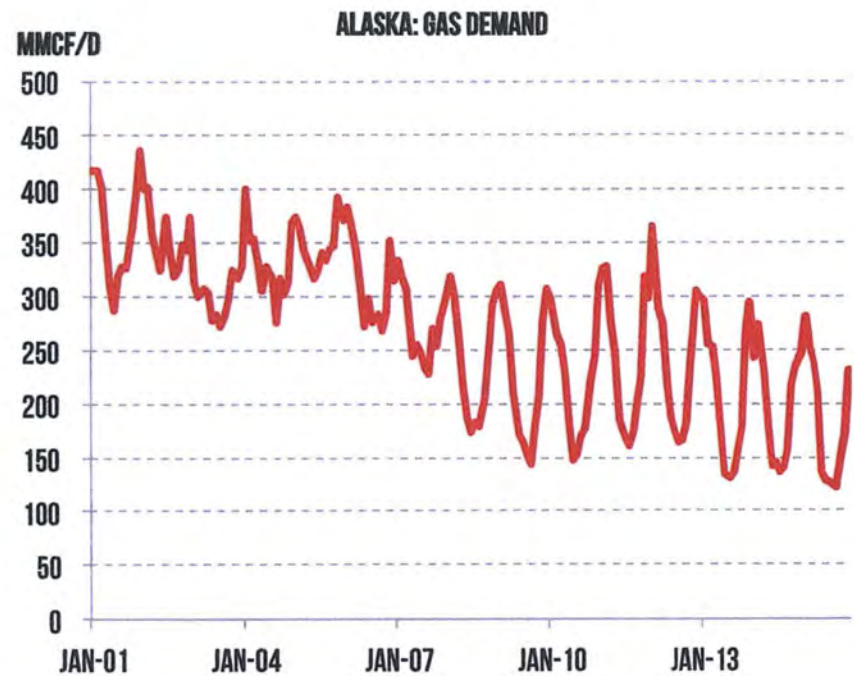
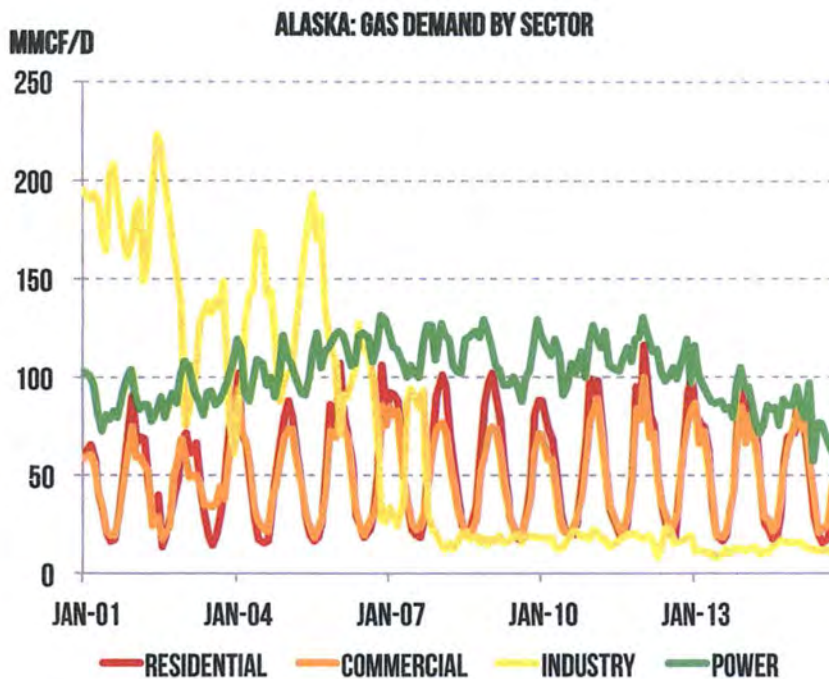
SOURCE: ALASKA OIL AND GAS CONSERVATION COMMISSION, OIL AND GAS DATA WEB APPLICATION (DATA THROUGH DECEMBER 2015)

DEMAND HAS, MEANWHILE, BECOME MORE SEASONAL

Historically, gas production was either exported or consumed in industry (nitrogen)

Lower consumption in industry has made the demand profile more seasonal (lack of “base-load” demand)

In 2003–2005, industry consumption was flexible enough to serve a seasonal purpose



SOURCE: ENERGY INFORMATION ADMINISTRATION, ALASKA NATURAL GAS CONSUMPTION BY END USE

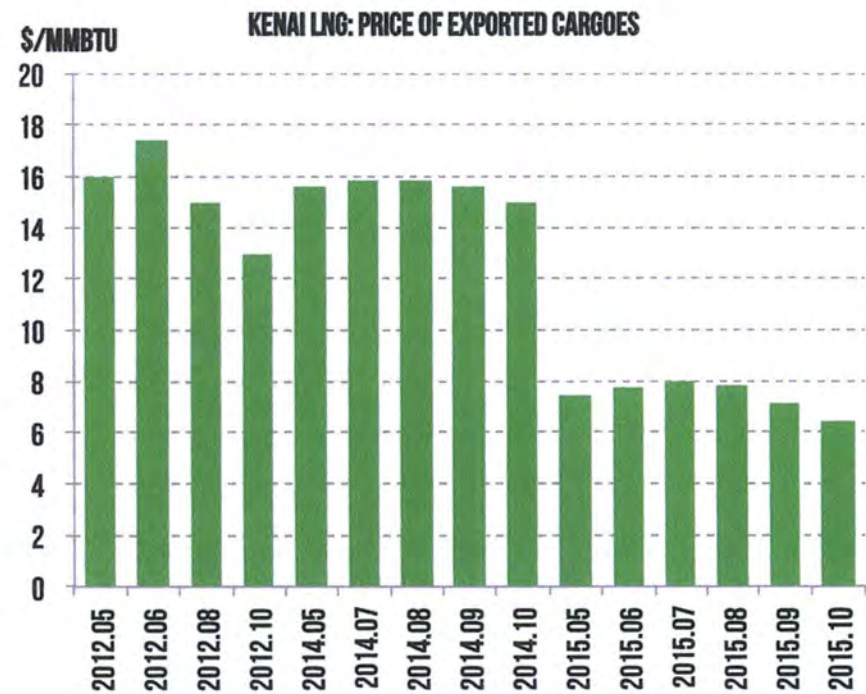
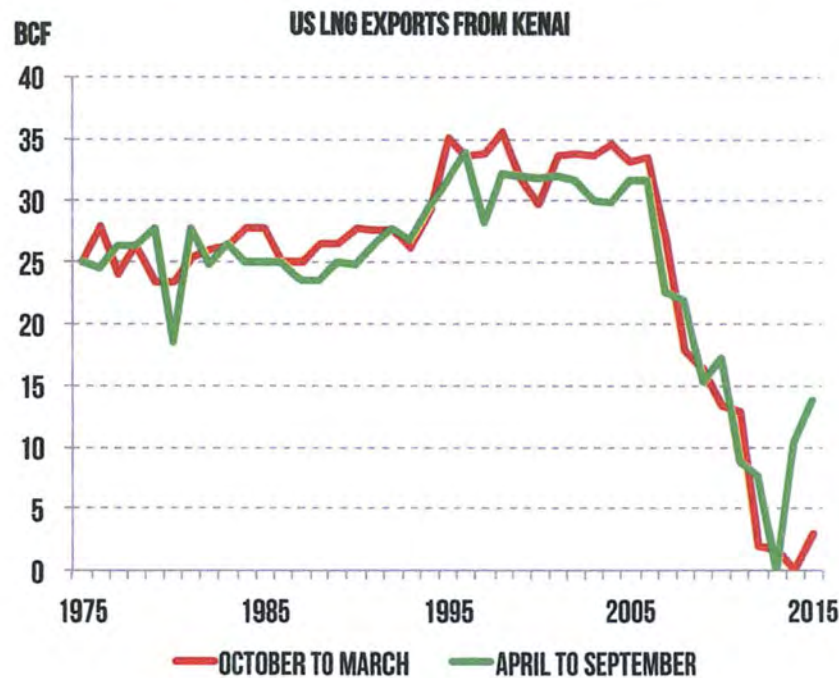
RECENTLY, EXPORTS HAVE OFFERED A SEASONAL OUTLET

Historically, LNG exports were not particularly seasonal: exports in winter and summer were similar

Since 2012, LNG exports have taken place largely in the summer

In 2014 and 2015, Kenai exported 13 and 16 bcf respectively, helping to support seasonal flexibility

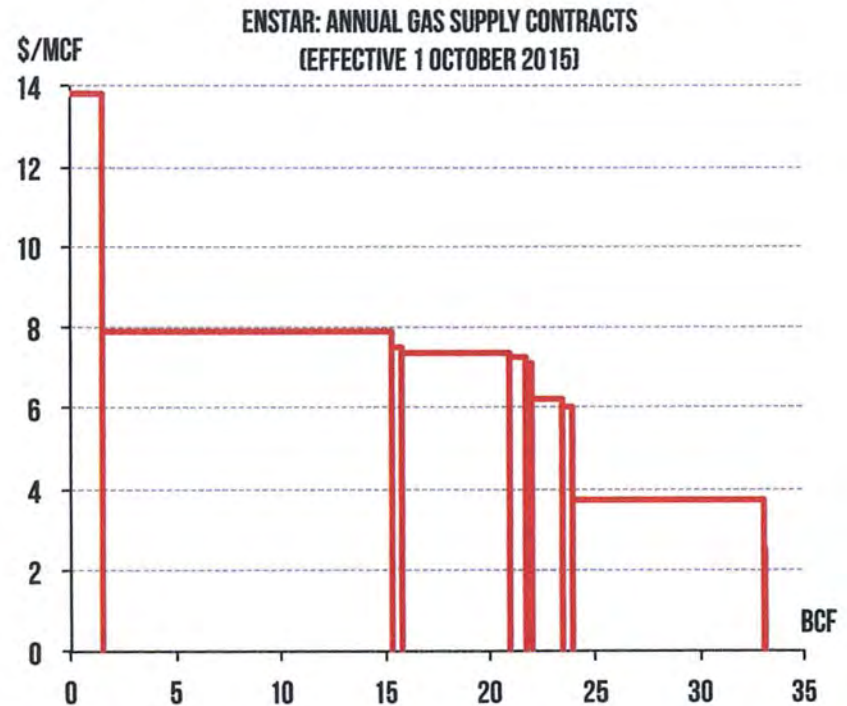
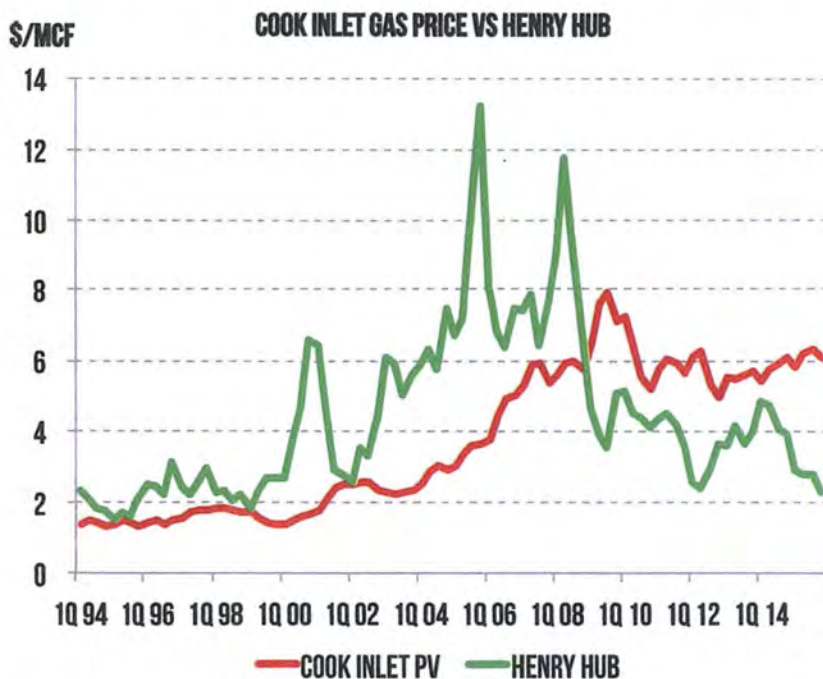
How will lower prices and ConocoPhillips' divestment of upstream in Cook Inlet impact this outlet?



SOURCE: ENERGY INFORMATION ADMINISTRATION

GAS PRICES HAVE RISEN CONSIDERABLY POST 2004

Historically, gas prices in Cook Inlet have been equal to or (more often) below Henry Hub
 Since 2004, there has been a steady rise in gas prices; since 2010, prices were between \$5 and \$6/mcf
 But there is considerable supply trading above this level, at \$8+ (and rising depending on contract)
 Other jurisdictions have found \$5-\$7/mcf is sufficient to produce most expensive gas (shale, deepwater)



SOURCE: ALASKA DEPARTMENT OF REVENUE, TAX DIVISION (COOK INLET PV); ENERGY INFORMATION ADMINISTRATION (HENRY HUB); ENSTAR, DETERMINATION OF GAS COST ADJUSTMENT