CS HB 247: KEY ISSUES

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Issue	Status Quo	CS HB 247 (FIN)	CS HB 247 (RULES)	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 Working group on Cook Inlet regime.	2017: QCE repealed, 20% WLE Credit, 25% NOL. 2018: NOL repealed. No credits from 2019 onward. Working group on Cook Inlet regime post-2019 credit expiry. Instate refinery and LNG storage facilities credits removed from Oil and Gas Tax Credit Fund.	Cook Inlet credit regime is clearly unsustainable in current environment. Rules CS provides steady ramp-down to zero with time for current companies to seek to become cash self-sustaining, while ending support entirely from 2019 onward.
North Slope gross minimum tax & NOL Credits	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 against credits. However, NOL credit ends and is replaced with pure expenditure carry-forward, effectively hardening floor against future losses.	Rules CS hardens floor against future losses, while maintaining value of current NOL credits; achieves similar fiscal impact in later years as floor hardening, while avoiding investment impacts of imposing unexpected changes on handling of loss credits already earned.
Refundable credits	Producers with >50 mb/d production must carry NOL forward, others can be reimbursed by the state. Current cash timing problems with refundable credit outflow at time of low revenues. Major new NS development could place significant strain on state cashflow.	$100mm per company annual limit on reimbursement.	$75mm per company annual limit on reimbursement. Refundable NOL on North Slope only for companies producing there in 2016 (<15 mb/d) or with approved unit plan of development or plan of exploration, expires at end of 2019. Credits in CI only to companies producing there in 2016 (expiring at end of 2018).	Rules CS lowers limit on reimbursement, then ends refundable credits altogether (from start 2019 in CI, start 2020 on NS). Companies with major, capital-intensive projects will need to use intervening time to find substantially more equity capital or bring in working interest partners if they are to proceed with / complete projects.

Feature	Status Quo	CS HB 247 (FIN)	CS HB 247 (RULES)	Impact
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).	Allow GVR benefit only for 10 years from first production (or until 1/1/2026).	Short limit effectively eliminates much of the GVR benefit. Major negative impact on recently sanctioned eligible developments. 10 year limit of Rules CS mitigates this significantly.
'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??	2017: QCE repealed, 20% WLE Credit, 25% NOL. 2018: NOL repealed. No credits from 2019 onward.	Rules CS end Middle Earth credits on same timeline as Cook Inlet credits (but maintains 2022 sunset for Middle Earth exploration credit, and, like Finance CS, 'grandfathers' 025(a)(6) credit (see next page)
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 + 5% compounded quarterly	Complexity of different types of interest in different years, combined with complexity of transition from current system to new system may be difficult to administer - Rules CS opts for greater simplicity.
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 >80% Alaska hire placed higher in queue for refundable credit payments	
Gross tax on private royalties	Tax of 5% of Gross Value at Point of Production (GVPP) for oil, 1.667% of GVPP for gas. GVPP can potentially be negative at very low prices.	No change	Clarifies that gross tax on private royalties may not be less than zero.	

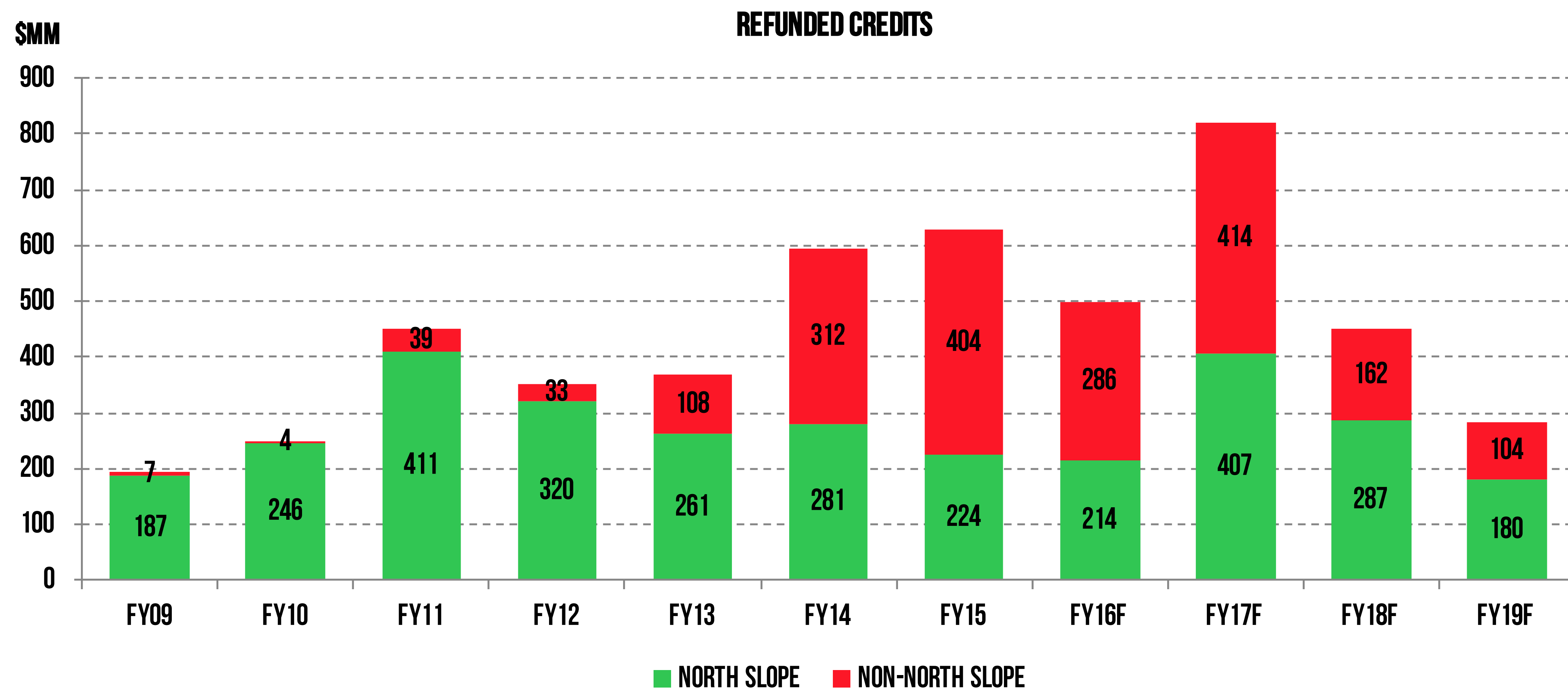
Issue	Status Quo	CS HB 247 (FIN) / CS HB 247 (RULES)	Impact
Refundable credit withholding	Liabilities against production tax withheld from refundable credits, but not other liabilities.	Any exploration/development/ production related liabilities to the state can be withheld from refundable credit payments.	Companies in dispute over liabilities will have those amounts withheld. Companies that wish to have withholding used to settle liability may do so. Rules CS clarifies that company must dispute liability in order for withholding not to be used to settle it.
.025 (a)(6) 'Middle Earth' exploration credit	$25 mm or 80% credit, sunsets July 1 2016.	Extend to allow for completion of wells spudded before July 1 in the Copper River Basin.	
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.	

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



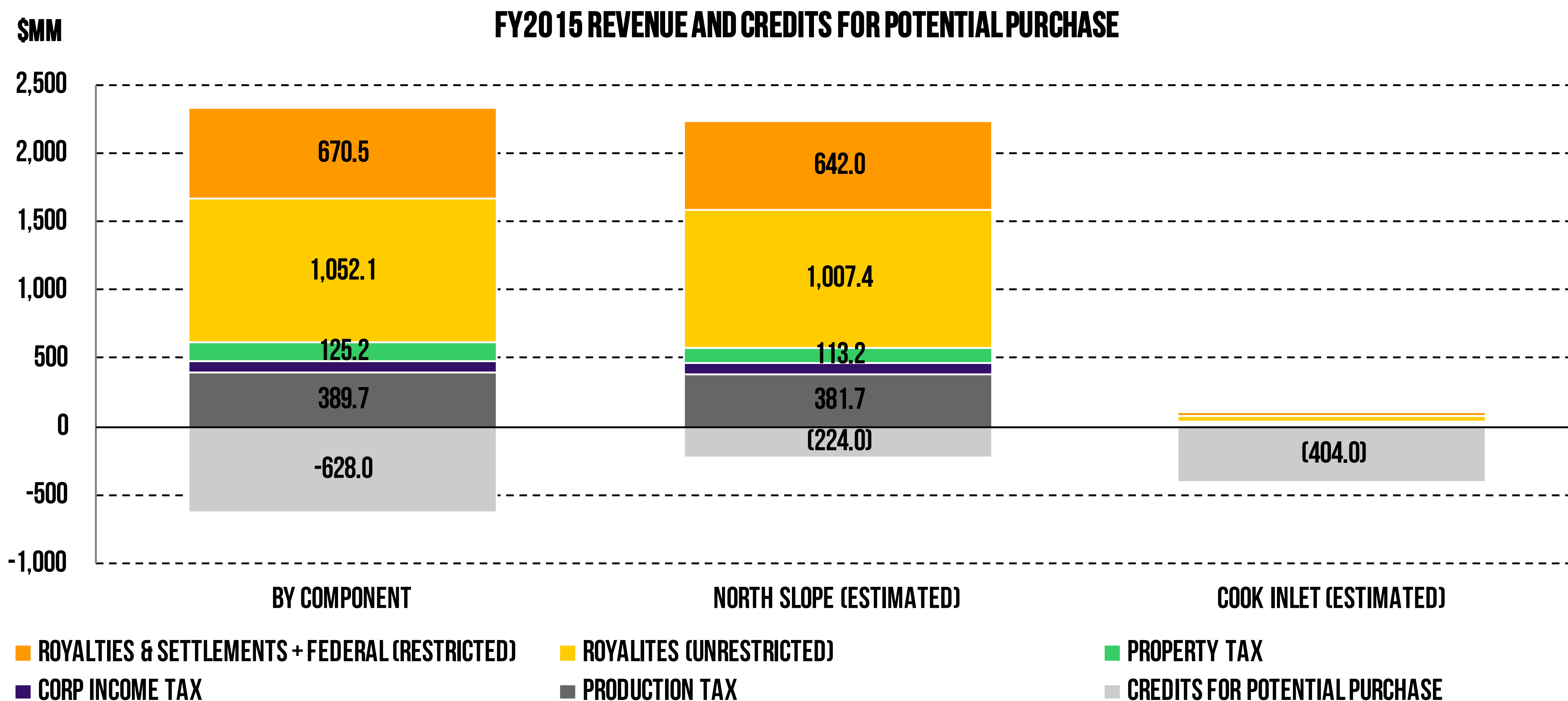
SOURCE: ALASKA DEPARTMENT OF REVENUE, TAX DIVISION

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



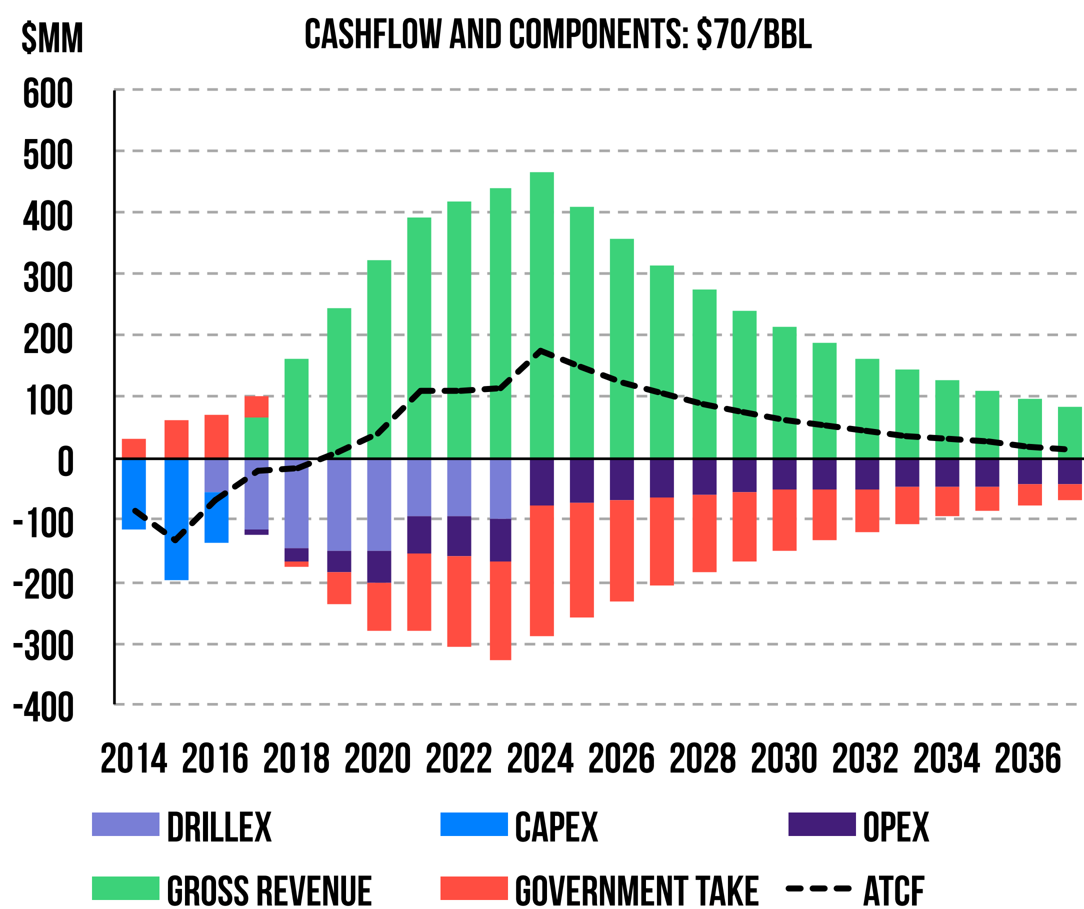
SOURCE: ALASKA DEPARTMENT OF REVENUE, REVENUE SOURCES BOOK; TAX DIVISION; ENALYTICA ESTIMATES

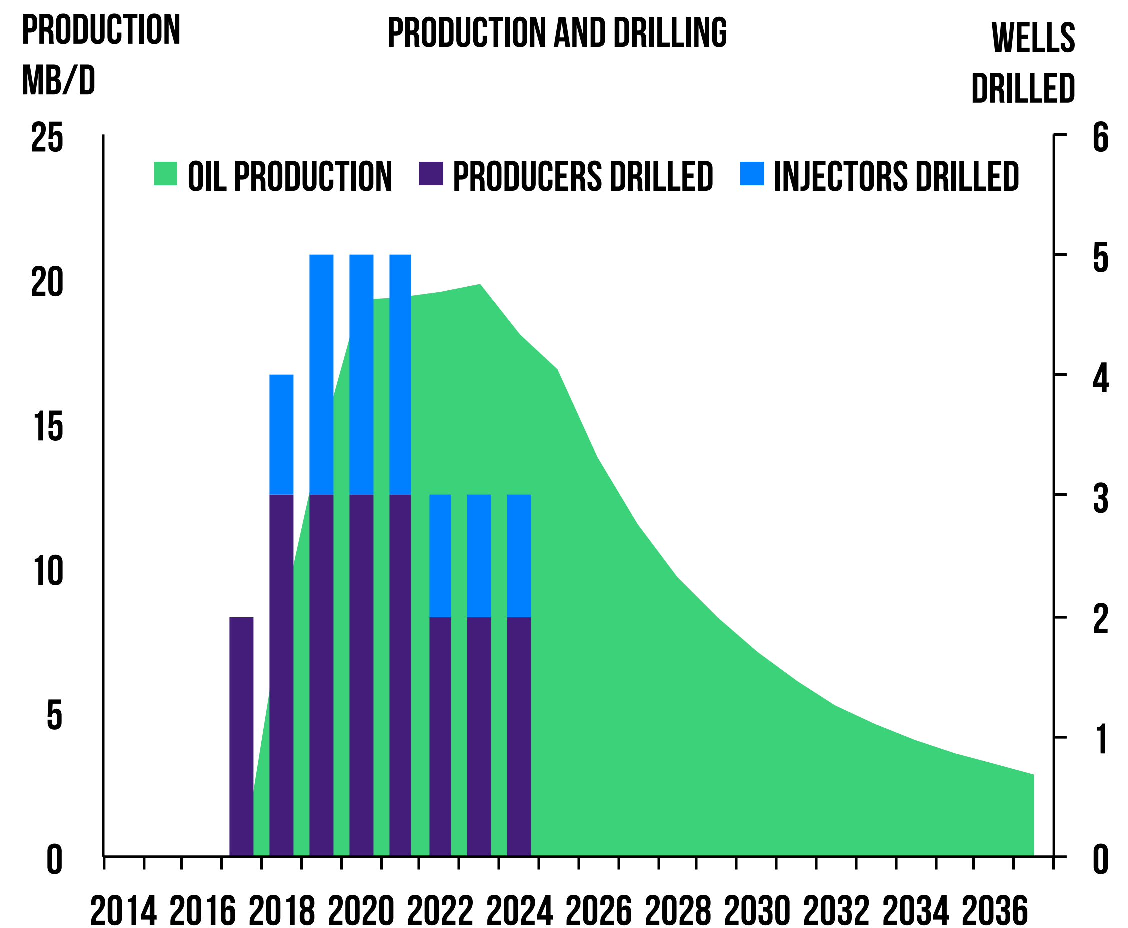
HOW DO CHANGES IMPACT NEW FIELD DEVELOPMENT?

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





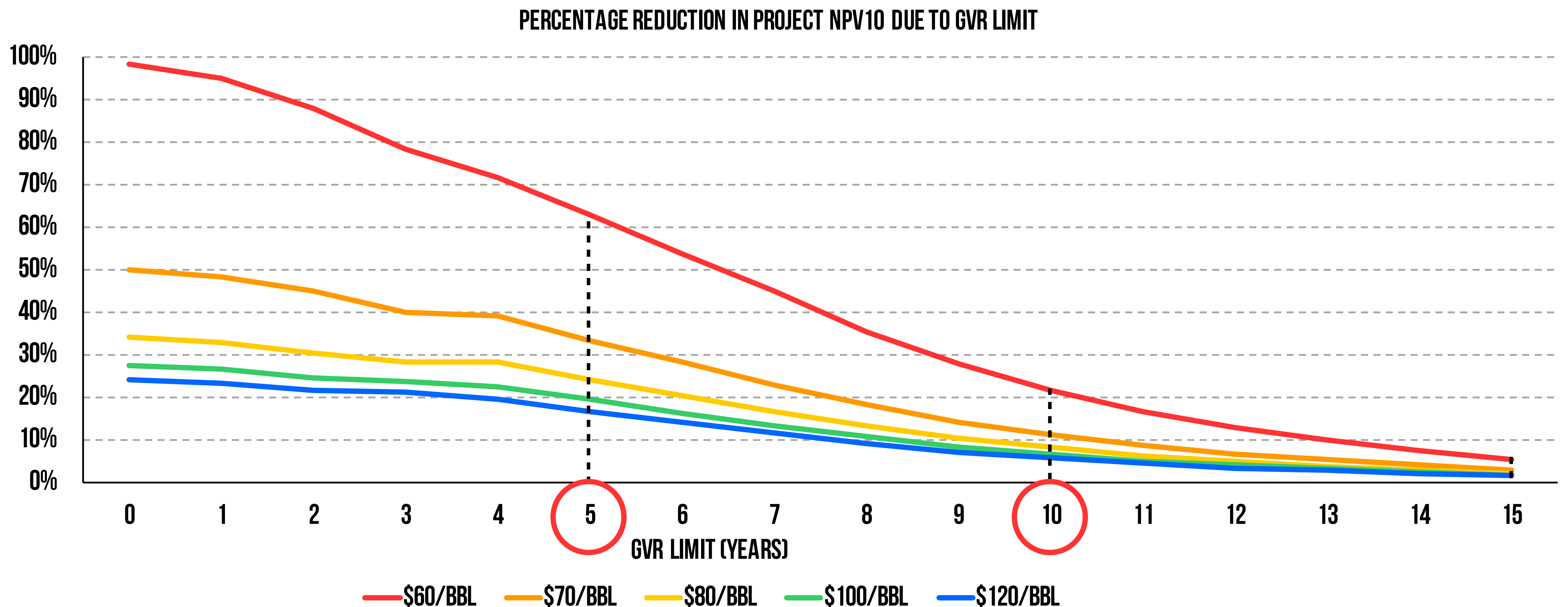
10 YR GVR LIMIT MITIGATES IMPACT ON PROJECT VALUE

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



ENDING CREDIT REFUND IMPACTS CAPITAL NEEDS, IRR

Ending refundability would increase capital needs by over 50% (from $350mm to $550mm)

At the same time it increases the oil price needed to reach a given IRR by around $10

New projects currently proposed by smaller companies may not be feasible in their current form

Question: will smaller companies be able to add capital or bring in additional working interest partners?