Cook Inlet & Middle Earth

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Cook Inlet O&G History

- **1957: Oil discovered in Swanson River Field**
  - Key driver toward statehood
- **1959: Major gas discovery near Kenai**
  - Key fuel for heat & electricity for Southcentral Alaskans
- **1970: Oil production peaked at 230,000 bpd**
- **1996: Gas production peaked at 0.6 BCF/day**
- **2009: Production could barely meet demand**
- **2010: Passage of Cook Inlet Recovery Act (HB 280)**

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Cook Inlet Tax Regime

- **Pre-March 31, 2006:** **Economic Limit Factor (ELF)**
- **April 1, 2006:** **Petroleum Production Tax (PPT)**
  - Already concerns about production levels/gas shortages
  - Cook Inlet taxes capped at ELF levels to incentivize production
  - Credits to incentivize investment
- **2007:** **Alaska's Clear and Equitable Share (ACES)**
  - Cook Inlet tax caps do not change
- **2010:** **HB 280 – Cook Inlet Recovery Act**
  - Energy shortages and potential crisis led to HB 280
- **2013 - 2014:** **SB 21 – (mainly North Slope) & SB 138**
- **2016 - present:** **HB 247**
  - Reduces tax credits in 2017
  - Repeals credits in 2018, including credits for drilling and seismic passed in Cook Inlet Recovery Act

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Cook Inlet Tax Overview

- **Oil Production Tax**
  - 2016: 0%
  - After 2016: 35% of "net cash flow"
    - Tax Cap at $1.00/Bbl indefinitely

- **Natural Gas Production Tax**
  - 35% of "net cash flow"
    - 13% of gross value starting in 2022
  - Tax Cap extended indefinitely by HB 247
    - Fields in production before 4/1/2006 – tax limited to per mcf paid during last year of ELF
    - Fields starting production after 3/31/2006, Tax Cap is 17.7 cents per mcf

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Cook Inlet Tax Credits

- **Qualified Capital Expenditures Tax Credit [023(a)]**
  - 2016: 20%
  - 2017: 10%
  - After 2017: 0%

- **Well Lease Expenditures Tax Credit [023(l)]**
  - 2016: 40%
  - 2017: 20%
  - After 2017: 0%

- **Net Operating Loss Tax Credit [023(b)]**
  - 2016: 25%
  - 2017: 15%
  - After 2017: 0%

Cook Inlet Tax Credits

- **Alternative Credit for Exploration**
  - 30/40% for exploration drilling & 40% for seismic sunset July 1, 2016
- **Jack-Up Rig Credit – sunset July 1, 2016**
- **Gas Storage Facility Credit (Cook Inlet Recovery Act)**
  - Facility must have commenced commercial production before 2016 (used by CINGSA)
- **HB 100: Alaska corporate income tax credit for in-state manufacture of urea, ammonia, or GTL products**
  - Incentive for Agrium plant, but not limited to Cook Inlet
  - Credit = royalty paid by gas supplier under its state leases
  - Sunsets 2024

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Middle Earth

- "Middle Earth" is the area of Alaska outside of the Cook Inlet and North Slope
- Underexplored with no historic commercial production
- Pre-March 31, 2006: Economic Limit Factor (ELF) - statewide
- April 1, 2006: Petroleum Production Tax (PPT) - statewide
- 2007: Alaska's Clear and Equitable Share (ACES) – statewide – extended Cook Inlet gas cap to gas used in state
- 2010: Cook Inlet Recovery Act incentives apply to Middle Earth
- 2012: SB 23 – 4% tax cap for 7 years, Frontier Basin Credits
- 2013-2014: MAPA (SB 21 – mainly North Slope, but extended sunsets for certain incentives) & SB 138
- 2016: HB 247 reduces tax credits in 2017 including Cook Inlet Recovery Act drilling and seismic incentives

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Middle Earth Tax Overview

- **Oil Production Tax**
  - 35% of "net cash flow"
  - Tax Cap = 4% of gross value for 1^{st} 7 years if oil production starts < 2027
- **Natural Gas Production Tax**
  - 35% of "net cash flow" (13% of gross value starting in 2022)
  - Tax Cap = 4% of gross value for 1^{st} 7 years if gas production starts < 2027
  - Tax Cap = 17.7 cents per mcf for gas produced and used in the state other than gas subject to the 4% of gross value tax cap
- **Alternative Credit for Exploration**
  - Frontier Basin:
    - Extended sunset for exploration drilling from 7/1/2016 until 7/1/2017 (seismic exploration sunset 7/1/2016)
    - Tax Credit = 80% of expenditures (limited to $25 million per well)
  - Other Areas: (sunset of 1/1/2022)
    - 30/40% for exploration drilling & 40% for seismic

Middle Earth Tax Credits

- **Qualified Capital Expenditures Tax Credit**
  - 2016: 20%
  - >2016: 10% (HB 247)
- **Well Lease Expenditures Tax Credit**
  - 2016: 40%
  - >2016: 20% (HB 247)
- **Net Operating Loss Tax Credit**
  - 2016: 25%
  - >2016: 15% (HB 247)

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Cook Inlet & Middle Earth

- **HB 247 created new rules for purchase of tax credit certificates by the state**
  a) $70 million per-company annual cap on certificate purchases
  b) Of the $70 million limit, first $35 million is purchased at 100% of value, but anything above $35 million is reduced by 25%
  c) When allocating funds for purchase between 2 applicants, preference given to applicant with higher % of resident workers, including direct contractors

- **Interest Rate on Delinquent Taxes**
  a) 7% over Fed Discount Rate for 3 years, compounded quarterly
  b) No interest after 3 years

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association

Cook Inlet & Middle Earth

- **Education Tax Credit**
  - 50% to 100% tax credit
- **LNG Storage Facility Credit**
  - Income tax credit for lesser of $15 million or 50% of costs to construct
  - Must commence commercial production before 2020
- **Service Industry Expenditure Credit**
  - Income tax credit for lesser of $10 million or 10% of costs for in-state modification or manufacture of tangible property for oil or gas operations
- **Refinery Infrastructure Expenditure Credit**
  - Income tax credit for lesser of $10 million per refinery or 40% of costs for in-state purchase, modification or installation of tangible property used in-state manufacture or transport of petroleum products or feedstock
  - Expenditures must be incurred before 2020

OIL & GAS: FUELING ALASKA'S ECONOMY

AOGA Alaska Oil and Gas Association