PRODUCTION TAX CREDITS

PRESENTED TO THE HOUSE FINANCE COMMITTEE

MARCH 17, 2011
Overview

- **Types of Production Tax Credits**
  - Credits Applied Against Production Tax Liability
  - Transferable Tax Credit Certificates
  - Cash Refunds History
Types of Production Tax Credits

Credits which may be taken against oil and gas production taxes include:

- Capital Expenditure Credits
- Alternative Tax Credits for Oil and Gas Exploration
- Net Operating Loss ("NOL") Carry Forward Credits
- Transitional Investment Expenditure ("TIE") Credit
- Additional Nontransferable Tax Credits
- Well Lease Expenditures Credit
- Cook Inlet Jack-up Rig Credit
Timelines for Production Tax Credits

- 43.55.023(a) QCE and (b) CFAL credits
- 43.55.023(l) 40% Well Lease Exp (CI)
- 43.55.023(l) TIE credits (PPT)
- 43.55.023(l) TIE credits (ACES)
- 43.55.024(a) New Area Development credit
- 43.55.024(c) small producer credit
- 43.55.025 (20%/40%) credit for expl
- 43.55.025 (30%/40%) credit for expl
- 43.55.025 (l) Cook inlet Jack-up Rig Credit
Overview

- Types of Production Tax Credits
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Credits Applied Against Production Tax Liability

Credits may be redeemed in two ways:

(1) All Credits may be applied against production tax liability
   - Capital Expenditure and Capital Exploration Credits split over two years (except south of 68 degree North latitude – eff. July 1, 2010)
   - NOL, TIE, Small Producer and Alternative Tax Credits for Oil and Gas Exploration may all be applied against tax liability in total in a single year

(2) Some Credits may be converted into a transferable Tax Credit Certificate
   - Capital Expenditure, Capital Exploration, NOL, and Alternative Tax Credits for Oil and Gas Exploration are convertible to tax certificates
   - Capital Expenditure, Capital Exploration and NOL Tax Credit Certificates must be applied over two years (except south of 68 degrees North latitude – passed 2010)
   - Alternative Tax Credits for Oil and Gas Exploration Certificates can be used in single year
## Production Tax Credits Applied Against Tax Liability (Fiscal Year)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
<th>2011*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure</td>
<td>65</td>
<td>227</td>
<td>219</td>
<td>280</td>
<td>349</td>
<td>391</td>
<td>1,535</td>
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<tr>
<td>Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>TIE Credits</td>
<td>33</td>
<td>138</td>
<td>73</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>243</td>
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<tr>
<td>Small Producer Credits</td>
<td>9</td>
<td>37</td>
<td>30</td>
<td>26</td>
<td>28</td>
<td>40</td>
<td>169</td>
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<tr>
<td>Exploration Credits</td>
<td>1</td>
<td>47</td>
<td>55</td>
<td>28</td>
<td>34</td>
<td>20</td>
<td>185</td>
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<tr>
<td>Totals</td>
<td>107</td>
<td>449</td>
<td>375</td>
<td>333</td>
<td>417</td>
<td>450</td>
<td>2,131</td>
</tr>
</tbody>
</table>

* Estimated
Overview

- Types of Production Tax Credits
- Credits Applied Against Production Tax Liability
- Transferable Tax Credit Certificates
- Cash Refunds History
Companies may also claim tax credits by applying for a Transferable Tax Credit Certificate (TTCC)

- Available to companies (explorers) with no tax liability to which credits can be applied
- Tax Credit Certificates under 43.55.023(a) and (b) must be split or applied over two years (except credits issued for expenditures incurred south of 68 degrees North latitude effective July 1, 2010)
- May be transferred to another taxpayer or cashed with the state
Production Tax Credits Under AS 43.55 Claimed by FY ($M)

<table>
<thead>
<tr>
<th>Credit Type</th>
<th>Pre-2007</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
<th>Total</th>
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<tbody>
<tr>
<td>Capital Expenditure .023(a)</td>
<td></td>
<td>68.2</td>
<td>91.7</td>
<td>109.6</td>
<td>168.0</td>
<td>72.8</td>
<td>510.3</td>
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<tr>
<td>Net Operating Loss .023(b)</td>
<td></td>
<td>38.1</td>
<td>148.5</td>
<td>153.5</td>
<td>138.7</td>
<td>.2</td>
<td>479.0</td>
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<td>Well Lease Expenditure .023(l)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>5.8</td>
<td>5.8</td>
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<tr>
<td>Exploration -.025</td>
<td>48.3</td>
<td>44.9</td>
<td>85.5</td>
<td>56.6</td>
<td>99.5</td>
<td>2.4</td>
<td>337.2</td>
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<tr>
<td>Total</td>
<td>48.3</td>
<td>151.3</td>
<td>325.6</td>
<td>319.7</td>
<td>406.2</td>
<td>81.3</td>
<td>1332.4</td>
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* Applications received through January 4, 2011.
## Transferable Tax Credit Certificate Activity by Fiscal Year ($M)

<table>
<thead>
<tr>
<th></th>
<th>Pre-2007</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
<th>Total</th>
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<tbody>
<tr>
<td>Issued</td>
<td>16.2</td>
<td>99.9</td>
<td>130.8</td>
<td>308.2</td>
<td>361.3</td>
<td>191.5</td>
<td>1,107.9</td>
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<td>Refunded</td>
<td>(54.6)</td>
<td>(54.1)</td>
<td>(193.1)</td>
<td>(250.5)</td>
<td>(299.3)</td>
<td>(851.6)</td>
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<tr>
<td>Transferred/</td>
<td>(12.3)</td>
<td>(40.0)</td>
<td>(46.6)</td>
<td>(20.0)</td>
<td>(1.2)</td>
<td>(62.7)</td>
<td>(182.8)</td>
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<td>Activity by year</td>
<td>3.9</td>
<td>5.2</td>
<td>30.1</td>
<td>95.1</td>
<td>109.6</td>
<td></td>
<td>(170.4)</td>
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<tr>
<td>Transferable</td>
<td>3.9</td>
<td>9.1</td>
<td>39.2</td>
<td>134.2</td>
<td>243.9</td>
<td>73.4</td>
<td>73.4</td>
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*Payment activity through February 4, 2011.
Overview

- Types of Production Tax Credits
- Credits Applied Against Production Tax Liability
- Transferable Tax Credit Certificates (TTCC)
- Cash Refunds History
Cash Refunds History

Cash Refunds Governed by AS 43.55.028:
• To cash must be usable against tax liability
• Must show subsequent (24 months) QCEs or lease bids equal to cash sought (repealed in 2010)
• Have a zero tax owed in current and past years
• Have no more than 50,000 BOE/d
Cash Refunds History

Oil & Gas Tax Credit Fund

Appropriations - $ 904 M
Tax Credit Purchases (TC Fund) (772) M
Tax Credit Purchases (GF) (79) M
Interest Earned 22 M
Balance $ 75 M
Impact of Production Tax Credits
Total State Stimulus

Includes $67.5M estimate for Cook Inlet Jack-Up rig credit

* Estimated

Department of Revenue
3/17/2011