

The Credit Story

- Development Credits for New Entrants
- Development Credits for Incumbents
- Exploration Incentive Credits

Example 1: New Entrant Development

- A new entrant with no current production pursues a development requiring \$200 million in investment
- Company receives a 20% investment credit, worth \$40 million (PPT and ACES)
- Company also receives an additional credit for its “tax loss”, PPT – 20%, ACES – 25%

(PPT) - \$40M (ACES) - \$50M

Example 2: Incumbent Producer Development

- Incumbent with current production pursues a development requiring \$200 million investment
- Company receives a 20% investment credit, worth \$40 million
- The company reduces current-year tax by the total capital expense multiplied by the tax rate
(PPT) $\$200 \text{ million} * 22.5\%$, worth \$45 million
(ACES) $\$200 \text{ million} * 25\%$, worth \$50 million
- Finally, under PPT, the incumbent producer receives a 10% “claw-back” credit \$20 million

Development Comparison

	PPT	ACES
<u>New Entrant</u>		
Development Costs	\$200	\$200
Investment Credit	\$40	\$40
<u>Net Loss Credit</u>	<u>\$40</u>	<u>\$50</u>
Total State Credit	\$80	\$90
<u>Incumbent</u>		
Development Costs	\$200	\$200
Investment Credit	\$40	\$40
<u>Net Loss Credit</u>	<u>\$45</u>	<u>\$50</u>
Total State Credit	\$85	\$90

Exploration Incentive Credits (“ .025 Credits”)

	PPT	ACES
Exploration Well Costs	\$100	\$100
<p>(a) 3 miles from "existing well"?</p> <p>(b) 25 miles from unit?</p>		
Yes to (a) only	\$20	\$30
Yes to (a) & (b)	\$40	\$40
<u>Net Loss Credit</u>		
Incumbent	\$22.50	\$25
New Entrant	\$20	\$25
<u>Total Credit</u>		
Incumbent (a) only	\$42.50	\$55
Incumbent (a) & (b)	\$62.50	\$65
New Entrant (a) only	\$40	\$55
New Entrant (a) & (b)	\$60	\$65