

**CS FOR HOUSE BILL NO. 276(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES THOMPSON, DICK, MILLETT, TUCK, AND MILLER, Tammie Wilson, Kawasaki, Feige, Joule

**A BILL****FOR AN ACT ENTITLED**

1 "An Act providing for a credit against the oil and gas production tax for costs incurred  
2 for conducting seismic exploration and drilling certain oil or natural gas exploration  
3 wells in certain basins; and providing a special tax rate for new oil or gas production  
4 south of 68 degrees North latitude."

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 \* **Section 1.** AS 43.55.011(e) is amended to read:

7 (e) There is levied on the producer of oil or gas a tax for all oil and gas  
8 produced each calendar year from each lease or property in the state, less any oil and  
9 gas the ownership or right to which is exempt from taxation or constitutes a  
10 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), [AND]  
11 (o), and (p) of this section, the tax is equal to the sum of

12 (1) the annual production tax value of the taxable oil and gas as  
13 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

14 (2) the sum, over all months of the calendar year, of the tax amounts

1                   determined under (g) of this section.

2 \* **Sec. 2.** AS 43.55.011 is amended by adding a new subsection to read:

3                   (p) After December 31, 2012, and before January 1, 2022, for the seven years  
4 immediately following the commencement of commercial production from a lease or  
5 property or unit that did not have oil or gas production before January 1, 2013, the  
6 levy of tax under (e) of this section for oil and gas produced south of 68 degrees North  
7 latitude, other than gas subject to (i) or (j) of this section or oil subject to (i) or (k) of  
8 this section, may not exceed four percent of the gross value at the point of production.

9 \* **Sec. 3.** AS 43.55.025(a) is amended to read:

10                   (a) Subject to the terms and conditions of this section, a credit against the  
11 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that  
12 qualify under (b) of this section in an amount equal to one of the following:

13                   (1) 30 percent of the total exploration expenditures that qualify only  
14 under (b) and (c) of this section;

15                   (2) 30 percent of the total exploration expenditures that qualify only  
16 under (b) and (d) of this section;

17                   (3) 40 percent of the total exploration expenditures that qualify under  
18 (b), (c), and (d) of this section;

19                   (4) 40 percent of the total exploration expenditures that qualify only  
20 under (b) and (e) of this section; [OR]

21                   (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this  
22 section, of the total exploration expenditures described in (b)(1) and (2) of this section  
23 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this  
24 section;

25                   (6) the lesser of \$22,500,000 or 80 percent of the total exploration  
26 drilling expenditures described in (n) of this section and that qualify under (b)  
27 and (c) of this section; or

28                   (7) the lesser of \$7,500,000 or 75 percent of the total seismic  
29 exploration expenditures described in (o) of this section and that qualify under  
30 (b) of this section.

31 \* **Sec. 4.** AS 43.55.025(c) is amended to read:

(c) To be eligible for a [THE 30 PERCENT] production tax credit authorized by (a)(1), (3), or (6) of this section [OR THE 40 PERCENT PRODUCTION TAX CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures must

(1) qualify under (b) of this section; and

(2) be for an exploration well, subject to the following:

(A) before the well is spudded,

(i) the explorer shall submit to the commissioner of natural resources the information necessary to determine whether the geological objective of the well is a potential oil or gas trap that is distinctly separate from any trap that has been tested by a preexisting well;

(ii) at the time of the submittal of information under (i) of this subparagraph, the commissioner of natural resources may request from the explorer that specific data sets, ancillary data, and reports including all results, and copies of well data collected and data analyses for the well be provided to the Department of Natural Resources upon completion of the drilling; in this sub subparagraph, well data include all analyses conducted on physical material, and well logs collected from the well and sample analyses; testing geophysical and velocity data including vertical seismic profiles and check shot surveys; testing data and analyses; age data; geochemical analyses; and access to tangible material; and

(iii) the commissioner of natural resources must make an affirmative determination as to whether the geological objective of the well is a potential oil or gas trap that is distinctly separate from any trap that has been tested by a preexisting well and what information under (ii) of this subparagraph must be submitted by the explorer after completion, abandonment, or suspension under AS 31.05.030; the commissioner of natural resources shall make that determination within 60 days after receiving all the necessary information from the explorer

based on the information received and on other information the commissioner of natural resources considers relevant;

(B) for an exploration well other than a well to explore a Cook Inlet prospect, the well must be located and drilled in such a manner that the bottom hole is located not less than three miles away from the bottom hole of a preexisting well drilled for oil or gas, irrespective of whether the preexisting well has been completed, suspended, or abandoned;

(C) after completion, suspension, or abandonment under AS 31.05.030 of the exploration well, the commissioner of natural resources must determine that the well was consistent with achieving the explorer's stated geological objective.

\* **Sec. 5.** AS 43.55.025 is amended by adding new subsections to read:

(n) The persons that drill the first four exploration wells in the state and within the areas described in (p) of this section on state lands, private lands, or federal onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a prospect in a basin described in (p) of this section are eligible for a credit under (a)(6) of this section. A credit under this subsection may not be taken for more than two exploration wells in a single area described in (p)(1) - (6) of this section. Exploration expenditures eligible for the credit in this subsection must be incurred for work performed after June 1, 2012. A person planning to drill an exploration well on private land and to apply for a credit under this subsection shall obtain written consent from the owner of the oil and gas interest for the full public release of all well data after the expiration of the confidentiality period applicable to information collected under (f) of this section. The written consent of the owner of the oil and gas interest must be submitted to the commissioner of natural resources before approval of the proposed exploration well. In addition to the requirements in (c) of this section and submission of the written consent of the owner of the oil and gas interest, a person planning to drill an exploration well shall obtain approval from the commissioner of natural resources before the well is spudded. The commissioner of natural resources shall make a written determination approving or rejecting an exploration well within 60 days after receiving the request for approval or as soon as is practicable thereafter.

1 Before approving the exploration well, the commissioner of natural resources shall  
2 consider the following: the location of the well; the proximity to a community in need  
3 of a local energy source; the proximity of existing infrastructure; the experience and  
4 safety record of the explorer in conducting operations in remote or roadless areas; the  
5 projected cost schedule; whether seismic mapping and seismic data sufficiently  
6 identify a particular trap for exploration; whether the targeted and planned depth and  
7 range are designed to penetrate and fully evaluate the hydrocarbon potential of the  
8 proposed prospect and reach the level below which economic hydrocarbon reservoirs  
9 are likely to be found, or reach 12,000 feet or more true vertical depth; and whether  
10 the exploration plan provides for a full evaluation of the wellbore below surface casing  
11 to the depth of the well. Whether the exploration well for which a credit is requested  
12 under this subsection is located within an area and a basin described under (p) of this  
13 section shall be determined by the commissioner of natural resources and reported to  
14 the commissioner. A taxpayer that obtains a credit under this subsection may not claim  
15 a tax credit under AS 43.55.023 or another provision in this section for the same  
16 exploration expenditure.

17 (o) The persons that conduct the first four seismic exploration projects in the  
18 state and within the areas described in (p) of this section for the purpose of discovering  
19 oil or gas in a basin are eligible for the credit under (a)(7) of this section. A credit  
20 under this subsection may not be taken for more than one seismic exploration project  
21 in a single area described in (p)(1) - (6) of this section. Exploration expenditures  
22 eligible for the credit in this subsection must be incurred for work performed after  
23 June 1, 2012. A person planning to conduct a seismic exploration project on private  
24 land and to apply for a credit under this subsection shall obtain written consent from  
25 the owner of the oil and gas interest for the full public release of all geophysical data  
26 and compliance with the data submission requirements in (f)(2) of this section.  
27 Notwithstanding (f)(2)(C)(ii) of this section, to qualify for a credit under this  
28 subsection, a person shall submit the written consent of the owner of the oil and gas  
29 interest for the release of data if applicable, and all data required under (f)(2) of this  
30 section to the Department of Natural Resources and shall agree in writing that all  
31 seismic data requirements submitted under the requirements of (f)(2) of this section

1 may be made public two years after receiving a credit under this subsection. A person  
2 intending to qualify for the tax credit under this subsection shall obtain approval from  
3 the commissioner of natural resources before the commencement of the seismic  
4 exploration activities. The commissioner of natural resources shall make a written  
5 determination approving or rejecting a seismic project within 60 days after receiving  
6 the request for approval or as soon as is practicable thereafter. Before approving a  
7 seismic exploration project, the commissioner shall consider the following: the  
8 location of the project; the projected cost schedule; the data acquisition and data  
9 processing plan; the reasons for choosing the particular area for seismic exploration;  
10 and the experience and safety record of the person in conducting seismic exploration  
11 operations in remote or roadless areas. Whether the seismic exploration project for  
12 which a credit is requested under this subsection is located in a basin described in (p)  
13 of this section shall be determined by the commissioner of natural resources and  
14 reported to the commissioner. A taxpayer that obtains a credit under this subsection  
15 may not claim a tax credit under AS 43.55.023 or another provision in this section for  
16 the same exploration expenditure.

17 (p) The activity that is the basis for a credit claimed under (a)(6) and (n) of  
18 this section or (a)(7) and (o) of this section must be for the exploration of a basin and  
19 within the following areas whose central points are determined using the World  
20 Geographic System of 1984 datum,

21 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees  
22 West;

23 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees  
24 West;

25 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees  
26 West;

27 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees  
28 West;

29 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees  
30 West;

31 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees

1

West.