



ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER

Co-Chair: Senate Resources Committee

Member: C&RA Committee

Member: LB&A Committee

Member: Regulatory Review

Member: World Trade

Official Business

Session: January - May

State Capitol, #427

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Phone: 907-465-2828 Fax: 907-465-4779

Interim: May - December

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MEMORANDUM

To: Senators Wagoner and Paskvan
Co-Chairs, Senate Resources Committee

From: Senator Wagoner *JHW*

Date: February 4, 2012

Re: SB 145 Oil/Gas Production Tax Credits: Nenana

I respectfully request a hearing on SB 145 before the Senate Resources Committee to be scheduled at your earliest convenience.

SB 145 is designed to incentivize exploration drilling in the underexplored Nenana Basin by offering tax credits for the first three wells drilled in the basin that meet certain requirements.

Attached please find supporting documentation including:

- SB 145 Oil/Gas Production Tax Credits: Nenana (LS1078\M)
- Sponsor Statement
- Sectional, explaining the changes SB 145 would make to current law
- CS for SB 145 (LS1078\B)
- Explanation of Changes Made by CS for SB 145

Any questions may be directed to the following staff person in my office:

Margaret Dowling
465-4899

SENATE BILL NO. 145

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY SENATORS WAGONER AND COGHILL, Thomas

Introduced: 1/17/12

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act providing for a credit against the oil and gas production tax for costs incurred**
2 **in drilling certain oil or natural gas exploration wells in the Nenana Basin."**

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

4 *** Section 1.** AS 43.55.025(a) is amended to read:

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

8 (1) 30 percent of the total exploration expenditures that qualify only
9 under (b) and (c) of this section;

10 (2) 30 percent of the total exploration expenditures that qualify only
11 under (b) and (d) of this section;

12 (3) 40 percent of the total exploration expenditures that qualify under
13 (b), (c), and (d) of this section;

14 (4) 40 percent of the total exploration expenditures that qualify only

1 under (b) and (e) of this section; or

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

6 * **Sec. 2.** AS 43.55.025 is amended by adding a new subsection to read:

7 (n) The first three persons that drill an exploration well for the purpose of
 8 discovering oil or gas in the Nenana Basin are eligible for the credit under this
 9 subsection. To qualify for the credit under this subsection, the well for which the
 10 credit is claimed must be drilled to a depth greater than 8,000 feet or, if authorized by
 11 the commissioner of natural resources before the drill bit first turns to the right for the
 12 purpose of drilling the well, to a target depth of less than 8,000 feet, but not less than
 13 5,000 feet. The person that drills the first exploration well is entitled to a credit in the
 14 amount of 100 percent of its exploration well expenditures or \$25,000,000, whichever
 15 is less; the person that drills the second exploration well is entitled to a credit in the
 16 amount of 90 percent of its exploration well expenditures or \$22,500,000, whichever
 17 is less; and the person that drills the third exploration well is entitled to a credit in the
 18 amount of 80 percent of its exploration well expenditures or \$20,000,000, whichever
 19 is less. A person or an affiliate of a person may qualify for a credit for more than one
 20 well under this subsection. The department shall make a determination of the order in
 21 which the wells are drilled based on the date and time that the drill bit first turns to the
 22 right for the purpose of drilling the well. Exploration expenditures eligible for the
 23 credit in this subsection must be incurred for work performed after December 31,
 24 2011. If the exploration well for which a credit is received under this subsection
 25 results in sustained production of oil or gas from a reservoir discovered by the
 26 exploration well, and notwithstanding that the credit may have been transferred under
 27 (g) of this section, 50 percent of the amount of the credit received shall be repaid to
 28 the department by the person that received the credit in monthly installments over the
 29 10-year period commencing 60 days after the start of sustained production of oil or
 30 gas. The amount of a monthly installment shall be the greater of 1/240 of the total
 31 amount of credit received or 10 percent of the gross value at the point of production

1 for the month immediately preceding the month the payment is due. Whether the
2 exploration well for which a credit is requested under this subsection is located in the
3 Nenana Basin, reached the required depth, or resulted in sustained production of oil or
4 gas from a reservoir discovered by the exploration well shall be determined by the
5 commissioner of natural resources and reported to the commissioner. A taxpayer that
6 obtains a credit under this subsection may not claim a tax credit under AS 43.55.023
7 or another provision in this section for the same exploration expenditure. In this
8 subsection,

9 (1) "reservoir" means an oil or gas accumulation, discovered and
10 evaluated by testing, that is separate from any other accumulation of oil or gas;

11 (2) "sustained production" means production of oil or gas from a
12 reservoir into a pipeline or other means of transportation to market, but does not
13 include testing, evaluation, or pilot production.



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Sponsor Statement

SB 145 "An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin"

SB 145 is designed to attract exploration drilling in the underexplored Nenana Basin through tax credit incentives. The Nenana Basin has shown great potential, but has remained underdeveloped due to complications associated with its remote location. At a time when economic growth and development in the Interior is crippled by high energy prices and the lack of reliable energy supplies, this legislation will strongly encourage companies to invest in this high potential, frontier basin, located just 50 miles from Fairbanks. SB 145 has the potential to not only benefit the Interior but, at a time when the state is struggling to supply natural gas to Alaskans along the railbelt and oil to the pipeline, SB 145 has the potential to benefit all Alaskans.

SB 145 is intended to quicken the pace of exploration by rewarding the credits to the first three persons to drill an exploration well to a depth greater than 8,000 feet. The credits are structured as follows:

- The first person that drills an exploration well is credited 100 percent of costs, or \$25 million, whichever is less;
- The second exploration well drilled is entitled to a credit of 90 percent, or up to \$22.5 million, whichever is less;
- The third exploration well is credited at 80 percent, or up to \$20 million, whichever is less.

If the exploration results in sustained oil and/or gas production from a reservoir discovered by the drilling, then 50 percent of the credits awarded will be repaid to the state.

The Nenana basin has a high potential for production of gas and possibly oil. SB 145 provides the incentives needed for exploration in this basin. Should a discovery be made, the new resource will benefit the regional economy and support businesses and families who are suffering from high energy costs and unreliable supplies.



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Sectional

SB 145 "An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin."

Section 1. Amends AS 43.55.025(a) to add reference to a new subsection "n"

Section 2. Adds a new subsection to AS 43.55.025, which provides that the first three drillers, who may be affiliated, that drill an exploration well for the purpose of discovering oil or gas in the Nenana Basin are eligible for tax credits. The well depth must be greater than 8,000 feet, but a shallower well of no less than 5,000 feet may be authorized by the commissioner of natural resources before drilling commences. The new subsection includes a payback provision, which is triggered upon sustained production from a reservoir discovered by the exploration well, and structures the tax credits as follows:

- The first person that drills an exploration well is credited 100 percent of costs, or \$25 million, whichever is less;
- The second exploration well drilled is entitled to a credit of 90 percent, or up to \$22.5 million, whichever is less;
- The third exploration well is credited at 80 percent, or up to \$20 million, whichever is less.