

27-LS1078\I
Nauman/Bullock
3/23/12

CS FOR SENATE BILL NO. 145()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY

**Offered:
Referred:**

Sponsor(s): SENATORS WAGONER AND COGHILL, Thomas

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

determined under (g) of this section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7 (A) before the well is spudded,

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

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

24 (iii) the commissioner of natural resources must make
25 an affirmative determination as to whether the geological objective of
26 the well is a potential oil or gas trap that is distinctly separate from any
27 trap that has been tested by a preexisting well and what information
28 under (ii) of this subparagraph must be submitted by the explorer after
29 completion, abandonment, or suspension under AS 31.05.030; the
30 commissioner of natural resources shall make that determination within
31 60 days after receiving all the necessary information from the explorer

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

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

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

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

13 (n) The persons that drill the first four exploration wells in the state and within
14 the areas described in (p) of this section on state or private lands for the purpose of
15 discovering oil or gas that penetrate and evaluate a prospect in a basin described in (p)
16 of this section are eligible for a credit under (a)(6) of this section. A credit under this
17 subsection may not be taken for more than two exploration wells in a single area
18 described in (p)(1) - (6) of this section. Exploration expenditures eligible for the credit
19 in this subsection must be incurred for work performed after June 1, 2012. A person
20 planning to drill an exploration well on private land and to obtain a credit under this
21 subsection shall obtain written consent from the owner of the oil and gas interest for
22 the full public release of all well data after the expiration of the confidentiality period
23 applicable to information collected under (f) of this section and in conjunction with
24 and compliance with the data submission requirements in (f)(2) of this section. The
25 written consent of the owner of the oil and gas interest must be submitted to the
26 commissioner of natural resources before approval of the proposed exploration well.
27 In addition to the requirements in (c) of this section and submission of the written
28 consent of the owner of the oil and gas interest, a person planning to drill an
29 exploration well shall obtain approval from the commissioner of natural resources
30 before the well is spudded. The commissioner of natural resources shall approve or
31 reject an exploration well within 60 days after receiving the request for approval or as

1 soon as is practicable thereafter. Before approving the exploration well, the
2 commissioner of natural resources shall consider the following: the location of the
3 well; the proximity to a community in need of a local energy source; the proximity of
4 existing infrastructure; the experience and safety record of the explorer in conducting
5 operations in remote or roadless areas; the projected cost schedule; whether seismic
6 mapping and seismic data sufficiently identify a particular trap for exploration;
7 whether the targeted and planned depth and range are designed to penetrate and fully
8 evaluate the hydrocarbon potential of the proposed prospect and reach the level below
9 which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or
10 more true vertical depth; and whether the exploration plan provides for a full
11 evaluation of the wellbore below surface casing to the depth of the well. Whether the
12 exploration well for which a credit is requested under this subsection is located within
13 an area and a basin described under (p) of this section shall be determined by the
14 commissioner of natural resources and reported to the commissioner. A taxpayer that
15 obtains a credit under this subsection may not claim a tax credit under AS 43.55.023
16 or another provision in this section for the same 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 obtain a credit under this subsection shall obtain written consent from the
25 owner of the oil and gas interest for the full public release of all geophysical data and
26 compliance with the data submission requirements in (f)(2) of this section. To qualify
27 for a credit under this subsection, a person shall submit the written consent of the
28 owner of the oil and gas interest for the release of data if applicable, and all data
29 required under (f)(2) of this section to the Department of Natural Resources and shall
30 agree in writing that all seismic data requirements submitted under the requirements of
31 (f)(2) of this section may be made public after the expiration of the confidentiality

period applicable to information collected under (f)(2) of this section. A person intending to qualify for the tax credit under this subsection shall obtain approval from the commissioner of natural resources before the commencement of the seismic exploration activities. The commissioner of natural resources shall approve or reject a seismic project within 60 days after receiving the request for approval or as soon as is practicable thereafter. Before approving a seismic exploration project, the commissioner shall consider the following: the location of the project; the projected cost schedule; the data acquisition and data processing plan; the reasons for choosing the particular area for seismic exploration; and the experience and safety record of the person in conducting seismic exploration operations in remote or roadless areas. Whether the seismic exploration project for which a credit is requested under this subsection is located in a basin described in (p) of this section shall be determined by the commissioner of natural resources and reported to the commissioner. A taxpayer that obtains a credit under this subsection may not claim a tax credit under AS 43.55.023 or another provision in this section for the same exploration expenditure.

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

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

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

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

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

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

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

1

West.