



Official Business

ALASKA STATE LEGISLATURE

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Senate Bill 85

Sponsor Statement

TAX CREDIT FOR NEW OIL & GAS DEVELOPMENT

This bill authorizes credits for 100% of the costs of the qualified development expenditures that were incurred after a “pool” is discovered and before production of oil or gas in paying quantities.

The Alaska Oil and Gas Conservation Commission (AOGCC) determines the date the “pool” was discovered and the Department of Natural Resources (DNR) determines the date of commencement of production from that pool. Eligible costs for the credit are those that are qualified capital expenditures (AS 43.55.023) or lease expenditures (AS 43.55.165).

The credit is required to be taken within five years, is not transferable and may not be used to reduce a tax liability to below zero.

Alaska’s declining oil production has extremely serious ramifications on the Trans Alaska Pipeline System (TAPS), the revenues of the State of Alaska, and on the domestic production for the United States of America.

Alaska’s production is about one-third of the peak 2.1 million barrels per day in 1988 and projected to continue declining 5-6% per year.¹ Without reversals in the current decline, the continuation of the entire system is at risk.

This new credit is expected to produce increased activity in oil production and thus, an increase in the through-put in the TAPS system.

The legislation is patterned after revisions recently made to Alberta’s royalty taxing regime (May 2010). As a result of the revisions, Alberta expects industry reinvestments of \$700 million per year and creation of 8,000 jobs in 2011-2012.

¹ Alyeska pipeline May 2010
SS SB 85 S(RES) 2-23-11/mj