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Nauman/Bullock  
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**CS FOR HOUSE BILL NO. 276( )**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

**BY**

**Offered:  
Referred:**

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

**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 relating to a limit on certain oil and gas production tax**  
4 **credits."**

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

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

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

11 (1) 30 percent of the total exploration expenditures that qualify only  
12 under (b) and (c) of this section;

13 (2) 30 percent of the total exploration expenditures that qualify only  
14 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 that qualify under (b), (c), and (p) 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 that qualify under (b), (c), and (p) of this section.**

\* **Sec. 2.** 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), (6), or (7)** 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. 3.** AS 43.55.025 is amended by adding new subsections to read:

(n) The persons that drill the first four exploration wells in an area described in (p) of this section on state or private 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 may not be taken for more

than two exploration wells in a single area described in (p)(1) - (6) of this section. A person or an affiliate of a person may qualify for a credit for not more than two wells under this subsection. The department shall make a determination of the order in which the wells are drilled based on the date and time that the drill bit first turns to the right for the purpose of drilling the well. A person planning to drill an exploration well on private land and to obtain 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 collected within two years after receiving a credit under this section and in conjunction with and compliance with the data submission requirements in (f)(2) 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. Before approving the exploration well, the commissioner of natural resources must make an affirmative finding that the exploration well is in the best interest of the state based on the following: the location of the well; the proximity to a community in need of a local energy source; the proximity of existing infrastructure; the experience and safety record of the explorer in conducting operations in remote or roadless areas; the projected cost schedule; whether seismic mapping and seismic data sufficiently identify a particular trap for exploration; whether the targeted and planned depth and range are designed to penetrate and fully evaluate the hydrocarbon potential of the proposed prospect and reach the level below which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or more true vertical depth; and whether the exploration plan provides for a full evaluation of the wellbore below surface casing to the depth of the well. Exploration expenditures eligible for the credit in this subsection must be incurred for work performed after June 1, 2012. Whether the exploration well for which a credit is requested under this subsection is located within an area and a basin described under (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

1 may not claim a tax credit under AS 43.55.023 or another provision in this section for  
2 the same exploration expenditure.

3 (o) The persons that conduct the first four seismic exploration projects in the  
4 areas described in (p) of this section for the purpose of discovering oil or gas in a basin  
5 are eligible for the credit under (a)(7) of this section. A credit may not be taken for  
6 more than one seismic exploration project in a single area described in (p)(1) - (6) of  
7 this section. Exploration expenditures eligible for the credit in this subsection must be  
8 incurred for work performed after June 1, 2012. A person planning to conduct a  
9 seismic exploration project on private land and to obtain a credit under this subsection  
10 shall obtain written consent from the owner of the oil and gas interest for the full  
11 public release of all geophysical data and compliance with the data submission  
12 requirements in (f)(2) of this section. To qualify for a credit under this subsection, a  
13 person shall submit the written consent of the owner of the oil and gas interest for the  
14 release of data if applicable, and all data required under (f)(2) of this section to the  
15 Department of Natural Resources and shall agree in writing that all seismic data  
16 requirements submitted under the requirements of (f)(2) of this section may be made  
17 public within two years after receiving the credit in this subsection. A person or an  
18 affiliate of a person may qualify for a credit for more than one seismic exploration  
19 project under this subsection. A person intending to qualify for the tax credit under  
20 this subsection shall obtain approval from the commissioner of natural resources  
21 before the commencement of the seismic exploration activities. Before approving a  
22 seismic exploration project, the commissioner shall make an affirmative finding that  
23 the seismic exploration project is in the best interest of the state based on the location  
24 of the project, the projected cost schedule, the data acquisition and data processing  
25 plan, the reasons for choosing the particular area for seismic exploration, and the  
26 experience and safety record of the person in conducting seismic exploration  
27 operations in remote or roadless areas. Whether the seismic exploration project for  
28 which a credit is requested under this subsection is located in a basin described in (p)  
29 of this section shall be determined by the commissioner of natural resources and  
30 reported to the commissioner. A taxpayer that obtains a credit under this subsection  
31 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 West.

(q) The amount of credit for an exploration expenditure under (a)(1) - (4) of this section for an expenditure that is also a lease expenditure under AS 43.55.165 is reduced by the amount necessary so that the tax benefit percentage is not more than 65 percent of the exploration expenditure. In this subsection, "tax benefit percentage" means the sum of the average monthly tax rate under AS 43.55.011(e) and (g) for the calendar year in which the credit is taken and the percentage of the exploration expenditure that may be taken as a credit under (a)(1) - (4) of this section.