

**2d CS FOR HOUSE BILL NO. 247( )**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-NINTH LEGISLATURE - SECOND SESSION

**BY**

**Offered:  
Referred:**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the powers and duties of the Alaska Oil and Gas Conservation**  
2 **Commission; relating to exploration incentive credits; relating to confidential**  
3 **information status and public record status of information in the possession of the**  
4 **Department of Revenue; relating to interest applicable to delinquent tax; relating to the**  
5 **oil and gas production tax rate for certain oil exempt from taxation or constituting a**  
6 **landowner's royalty interest; relating to oil and gas production tax credits; relating to**  
7 **tax credit certificates; relating to the calculation of the production tax value of oil and**  
8 **gas; relating to refunds for the gas storage facility tax credit, the liquefied natural gas**  
9 **storage facility tax credit, and the qualified in-state oil refinery infrastructure**  
10 **expenditures tax credit; relating to the purchase of tax credit certificates from the oil**  
11 **and gas tax credit fund; relating to lease expenditures; relating to oil and gas lease**  
12 **expenditures and production tax credits for municipal entities; requiring a bond or cash**

1 **deposit with a business license application for an oil or gas business; establishing a**  
2 **legislative working group to study the fiscal regime and tax structure and rates for oil**  
3 **and gas produced south of 68 degrees North latitude; and providing for an effective**  
4 **date."**

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

6 \* **Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

7 (n) Upon request of the commissioner of revenue, the commission shall

8 (1) verify regular production for the purposes of AS 43.55.023(b) and  
9 (l); and

10 (2) determine the commencement of regular production from a lease or  
11 property for purposes of AS 43.55.160(f) and (g).

12 \* **Sec. 2.** AS 38.05.036(a) is amended to read:

13 (a) The department may conduct audits regarding royalty and net profits under  
14 oil and gas contracts, agreements, or leases under this chapter and regarding costs  
15 related to exploration licenses entered into under AS 38.05.131 - 38.05.134 and  
16 exploration incentive credits under this chapter [OR UNDER AS 41.09]. For purposes  
17 of an audit under this section,

18 (1) the department may examine the books, papers, records, or  
19 memoranda of a person regarding matters related to the audit; and

20 (2) the records and premises where a business is conducted shall be  
21 open at all reasonable times for inspection by the department.

22 \* **Sec. 3.** AS 38.05.036(b) is amended to read:

23 (b) The Department of Revenue may obtain from the department information  
24 relating to royalty and net profits payments and to exploration incentive credits under  
25 this chapter [OR UNDER AS 41.09], whether or not that information is confidential.  
26 The Department of Revenue may use the information in carrying out its functions and  
27 responsibilities under AS 43, and shall hold that information confidential to the extent  
28 required by an agreement with the department or by AS 38.05.035(a)(8) [,  
29 AS 41.09.010(d),] or AS 43.05.230.

1 \* **Sec. 4.** AS 38.05.036(c) is amended to read:

2 (c) The department may obtain from the Department of Revenue all  
3 information obtained under AS 43 relating to royalty and net profits and to exploration  
4 incentive credits. The department may use the information for purposes of carrying out  
5 its responsibilities and functions under this chapter [AND AS 41.09]. Information  
6 made available to the department that was obtained under AS 43 is confidential and  
7 subject to the provisions of AS 43.05.230.

8 \* **Sec. 5.** AS 38.05.036(f) is amended to read:

9 (f) Except as otherwise provided in this section or in connection with official  
10 investigations or proceedings of the department, it is unlawful for a current or former  
11 officer, employee, or agent of the state to divulge information obtained by the  
12 department as a result of an audit under this section that is required by an agreement  
13 with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)] to be kept  
14 confidential.

15 \* **Sec. 6.** AS 38.05.036(g) is amended to read:

16 (g) Nothing in this section prohibits the publication of statistics in a manner  
17 that maintains the confidentiality of information to the extent required by an  
18 agreement with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)].

19 \* **Sec. 7.** AS 40.25.100(a) is amended to read:

20 (a) Information in the possession of the Department of Revenue that discloses  
21 the particulars of the business or affairs of a taxpayer or other person, including  
22 information under AS 38.05.020(b)(11) that is subject to a confidentiality agreement  
23 under AS 38.05.020(b)(12), is not a matter of public record, except as provided in  
24 AS 43.05.230(i) - (l) [AS 43.05.230(i) OR (k)] or for purposes of investigation and  
25 law enforcement. The information shall be kept confidential except when its  
26 production is required in an official investigation, administrative adjudication under  
27 AS 43.05.405 - 43.05.499, or court proceeding. These restrictions do not prohibit the  
28 publication of statistics presented in a manner that prevents the identification of  
29 particular reports and items, prohibit the publication of tax lists showing the names of  
30 taxpayers who are delinquent and relevant information that may assist in the collection  
31 of delinquent taxes, or prohibit the publication of records, proceedings, and decisions

under AS 43.05.405 - 43.05.499.

\* **Sec. 8.** AS 43.05.225 is amended to read:

**Sec. 43.05.225. Interest.** Unless otherwise provided,

(1) a delinquent tax under this title,

(A) before January 1, 2014, bears interest in each calendar quarter at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater, compounded quarterly as of the last day of that quarter; [OR]

(B) on and after January 1, 2014, and before January 1, 2017, bears interest in each calendar quarter at the rate of three percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter; and

(C) on and after January 1, 2017, bears interest in each calendar quarter at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter, compounded quarterly as of the last day of that quarter;

(2) the interest rate is 12 percent a year for

(A) delinquent fees payable under AS 05.15.095(c); and

(B) unclaimed property that is not timely paid or delivered, as allowed by AS 34.45.470(a).

\* **Sec. 9.** AS 43.05.230 is amended by adding a new subsection to read:

(l) For tax credit certificates purchased by the department in the preceding calendar year under AS 43.55.028, the department shall make the following information public by April 30 of each year:

(1) the name of each person from whom the department purchased a transferable tax credit certificate; and

(2) the aggregate amount of the tax credit certificates purchased from the person in the preceding calendar year.

\* **Sec. 10.** AS 43.20.046(e) is amended to read:

1 (e) The department may [USE AVAILABLE MONEY IN THE OIL AND  
 2 GAS TAX CREDIT FUND ESTABLISHED IN AS 43.55.028 TO] make the refund  
 3 applied for under (d) of this section in whole or in part if the department finds that (1)  
 4 the claimant does not have an outstanding liability to the state [FOR UNPAID  
 5 DELINQUENT TAXES UNDER THIS TITLE]; and (2) after application of all  
 6 available tax credits, the claimant's total tax liability under this chapter for the calendar  
 7 year in which the claim is made is zero. [IN THIS SUBSECTION, "UNPAID  
 8 DELINQUENT TAX" MEANS AN AMOUNT OF TAX FOR WHICH THE  
 9 DEPARTMENT HAS ISSUED AN ASSESSMENT THAT HAS NOT BEEN PAID  
 10 AND, IF CONTESTED, HAS NOT BEEN FINALLY RESOLVED IN THE  
 11 TAXPAYER'S FAVOR.]

12 \* **Sec. 11.** AS 43.20.047(e) is amended to read:

13 (e) The department may [USE MONEY AVAILABLE IN THE OIL AND  
 14 GAS TAX CREDIT FUND ESTABLISHED IN AS 43.55.028 TO] make a refund or  
 15 payment under (d) of this section in whole or in part if the department finds that (1)  
 16 the claimant does not have an outstanding liability to the state [FOR UNPAID  
 17 DELINQUENT TAXES UNDER THIS TITLE]; and (2) after application of all  
 18 available tax credits, the claimant's total tax liability under this chapter for the calendar  
 19 year in which the claim is made is zero. [IN THIS SUBSECTION, "UNPAID  
 20 DELINQUENT TAX" MEANS AN AMOUNT OF TAX FOR WHICH THE  
 21 DEPARTMENT HAS ISSUED AN ASSESSMENT THAT HAS NOT BEEN PAID  
 22 AND, IF CONTESTED, HAS NOT BEEN FINALLY RESOLVED IN THE  
 23 TAXPAYER'S FAVOR.]

24 \* **Sec. 12.** AS 43.20.053(e) is amended to read:

25 (e) The department may [USE MONEY AVAILABLE IN THE OIL AND  
 26 GAS TAX CREDIT FUND ESTABLISHED IN AS 43.55.028 TO] make a refund or  
 27 payment under (d) of this section in whole or in part if the department finds that  
 28 (1) the claimant does not have an outstanding liability to the state  
 29 [FOR UNPAID DELINQUENT TAXES UNDER THIS TITLE]; and  
 30 (2) after application of all available tax credits, the claimant's total tax  
 31 liability under this chapter for the calendar year in which the claim is made is zero.

1 \* **Sec. 13.** AS 43.55.011(i) is amended to read:

2 (i) There is levied on the producer of oil or gas a tax for all oil and gas  
3 produced each calendar year from each lease or property in the state the ownership or  
4 right to which constitutes a landowner's royalty interest, except for oil and gas the  
5 ownership or right to which is exempt from taxation. **The levy of tax under this**  
6 **subsection may not be less than zero.** The provisions of this subsection apply to a  
7 landowner's royalty interest as follows:

8 (1) the tax levied for oil is equal to five percent of the gross value at  
9 the point of production of the oil;

10 (2) the tax levied for gas is equal to 1.667 percent of the gross value at  
11 the point of production of the gas;

12 (3) if the department determines that, for purposes of reducing the  
13 producer's tax liability under (1) or (2) of this subsection, the producer has received or  
14 will receive consideration from the royalty owner offsetting all or a part of the  
15 producer's royalty obligation, other than a deduction under AS 43.55.020 related to a  
16 settlement with a royalty owner of the amount of a tax paid, then, notwithstanding (1)  
17 and (2) of this subsection, the tax is equal to 25 percent of the gross value at the point  
18 of production of the oil and gas.

19 \* **Sec. 14.** AS 43.55.011(m) is amended to read:

20 (m) Notwithstanding any contrary provision of [AS 38.05.180(i),  
21 AS 41.09.010,] AS 43.55.024 [,] or 43.55.025, the department shall provide by  
22 regulation a method to ensure that, for a calendar year for which a producer's tax  
23 liability is limited by (j), (k), or (o) of this section, tax credits based on a lease  
24 expenditure incurred before January 1, 2011, that are otherwise available under  
25 [AS 38.05.180(i), AS 41.09.010,] AS 43.55.024 [,] or 43.55.025 and allocated to gas  
26 subject to the limitations in (j), (k), and (o) of this section are accounted for as though  
27 the credits had been applied first against a tax liability calculated without regard to the  
28 limitations under (j), (k), and (o) of this section so as to reduce the tax liability to the  
29 maximum amount provided for under (j) or (o) of this section for the production of gas  
30 or (k) of this section for the production of oil. The regulation must provide for a  
31 reasonable method to allocate tax credits to gas subject to (j) and (o) of this section.

1 Only the amount of a tax credit remaining after the accounting provided for under this  
2 subsection may be used for a later calendar year, transferred to another person, or  
3 applied against a tax levied on the production of oil or gas not subject to (j), (k), or (o)  
4 of this section to the extent otherwise allowed.

5 \* **Sec. 15.** AS 43.55.023(b) is amended to read:

6 (b) Before January 1, 2014, a producer or explorer may elect to take a tax  
7 credit in the amount of 25 percent of a carried-forward annual loss. For lease  
8 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to  
9 explore for, develop, or produce oil or gas deposits located north of 68 degrees North  
10 latitude, a producer or explorer may elect to take a tax credit in the amount of 45  
11 percent of a carried-forward annual loss. For lease expenditures incurred on and after  
12 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north  
13 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in  
14 the amount of 35 percent of a carried-forward annual loss. For lease expenditures  
15 incurred on or after January 1, 2014, **and before January 1, 2018,** to explore for,  
16 develop, or produce oil or gas deposits located south of 68 degrees North latitude, a  
17 producer or explorer may elect to take a tax credit in the amount of 25 percent of a  
18 carried-forward annual loss. A credit under this subsection may be applied against a  
19 tax levied by AS 43.55.011(e). For purposes of this subsection, a carried-forward  
20 annual loss is the amount of a producer's or explorer's adjusted lease expenditures  
21 under AS 43.55.165 and 43.55.170 for a previous calendar year that was not  
22 deductible in calculating production tax values for that calendar year under  
23 AS 43.55.160. **For lease expenditures incurred on or after January 1, 2017, any**  
24 **reduction under AS 43.55.160(f) or (g) is added back to the calculation of**  
25 **production tax values for that calendar year under AS 43.55.160 for the**  
26 **determination of a carried-forward annual loss under this subsection. A credit**  
27 **under this subsection may be taken for lease expenditures incurred after**  
28 **December 31, 2016,**

29 **(1) in the Cook Inlet sedimentary basin only if, during calendar**  
30 **year 2016, the producer or explorer had regular production of oil or gas in the**  
31 **Cook Inlet sedimentary basin;**

1 (2) north of 68 degrees North latitude only if,

2 (A) during calendar year 2016, the producer or explorer  
3 had regular production of an average of less than 15,000 BTU equivalent  
4 barrels a day in the state; or

5 (B) the lease expenditures were incurred under a unit plan  
6 of development or a plan of exploration approved by the commissioner of  
7 natural resources consistent with AS 38.05.180.

8 \* **Sec. 16.** AS 43.55.023(d) is amended to read:

9 (d) A person that is entitled to take a tax credit under this section that wishes  
10 to transfer the unused credit to another person or obtain a cash payment under  
11 AS 43.55.028 may apply to the department for a transferable tax credit certificate. An  
12 application under this subsection must be in a form prescribed by the department and  
13 must include supporting information and documentation that the department  
14 reasonably requires. The department shall grant or deny an application, or grant an  
15 application as to a lesser amount than that claimed and deny it as to the excess, not  
16 later than 120 days after the latest of (1) March 31 of the year following the calendar  
17 year in which the [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward  
18 annual loss for which the credit is claimed was incurred; (2) the date the statement  
19 required under AS 43.55.030(a) or (e) was filed for the calendar year in which the  
20 [QUALIFIED CAPITAL EXPENDITURE OR] carried-forward annual loss for which  
21 the credit is claimed was incurred; or (3) the date the application was received by the  
22 department. If, based on the information then available to it, the department is  
23 reasonably satisfied that the applicant is entitled to a credit, the department shall issue  
24 the applicant a transferable tax credit certificate for the amount of the credit. A  
25 certificate issued under this subsection does not expire.

26 \* **Sec. 17.** AS 43.55.023(e) is amended to read:

27 (e) A person to which a transferable tax credit certificate is issued under (d) of  
28 this section may transfer the certificate to another person, and a transferee may further  
29 transfer the certificate. Subject to the limitations set out in **former (a) of this section**  
30 **and (b) - (d)** [(a) - (d)] of this section, and notwithstanding any action the department  
31 may take with respect to the applicant under (g) of this section, the owner of a



1 certificate may apply the credit or a portion of the credit shown on the certificate only  
2 against a tax levied by AS 43.55.011(e). However, a credit shown on a transferable tax  
3 credit certificate may not be applied to reduce a transferee's total tax liability under  
4 AS 43.55.011(e) for oil and gas produced during a calendar year to less than 80  
5 percent of the tax that would otherwise be due without applying that credit. Any  
6 portion of a credit not used under this subsection may be applied in a later period.

7 \* **Sec. 18.** AS 43.55.023(l) is amended to read:

8 (l) A producer or explorer may apply for a tax credit for a well lease  
9 expenditure incurred in the state south of 68 degrees North latitude after June 30,  
10 2010, as follows:

11 (1) notwithstanding that a well lease expenditure incurred in the state  
12 south of 68 degrees North latitude may be a deductible lease expenditure for purposes  
13 of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a  
14 credit for that expenditure is taken under [(a) OF THIS SECTION, AS 38.05.180(i),  
15 AS 41.09.010,] AS 43.20.043 [,] or AS 43.55.025, a producer or explorer that incurs a  
16 well lease expenditure in the state south of 68 degrees North latitude may elect to  
17 apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of

18 (A) 40 percent of that expenditure **incurred before calendar**  
19 **year 2017**;

20 (B) **20 percent of that expenditure incurred in calendar**  
21 **year 2017 or 2018** [A TAX CREDIT UNDER THIS PARAGRAPH MAY BE  
22 APPLIED FOR A SINGLE CALENDAR YEAR];

23 (2) a producer or explorer may take a credit for a well lease  
24 expenditure incurred

25 (A) in the state south of 68 degrees North latitude in connection  
26 with geological or geophysical exploration or in connection with an  
27 exploration well only if the producer or explorer

28 (i) [(A)] agrees, in writing, to the applicable provisions  
29 of AS 43.55.025(f)(2); and

30 (ii) [(B)] submits to the Department of Natural  
31 Resources all data that would be required to be submitted under

1 AS 43.55.025(f)(2);

2 **(B) in the Cook Inlet sedimentary basin only if, during**  
3 **calendar year 2016, the producer or explorer had regular production of**  
4 **oil or gas in the Cook Inlet sedimentary basin.**

5 \* **Sec. 19.** AS 43.55.023(n) is amended to read:

6 (n) For the purposes of (l) of this section, a well lease expenditure incurred in  
7 the state south of 68 degrees North latitude is a lease expenditure that is

8 (1) directly related to an exploration well, a stratigraphic test well, a  
9 producing well, or an injection well other than a disposal well, located in the state  
10 south of 68 degrees North latitude, if the expenditure is [A QUALIFIED CAPITAL  
11 EXPENDITURE AND] an intangible drilling and development cost authorized under  
12 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of  
13 the elections made under 26 U.S.C. 263(c); in this paragraph, an expenditure directly  
14 related to a well includes an expenditure for well sidetracking, well deepening, well  
15 completion or recompletion, or well workover, regardless of whether the well is or has  
16 been a producing well; or

17 (2) an expense for seismic work conducted within the boundaries of a  
18 production or exploration unit.

19 \* **Sec. 20.** AS 43.55.024(i) is amended to read:

20 (i) A producer may apply against the producer's tax liability for the calendar  
21 year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under  
22 AS 43.55.011(e) that **receives a reduction in the gross value at the point of**  
23 **production under** [MEETS ONE OR MORE OF THE CRITERIA IN]  
24 AS 43.55.160(f) or (g) and that is produced during a calendar year after December 31,  
25 2013. A tax credit authorized by this subsection may not reduce a producer's tax  
26 liability for a calendar year under AS 43.55.011(e) below zero.

27 \* **Sec. 21.** AS 43.55.024(j) is amended to read:

28 (j) A producer may apply against the producer's tax liability for the calendar  
29 year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for  
30 each barrel of oil taxable under AS 43.55.011(e) that does not **receive a reduction in**  
31 **the gross value at the point of production under** [MEET ANY OF THE CRITERIA

1 IN] AS 43.55.160(f) or (g) and that is produced during a calendar year after  
2 December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax  
3 credit under this subsection may not reduce a producer's tax liability for a calendar  
4 year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). The  
5 amount of the tax credit for a barrel of taxable oil subject to this subsection produced  
6 during a month of the calendar year is

7 (1) \$8 for each barrel of taxable oil if the average gross value at the  
8 point of production for the month is less than \$80 a barrel;

9 (2) \$7 for each barrel of taxable oil if the average gross value at the  
10 point of production for the month is greater than or equal to \$80 a barrel, but less than  
11 \$90 a barrel;

12 (3) \$6 for each barrel of taxable oil if the average gross value at the  
13 point of production for the month is greater than or equal to \$90 a barrel, but less than  
14 \$100 a barrel;

15 (4) \$5 for each barrel of taxable oil if the average gross value at the  
16 point of production for the month is greater than or equal to \$100 a barrel, but less  
17 than \$110 a barrel;

18 (5) \$4 for each barrel of taxable oil if the average gross value at the  
19 point of production for the month is greater than or equal to \$110 a barrel, but less  
20 than \$120 a barrel;

21 (6) \$3 for each barrel of taxable oil if the average gross value at the  
22 point of production for the month is greater than or equal to \$120 a barrel, but less  
23 than \$130 a barrel;

24 (7) \$2 for each barrel of taxable oil if the average gross value at the  
25 point of production for the month is greater than or equal to \$130 a barrel, but less  
26 than \$140 a barrel;

27 (8) \$1 for each barrel of taxable oil if the average gross value at the  
28 point of production for the month is greater than or equal to \$140 a barrel, but less  
29 than \$150 a barrel;

30 (9) zero if the average gross value at the point of production for the  
31 month is greater than or equal to \$150 a barrel.

1 \* **Sec. 22.** AS 43.55.025(m) is amended to read:

2 (m) The persons that drill the first four exploration wells in the state and  
3 within the areas described in (o) of this section on state lands, private lands, or federal  
4 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a  
5 prospect in a basin described in (o) of this section are eligible for a credit under (a)(6)  
6 of this section. A credit under this subsection may not be taken for more than two  
7 exploration wells in a single area described in (o)(1) - (6) of this section. Exploration  
8 expenditures eligible for the credit in this subsection **in an area described in (o)(1) -**  
9 **(3), (5), or (6) of this section** must be incurred for work performed after June 1, 2012,  
10 and before July 1, 2016. **Exploration expenditures eligible for the credit in this**  
11 **subsection in the area described in (o)(4) of this section must be for work**  
12 **performed after June 1, 2012, and before January 1, 2017, except that**  
13 **expenditures to complete an exploration well in an area described in (o)(4) of this**  
14 **section that was spudded but not completed before January 1, 2017, are eligible**  
15 **for the credit under this subsection.** A person planning to drill an exploration well  
16 on private land and to apply for a credit under this subsection shall obtain written  
17 consent from the owner of the oil and gas interest for the full public release of all well  
18 data after the expiration of the confidentiality period applicable to information  
19 collected under (f) of this section. The written consent of the owner of the oil and gas  
20 interest must be submitted to the commissioner of natural resources before approval of  
21 the proposed exploration well. In addition to the requirements in (c)(1), (c)(2)(A), and  
22 (c)(2)(C) of this section and submission of the written consent of the owner of the oil  
23 and gas interest, a person planning to drill an exploration well shall obtain approval  
24 from the commissioner of natural resources before the well is spudded. The  
25 commissioner of natural resources shall make a written determination approving or  
26 rejecting an exploration well within 60 days after receiving the request for approval or  
27 as soon as is practicable thereafter. Before approving the exploration well, the  
28 commissioner of natural resources shall consider the following: the location of the  
29 well; the proximity to a community in need of a local energy source; the proximity of  
30 existing infrastructure; the experience and safety record of the explorer in conducting  
31 operations in remote or roadless areas; the projected cost schedule; whether seismic

1 mapping and seismic data sufficiently identify a particular trap for exploration;  
2 whether the targeted and planned depth and range are designed to penetrate and fully  
3 evaluate the hydrocarbon potential of the proposed prospect and reach the level below  
4 which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or  
5 more true vertical depth; and whether the exploration plan provides for a full  
6 evaluation of the wellbore below surface casing to the depth of the well. Whether the  
7 exploration well for which a credit is requested under this subsection is located within  
8 an area and a basin described under (o) of this section shall be determined by the  
9 commissioner of natural resources and reported to the commissioner. A taxpayer that  
10 obtains a credit under this subsection may not claim a tax credit under AS 43.55.023  
11 or another provision in this section for the same exploration expenditure.

12 \* **Sec. 23.** AS 43.55.025(m), as amended by sec. 22 of this Act, is amended to read:

13 (m) The persons that drill the first four exploration wells in the state and  
14 within the areas described in (o) of this section on state lands, private lands, or federal  
15 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a  
16 prospect in a basin described in (o) of this section are eligible for a credit under (a)(6)  
17 of this section. A credit under this subsection may not be taken for more than two  
18 exploration wells in a single area described in (o)(1) - (6) of this section. Exploration  
19 expenditures eligible for the credit in this subsection in an area described in (o)(1) -  
20 (3), (5), or (6) of this section must be incurred for work performed after June 1, 2012,  
21 and before July 1, 2016. Exploration expenditures eligible for the credit in this  
22 subsection in the area described in (o)(4) of this section must be for work performed  
23 after June 1, 2012, and before January 1, 2017, except that expenditures to complete  
24 an exploration well in an area described in (o)(4) of this section that was spudded but  
25 not completed before January 1, 2017, are eligible for the credit under this subsection.  
26 A person planning to drill an exploration well on private land and to apply for a credit  
27 under this subsection shall obtain written consent from the owner of the oil and gas  
28 interest for the full public release of all well data after the expiration of the  
29 confidentiality period applicable to information collected under (f) of this section. The  
30 written consent of the owner of the oil and gas interest must be submitted to the  
31 commissioner of natural resources before approval of the proposed exploration well.

1 In addition to the requirements in (c)(1), (c)(2)(A), and (c)(2)(C) of this section and  
2 submission of the written consent of the owner of the oil and gas interest, a person  
3 planning to drill an exploration well shall obtain approval from the commissioner of  
4 natural resources before the well is spudded. The commissioner of natural resources  
5 shall make a written determination approving or rejecting an exploration well within  
6 60 days after receiving the request for approval or as soon as is practicable thereafter.  
7 Before approving the exploration well, the commissioner of natural resources shall  
8 consider the following: the location of the well; the proximity to a community in need  
9 of a local energy source; the proximity of existing infrastructure; the experience and  
10 safety record of the explorer in conducting operations in remote or roadless areas; the  
11 projected cost schedule; whether seismic mapping and seismic data sufficiently  
12 identify a particular trap for exploration; whether the targeted and planned depth and  
13 range are designed to penetrate and fully evaluate the hydrocarbon potential of the  
14 proposed prospect and reach the level below which economic hydrocarbon reservoirs  
15 are likely to be found, or reach 12,000 feet or more true vertical depth; and whether  
16 the exploration plan provides for a full evaluation of the wellbore below surface casing  
17 to the depth of the well. Whether the exploration well for which a credit is requested  
18 under this subsection is located within an area and a basin described under (o) of this  
19 section shall be determined by the commissioner of natural resources and reported to  
20 the commissioner. A taxpayer that obtains a credit under this subsection may not claim  
21 a tax credit under [AS 43.55.023 OR] another provision in this section for the same  
22 exploration expenditure.

23 \* **Sec. 24.** AS 43.55.025(o) is amended to read:

24 (o) The activity that is the basis for a credit claimed under (a)(6) and (m) of  
25 this section [OR (a)(7) AND (n) OF THIS SECTION] must be for the exploration of a  
26 basin and within the following areas whose central points are determined using the  
27 World Geographic System of 1984 datum,

- 28 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees  
29 West;
- 30 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees  
31 West;

1 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees  
2 West;

3 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees  
4 West;

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

7 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees  
8 West.

9 \* **Sec. 25.** AS 43.55.028(a) is amended to read:

10 (a) The oil and gas tax credit fund is established as a separate fund of the state.  
11 The purpose of the fund is to purchase transferable tax credit certificates issued under  
12 AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 [AND  
13 TO PAY REFUNDS AND PAYMENTS CLAIMED UNDER AS 43.20.046,  
14 43.20.047, OR 43.20.053].

15 \* **Sec. 26.** AS 43.55.028(a), as amended by sec. 25 of this Act, is amended to read:

16 (a) The oil and gas tax credit fund is established as a separate fund of the state.  
17 The purpose of the fund is to purchase transferable tax credit certificates issued under  
18 **former** AS 43.55.023 and production tax credit certificates issued under  
19 AS 43.55.025.

20 \* **Sec. 27.** AS 43.55.028(e) is amended to read:

21 (e) The department, on the written application of a person to whom a  
22 transferable tax credit certificate has been issued under AS 43.55.023(d) or former  
23 AS 43.55.023(m) or to whom a production tax credit certificate has been issued under  
24 AS 43.55.025(f), may use available money in the oil and gas tax credit fund to  
25 purchase, in whole or in part, the certificate. **The department may not purchase a**  
26 **total of more than \$75,000,000 in tax credit certificates from a person in a**  
27 **calendar year. The department may purchase a certificate or part of a certificate**  
28 **only** if the department finds that

29 (1) the calendar year of the purchase is not earlier than the first  
30 calendar year for which the credit shown on the certificate would otherwise be allowed  
31 to be applied against a tax;

1 (2) the **application is not the result of the division of a single entity**  
 2 **into multiple entities that would reasonably be expected to apply as a single entity**  
 3 **if the \$75,000,000 limitation in this subsection did not exist** [APPLICANT DOES  
 4 NOT HAVE AN OUTSTANDING LIABILITY TO THE STATE FOR UNPAID  
 5 DELINQUENT TAXES UNDER THIS TITLE];

6 (3) the applicant's total tax liability under AS 43.55.011(e), after  
 7 application of all available tax credits, for the calendar year in which the application is  
 8 made is zero;

9 (4) the applicant's average daily production of oil and gas taxable  
 10 under AS 43.55.011(e) during the calendar year preceding the calendar year in which  
 11 the application is made was not more than 50,000 BTU equivalent barrels; and

12 (5) the purchase is consistent with this section and regulations adopted  
 13 under this section.

14 \* **Sec. 28.** AS 43.55.028(e), as amended by sec. 27 of this Act, is amended to read:

15 (e) The department, on the written application of a person to whom a  
 16 transferable tax credit certificate has been issued under **former** AS 43.55.023(d) or  
 17 **(m)** [FORMER AS 43.55.023(m)] or to whom a production tax credit certificate has  
 18 been issued under AS 43.55.025(f), may use available money in the oil and gas tax  
 19 credit fund to purchase, in whole or in part, the certificate. The department may not  
 20 purchase a total of more than \$75,000,000 in tax credit certificates from a person in a  
 21 calendar year. The department may purchase a certificate or part of a certificate only if  
 22 the department finds that

23 (1) the calendar year of the purchase is not earlier than the first  
 24 calendar year for which the credit shown on the certificate would otherwise be allowed  
 25 to be applied against a tax;

26 (2) the application is not the result of the division of a single entity into  
 27 multiple entities that would reasonably be expected to apply as a single entity if the  
 28 \$75,000,000 limitation in this subsection did not exist;

29 (3) the applicant's total tax liability under AS 43.55.011(e), after  
 30 application of all available tax credits, for the calendar year in which the application is  
 31 made is zero;



1 (4) the applicant's average daily production of oil and gas taxable  
2 under AS 43.55.011(e) during the calendar year preceding the calendar year in which  
3 the application is made was not more than 50,000 BTU equivalent barrels; and

4 (5) the purchase is consistent with this section and regulations adopted  
5 under this section.

6 \* **Sec. 29.** AS 43.55.028(g) is amended to read:

7 (g) The department **shall** [MAY] adopt regulations to carry out the purposes  
8 of this section, including standards and procedures to allocate available money among  
9 applications for purchases under this chapter [AND CLAIMS FOR REFUNDS AND  
10 PAYMENTS UNDER AS 43.20.046, 43.20.047, OR 43.20.053] when the total  
11 amount of the applications for purchase [AND CLAIMS FOR REFUND] exceed the  
12 amount of available money in the fund. The regulations adopted by the department  
13 **must grant a preference to an applicant if at least 80 percent of the applicant's**  
14 **workforce in the state in the previous calendar year was composed of resident**  
15 **workers; in this subsection, "resident worker" has the meaning given in**  
16 **AS 43.40.092(b)** [MAY NOT, WHEN ALLOCATING AVAILABLE MONEY IN  
17 THE FUND UNDER THIS SECTION, DISTINGUISH AN APPLICATION FOR  
18 THE PURCHASE OF A CREDIT CERTIFICATE ISSUED UNDER FORMER  
19 AS 43.55.023(m) OR A CLAIM FOR A REFUND OR PAYMENT UNDER  
20 AS 43.20.046, 43.20.047, OR 43.20.053].

21 \* **Sec. 30.** AS 43.55.028 is amended by adding a new subsection to read:

22 (j) If an applicant has an outstanding liability to the state directly related to the  
23 applicant's oil or gas exploration, development, or production that has not previously  
24 been the basis of a reduction by the department under this subsection, the department  
25 may purchase only that portion of a certificate that exceeds the outstanding liability.  
26 The department may apply the amount by which the department reduced its purchase  
27 of a certificate because of an outstanding liability to satisfy the outstanding liability,  
28 except that, if the outstanding liability is contested through an appeal or adjudicatory  
29 proceeding already established by law, the department may apply the amount to satisfy  
30 the outstanding liability only with the applicant's consent. Satisfaction of an  
31 outstanding liability under this subsection does not affect the applicant's ability to

1 contest that liability. The department may enter into contracts or agreements with  
2 another department to which the outstanding liability is owed.

3 \* **Sec. 31.** AS 43.55.029(a) is amended to read:

4 (a) An explorer or producer that has applied for a production tax credit under  
5 AS 43.55.023(b) [AS 43.55.023(a), (b),] or (l), [OR] 43.55.025(a), or former  
6 AS 43.55.023(a) may make a present assignment of the production tax credit  
7 certificate expected to be issued by the department to a third-party assignee. The  
8 assignment may be made either at the time the application is filed with the department  
9 or not later than 30 days after the date of filing with the department. Once a notice of  
10 assignment in compliance with this section is filed with the department, the  
11 assignment is irrevocable and cannot be modified by the explorer or producer without  
12 the written consent of the assignee named in the assignment. If a production tax credit  
13 certificate is issued to the explorer or producer, the notice of assignment remains  
14 effective and shall be filed with the department by the explorer or producer together  
15 with any application for the department to purchase the certificate under  
16 AS 43.55.028(e).

17 \* **Sec. 32.** AS 43.55.029(a), as amended by sec. 31 of this Act, is amended to read:

18 (a) An explorer or producer that has applied for a production tax credit under  
19 AS 43.55.023(b) [OR (l)], 43.55.025(a), or former AS 43.55.023(a) or (l) may make a  
20 present assignment of the production tax credit certificate expected to be issued by the  
21 department to a third-party assignee. The assignment may be made either at the time  
22 the application is filed with the department or not later than 30 days after the date of  
23 filing with the department. Once a notice of assignment in compliance with this  
24 section is filed with the department, the assignment is irrevocable and cannot be  
25 modified by the explorer or producer without the written consent of the assignee  
26 named in the assignment. If a production tax credit certificate is issued to the explorer  
27 or producer, the notice of assignment remains effective and shall be filed with the  
28 department by the explorer or producer together with any application for the  
29 department to purchase the certificate under AS 43.55.028(e).

30 \* **Sec. 33.** AS 43.55.029(a), as amended by secs. 31 and 32 of this Act, is amended to read:

31 (a) An explorer or producer that has applied for a production tax credit under

1 **AS 43.55.025(a)** [AS 43.55.023(b), 43.55.025(a),] or former AS 43.55.023(a), **(b)**, or  
2 (l) may make a present assignment of the production tax credit certificate expected to  
3 be issued by the department to a third-party assignee. The assignment may be made  
4 either at the time the application is filed with the department or not later than 30 days  
5 after the date of filing with the department. Once a notice of assignment in compliance  
6 with this section is filed with the department, the assignment is irrevocable and cannot  
7 be modified by the explorer or producer without the written consent of the assignee  
8 named in the assignment. If a production tax credit certificate is issued to the explorer  
9 or producer, the notice of assignment remains effective and shall be filed with the  
10 department by the explorer or producer together with any application for the  
11 department to purchase the certificate under AS 43.55.028(e).

12 \* **Sec. 34.** AS 43.55.030(a) is amended to read:

13 (a) A producer that produces oil or gas from a lease or property in the state  
14 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)  
15 for that oil or gas, shall file with the department on March 31 of the following year a  
16 statement, under oath, in a form prescribed by the department, giving, with other  
17 information required, the following:

18 (1) a description of each lease or property from which oil or gas was  
19 produced, by name, legal description, lease number, or accounting codes assigned by  
20 the department;

21 (2) the names of the producer and, if different, the person paying the  
22 tax, if any;

23 (3) the gross amount of oil and the gross amount of gas produced from  
24 each lease or property, separately identifying the gross amount of gas produced from  
25 each oil and gas lease to which an effective election under AS 43.55.014(a) applies,  
26 the amount of gas delivered to the state under AS 43.55.014(b), and the percentage of  
27 the gross amount of oil and gas owned by the producer;

28 (4) the gross value at the point of production of the oil and of the gas  
29 produced from each lease or property owned by the producer and the costs of  
30 transportation of the oil and gas;

31 (5) the name of the first purchaser and the price received for the oil and

1 for the gas, unless relieved from this requirement in whole or in part by the  
2 department;

3 (6) the producer's [QUALIFIED CAPITAL EXPENDITURES, AS  
4 DEFINED IN AS 43.55.023, OTHER] lease expenditures under AS 43.55.165 [,] and  
5 adjustments or other payments or credits under AS 43.55.170;

6 (7) the production tax values of the oil and gas under AS 43.55.160(a)  
7 or of the oil under AS 43.55.160(h), as applicable;

8 (8) any claims for tax credits to be applied; and

9 (9) calculations showing the amounts, if any, that were or are due  
10 under AS 43.55.020(a) and interest on any underpayment or overpayment.

11 \* **Sec. 35.** AS 43.55.030(e) is amended to read:

12 (e) An explorer or producer that incurs a lease expenditure under  
13 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar  
14 year but does not produce oil or gas from a lease or property in the state during the  
15 calendar year shall file with the department, on March 31 of the following year, a  
16 statement, under oath, in a form prescribed by the department, giving, with other  
17 information required, the following:

18 (1) the explorer's or producer's [QUALIFIED CAPITAL  
19 EXPENDITURES, AS DEFINED IN AS 43.55.023, OTHER] lease expenditures  
20 under AS 43.55.165 [,] and adjustments or other payments or credits under  
21 AS 43.55.170; and

22 (2) if the explorer or producer receives a payment or credit under  
23 AS 43.55.170, calculations showing whether the explorer or producer is liable for a  
24 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount.

25 \* **Sec. 36.** AS 43.55.075(b) is amended to read:

26 (b) A decision of a regulatory agency, court, or other body with authority to  
27 resolve disputes that results in a retroactive change to a lease expenditure, to an  
28 adjustment to a lease expenditure, to costs of transportation, to sale price, to prevailing  
29 value, or to consideration of quality differentials relating to the commingling of oils  
30 has a corresponding effect, either an increase or decrease, as applicable, on the  
31 production tax value of oil or gas or the amount or availability of a tax credit as

1 determined under this chapter. For purposes of this section, a change to a lease  
2 expenditure includes a change in the categorization of a lease expenditure as a  
3 qualified capital expenditure **for the purposes of former AS 43.55.023(a)** or as not a  
4 qualified capital expenditure **for the purposes of former AS 43.55.023(a)**. The  
5 producer shall

6 (1) within 60 days after the change, notify the department in writing;

7 and

8 (2) within 120 days after the change, file amended returns covering all  
9 periods affected by the change, unless the department agrees otherwise or a stay is in  
10 place that affects the filing or payment, regardless of the pendency of appeals of the  
11 decision.

12 \* **Sec. 37.** AS 43.55.160(d) is amended to read:

13 (d) Irrespective of whether a producer produces taxable oil or gas during a  
14 calendar year or month, the producer is considered to have generated a positive  
15 production tax value if a calculation described in (a) of this section yields a positive  
16 number because the producer's adjusted lease expenditures for a calendar year under  
17 AS 43.55.165 and 43.55.170 are less than zero as a result of the producer's receiving a  
18 payment or credit under AS 43.55.170. [AN EXPLORER THAT HAS TAKEN A  
19 TAX CREDIT UNDER AS 43.55.023(b) OR THAT HAS OBTAINED A  
20 TRANSFERABLE TAX CREDIT CERTIFICATE UNDER AS 43.55.023(d) FOR  
21 THE AMOUNT OF A TAX CREDIT UNDER AS 43.55.023(b) IS CONSIDERED A  
22 PRODUCER, SUBJECT TO THE TAX LEVIED UNDER AS 43.55.011(e), TO THE  
23 EXTENT THAT THE EXPLORER GENERATES A POSITIVE PRODUCTION  
24 TAX VALUE AS THE RESULT OF THE EXPLORER'S RECEIVING A  
25 PAYMENT OR CREDIT UNDER AS 43.55.170.]

26 \* **Sec. 38.** AS 43.55.160(e) is amended to read:

27 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
28 would otherwise be deductible by a producer in a calendar year but whose deduction  
29 would cause an annual production tax value calculated under (a)(1) or (h) of this  
30 section of taxable oil or gas produced during the calendar year to be less than zero  
31 may be used to establish a carried-forward annual loss under AS 43.55.023(b) **or**

1 **43.55.165(a)(3)**. However, the department shall provide by regulation a method to  
2 ensure that, for a period for which a producer's tax liability is limited by  
3 AS 43.55.011(j), (k), (o), or (p), any adjusted lease expenditures under AS 43.55.165  
4 and 43.55.170 that would otherwise be deductible by a producer for that period but  
5 whose deduction would cause a production tax value calculated under (a)(1)(C), (D),  
6 (E), or (F), or (h)(3) of this section to be less than zero are accounted for as though the  
7 adjusted lease expenditures had first been used as deductions in calculating the  
8 production tax values of oil or gas subject to any of the limitations under  
9 AS 43.55.011(j), (k), (o), or (p) that have positive production tax values so as to  
10 reduce the tax liability calculated without regard to the limitation to the maximum  
11 amount provided for under the applicable provision of AS 43.55.011(j), (k), (o), or (p).  
12 Only the amount of those adjusted lease expenditures remaining after the accounting  
13 provided for under this subsection may be used to establish a carried-forward annual  
14 loss under AS 43.55.023(b) **or 43.55.165(a)(3)**. **For lease expenditures incurred on**  
15 **or after January 1, 2017, a reduction in gross value at the point of production**  
16 **under (f) or (g) of this section shall be added back to the calculation of**  
17 **production tax value for the determination of a carried-forward annual loss.** In  
18 this subsection, "producer" includes "explorer."

19 \* **Sec. 39.** AS 43.55.160(e), as amended by sec. 38 of this Act, is amended to read:

20 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
21 would otherwise be deductible by a producer in a calendar year but whose deduction  
22 would cause an annual production tax value calculated under (a)(1) or (h) of this  
23 section of taxable oil or gas produced during the calendar year to be less than zero  
24 may be used to establish a carried-forward annual loss under **AS 43.55.165(a)(3)**  
25 [AS 43.55.023(b) OR 43.55.165(a)(3)]. However, the department shall provide by  
26 regulation a method to ensure that, for a period for which a producer's tax liability is  
27 limited by AS 43.55.011(j), (k), (o), or (p), any adjusted lease expenditures under  
28 AS 43.55.165 and 43.55.170 that would otherwise be deductible by a producer for that  
29 period but whose deduction would cause a production tax value calculated under  
30 (a)(1)(C), (D), (E), or (F), or (h)(3) of this section to be less than zero are accounted  
31 for as though the adjusted lease expenditures had first been used as deductions in

1 calculating the production tax values of oil or gas subject to any of the limitations  
2 under AS 43.55.011(j), (k), (o), or (p) that have positive production tax values so as to  
3 reduce the tax liability calculated without regard to the limitation to the maximum  
4 amount provided for under the applicable provision of AS 43.55.011(j), (k), (o), or (p).  
5 Only the amount of those adjusted lease expenditures remaining after the accounting  
6 provided for under this subsection may be used to establish a carried-forward annual  
7 loss under **AS 43.55.165(a)(3)** [AS 43.55.023(b) OR 43.55.165(a)(3)]. For lease  
8 expenditures incurred on or after January 1, 2017, a reduction in gross value at the  
9 point of production under (f) or (g) of this section shall be added back to the  
10 calculation of production tax value for the determination of a carried-forward annual  
11 loss. In this subsection, "producer" includes "explorer."

12 \* **Sec. 40.** AS 43.55.160(f) is amended to read:

13 (f) On and after January 1, 2014, in the calculation of an annual production tax  
14 value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the  
15 point of production of oil or gas produced from a lease or property north of 68 degrees  
16 North latitude meeting one or more of the following criteria is reduced by 20 percent:  
17 (1) the oil or gas is produced from a lease or property that does not contain a lease that  
18 was within a unit on January 1, 2003; (2) the oil or gas is produced from a  
19 participating area established after December 31, 2011, that is within a unit formed  
20 under AS 38.05.180(p) before January 1, 2003, if the participating area does not  
21 contain a reservoir that had previously been in a participating area established before  
22 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an  
23 existing participating area by the Department of Natural Resources on and after  
24 January 1, 2014, and the producer demonstrates to the department that the volume of  
25 oil or gas produced is from acreage added to an existing participating area. This  
26 subsection does not apply to gas produced before 2022 that is used in the state or to  
27 gas produced on and after January 1, 2022. **For oil or gas first produced after**  
28 **December 31, 2016, a reduction allowed under this subsection applies to oil or gas**  
29 **produced from a lease or property for the first 10 years after the commencement**  
30 **of regular production of oil or gas from that lease or property. For oil or gas first**  
31 **produced before January 1, 2017, a reduction allowed under this subsection for a**

1 **lease or property expires January 1, 2026. The Alaska Oil and Gas Conservation**  
 2 **Commission shall determine the commencement of regular production for**  
 3 **purposes of this subsection.** A reduction under this subsection may not reduce the  
 4 gross value at the point of production below zero. In this subsection, "participating  
 5 area" means a reservoir or portion of a reservoir producing or contributing to  
 6 production as approved by the Department of Natural Resources.

7 \* **Sec. 41.** AS 43.55.160(g) is amended to read:

8 (g) On and after January 1, 2014, in addition to the reduction under (f) of this  
 9 section, in the calculation of an annual production tax value of a producer under  
 10 (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or  
 11 gas produced from a lease or property north of 68 degrees North latitude that does not  
 12 contain a lease that was within a unit on January 1, 2003, is reduced by 10 percent if  
 13 the oil or gas is produced from a unit made up solely of leases that have a royalty  
 14 share of more than 12.5 percent in amount or value of the production removed or sold  
 15 from the lease as determined under AS 38.05.180(f). This subsection does not apply if  
 16 the royalty obligation for one or more of the leases in the unit has been reduced to 12.5  
 17 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the  
 18 annual production tax value is calculated. This subsection does not apply to gas  
 19 produced before 2022 that is used in the state or to gas produced on and after  
 20 January 1, 2022. **For oil or gas first produced after December 31, 2016, a**  
 21 **reduction allowed under this subsection applies to oil or gas produced from a**  
 22 **lease or property for the first 10 years after the commencement of regular**  
 23 **production of oil or gas from that lease or property. For oil or gas first produced**  
 24 **before January 1, 2017, a reduction allowed under this subsection for a lease or**  
 25 **property expires January 1, 2026. The Alaska Oil and Gas Conservation**  
 26 **Commission shall determine the commencement of regular production for**  
 27 **purposes of this subsection.** A reduction under this subsection may not reduce the  
 28 gross value at the point of production below zero.

29 \* **Sec. 42.** AS 43.55.165(a) is amended to read:

30 (a) **For the** [EXCEPT AS PROVIDED IN (j) AND (k) OF THIS SECTION,  
 31 FOR] purposes of this chapter, a producer's lease expenditures for a calendar year are



1 (1) costs, other than items listed in (e) of this section, that are

2 (A) incurred by the producer during the calendar year after  
3 March 31, 2006, to explore for, develop, or produce oil or gas deposits located  
4 within the producer's leases or properties in the state or, in the case of land in  
5 which the producer does not own an operating right, operating interest, or  
6 working interest, to explore for oil or gas deposits within other land in the  
7 state; and

8 (B) allowed by the department by regulation, based on the  
9 department's determination that the costs satisfy the following three  
10 requirements:

11 (i) the costs must be incurred upstream of the point of  
12 production of oil and gas;

13 (ii) the costs must be ordinary and necessary costs of  
14 exploring for, developing, or producing, as applicable, oil or gas  
15 deposits; and

16 (iii) the costs must be direct costs of exploring for,  
17 developing, or producing, as applicable, oil or gas deposits; [AND]

18 (2) a reasonable allowance for that calendar year, as determined under  
19 regulations adopted by the department, for overhead expenses that are directly related  
20 to exploring for, developing, or producing, as applicable, the oil or gas deposits; **and**

21 **(3) lease expenditures incurred in a previous year that**

22 **(A) met the requirements of AS 43.55.160(e) in the year in**  
23 **which the lease expenditures were incurred;**

24 **(B) have not been deducted in the determination of the**  
25 **production tax value of oil and gas under AS 43.55.160(a) in a previous**  
26 **calendar year;**

27 **(C) were not the basis of a credit under this title; and**

28 **(D) were incurred to explore for, develop, or produce oil or**  
29 **gas deposits located north of 68 degrees North latitude.**

30 \* **Sec. 43.** AS 43.55.165(f) is amended to read:

31 (f) For purposes of **AS 43.55.023(b)** [AS 43.55.023(a) AND (b)] and only as

1 to expenditures incurred to explore for an oil or gas deposit located within land in  
2 which an explorer does not own a working interest, the term "producer" in this section  
3 includes "explorer."

4 \* **Sec. 44.** AS 43.55.170(c) is amended to read:

5 (c) For purposes of **AS 43.55.023(b)** [AS 43.55.023(a) AND (b)] and only as  
6 to expenditures incurred to explore for an oil or gas deposit located within land in  
7 which an explorer does not own a working interest, the term "producer" in this section  
8 includes "explorer."

9 \* **Sec. 45.** AS 43.55.180(a) is amended to read:

10 (a) The department shall study

11 (1) the effects of the provisions of this chapter on oil and gas  
12 exploration, development, and production in the state, on investment expenditures for  
13 oil and gas exploration, development, and production in the state, on the entry of new  
14 producers into the oil and gas industry in the state, on state revenue, and on tax  
15 administration and compliance, giving particular attention to the tax rates provided  
16 under AS 43.55.011, the tax credits provided under **AS 43.55.024, 43.55.025, and**  
17 **former AS 43.55.023** [AS 43.55.023 - 43.55.025], and the deductions for and  
18 adjustments to lease expenditures provided under AS 43.55.160 - 43.55.170; and

19 (2) the effects of the tax rates under AS 43.55.011(i) on state revenue  
20 and on oil and gas exploration, development, and production on private land, and the  
21 fairness of those tax rates for private landowners.

22 \* **Sec. 46.** AS 43.55.895(b) is amended to read:

23 (b) A municipal entity subject to taxation because of this section

24 **(1) is eligible for [ALL] tax credits proportionate to its production**  
25 **taxable under AS 43.55.011(e); and**

26 **(2) shall allocate its lease expenditures in proportion to its**  
27 **production taxable under AS 43.55.011(e)** [UNDER THIS CHAPTER TO THE  
28 SAME EXTENT AS ANY OTHER PRODUCER].

29 \* **Sec. 47.** AS 43.55.900 is amended by adding a new paragraph to read:

30 (26) "regular production" has the meaning given in AS 31.05.170.

31 \* **Sec. 48.** AS 43.70 is amended by adding new sections to read:

1                   **Sec. 43.70.025. Bond or cash deposit required for an oil or gas business.** (a)

2           At the time of applying for a license under this chapter, an applicant engaged in the  
3           business of oil or gas exploration, development, or production shall file a surety bond  
4           in the amount of \$250,000 running to the state, conditioned upon the applicant's  
5           promise to pay

6                   (1) taxes and contributions due the state and political subdivisions;

7                   (2) persons furnishing labor or material or renting or supplying  
8           equipment to the applicant; and

9                   (3) costs of repairs to public facilities.

10           (b) In lieu of the surety bond required under this section, the applicant may  
11           file with the commissioner a cash deposit or other negotiable security acceptable to the  
12           commissioner in the amount of \$250,000.

13           (c) The bond required by this section remains in effect until cancelled by  
14           action of the surety, the principal, or, if the commissioner finds that the business is  
15           producing oil or gas in commercial quantities, by the commissioner.

16                   **Sec. 43.70.028. Claims against an oil or gas business.** (a) A person having a

17           claim against a person required to file a surety bond under AS 43.70.025 because of  
18           the failure to pay a liability described in AS 43.70.025(a) may bring suit upon the  
19           bond. A copy of the complaint shall be served by registered or certified mail on the  
20           commissioner at the time suit is filed, and the commissioner shall maintain a record,  
21           available for public inspection, of all suits commenced. This service on the  
22           commissioner shall constitute service on the surety, and the commissioner shall  
23           transmit the complaint or a copy of it to the surety within 72 hours after it is received.  
24           The surety on the bond is not liable in an aggregate amount in excess of that named in  
25           the bond, but, if claims pending at any one time exceed the amount of the bond, the  
26           claims shall be satisfied from the bond in the following order:

27                   (1) material, equipment, and supplies delivered in the state;

28                   (2) labor, including employee benefits;

29                   (3) taxes and other amounts due to the city and borough, in that order;

30                   (4) repair of public facilities;

31                   (5) taxes and other amounts due to the state.

1 (b) If a judgment is entered against a cash deposit, the commissioner, upon  
2 receipt of a certified copy of a final judgment, shall pay the judgment from the amount  
3 of the deposit in accordance with the priorities set out in (a) of this section.

4 (c) An action described in (a) of this section may not be commenced on the  
5 bond more than three years after the bond's cancellation.

6 \* **Sec. 49.** AS 43.99.950 is amended by adding a new paragraph to read:

7 (3) "outstanding liability to the state" means an amount of tax, interest,  
8 penalty, fee, rental, royalty, or other charge for which the state has issued a demand  
9 for payment that has not been paid when due and, if contested, has not been finally  
10 resolved against the state.

11 \* **Sec. 50.** AS 38.05.180(i); AS 41.09.010, 41.09.020, 41.09.030, 41.09.090;  
12 AS 43.20.053(j)(4); AS 43.55.023(a), 43.55.023(o), 43.55.025(a)(5), 43.55.025(a)(7),  
13 43.55.025(l), 43.55.025(n), 43.55.028(i), 43.55.075(d)(1), 43.55.165(e)(18), 43.55.165(j),  
14 43.55.165(k), and 43.55.890(6) are repealed January 1, 2017.

15 \* **Sec. 51.** AS 43.55.023(l) and 43.55.023(n) are repealed January 1, 2019.

16 \* **Sec. 52.** AS 43.55.023, 43.55.165(f), and 43.55.170(c) are repealed January 1, 2020.

17 \* **Sec. 53.** The uncodified law of the State of Alaska is amended by adding a new section to  
18 read:

19 **LEGISLATIVE WORKING GROUP.** (a) A legislative working group is established  
20 to analyze the Cook Inlet fiscal regime for oil and gas, review the state's tax structure and  
21 rates on oil and gas produced south of 68 degrees North latitude, recommend changes to the  
22 legislature for consideration during the First Regular Session of the Thirtieth Alaska State  
23 Legislature, and develop terms for a comprehensive fiscal regime to take effect January 1,  
24 2019, including,

25 (1) a tax structure that accounts for the unique circumstances for each oil and  
26 gas producing area south of 68 degrees North latitude;

27 (2) incentives other than direct monetary support from the state for the  
28 exploration, development, and production of oil and gas south of 68 degrees North latitude;

29 (3) consideration of the competitiveness of the area south of 68 degrees North  
30 latitude to attract new oil and gas development;

31 (4) consideration of the unique market considerations of the Cook Inlet

1 sedimentary basin and the need to support energy supply security for communities in  
2 Southcentral Alaska;

3 (5) alternative means of state support for the exploration, development, and  
4 production of oil and gas in the Cook Inlet sedimentary basin, including loan guarantees or  
5 other financial support through the Alaska Industrial Development and Export Authority or  
6 other state corporation or entity.

7 (b) The working group consists of

8 (1) two co-chairs, one of whom is a member of the house of representatives  
9 appointed by the speaker of the house of representatives, and one of whom is a member of the  
10 senate appointed by the president of the senate; and

11 (2) members appointed by the co-chairs; members must be legislators and  
12 must include members of the majority and minority caucuses.

13 (c) The co-chairs of the working group may form an advisory group to the working  
14 group, composed of members who are not legislators and who have expertise and skills to  
15 assist in the review and development of a new plan for the tax structure and rates on oil and  
16 gas produced south of 68 degrees North latitude. The members of an advisory group may  
17 include commissioners or employees of state departments, members of the oil and gas  
18 industry or trade associations, and economists.

19 (d) The working group may be supported by legislative consultants under contract  
20 through the Legislative Budget and Audit Committee.

21 \* **Sec. 54.** The uncodified law of the State of Alaska is amended by adding a new section to  
22 read:

23 APPLICABILITY. (a) AS 43.55.028(e), as amended by sec. 27 of this Act,  
24 AS 43.55.028(j), added by sec. 30 of this Act, and regulations related to a tax credit certificate  
25 purchase preference for applicants with a workforce of resident workers, adopted under  
26 AS 43.55.028(g), as amended by sec. 29 of this Act, apply to a purchase applied for on or  
27 after the effective date of secs. 27, 29, and 30 of this Act.

28 (b) AS 43.55.165(a), as amended by sec. 42 of this Act, applies to lease expenditures  
29 calculated for a calendar year after December 31, 2016.

30 \* **Sec. 55.** The uncodified law of the State of Alaska is amended by adding a new section to  
31 read:

1           TRANSITION: QUALIFIED CAPITAL EXPENDITURES. (a) Notwithstanding the  
2 repeal of AS 43.55.023(a) and (o) by sec. 50 of this Act, and the amendments to  
3 AS 45.55.023(d) by sec. 16 of this Act, AS 43.55.023(n) by sec. 19 of this Act,  
4 AS 43.55.029(a) by sec. 31 of this Act, AS 43.55.030(a) and (e) by secs. 34 and 35 of this  
5 Act, AS 43.55.075(b) by sec. 36 of this Act, AS 43.55.165(f) by sec. 43 of this Act, and  
6 AS 43.55.170(c) by sec. 44 of this Act, a taxpayer who incurs a qualified capital expenditure  
7 before the repeal of AS 43.55.023(a) and (o) by sec. 50 of this Act that qualifies for a  
8 qualified capital expenditure credit under AS 43.55.023(a) may apply for a credit or tax credit  
9 certificate under AS 43.55.023(d) and, as applicable, assign the tax credit under  
10 AS 43.55.029, as those sections read on the day before the repeal of AS 43.55.023(a) by sec.  
11 50 of this Act.

12           (b) The Department of Revenue may continue to apply and enforce AS 43.55.023(a)  
13 and (o) and 43.55.029, as those sections read on the day before the repeal of AS 43.55.023(a)  
14 by sec. 50 of this Act, for qualified capital expenditures incurred before the repeal of  
15 AS 43.55.023(a) by sec. 50 of this Act.

16       \* **Sec. 56.** The uncodified law of the State of Alaska is amended by adding a new section to  
17 read:

18           TRANSITION: WELL LEASE EXPENDITURES. (a) Notwithstanding the repeal of  
19 AS 43.55.023(l) and (n) by sec. 51 of this Act, and the amendment of AS 43.55.029(a) by sec.  
20 32 of this Act, a taxpayer who incurs a well lease expenditure before the repeal of  
21 AS 43.55.023(l) and (n) by sec. 51 of this Act that qualifies for a well lease expenditure credit  
22 under AS 43.55.023(l) may apply for a credit or transferable tax credit certificate under  
23 AS 43.55.023 and assign the tax credit under AS 43.55.029, as those sections read on the day  
24 before the repeal of AS 43.55.023(l) and (n) by sec. 51 of this Act.

25           (b) The Department of Revenue may continue to apply and enforce AS 43.55.023(l),  
26 as that subsection read on the day before the repeal of AS 43.55.023(l) by sec. 51 of this Act,  
27 for well lease expenditures incurred before the repeal of AS 43.55.023(l) by sec. 51 of this  
28 Act.

29       \* **Sec. 57.** The uncodified law of the State of Alaska is amended by adding a new section to  
30 read:

31           TRANSITION: CARRIED-FORWARD ANNUAL LOSSES. (a) Notwithstanding the

1 repeal of AS 43.55.023, 43.55.165(f), and 43.55.170(c) by sec. 52 of this Act, and the  
2 amendments of AS 43.55.029(a) by sec. 33 of this Act, AS 43.55.160(d) by sec. 37 of this  
3 Act, and AS 43.55.160(e) by sec. 39 of this Act, a taxpayer who incurs a carried-forward  
4 annual loss before the repeal of AS 43.55.023 by sec. 52 of this Act that qualifies for a  
5 carried-forward annual loss credit under AS 43.55.023(b) may apply for a credit or tax credit  
6 certificate under AS 43.55.023(d) and assign the tax credit under AS 43.55.029, subject to the  
7 requirements of AS 43.55.160(d) and (e), as those sections read on the day before the repeal  
8 of AS 43.55.023 by sec. 52 of this Act.

9 (b) The Department of Revenue may continue to apply and enforce AS 43.55.023(b),  
10 as that section read on the day before the repeal of AS 43.55.023(b) by sec. 52 of this Act, for  
11 a carried-forward annual loss incurred before the repeal of AS 43.55.023(b) by sec. 52 of this  
12 Act.

13 \* **Sec. 58.** The uncodified law of the State of Alaska is amended by adding a new section to  
14 read:

15 **TRANSITION: AS 43.55.023 CREDITS.** Notwithstanding the repeal of  
16 AS 43.55.023, 43.55.165(f), and 43.55.170(c) by sec. 52 of this Act, and the amendments to  
17 AS 43.55.025(m) by sec. 23 of this Act, AS 43.55.028(a) and (e) by secs. 26 and 28 of this  
18 Act, AS 43.55.029(a) by sec. 33 of this Act, AS 43.55.160(d) by sec. 37 of this Act, and  
19 AS 43.55.180(a) by sec. 45 of this Act, the Department of Revenue may continue to apply and  
20 enforce AS 43.55.023, as that section read on the day before the repeal of AS 43.55.023 by  
21 sec. 52 of this Act, for a credit earned before the repeal of AS 43.55.023 by sec. 52 of this  
22 Act.

23 \* **Sec. 59.** The uncodified law of the State of Alaska is amended by adding a new section to  
24 read:

25 **TRANSITION: LEASE EXPENDITURES FOR A CALENDAR YEAR AFTER**  
26 **2006 AND BEFORE 2010.** Notwithstanding AS 43.55.165(a), as amended by sec. 42 of this  
27 Act, and the repeal of AS 43.55.165(j) and (k) by sec. 50 of this Act, AS 43.55.165(j) and (k)  
28 apply to a producer's total lease expenditures for a calendar year after 2006 and before 2010  
29 under AS 43.55.165, as that section read on the day before the repeal of AS 43.55.165(j) and  
30 (k) by sec. 50 of this Act.

31 \* **Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2           TRANSITION: EXPLORATION EXPENDITURES AND SEISMIC  
 3 EXPLORATION EXPENDITURES. (a) Notwithstanding the repeal of AS 43.55.025(a)(5),  
 4 (a)(7), (l), and (n) by sec. 50 of this Act, a taxpayer who incurs an exploration expenditure or  
 5 seismic exploration expenditure before the repeal of AS 43.55.025(a)(5), (a)(7), (l), and (n) by  
 6 sec. 50 of this Act that qualifies for an exploration or seismic exploration expenditure credit  
 7 under AS 43.55.025(a)(5) or (a)(7) may apply for a credit or production tax credit certificate  
 8 under AS 43.55.025 and assign the tax credit under AS 43.55.029, as those sections read on  
 9 the day before the repeal of AS 43.55.025(a)(5), (a)(7), (l), and (n) by sec. 50 of this Act.

10           (b) The Department of Revenue may continue to apply and enforce  
 11 AS 43.55.025(a)(5), (a)(7), (l), and (n), as those sections read on the day before the repeal of  
 12 AS 43.55.025(a)(5), (a)(7), (l), and (n) by sec. 50 of this Act, for exploration expenditures and  
 13 seismic exploration expenditures incurred before the repeal of AS 43.55.025(a)(5), (a)(7), (l),  
 14 and (n) by sec. 50 of this Act.

15       \* **Sec. 61.** The uncodified law of the State of Alaska is amended by adding a new section to  
 16 read:

17           TRANSITION: REGULATIONS. The Department of Revenue, the Department of  
 18 Natural Resources, the Department of Commerce, Community, and Economic Development,  
 19 and the Alaska Oil and Gas Conservation Commission may adopt regulations necessary to  
 20 implement the changes made by this Act. The regulations take effect under AS 44.62  
 21 (Administrative Procedure Act), but not before the effective date of the law implemented by  
 22 the regulation. The Department of Revenue shall adopt regulations governing the use of tax  
 23 credits under AS 43.55 for a calendar year for which the applicable tax credit provisions of  
 24 AS 43.55 differ as between parts of the year as a result of this Act.

25       \* **Sec. 62.** The uncodified law of the State of Alaska is amended by adding a new section to  
 26 read:

27           TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any  
 28 contrary provision of AS 44.62.240,

29           (1) if the Department of Revenue expressly designates in a regulation that the  
 30 regulation applies retroactively, a regulation adopted by the Department of Revenue to  
 31 implement, interpret, make specific, or otherwise carry out this Act may apply retroactively to



1 the effective date of the law implemented by the regulation;

2 (2) if the Department of Natural Resources expressly designates in the  
3 regulation that the regulation applies retroactively, a regulation adopted by the Department of  
4 Natural Resources to implement, interpret, make specific, or otherwise carry out the statutory  
5 amendments in this Act affecting the administration of oil and gas leases issued under  
6 AS 38.05.180(f)(3)(B), (D), or (E), to the extent the regulation relates to the treatment of oil  
7 and gas production taxes in determining net profits under those leases, may apply  
8 retroactively to the effective date of the law implemented by the regulation.

9 \* **Sec. 63.** Sections 22, 53, 61, and 62 of this Act take effect immediately under  
10 AS 01.10.070(c).

11 \* **Sec. 64.** Sections 32, 51, and 56 of this Act take effect January 1, 2019.

12 \* **Sec. 65.** Sections 23, 26, 28, 33, 37, 39, 45, 52, 57, and 58 of this Act take effect  
13 January 1, 2020.

14 \* **Sec. 66.** Except as provided in secs. 63 - 65 of this Act, this Act takes effect January 1,  
15 2017.