ALASKA STATE LEGISLATURE

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Sponsor Statement

HB 276 ***"An Act providing for a credit against the oil and gas production tax for costs incurred for conducting seismic exploration and drilling certain oil or natural gas exploration wells in certain basins; relating to a special tax rate for new oil or gas production south of 68 degrees North latitude."***

HB 276 is designed to attract exploration drilling and seismic exploration in certain remote areas of Alaska that show a promise of holding hydrocarbons, but are underexplored yet located in close proximity to communities in need of a local energy source. Due to complications and costs associated with accessing and developing these remote locations, they have remained unexplored or underexplored and provided scant geological information to either the state or possible investors.

At a time when economic growth and development in many regions of Alaska are crippled by high energy prices and the lack of reliable energy supplies, this legislation will provide needed encouragement to independent companies and landowners otherwise hesitant to invest in exploration projects near energy challenged communities. For example, the Fairbanks community spends over $660 million per year on space heating, yet is located just 50 miles away from the Nenana Basin, a geologic basin that has shown strong potential to be a source for oil and gas. All that is needed to develop this potential resource is investors. Like tax credits use in other regions in the state, HB 276 tax credits for frontier basins will attract those needed investors.

HB 276 provides to the first four persons that perform seismic exploration in four different areas identified in the bill a credit in the amount of $7,500,000 or 75% of the total seismic exploration expenditures, whichever is less. The first four exploration well drillers to drill within the areas described in the bill will receive $25,000,000 or 80% of the total exploration drilling expenses, whichever is less. No more than two wells in a single designated area may qualify for the credit. In exchange for the tax credit, explorers must agree to meet certain criteria before commencing exploration that will assure the state that the project is sound, and they must agree to provide to the state specific data acquired through the project.

Additionally, should gas or oil be discovered south of 68 degrees North latitude, and outside of Cook Inlet with commercial production beginning after December 31, 2012 and before January 1, 2022, the production tax rate levied under .011(e), may not exceed four percent of the gross value at the point of production.

By providing meaningful tax credits and a clear, understandable production tax rate, HB 276 may create a stampede of exploration in specific remote basins in “middle earth”. The exploration incentives in HB 276 will benefit the Interior and other regions of the state faced with crippling high-energy costs by spurring explorations projects near these regions and benefit the state by providing information needed to better define potential resources and further attract investment and exploration in these remote areas.