

SENATE CS FOR 2d CS FOR HOUSE BILL NO. 247(FIN) am S

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Amended: 5/18/16

Offered: 5/17/16

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

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the exploration incentive credits; relating to the powers and duties**
2 **of the Alaska Oil and Gas Conservation Commission; relating to interest applicable to**
3 **delinquent tax; relating to the oil and gas production tax, tax payments, and credits;**
4 **relating to tax credit certificates; relating to refunds for the gas storage facility tax**
5 **credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil**
6 **refinery infrastructure expenditures tax credit; relating to oil and gas lease expenditures**
7 **and production tax credits for municipal entities; requiring a bond or cash deposit with**
8 **a business license application for an oil or gas business; and providing for an effective**
9 **date."**

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

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

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

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

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

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

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

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

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

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

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

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

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

29 (f) Except as otherwise provided in this section or in connection with official
30 investigations or proceedings of the department, it is unlawful for a current or former
31 officer, employee, or agent of the state to divulge information obtained by the

1 department as a result of an audit under this section that is required by an agreement
 2 with the department or by AS 38.05.035(a)(8) [OR AS 41.09.010(d)] to be kept
 3 confidential.

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

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

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

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

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

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

24 (1) a delinquent tax [UNDER THIS TITLE,]

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

31 (B) **under this title**, on and after January 1, 2014, **except as**

1 **provided in (C) of this paragraph,** bears interest in each calendar quarter at
 2 the rate of three percentage points above the annual rate charged member
 3 banks for advances by the 12th Federal Reserve District as of the first day of
 4 that calendar quarter;

5 **(C) under AS 43.55, on and after January 1, 2017,**

6 **(i) for the first three years after a tax becomes**
 7 **delinquent, bears interest in each calendar quarter at the rate of**
 8 **seven percentage points above the annual rate charged member**
 9 **banks for advances by the 12th Federal Reserve District as of the**
 10 **first day of that calendar quarter, compounded quarterly as of the**
 11 **last day of that quarter; and**

12 **(ii) after the first three years after a tax becomes**
 13 **delinquent, does not bear interest;**

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

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

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

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

19 (l) For tax credit certificates purchased by the department in the preceding
 20 calendar year under AS 43.55.028, the department shall make the aggregate amount of
 21 tax credits purchased under each statutory section or subsection, as applicable,
 22 classified to prevent the identification of a particular taxpayer public by April 30 of
 23 each year.

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

25 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
 26 may use available money in the oil and gas tax credit fund established in AS 43.55.028
 27 to make the refund applied for under (d) of this section in whole or in part if the
 28 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
 29 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
 30 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
 31 the claimant's total tax liability under this chapter for the calendar year in which the

1 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
 2 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
 3 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
 4 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

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

6 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
 7 may use money available in the oil and gas tax credit fund established in AS 43.55.028
 8 to make a refund or payment under (d) of this section in whole or in part if the
 9 department finds that, [(1) THE CLAIMANT DOES NOT HAVE AN
 10 OUTSTANDING LIABILITY TO THE STATE FOR UNPAID DELINQUENT
 11 TAXES UNDER THIS TITLE; AND (2)] after application of all available tax credits,
 12 the claimant's total tax liability under this chapter for the calendar year in which the
 13 claim is made is zero. [IN THIS SUBSECTION, "UNPAID DELINQUENT TAX"
 14 MEANS AN AMOUNT OF TAX FOR WHICH THE DEPARTMENT HAS ISSUED
 15 AN ASSESSMENT THAT HAS NOT BEEN PAID AND, IF CONTESTED, HAS
 16 NOT BEEN FINALLY RESOLVED IN THE TAXPAYER'S FAVOR.]

17 * **Sec. 12.** AS 43.20.053(a) is amended to read:

18 (a) A taxpayer that owns an in-state oil refinery whose primary function is the
 19 manufacturing and sale of refined petroleum products to third parties in arm's length
 20 transactions may apply a credit against the tax due under this chapter for a qualified
 21 infrastructure expenditure incurred in the state. **For** [FOR] a tax year beginning after
 22 December 31, 2014, and before **January 1, 2017, the** [JANUARY 1, 2020. THE] total
 23 amount of credit a taxpayer may receive under this section may not exceed the lesser
 24 of 40 percent of qualified infrastructure expenditures incurred in the state during the
 25 tax year or \$10,000,000 for each in-state refinery for which qualified expenditures are
 26 incurred. **For a tax year beginning after December 31, 2016, and before**
 27 **January 1, 2018, the total amount of credit a taxpayer may receive under this**
 28 **section may not exceed the lesser of 20 percent of qualified infrastructure**
 29 **expenditures incurred in the state during the tax year or \$5,000,000 for each in-**
 30 **state refinery for which qualified expenditures are incurred.**

31 * **Sec. 13.** AS 43.20.053(e) is amended to read:

1 (e) **Subject to the requirements in AS 43.55.028(j), the** [THE] department
2 may use money available in the oil and gas tax credit fund established in AS 43.55.028
3 to make a refund or payment under (d) of this section in whole or in part if the
4 department finds that,

5 [(1) THE CLAIMANT DOES NOT HAVE AN OUTSTANDING
6 LIABILITY TO THE STATE FOR UNPAID DELINQUENT TAXES UNDER THIS
7 TITLE; AND

8 (2)] after application of all available tax credits, the claimant's total tax
9 liability under this chapter for the calendar year in which the claim is made is zero.

10 * **Sec. 14.** AS 43.55.011(j) is amended to read:

11 (j) For a calendar year [BEFORE 2022], the tax levied by (e) of this section
12 for gas produced from a lease or property in the Cook Inlet sedimentary basin may not
13 exceed

14 (1) for a lease or property that first commenced commercial production
15 of gas before April 1, 2006, the product obtained by multiplying (A) the amount of
16 taxable gas produced during the calendar year from the lease or property, times (B) the
17 average rate of tax that was imposed under this chapter for taxable gas produced from
18 the lease or property for the 12-month period ending on March 31, 2006, times (C) the
19 quotient obtained by dividing the total gross value at the point of production of the
20 taxable gas produced from the lease or property during the 12-month period ending on
21 March 31, 2006, by the total amount of that gas;

22 (2) for a lease or property that first commences commercial production
23 of gas after March 31, 2006, the product obtained by multiplying (A) the amount of
24 taxable gas produced during the calendar year from the lease or property, times (B) the
25 average rate of tax that was imposed under this chapter for taxable gas produced from
26 all leases or properties in the Cook Inlet sedimentary basin for the 12-month period
27 ending on March 31, 2006, times (C) the average prevailing value for gas delivered in
28 the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by
29 the department under AS 43.55.020(f).

30 * **Sec. 15.** AS 43.55.011(k) is amended to read:

31 (k) For a calendar year [BEFORE 2022], the tax levied by (e) of this section

1 **may not exceed one dollar per barrel of oil** for oil produced from a lease or property
 2 in the Cook Inlet sedimentary basin [MAY NOT EXCEED

3 (1) FOR A LEASE OR PROPERTY THAT FIRST COMMENCED
 4 COMMERCIAL PRODUCTION OF OIL BEFORE APRIL 1, 2006, THE PRODUCT
 5 OBTAINED BY MULTIPLYING (A) THE AMOUNT OF TAXABLE OIL
 6 PRODUCED DURING THE CALENDAR YEAR FROM THE LEASE OR
 7 PROPERTY, TIMES (B) THE AVERAGE RATE OF TAX THAT WAS IMPOSED
 8 UNDER THIS CHAPTER FOR TAXABLE OIL PRODUCED FROM THE LEASE
 9 OR PROPERTY FOR THE 12-MONTH PERIOD ENDING ON MARCH 31, 2006,
 10 TIMES (C) THE QUOTIENT OBTAINED BY DIVIDING THE TOTAL GROSS
 11 VALUE AT THE POINT OF PRODUCTION OF THE TAXABLE OIL PRODUCED
 12 FROM THE LEASE OR PROPERTY DURING THE 12-MONTH PERIOD
 13 ENDING ON MARCH 31, 2006, BY THE TOTAL AMOUNT OF THAT OIL;

14 (2) FOR A LEASE OR PROPERTY THAT FIRST COMMENCES
 15 COMMERCIAL PRODUCTION OF OIL AFTER MARCH 31, 2006, THE
 16 PRODUCT OBTAINED BY MULTIPLYING (A) THE AMOUNT OF TAXABLE
 17 OIL PRODUCED DURING THE CALENDAR YEAR FROM THE LEASE OR
 18 PROPERTY, TIMES (B) THE AVERAGE RATE OF TAX THAT WAS IMPOSED
 19 UNDER THIS CHAPTER FOR TAXABLE OIL PRODUCED FROM ALL LEASES
 20 OR PROPERTIES IN THE COOK INLET SEDIMENTARY BASIN FOR THE 12-
 21 MONTH PERIOD ENDING ON MARCH 31, 2006, TIMES (C) THE AVERAGE
 22 PREVAILING VALUE FOR OIL PRODUCED AND DELIVERED IN THE COOK
 23 INLET AREA FOR THE 12-MONTH PERIOD ENDING ON MARCH 31, 2006, AS
 24 DETERMINED BY THE DEPARTMENT UNDER AS 43.55.020(f)].

25 * **Sec. 16.** AS 43.55.011(o) is amended to read:

26 (o) Notwithstanding other provisions of this section, for a calendar year
 27 [BEFORE 2022], the tax levied under (e) of this section for each 1,000 cubic feet of
 28 gas for gas produced from a lease or property outside the Cook Inlet sedimentary basin
 29 and used in the state, other than gas subject to (p) of this section, may not exceed the
 30 amount of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this
 31 section.

1 * **Sec. 17.** AS 43.55.020(a) is amended to read:

2 (a) For a calendar year, a producer subject to tax under AS 43.55.011 shall pay
3 the tax as follows:

4 (1) for oil and gas produced before January 1, 2014, an installment
5 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
6 as allowed by law, is due for each month of the calendar year on the last day of the
7 following month; except as otherwise provided under (2) of this subsection, the
8 amount of the installment payment is the sum of the following amounts, less 1/12 of
9 the tax credits that are allowed by law to be applied against the tax levied by
10 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
11 not be less than zero:

12 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
13 produced from leases or properties in the state outside the cook inlet
14 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
15 the greater of

16 (i) zero; or

17 (ii) the sum of 25 percent and the tax rate calculated for
18 the month under AS 43.55.011(g) multiplied by the remainder obtained
19 by subtracting 1/12 of the producer's adjusted lease expenditures for the
20 calendar year of production under AS 43.55.165 and 43.55.170 that are
21 deductible for the oil and gas under AS 43.55.160 from the gross value
22 at the point of production of the oil and gas produced from the leases or
23 properties during the month for which the installment payment is
24 calculated;

25 (B) for oil and gas produced from leases or properties subject
26 to AS 43.55.011(f), the greatest of

27 (i) zero;

28 (ii) zero percent, one percent, two percent, three
29 percent, or four percent, as applicable, of the gross value at the point of
30 production of the oil and gas produced from the leases or properties
31 during the month for which the installment payment is calculated; or

1 (iii) the sum of 25 percent and the tax rate calculated for
2 the month under AS 43.55.011(g) multiplied by the remainder obtained
3 by subtracting 1/12 of the producer's adjusted lease expenditures for the
4 calendar year of production under AS 43.55.165 and 43.55.170 that are
5 deductible for the oil and gas under AS 43.55.160 from the gross value
6 at the point of production of the oil and gas produced from those leases
7 or properties during the month for which the installment payment is
8 calculated;

9 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
10 each lease or property, the greater of

11 (i) zero; or

12 (ii) the sum of 25 percent and the tax rate calculated for
13 the month under AS 43.55.011(g) multiplied by the remainder obtained
14 by subtracting 1/12 of the producer's adjusted lease expenditures for the
15 calendar year of production under AS 43.55.165 and 43.55.170 that are
16 deductible under AS 43.55.160 for the oil or gas, respectively,
17 produced from the lease or property from the gross value at the point of
18 production of the oil or gas, respectively, produced from the lease or
19 property during the month for which the installment payment is
20 calculated;

21 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

22 (i) the sum of 25 percent and the tax rate calculated for
23 the month under AS 43.55.011(g) multiplied by the remainder obtained
24 by subtracting 1/12 of the producer's adjusted lease expenditures for the
25 calendar year of production under AS 43.55.165 and 43.55.170 that are
26 deductible for the oil and gas under AS 43.55.160 from the gross value
27 at the point of production of the oil and gas produced from the leases or
28 properties during the month for which the installment payment is
29 calculated, but not less than zero; or

30 (ii) four percent of the gross value at the point of
31 production of the oil and gas produced from the leases or properties

1 during the month, but not less than zero;

2 (2) an amount calculated under (1)(C) of this subsection for oil or gas
3 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
4 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
5 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
6 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
7 amount of taxable gas produced during the month for the amount of taxable gas
8 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
9 (2)(A), as applicable, the amount of taxable oil produced during the month for the
10 amount of taxable oil produced during the calendar year;

11 (3) an installment payment of the estimated tax levied by
12 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
13 on the last day of the following month; the amount of the installment payment is the
14 sum of

15 (A) the applicable tax rate for oil provided under
16 AS 43.55.011(i), multiplied by the gross value at the point of production of the
17 oil taxable under AS 43.55.011(i) and produced from the lease or property
18 during the month; and

19 (B) the applicable tax rate for gas provided under
20 AS 43.55.011(i), multiplied by the gross value at the point of production of the
21 gas taxable under AS 43.55.011(i) and produced from the lease or property
22 during the month;

23 (4) any amount of tax levied by AS 43.55.011, net of any credits
24 applied as allowed by law, that exceeds the total of the amounts due as installment
25 payments of estimated tax is due on March 31 of the year following the calendar year
26 of production;

27 (5) for oil and gas produced on and after January 1, 2014, and before
28 January 1, 2022, an installment payment of the estimated tax levied by
29 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
30 month of the calendar year on the last day of the following month; except as otherwise
31 provided under (6) of this subsection, the amount of the installment payment is the

1 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be
2 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
3 of the installment payment may not be less than zero:

4 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
5 produced from leases or properties in the state outside the Cook Inlet
6 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
7 the greater of

8 (i) zero; or

9 (ii) 35 percent multiplied by the remainder obtained by
10 subtracting 1/12 of the producer's adjusted lease expenditures for the
11 calendar year of production under AS 43.55.165 and 43.55.170 that are
12 deductible for the oil and gas under AS 43.55.160 from the gross value
13 at the point of production of the oil and gas produced from the leases or
14 properties during the month for which the installment payment is
15 calculated;

16 (B) for oil and gas produced from leases or properties subject
17 to AS 43.55.011(f), the greatest of

18 (i) zero;

19 (ii) zero percent, one percent, two percent, three
20 percent, or four percent, as applicable, of the gross value at the point of
21 production of the oil and gas produced from the leases or properties
22 during the month for which the installment payment is calculated; or

23 (iii) 35 percent multiplied by the remainder obtained by
24 subtracting 1/12 of the producer's adjusted lease expenditures for the
25 calendar year of production under AS 43.55.165 and 43.55.170 that are
26 deductible for the oil and gas under AS 43.55.160 from the gross value
27 at the point of production of the oil and gas produced from those leases
28 or properties during the month for which the installment payment is
29 calculated, except that, for the purposes of this calculation, a reduction
30 from the gross value at the point of production may apply for oil and
31 gas subject to AS 43.55.160(f) or (g);

1 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
2 each lease or property, the greater of

3 (i) zero; or

4 (ii) 35 percent multiplied by the remainder obtained by
5 subtracting 1/12 of the producer's adjusted lease expenditures for the
6 calendar year of production under AS 43.55.165 and 43.55.170 that are
7 deductible under AS 43.55.160 for the oil or gas, respectively,
8 produced from the lease or property from the gross value at the point of
9 production of the oil or gas, respectively, produced from the lease or
10 property during the month for which the installment payment is
11 calculated;

12 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

13 (i) 35 percent multiplied by the remainder obtained by
14 subtracting 1/12 of the producer's adjusted lease expenditures for the
15 calendar year of production under AS 43.55.165 and 43.55.170 that are
16 deductible for the oil and gas under AS 43.55.160 from the gross value
17 at the point of production of the oil and gas produced from the leases or
18 properties during the month for which the installment payment is
19 calculated, but not less than zero; or

20 (ii) four percent of the gross value at the point of
21 production of the oil and gas produced from the leases or properties
22 during the month, but not less than zero;

23 (6) an amount calculated under (5)(C) of this subsection for oil or gas
24 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
25 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
26 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
27 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
28 amount of taxable gas produced during the month for the amount of taxable gas
29 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
30 (2)(A), as applicable, the amount of taxable oil produced during the month for the
31 amount of taxable oil produced during the calendar year;

1 (7) for oil and gas produced on or after January 1, 2022, an installment
 2 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
 3 as allowed by law, is due for each month of the calendar year on the last day of the
 4 following month; **except as otherwise provided under (10) of this subsection**, the
 5 amount of the installment payment is the sum of the following amounts, less 1/12 of
 6 the tax credits that are allowed by law to be applied against the tax levied by
 7 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
 8 not be less than zero:

9 (A) for oil produced from leases or properties **subject to**
 10 **AS 43.55.011(f)** [THAT INCLUDE LAND NORTH OF 68 DEGREES
 11 NORTH LATITUDE], the greatest of

12 (i) zero;

13 (ii) zero percent, one percent, two percent, three
 14 percent, or four percent, as applicable, of the gross value at the point of
 15 production of the oil produced from the leases or properties during the
 16 month for which the installment payment is calculated; or

17 (iii) 35 percent multiplied by the remainder obtained by
 18 subtracting 1/12 of the producer's adjusted lease expenditures for the
 19 calendar year of production under AS 43.55.165 and 43.55.170 that are
 20 deductible for the oil under AS 43.55.160(h)(1) from the gross value at
 21 the point of production of the oil produced from those leases or
 22 properties during the month for which the installment payment is
 23 calculated, except that, for the purposes of this calculation, a reduction
 24 from the gross value at the point of production may apply for oil
 25 subject to AS 43.55.160(f) or 43.55.160(f) and (g);

26 (B) for oil produced before or during the last calendar year
 27 under AS 43.55.024(b) for which the producer could take a tax credit under
 28 AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet
 29 sedimentary basin, no part of which is north of 68 degrees North latitude, other
 30 than leases or properties subject to **AS 43.55.011(o) or (p)** [AS 43.55.011(p)],
 31 the greater of

1 (i) zero; or

2 (ii) 35 percent multiplied by the remainder obtained by
3 subtracting 1/12 of the producer's adjusted lease expenditures for the
4 calendar year of production under AS 43.55.165 and 43.55.170 that are
5 deductible for the oil under AS 43.55.160(h)(2) from the gross value at
6 the point of production of the oil produced from the leases or properties
7 during the month for which the installment payment is calculated;

8 (C) for oil and gas produced from leases or properties subject
9 to AS 43.55.011(p), except as otherwise provided under (8) of this subsection,
10 the sum of

11 (i) 35 percent multiplied by the remainder obtained by
12 subtracting 1/12 of the producer's adjusted lease expenditures for the
13 calendar year of production under AS 43.55.165 and 43.55.170 that are
14 deductible for the oil under AS 43.55.160(h)(3) from the gross value at
15 the point of production of the oil produced from the leases or properties
16 during the month for which the installment payment is calculated, but
17 not less than zero; and

18 (ii) 13 percent of the gross value at the point of
19 production of the gas produced from the leases or properties during the
20 month, but not less than zero;

21 (D) for oil produced from leases or properties in the state, no
22 part of which is north of 68 degrees North latitude, other than leases or
23 properties subject to (B), [OR] (C), or (E) of this paragraph, the greater of

24 (i) zero; or

25 (ii) 35 percent multiplied by the remainder obtained by
26 subtracting 1/12 of the producer's adjusted lease expenditures for the
27 calendar year of production under AS 43.55.165 and 43.55.170 that are
28 deductible for the oil under AS 43.55.160(h)(4) from the gross value at
29 the point of production of the oil produced from the leases or properties
30 during the month for which the installment payment is calculated;

31 (E) for gas produced from each lease or property in the state

1 outside the Cook Inlet sedimentary basin, other than a lease or property
 2 subject to AS 43.55.011(o) or (p) [AS 43.55.011(p)], 13 percent of the gross
 3 value at the point of production of the gas produced from the lease or property
 4 during the month for which the installment payment is calculated, but not less
 5 than zero;

6 (F) for oil subject to AS 43.55.011(k), for each lease or
 7 property, the greater of

8 (i) zero; or

9 (ii) 35 percent multiplied by the remainder obtained
 10 by subtracting 1/12 of the producer's adjusted lease expenditures
 11 for the calendar year of production under AS 43.55.165 and
 12 43.55.170 that are deductible under AS 43.55.160 for the oil,
 13 produced from the lease or property from the gross value at the
 14 point of production of the oil, produced from the lease or property
 15 during the month for which the installment payment is calculated;

16 (G) for gas subject to AS 43.55.011(j) or (o), for each lease
 17 or property, the greater of

18 (i) zero; or

19 (ii) 13 percent of the gross value at the point of
 20 production of the gas produced from the lease or property during
 21 the month for which the installment payment is calculated;

22 (8) an amount calculated under (7)(C) of this subsection may not
 23 exceed four percent of the gross value at the point of production of the oil and gas
 24 produced from leases or properties subject to AS 43.55.011(p) during the month for
 25 which the installment payment is calculated;

26 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
 27 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the point
 28 of production is determined under AS 43.55.011(f)(1) or (2) but substituting the
 29 phrase "month for which the installment payment is calculated" in AS 43.55.011(f)(1)
 30 and (2) for the phrase "calendar year for which the tax is due";

31 (10) an amount calculated under (7)(F) or (G) of this subsection

1 for oil or gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product
 2 obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or
 3 43.55.011(o), as applicable, for gas, or set out in AS 43.55.011(k)(1) or (2), as
 4 applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or
 5 43.55.011(o), as applicable, the amount of taxable gas produced during the month
 6 for the amount of taxable gas produced during the calendar year and substituting
 7 in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil
 8 produced during the month for the amount of taxable oil produced during the
 9 calendar year. [""]

10 * **Sec. 18.** AS 43.55.023(a) is amended to read:

11 (a) A producer or explorer may take a tax credit for a qualified capital
 12 expenditure as follows:

13 (1) notwithstanding that a qualified capital expenditure may be a
 14 deductible lease expenditure for purposes of calculating the production tax value of oil
 15 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
 16 [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043 [,] or AS 43.55.025, a producer or
 17 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit
 18 against a tax levied by AS 43.55.011(e) in the amount of **10** [20] percent of that
 19 expenditure;

20 (2) a producer or explorer may take a credit for a qualified capital
 21 expenditure incurred in connection with geological or geophysical exploration or in
 22 connection with an exploration well only if the producer or explorer

23 (A) agrees, in writing, to the applicable provisions of
 24 AS 43.55.025(f)(2); and

25 (B) submits to the Department of Natural Resources all data
 26 that would be required to be submitted under AS 43.55.025(f)(2);

27 (3) a credit for a qualified capital expenditure incurred to explore for,
 28 develop, or produce oil or gas deposits located

29 (A) north of 68 degrees North latitude may be taken only if the
 30 expenditure is incurred before January 1, 2014;

31 (B) in the Cook Inlet sedimentary basin may be taken only

1 **if the expenditure is incurred before January 1, 2018.**

2 * **Sec. 19.** AS 43.55.023(b) is amended to read:

3 (b) Before January 1, 2014, a producer or explorer may elect to take a tax
4 credit in the amount of 25 percent of a carried-forward annual loss. For lease
5 expenditures incurred on and after January 1, 2014, and before January 1, 2016, to
6 explore for, develop, or produce oil or gas deposits located north of 68 degrees North
7 latitude, a producer or explorer may elect to take a tax credit in the amount of 45
8 percent of a carried-forward annual loss. For lease expenditures incurred on and after
9 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north
10 of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in
11 the amount of 35 percent of a carried-forward annual loss. For lease expenditures
12 incurred on or after January 1, 2014, **and before January 1, 2017,** to explore for,
13 develop, or produce oil or gas deposits located south of 68 degrees North latitude, a
14 producer or explorer may elect to take a tax credit in the amount of 25 percent of a
15 carried-forward annual loss. **For lease expenditures incurred on or after January 1,**
16 **2017, to explore for, develop, or produce oil or gas deposits located south of 68**
17 **degrees North latitude, a producer or explorer may elect to take a tax credit in**
18 **the amount of 15 percent of a carried-forward annual loss, except that a credit**
19 **for lease expenditures incurred to explore for, develop, or produce oil or gas**
20 **deposits located in the Cook Inlet sedimentary basin may only be taken if the**
21 **expenditure is incurred before January 1, 2018.** A credit under this subsection may
22 be applied against a tax levied by AS 43.55.011(e). For purposes of this subsection,

23 **(1)** a carried-forward annual loss is the amount of a producer's or
24 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
25 previous calendar year that was not deductible in calculating production tax values for
26 that calendar year under AS 43.55.160;

27 **(2)** **for lease expenditures incurred on or after January 1, 2017,**
28 **any reduction under AS 43.55.160(f) or (g) is added back to the calculation of**
29 **production tax values for that calendar year under AS 43.55.160 for the**
30 **determination of a carried-forward annual loss.**

31 * **Sec. 20.** AS 43.55.023(l) is amended to read:

1 (l) A producer or explorer may apply for a tax credit for a well lease
 2 expenditure incurred in the state south of 68 degrees North latitude after June 30,
 3 2010, as follows:

4 (1) notwithstanding that a well lease expenditure incurred in the state
 5 south of 68 degrees North latitude may be a deductible lease expenditure for purposes
 6 of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a
 7 credit for that expenditure is taken under (a) of this section, [AS 38.05.180(i),
 8 AS 41.09.010,] AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a
 9 well lease expenditure in the state south of 68 degrees North latitude may elect to
 10 apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of

11 (A) 40 percent of that expenditure **incurred before January 1,**
 12 **2017;**

13 (B) **20 percent of that expenditure incurred on or after**
 14 **January 1, 2017** [; A TAX CREDIT UNDER THIS PARAGRAPH MAY BE
 15 APPLIED FOR A SINGLE CALENDAR YEAR];

16 (2) a producer or explorer may take a credit for a well lease
 17 expenditure incurred in the state south of 68 degrees North latitude in connection with
 18 geological or geophysical exploration or in connection with an exploration well only if
 19 the producer or explorer

20 (A) agrees, in writing, to the applicable provisions of
 21 AS 43.55.025(f)(2); and

22 (B) submits to the Department of Natural Resources all data
 23 that would be required to be submitted under AS 43.55.025(f)(2);

24 (3) **a credit for a well lease expenditure incurred to explore for,**
 25 **develop, or produce oil or gas deposits located in the Cook Inlet sedimentary**
 26 **basin may be taken only if the expenditure is incurred before January 1, 2018.**

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

28 (i) A producer may apply against the producer's tax liability for the calendar
 29 year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under
 30 AS 43.55.011(e) that **receives a reduction in the gross value at the point of**
 31 **production under** [MEETS ONE OR MORE OF THE CRITERIA IN]

1 AS 43.55.160(f) or (g) and that is produced during a calendar year after December 31,
2 2013. A tax credit authorized by this subsection may not reduce a producer's tax
3 liability for a calendar year under AS 43.55.011(e) below zero.

4 * **Sec. 22.** AS 43.55.024(j) is amended to read:

5 (j) A producer may apply against the producer's tax liability for the calendar
6 year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for
7 each barrel of oil taxable under AS 43.55.011(e) that does not **receive a reduction in**
8 **the gross value at the point of production under** [MEET ANY OF THE CRITERIA
9 IN] AS 43.55.160(f) or (g) and that is produced during a calendar year after
10 December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax
11 credit under this subsection may not reduce a producer's tax liability for a calendar
12 year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). The
13 amount of the tax credit for a barrel of taxable oil subject to this subsection produced
14 during a month of the calendar year is

15 (1) \$8 for each barrel of taxable oil if the average gross value at the
16 point of production for the month is less than \$80 a barrel;

17 (2) \$7 for each barrel of taxable oil if the average gross value at the
18 point of production for the month is greater than or equal to \$80 a barrel, but less than
19 \$90 a barrel;

20 (3) \$6 for each barrel of taxable oil if the average gross value at the
21 point of production for the month is greater than or equal to \$90 a barrel, but less than
22 \$100 a barrel;

23 (4) \$5 for each barrel of taxable oil if the average gross value at the
24 point of production for the month is greater than or equal to \$100 a barrel, but less
25 than \$110 a barrel;

26 (5) \$4 for each barrel of taxable oil if the average gross value at the
27 point of production for the month is greater than or equal to \$110 a barrel, but less
28 than \$120 a barrel;

29 (6) \$3 for each barrel of taxable oil if the average gross value at the
30 point of production for the month is greater than or equal to \$120 a barrel, but less
31 than \$130 a barrel;

1 (7) \$2 for each barrel of taxable oil if the average gross value at the
2 point of production for the month is greater than or equal to \$130 a barrel, but less
3 than \$140 a barrel;

4 (8) \$1 for each barrel of taxable oil if the average gross value at the
5 point of production for the month is greater than or equal to \$140 a barrel, but less
6 than \$150 a barrel;

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

9 * **Sec. 23.** AS 43.55.025(m) is amended to read:

10 (m) The persons that drill the first four exploration wells in the state and
11 within the areas described in (o) of this section on state lands, private lands, or federal
12 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a
13 prospect in a basin described in (o) of this section are eligible for a credit under (a)(6)
14 of this section. A credit under this subsection may not be taken for more than two
15 exploration wells in a single area described in (o)(1) - (6) of this section.
16 **Notwithstanding (b) of this section, exploration** [EXPLORATION] expenditures
17 eligible for the credit in this subsection must be incurred for work performed after
18 June 1, 2012, and before **January 1, 2017, except that expenditures to complete an**
19 **exploration well that was spudded but not completed before January 1, 2017, are**
20 **eligible for the credit under this subsection** [JULY 1, 2016]. A person planning to
21 drill an exploration well on private land and to apply for a credit under this subsection
22 shall obtain written consent from the owner of the oil and gas interest for the full
23 public release of all well data after the expiration of the confidentiality period
24 applicable to information collected under (f) of this section. The written consent of the
25 owner of the oil and gas interest must be submitted to the commissioner of natural
26 resources before approval of the proposed exploration well. In addition to the
27 requirements in (c)(1), (c)(2)(A), and (c)(2)(C) of this section and submission of the
28 written consent of the owner of the oil and gas interest, a person planning to drill an
29 exploration well shall obtain approval from the commissioner of natural resources
30 before the well is spudded. The commissioner of natural resources shall make a
31 written determination approving or rejecting an exploration well within 60 days after

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

18 * **Sec. 24.** AS 43.55.028(e) is amended to read:

19 (e) The department, on the written application of a person to whom a
 20 transferable tax credit certificate has been issued under AS 43.55.023(d) or former
 21 AS 43.55.023(m) or to whom a production tax credit certificate has been issued under
 22 AS 43.55.025(f), may use available money in the oil and gas tax credit fund to
 23 purchase, in whole or in part, the certificate. **The department may not purchase a**
 24 **total of more than \$70,000,000 in tax credit certificates from a person in a**
 25 **calendar year. Before purchasing a certificate or part of a certificate,** [IF] the
 26 department **shall find** [FINDS] that

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

30 (2) the **application is not the result of the division of a single entity**
 31 **into multiple entities that would reasonably be expected to apply as a single entity**

1 **if the \$70,000,000 limitation in this subsection did not exist** [APPLICANT DOES
2 NOT HAVE AN OUTSTANDING LIABILITY TO THE STATE FOR UNPAID
3 DELINQUENT TAXES UNDER THIS TITLE];

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

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

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

12 * **Sec. 25.** AS 43.55.028(g) is amended to read:

13 (g) The department **shall** [MAY] adopt regulations to carry out the purposes
14 of this section, including standards and procedures to allocate available money among
15 applications for purchases under this chapter and claims for refunds and payments
16 under AS 43.20.046, 43.20.047, or 43.20.053 when the total amount of the
17 applications for purchase and claims for refund exceed the amount of available money
18 in the fund. The regulations adopted by the department

19 **(1)** may not, when allocating available money in the fund under this
20 section, distinguish an application for the purchase of a credit certificate issued under
21 former AS 43.55.023(m) or a claim for a refund or payment under AS 43.20.046,
22 43.20.047, or 43.20.053;

23 **(2) must grant a preference to an applicant if at least 75 percent of**
24 **the applicant's workforce in the state in the previous calendar year was**
25 **composed of resident workers; in this paragraph, "resident worker" has the**
26 **meaning given in AS 43.40.092(b);**

27 **(3) must provide for the purchase of the amount equal to the first**
28 **50 percent of the credit repurchase limit per person under (e) of this section at a**
29 **rate of 100 percent of the value of the certificate or portion of the certificate**
30 **requested to be purchased and the amount equal to the next 50 percent of the**
31 **credit repurchase limit per person under (e) of this section at a rate of 75 percent**

1 **of the value of the certificate or portion of the certificate requested to be**
 2 **purchased.**

3 * **Sec. 26.** AS 43.55.028 is amended by adding a new subsection to read:

4 (j) If an applicant or claimant has an outstanding liability to the state directly
 5 related to the applicant's or claimant's oil or gas exploration, development, or
 6 production and the department has not previously reduced the amount paid to that
 7 applicant or claimant for a certificate or refund because of that outstanding liability,
 8 the department may purchase only that portion of a certificate or pay only that portion
 9 of a refund that exceeds the outstanding liability. After notifying the applicant or
 10 claimant, the department may apply the amount by which the department reduced its
 11 purchase of a certificate or payment for a refund because of an outstanding liability to
 12 satisfy the outstanding liability. Satisfaction of an outstanding liability under this
 13 subsection does not affect the applicant's ability to contest that liability. The
 14 department may enter into contracts or agreements with another department to which
 15 the outstanding liability is owed. In this subsection, "outstanding liability" means an
 16 amount of tax, interest, penalty, fee, rental, royalty, or other charge for which the state
 17 has issued a demand for payment that has not been paid when due and, if contested,
 18 has not been finally resolved against the state.

19 * **Sec. 27.** AS 43.55.160(f) is amended to read:

20 (f) On and after January 1, 2014, in the calculation of an annual production tax
 21 value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the
 22 point of production of oil or gas produced from a lease or property north of 68 degrees
 23 North latitude meeting one or more of the following criteria is reduced by 20 percent:
 24 (1) the oil or gas is produced from a lease or property that does not contain a lease that
 25 was within a unit on January 1, 2003; (2) the oil or gas is produced from a
 26 participating area established after December 31, 2011, that is within a unit formed
 27 under AS 38.05.180(p) before January 1, 2003, if the participating area does not
 28 contain a reservoir that had previously been in a participating area established before
 29 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
 30 existing participating area by the Department of Natural Resources on and after
 31 January 1, 2014, and the producer demonstrates to the department that the volume of

1 oil or gas produced is from acreage added to an existing participating area. This
 2 subsection does not apply to gas produced before 2022 that is used in the state or to
 3 gas produced on and after January 1, 2022. **For oil and gas first produced from a**
 4 **lease or property after December 31, 2016, a reduction allowed under this**
 5 **subsection applies from the date of commencement of regular production of oil**
 6 **and gas from that lease or property and expires after three years, consecutive or**
 7 **nonconsecutive, in which the average annual price per barrel for Alaska North**
 8 **Slope crude oil for sale on the United States West Coast is more than \$70 or after**
 9 **seven years, whichever occurs first. For oil and gas first produced from a lease or**
 10 **property before January 1, 2017, a reduction allowed under this subsection**
 11 **expires on the earlier of January 1, 2023, or January 1 following three years,**
 12 **consecutive or nonconsecutive, in which the average annual price per barrel for**
 13 **Alaska North Slope crude oil for sale on the United States West Coast is more**
 14 **than \$70. The Alaska Oil and Gas Conservation Commission shall determine the**
 15 **commencement of regular production of oil and gas for purposes of this section.**

16 A reduction under this subsection may not reduce the gross value at the point of
 17 production below zero. In this subsection, "participating area" means a reservoir or
 18 portion of a reservoir producing or contributing to production as approved by the
 19 Department of Natural Resources.

20 * **Sec. 28.** AS 43.55.160(g) is amended to read:

21 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
 22 section, in the calculation of an annual production tax value of a producer under
 23 (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or
 24 gas produced from a lease or property north of 68 degrees North latitude that does not
 25 contain a lease that was within a unit on January 1, 2003, is reduced by 10 percent if
 26 the oil or gas is produced from a unit made up solely of leases that have a royalty
 27 share of more than 12.5 percent in amount or value of the production removed or sold
 28 from the lease as determined under AS 38.05.180(f). This subsection does not apply if
 29 the royalty obligation for one or more of the leases in the unit has been reduced to 12.5
 30 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the
 31 annual production tax value is calculated. This subsection does not apply to gas

1 produced before 2022 that is used in the state or to gas produced on and after
 2 January 1, 2022. For oil and gas first produced from a lease or property after
 3 December 31, 2016, a reduction allowed under this subsection applies from the
 4 date of commencement of regular production of oil and gas from that lease or
 5 property and expires after three years, consecutive or nonconsecutive, in which
 6 the average annual price per barrel for Alaska North Slope crude oil for sale on
 7 the United States West Coast is more than \$70 or after seven years, whichever
 8 occurs first. For oil and gas first produced from a lease or property before
 9 January 1, 2017, a reduction allowed under this subsection expires on the earlier
 10 of January 1, 2023, or January 1 following three years, consecutive or
 11 nonconsecutive, in which the average annual price per barrel for Alaska North
 12 Slope crude oil for sale on the United States West Coast is more than \$70. The
 13 Alaska Oil and Gas Conservation Commission shall determine the
 14 commencement of regular production for purposes of this subsection. A reduction
 15 under this subsection may not reduce the gross value at the point of production below
 16 zero.

17 * **Sec. 29.** AS 43.55.160(h) is amended to read:

18 (h) For oil produced on and after January 1, 2022, except as provided in (b),
 19 (f), and (g) of this section, for the purposes of AS 43.55.011(e)(3), the annual
 20 production tax value of oil taxable under AS 43.55.011(e) produced by a producer
 21 during a calendar year

22 (1) from leases or properties in the state that include land north of 68
 23 degrees North latitude is the gross value at the point of production of that oil, less the
 24 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
 25 explore for, develop, or produce oil and gas deposits located in the state north of 68
 26 degrees North latitude or located in leases or properties in the state that include land
 27 north of 68 degrees North latitude, as adjusted under AS 43.55.170;

28 (2) before or during the last calendar year under AS 43.55.024(b) for
 29 which the producer could take a tax credit under AS 43.55.024(a), from leases or
 30 properties in the state outside the Cook Inlet sedimentary basin, no part of which is
 31 north of 68 degrees North latitude, other than leases or properties subject to

1 AS 43.55.011(p), is the gross value at the point of production of that oil, less the
 2 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
 3 explore for, develop, or produce oil and gas deposits located in the state outside the
 4 Cook Inlet sedimentary basin and south of 68 degrees North latitude, other than oil
 5 and gas deposits located in a lease or property that includes land north of 68 degrees
 6 North latitude or that is subject to AS 43.55.011(p) or, before January 1, 2027, from
 7 which commercial production has not begun, as adjusted under AS 43.55.170;

8 (3) from leases or properties subject to AS 43.55.011(p) is the gross
 9 value at the point of production of that oil, less the producer's lease expenditures under
 10 AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil and
 11 gas deposits located in leases or properties subject to AS 43.55.011(p) or, before
 12 January 1, 2027, located in leases or properties in the state outside the Cook Inlet
 13 sedimentary basin, no part of which is north of 68 degrees North latitude from which
 14 commercial production has not begun, as adjusted under AS 43.55.170;

15 (4) from leases or properties in the state no part of which is north of 68
 16 degrees North latitude, other than leases or properties subject to (2) or (3) of this
 17 subsection, is the gross value at the point of production of that oil less the producer's
 18 lease expenditures under AS 43.55.165 for the calendar year incurred to explore for,
 19 develop, or produce oil and gas deposits located in the state south of 68 degrees North
 20 latitude, other than oil and gas deposits located in a lease or property in the state that
 21 includes land north of 68 degrees North latitude, and excluding lease expenditures that
 22 are deductible under (2) or (3) of this subsection or would be deductible under (2) or
 23 (3) of this subsection if not prohibited by (b) of this section, as adjusted under
 24 AS 43.55.170; **a separate annual production tax value shall be calculated for**

25 **(A) oil produced from each lease or property in the Cook**

26 **Inlet sedimentary basin;**

27 **(B) oil produced from each lease or property outside the**

28 **Cook Inlet sedimentary basin, no part of which is north of 68 degrees**

29 **North latitude, other than leases or properties subject to (3) of this**

30 **subsection.**

31 * **Sec. 30.** AS 43.55.165(a) is amended to read:

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

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

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

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

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

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

18 (iii) the costs must be direct costs of exploring for,
19 developing, or producing, as applicable, oil or gas deposits; and

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

23 * **Sec. 31.** AS 43.55.895(b) is amended to read:

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

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

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

30 * **Sec. 32.** AS 43.55.900 is amended by adding a new paragraph to read:

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

1 * **Sec. 33.** AS 43.70 is amended by adding new sections to read:

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

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

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

8 (2) persons furnishing labor or material or renting or supplying
9 equipment to the applicant.

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 cancellation of the bond.

6 * **Sec. 34.** AS 38.05.180(i); AS 41.09.010, 41.09.020, 41.09.030, 41.09.090;
7 AS 43.20.053(j)(4); and AS 43.55.011(m) are repealed January 1, 2017.

8 * **Sec. 35.** AS 43.55.165(j) and 43.55.165(k) are repealed January 1, 2018.

9 * **Sec. 36.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 **APPLICABILITY.** (a) AS 43.20.046(e), as amended by sec. 10 of this Act,
12 AS 43.20.047(e), as amended by sec. 11 of this Act, AS 43.20.053(e), as amended by sec. 13
13 of this Act, AS 43.55.028(e), as amended by sec. 24 of this Act, and AS 43.55.028(j), as
14 amended by sec. 26 of this Act, and regulations related to a tax credit certificate purchase
15 preference for applicants with a workforce of resident workers and tax credit purchase rates,
16 adopted under AS 43.55.028(g), as amended by sec. 25 of this act, apply to a purchase applied
17 for on or after the effective date of secs. 10, 11, 13, and 24 - 26 of this Act.

18 (b) AS 43.55.011(k), as amended by sec. 15 of this Act, applies to oil produced after
19 the effective date of sec. 15 of this Act.

20 * **Sec. 37.** The uncodified law of the State of Alaska is amended by adding a new section to
21 read:

22 **TRANSITION: LEASE EXPENDITURES FOR A CALENDAR YEAR AFTER**
23 **2006 AND BEFORE 2010.** Notwithstanding AS 43.55.165(a), as amended by sec. 30 of this
24 Act, and the repeal of AS 43.55.165(j) and (k) by sec. 35 of this Act, AS 43.55.165(j) and (k)
25 apply to a producer's total lease expenditures for a calendar year after 2006 and before 2010
26 under AS 43.55.165, as that section read on the day before the repeal of AS 43.55.165(j) and
27 (k) by sec. 35 of this Act.

28 * **Sec. 38.** The uncodified law of the State of Alaska is amended by adding a new section to
29 read:

30 **TRANSITION: REGULATIONS.** The Department of Revenue, the Department of
31 Natural Resources, the Department of Commerce, Community, and Economic Development,

1 and the Alaska Oil and Gas Conservation Commission may adopt regulations necessary to
2 implement the changes made by this Act. The regulations take effect under AS 44.62
3 (Administrative Procedure Act), but not before the effective date of the law implemented by
4 the regulation. The Department of Revenue shall adopt regulations governing the use of tax
5 credits under AS 43.55 for a calendar year for which the applicable tax credit provisions of
6 AS 43.55 differ as between parts of the year as a result of this Act.

7 * **Sec. 39.** The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any
10 contrary provision of AS 44.62.240,

11 (1) if the Department of Revenue expressly designates in a regulation that the
12 regulation applies retroactively, a regulation adopted by the Department of Revenue to
13 implement, interpret, make specific, or otherwise carry out this Act may apply retroactively to
14 the effective date of the law implemented by the regulation;

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

22 * **Sec. 40.** Sections 23, 38, and 39 of this Act take effect immediately under
23 AS 01.10.070(c).

24 * **Sec. 41.** Sections 30, 35, and 37 of this Act take effect January 1, 2018.

25 * **Sec. 42.** Except as provided in secs. 40 and 41 of this Act, this Act takes effect January 1,
26 2017.