

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE MEARS

TO: CSHB 50(RES), Draft Version "S"

Page 1, line 5, following "**credits**";:

Insert "**relating to the oil and gas production tax**";

Page 10, line 8:

Delete "satisfies the requirements of AS 38.05.705(b) and"

Page 10, line 24:

Delete "apply for"

Insert "acquire"

Page 10, line 28:

Delete "an applicant under (a) of this section if the applicant"

Insert "a lessee under AS 38.05.180 if the lessee"

Page 11, line 3:

Delete "the minimum"

Following "terms":

Insert "acceptable to the department as"

Page 11, line 7:

Delete "; and"

Insert "."

Page 11, lines 8 - 15:

Delete all material and insert:

"(d) Before a carbon storage lease issued under this section may be transferred or assigned to an entity that is not the responsible party under the existing oil and gas lease under AS 38.05.180, the assuming party must provide financial assurance acceptable to the department that the obligations of the lease can be met.

(e) The department may adopt regulations that allow a lease issued under AS 38.05.180 to be converted to a lease under this section upon the receipt of a permit issued under AS 41.06.185."

Page 11, lines 25 - 26:

Delete "governing the joint management of a unit executed by two or more lessees"

Insert "by lessees with an interest in the unit, the state, and any other carbon storage lessor"

Page 12, following line 7:

Insert a new paragraph to read:

"(2) "enhanced oil or gas recovery" has the meaning in AS 41.06.210;"

Renumber the following paragraph accordingly.

Page 28, lines 25 - 27:

Delete all material and insert:

"(4) "enhanced oil or gas recovery" means the increased recovery of hydrocarbons, including oil and gas, from a common source of supply achieved by artificial means or by the application of energy extrinsic to the common source of supply, including pressuring, cycling, pressure maintenance or injection of a substance or form of energy, including injection of water, gas, carbon dioxide, or both gas and carbon dioxide, including immiscible and miscible floods, as long as the enhanced oil or gas recovery does not include injection of a substance or form of energy for the sole purpose of

(A) aiding in the lifting of fluids in the well; or

(B) stimulation of the reservoir at or near the well by mechanical, chemical, thermal, or explosive means;"

Page 30, following line 1:

Insert a new bill section to read:

"* **Sec. 39.** AS 43.55.165(e) is amended to read:

(e) For purposes of this section, lease expenditures do not include

(1) depreciation, depletion, or amortization;

(2) oil or gas royalty payments, production payments, lease profit shares, or other payments or distributions of a share of oil or gas production, profit, or revenue, except that a producer's lease expenditures applicable to oil and gas produced from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net profit paid to the state under that lease;

(3) taxes based on or measured by net income;

(4) interest or other financing charges or costs of raising equity or debt capital;

(5) acquisition costs for a lease or property or exploration license;

(6) costs arising from fraud, wilful misconduct, gross negligence, violation of law, or failure to comply with an obligation under a lease, permit, or license issued by the state or federal government;

(7) fines or penalties imposed by law;

(8) costs of arbitration, litigation, or other dispute resolution activities that involve the state or concern the rights or obligations among owners of interests in, or rights to production from, one or more leases or properties or a unit;

(9) costs incurred in organizing a partnership, joint venture, or other business entity or arrangement;

(10) amounts paid to indemnify the state; the exclusion provided by this paragraph does not apply to the costs of obtaining insurance or a surety bond from a third-party insurer or surety;

(11) surcharges levied under AS 43.55.201 or 43.55.300;

1 (12) an expenditure otherwise deductible under (b) of this section that
2 is a result of an internal transfer, a transaction with an affiliate, or a transaction
3 between related parties, or is otherwise not an arm's length transaction, unless the
4 producer establishes to the satisfaction of the department that the amount of the
5 expenditure does not exceed the fair market value of the expenditure;

6 (13) an expenditure incurred to purchase an interest in any corporation,
7 partnership, limited liability company, business trust, or any other business entity,
8 whether or not the transaction is treated as an asset sale for federal income tax
9 purposes;

10 (14) a tax levied under AS 43.55.011 or 43.55.014;

11 (15) costs incurred for dismantlement, removal, surrender, or
12 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
13 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
14 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
15 excluded under this paragraph if the dismantlement, removal, surrender, or
16 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
17 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

18 (16) costs incurred for containment, control, cleanup, or removal in
19 connection with any unpermitted release of oil or a hazardous substance and any
20 liability for damages imposed on the producer or explorer for that unpermitted release;
21 this paragraph does not apply to the cost of developing and maintaining an oil
22 discharge prevention and contingency plan under AS 46.04.030;

23 (17) costs incurred to satisfy a work commitment under an exploration
24 license under AS 38.05.132;

25 (18) that portion of expenditures, that would otherwise be qualified
26 capital expenditures, as defined in AS 43.55.023, incurred during a calendar year that
27 are less than the product of \$0.30 multiplied by the total taxable production from each
28 lease or property, in BTU equivalent barrels, during that calendar year, except that,
29 when a portion of a calendar year is subject to this provision, the expenditures and
30 volumes shall be prorated within that calendar year;

31 (19) costs incurred for repair, replacement, or deferred maintenance of

1 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
2 undertaken in response to a failure, problem, or event that results in an unscheduled
3 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
4 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
5 equipment, other than a well, that is undertaken in response to, or is otherwise
6 associated with, an unpermitted release of a hazardous substance or of gas; however,
7 costs under this paragraph that would otherwise constitute lease expenditures under (a)
8 and (b) of this section may be treated as lease expenditures if the department
9 determines that the repair or replacement is solely necessitated by an act of war, by an
10 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
11 inevitable, and irresistible character, the effects of which could not have been
12 prevented or avoided by the exercise of due care or foresight, or by an intentional or
13 negligent act or omission of a third party, other than a party or its agents in privity of
14 contract with, or employed by, the producer or an operator acting for the producer, but
15 only if the producer or operator, as applicable, exercised due care in operating and
16 maintaining the facility, pipeline, structure, or equipment, and took reasonable
17 precautions against the act or omission of the third party and against the consequences
18 of the act or omission; in this paragraph,

19 (A) "costs incurred for repair, replacement, or deferred
20 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
21 to dismantle and remove the facility, pipeline, structure, or equipment that is
22 being replaced;

23 (B) "hazardous substance" has the meaning given in
24 AS 46.03.826;

25 (C) "replacement" includes renovation or improvement;

26 (20) costs incurred to construct, acquire, or operate a refinery or crude
27 oil topping plant, regardless of whether the products of the refinery or topping plant
28 are used in oil or gas exploration, development, or production operations; however, if
29 a producer owns a refinery or crude oil topping plant that is located on or near the
30 premises of the producer's lease or property in the state and that processes the
31 producer's oil produced from that lease or property into a product that the producer

1 uses in the operation of the lease or property in drilling for or producing oil or gas, the
 2 producer's lease expenditures include the amount calculated by subtracting from the
 3 fair market value of the product used the prevailing value, as determined under
 4 AS 43.55.020(f), of the oil that is processed;

5 (21) costs of lobbying, public relations, public relations advertising, or
 6 policy advocacy;

7 **(22) costs associated with carbon capture or storage, including**
 8 **construction and modification of new or existing infrastructure as well as costs**
 9 **associated with obtaining or operating a license or lease."**

10
 11 Renumber the following bill sections accordingly.

12
 13 Page 30, line 17:

14 Delete "Section 40"

15 Insert "Section 41"