

**CS FOR HOUSE BILL NO. 71(W&M)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered: 2/14/05

Referred: House Special Committee on Oil and Gas, Resources, Finance

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

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to a credit for certain exploration expenses against oil and gas  
2 properties production taxes on oil and gas produced from a lease or property in the  
3 state; relating to the deadline for certain exploration expenditures used as credits  
4 against the production tax on oil and gas produced from a lease or property in the  
5 Alaska Peninsula competitive oil and gas areawide lease sale area after July 1, 2004; and  
6 providing for an effective date."

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

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

9 (a) Subject to the terms and conditions of this section, on oil and gas produced  
10 from an oil and gas lease, or on gas produced from a gas only lease, on or after July 1,  
11 2004, a credit against the production tax due under this chapter is allowed **for**  
12 exploration expenditures that qualify under (b) of this section in an amount equal  
13 to

1 (1) 20 percent of the total exploration expenditures that qualify under  
 2 [(b) AND] (c) of this section **or** [,] 20 percent of the total exploration expenditures  
 3 that qualify under [(b) AND] (d) of this section, or both, for a total **production tax**  
 4 credit that does not exceed 40 percent of the total exploration expenditures **that**  
 5 **qualify under this paragraph; and** [; OR]

6 (2) 40 percent of the total exploration expenditures that qualify under  
 7 [(b) AND] (e) of this section [, FOR A TOTAL PRODUCTION TAX CREDIT THAT  
 8 DOES NOT EXCEED 40 PERCENT OF THE TOTAL QUALIFIED  
 9 EXPLORATION EXPENDITURES].

10 \* **Sec. 2.** AS 43.55.025(b) is amended to read:

11 (b) To qualify for the production tax credit under (a) of this section, an  
 12 exploration expenditure must be incurred for work performed on or after July 1, 2003,  
 13 and before July 1, 2007, **or on or after July 1, 2003, and before July 1, 2010, for**  
 14 **exploration expenditures incurred in the Alaska Peninsula competitive oil and**  
 15 **gas areawide lease sale area,** and

16 (1) may be for seismic or geophysical exploration costs not connected  
 17 with a specific well;

18 (2) if for an exploration well,

19 (A) must be incurred by an explorer that holds an interest in the  
 20 exploration well for which the production tax credit is claimed;

21 (B) may be for either an oil or gas discovery well or a dry hole;

22 and

23 (C) must be for goods, services, or rentals of personal property  
 24 reasonably required for the surface preparation, drilling, casing, cementing,  
 25 and logging of an exploration well, and, in the case of a dry hole, for the  
 26 expenses required for abandonment if the well is abandoned within 18 months  
 27 after the date the well was spudded;

28 (3) may not be for testing, stimulation, or completion costs;  
 29 administration, supervision, engineering, or lease operating costs; geological or  
 30 management costs; community relations or environmental costs; bonuses, taxes, or  
 31 other payments to governments related to the well; or other costs that are generally

1 recognized as indirect costs or financing costs; and

2 (4) may not be incurred for an exploration well or seismic exploration  
3 that is included in a plan of exploration or a plan of development for any unit on  
4 May 13, 2003.

5 \* **Sec. 3.** AS 43.55.025(d) is amended to read:

6 (d) To be eligible for a [AN ADDITIONAL] 20 percent production tax credit,  
7 an exploration expenditure must

8 (1) qualify under (b) of this section; and

9 (2) be for an exploration well that is located not less than 25 miles  
10 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a  
11 plan of development.

12 \* **Sec. 4.** AS 43.55.025(e) is amended to read:

13 (e) To be eligible for the 40 percent production tax credit in (a)(2) [(a)] of this  
14 section, the exploration expenditure must

15 (1) qualify under (b) of this section;

16 (2) be for seismic exploration; and

17 (3) have been conducted outside the boundaries of a production unit or  
18 an exploration unit; however, the amount of the expenditure that is otherwise eligible  
19 under this subsection is reduced proportionately by the portion of the seismic  
20 exploration activity that crossed into a production unit or an exploration unit.

21 \* **Sec. 5.** AS 43.55 is amended by adding a new section to read:

22 **Sec. 43.55.028. Legal description of Alaska Peninsula competitive oil and**  
23 **gas areawide lease sale area.** For purposes of AS 43.55.025(b), the following  
24 comprises the area of the Alaska Peninsula competitive oil and gas areawide lease  
25 sale:

26 (1) Township 17 South, Ranges 44 - 58 West, Seward Meridian;

27 (2) Township 18 South, Ranges 44 - 58 West, Seward Meridian;

28 (3) Township 19 South, Ranges 44 - 58 West, Seward Meridian;

29 (4) Township 20 South, Ranges 45 - 61 West, Seward Meridian;

30 (5) Township 21 South, Ranges 46 - 54 West, Seward Meridian;

31 (6) Township 21 South, Ranges 57 - 61 West, Seward Meridian;

- 1 (7) Township 22 South, Ranges 47 - 53 West, Seward Meridian;
- 2 (8) Township 22 South, Ranges 58 - 61 West, Seward Meridian;
- 3 (9) Township 23 South, Ranges 47 - 52 West, Seward Meridian;
- 4 (10) Township 24 South, Ranges 47 - 52 West, Seward Meridian;
- 5 (11) Township 25 South, Ranges 47 - 52 West, Seward Meridian;
- 6 (12) Township 26 South, Ranges 47 - 53 West, Seward Meridian;
- 7 (13) Township 27 South, Ranges 47 - 53 West, Seward Meridian;
- 8 (14) Township 28 South, Ranges 48 - 53 West, Seward Meridian;
- 9 (15) Township 29 South, Ranges 48 - 54 West, Seward Meridian;
- 10 (16) Township 30 South, Ranges 48 - 55 West, Seward Meridian;
- 11 (17) Township 31 South, Ranges 49 - 56 West, Seward Meridian;
- 12 (18) Township 32 South, Ranges 51 - 57 West, Seward Meridian;
- 13 (19) Township 33 South, Ranges 52 - 58 West, Seward Meridian;
- 14 (20) Township 34 South, Ranges 53 - 59 West, Seward Meridian;
- 15 (21) Township 35 South, Ranges 51 - 59 West, Seward Meridian;
- 16 (22) Township 36 South, Ranges 51 - 52 West, Seward Meridian;
- 17 (23) Township 36 South, Ranges 55 - 60 West, Seward Meridian;
- 18 (24) Township 37 South, Ranges 57 - 62 West, Seward Meridian;
- 19 (25) Township 38 South, Ranges 58 - 63 West, Seward Meridian;
- 20 (26) Township 39 South, Ranges 59 - 64 West, Seward Meridian;
- 21 (27) Township 40 South, Ranges 59 - 65 West, Seward Meridian;
- 22 (28) Township 41 South, Ranges 63 - 68 West, Seward Meridian;
- 23 (29) Township 42 South, Ranges 63 - 69 West, Seward Meridian;
- 24 (30) Township 43 South, Ranges 65 - 70 West, Seward Meridian;
- 25 (31) Township 44 South, Ranges 65 - 71 West, Seward Meridian;
- 26 (32) Township 45 South, Ranges 67 - 72 West, Seward Meridian;
- 27 (33) Township 46 South, Ranges 68 - 73 West, Seward Meridian;
- 28 (34) Township 47 South, Ranges 69 - 78 West, Seward Meridian;
- 29 (35) Township 48 South, Ranges 70 - 81 West, Seward Meridian;
- 30 (36) Township 49 South, Ranges 70 - 83 West, Seward Meridian;
- 31 (37) Township 50 South, Ranges 71 - 84 West, Seward Meridian;

- 1 (38) Township 51 South, Ranges 71 - 85 West, Seward Meridian;  
 2 (39) Township 52 South, Ranges 74 - 75 West, Seward Meridian;  
 3 (40) Township 52 South, Ranges 79 - 86 West, Seward Meridian;  
 4 (41) Township 53 South, Ranges 85 - 87 West, Seward Meridian;  
 5 (42) Township 54 South, Ranges 85 - 87 West, Seward Meridian;  
 6 (43) any adjustment to (1) - (42) of this section as described in the  
 7 Department of Natural Resources' final written finding of best interest made under  
 8 AS 38.05.035.

9 \* **Sec. 6.** The uncodified law of the State of Alaska is amended by adding a new section to  
 10 read:

11 CONTINGENT EFFECT OF SECTIONS. (a) Sections 2 and 5 of this Act take effect  
 12 only if the commissioner of natural resources finds that the requirements of AS 38.05.035(e)  
 13 and (g) are met and the Alaska Peninsula competitive oil and gas areawide lease sale occurs.

14 (b) The commissioner of natural resources shall promptly notify the revisor of statutes  
 15 that the lease sale described in (a) of this section has occurred.

16 \* **Sec. 7.** If secs. 2 and 5 of this Act take effect under sec. 6 of this Act, they take effect the  
 17 day the commissioner of natural resources notifies the revisor of statutes that the lease sale  
 18 described in sec. 6 of this Act has occurred.

19 \* **Sec. 8.** Except as provided in sec. 7 of this Act, this Act takes effect immediately under  
 20 AS 01.10.070(c).