

CS FOR HOUSE BILL NO. 71(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 4/5/05

Referred: 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, and to the deadline for certain exploration expenditures from a lease or property
4 in the Alaska Peninsula competitive oil and gas areawide lease sale area or the Nenana
5 Basin license area used as credits against the production tax on oil and gas produced;
6 and 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 on or after July 1, 2004, from an oil and gas lease, or on gas produced from a gas
11 only lease, [ON OR AFTER JULY 1, 2004,] a credit against the production tax due
12 under this chapter is allowed for exploration expenditures that qualify under (b) of
13 this section in an amount equal to one of the following:

1 (1) 20 percent of the total exploration expenditures that qualify under
2 [(b) AND] (c) of this section;

3 **(2)** 40 [, 20] percent of the total exploration expenditures that qualify
4 under [(b) AND] (d) of this section[, OR BOTH, FOR A TOTAL CREDIT THAT
5 DOES NOT EXCEED 40 PERCENT OF THE TOTAL EXPLORATION
6 EXPENDITURES]; or

7 **(3)** [(2)] 40 percent of the total exploration expenditures that qualify
8 under [(b) AND] (e) of this section [, FOR A TOTAL PRODUCTION TAX CREDIT
9 THAT DOES NOT EXCEED 40 PERCENT OF THE TOTAL QUALIFIED
10 EXPLORATION EXPENDITURES].

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

12 (b) To qualify for the production tax credit under (a) of this section, an
13 exploration expenditure must be incurred for work performed on or after July 1, 2003,
14 and before July 1, 2007, **or on or after July 1, 2003, and before July 1, 2010, for**
15 **exploration expenditures incurred in the Alaska Peninsula competitive oil and**
16 **gas areawide lease sale area described in AS 43.55.028,** and

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

19 (2) if for an exploration well,

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

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

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

29 (3) may not be for testing, stimulation, or completion costs;
30 administration, supervision, engineering, or lease operating costs; geological or
31 management costs; community relations or environmental costs; bonuses, taxes, or

1 other payments to governments related to the well; or other costs that are generally
2 recognized as indirect costs or financing costs; and

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

6 * **Sec. 3.** AS 43.55.025(c) is amended to read:

7 (c) To be eligible for the [A] 20 percent production tax credit **set out in (a)(1)**
8 **of this section**, exploration expenditures must

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

10 (2) be for an exploration well that is located and drilled in such a
11 manner that the bottom hole is located not less than three miles away from the bottom
12 hole of a preexisting suspended, completed, or abandoned oil or gas well; in this
13 paragraph, "preexisting" means a well that was spudded more than 150 days but less
14 than 35 years before the exploration well was spudded.

15 * **Sec. 4.** AS 43.55.025(d) is amended to read:

16 (d) To be eligible for the 40 [AN ADDITIONAL 20] percent production tax
17 credit, **set out in (a)(2) of this section**, an exploration expenditure must

18 (1) qualify under (b) **and (c)** of this section; and

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

22 * **Sec. 5.** AS 43.55.025(e) is amended to read:

23 (e) To be eligible for the 40 percent production tax credit in **(a)(3)** [(a)] of this
24 section, the exploration expenditure must

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

26 (2) be for seismic exploration; and

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

31 * **Sec. 6.** AS 43.55.025 is amended by adding new subsections to read:

1 (D) The provisions of this section apply to work performed on or after the
 2 effective date of this Act and before July 1, 2008, for exploration expenditures
 3 incurred on state-owned land in the Nenana Basin license area. For purposes of this
 4 subsection, the Nenana Basin license area is the land that is more specifically
 5 described in ADL 0390079, a reference to the file number assigned as an identifier by
 6 the division exercising the authority and duties of the division of lands, Department of
 7 Natural Resources, under AS 38.05, as that description reads on the effective date of
 8 this section, and that is coextensive with or is part of the following subdivisions of the
 9 public land rectangular survey system in this state:

- 10 (1) Township 2 North, Range 6 West, Fairbanks Meridian
 11 Sections 13 - 36;
- 12 (2) Township 2 North, Range 7 West, Fairbanks Meridian
 13 Sections 13 - 36;
- 14 (3) Township 2 North, Range 8 West, Fairbanks Meridian
 15 Sections 13 - 36;
- 16 (4) Township 2 North, Range 9 West, Fairbanks Meridian
 17 Sections 13 - 17 and 19 - 36;
- 18 (5) Township 2 North, Range 10 West, Fairbanks Meridian
 19 Sections 25, 26, 35, and 36;
- 20 (6) Township 1 North, Range 7 West, Fairbanks Meridian
 21 Sections 1 - 12, 14 - 23, 25 - 36;
- 22 (7) Township 1 North, Range 8 West, Fairbanks Meridian;
- 23 (8) Township 1 North, Range 9 West, Fairbanks Meridian;
- 24 (9) Township 1 North, Range 10 West, Fairbanks Meridian
 25 Sections 1, 2, 11 - 14, 23 - 26, 35, and 36;
- 26 (10) Township 1 South, Range 7 West, Fairbanks Meridian
 27 Sections 2 - 23 and 26 - 35;
- 28 (11) Township 1 South, Range 8 West, Fairbanks Meridian;
- 29 (12) Township 1 South, Range 9 West, Fairbanks Meridian;
- 30 (13) Township 1 South, Range 10 West, Fairbanks Meridian
 31 Sections 1 - 3, 10 - 15, 22 - 27, and 34 - 36;

- 1 (14) Township 2 South, Range 7 West, Fairbanks Meridian
 2 Sections 4 - 9, 16 - 21, 29 - 32;
- 3 (15) Township 2 South, Range 8 West, Fairbanks Meridian
 4 Sections 1, 3, 5, 8, 10, 12 - 17, 20 - 25, 27 - 29, and 33 - 36;
- 5 (16) Township 2 South, Range 9 West, Fairbanks Meridian
 6 Sections 1 - 32;
- 7 (17) Township 2 South, Range 10 West, Fairbanks Meridian
 8 Sections 1 - 3, 10 - 15, 22 - 27, and 33 - 36;
- 9 (18) Township 3 South, Range 8 West, Fairbanks Meridian
 10 Sections 1 - 4, 7, 8, 10, 11, 15 - 22, and 26 - 34;
- 11 (19) Township 3 South, Range 9 West, Fairbanks Meridian
 12 Sections 5 - 8, 17 - 20, and 25 - 36;
- 13 (20) Township 3 South, Range 10 West, Fairbanks Meridian
 14 Sections 1 - 4, 9 - 16, 21 - 28, and 33 - 36;
- 15 (21) Township 4 South, Range 8 West, Fairbanks Meridian
 16 Sections 4, 5, 7 - 9, 16 - 21, and 28 - 32;
- 17 (22) Township 4 South, Range 9 West, Fairbanks Meridian;
- 18 (23) Township 4 South, Range 10 West, Fairbanks Meridian
 19 Sections 1 - 4, 9 - 16, and 19 - 36;
- 20 (24) Township 4 South, Range 11 West, Fairbanks Meridian
 21 Sections 19 - 36;
- 22 (25) Township 4 South, Range 12 West, Fairbanks Meridian
 23 Sections 23 - 26 and 33 - 36;
- 24 (26) Township 5 South, Range 9 West, Fairbanks Meridian
 25 Sections 2 - 11, 15 - 20, and 29 - 32;
- 26 (27) Township 5 South, Range 10 West, Fairbanks Meridian;
- 27 (28) Township 5 South, Range 11 West, Fairbanks Meridian;
- 28 (29) Township 5 South, Range 12 West, Fairbanks Meridian;
- 29 (30) Township 6 South, Range 10 West, Fairbanks Meridian
 30 Sections 2 - 11, 14 - 23, and 26 - 35;
- 31 (31) Township 6 South, Range 11 West, Fairbanks Meridian;

1 (32) Township 6 South, Range 12 West, Fairbanks Meridian
2 Sections 1 - 12;

3 (33) Township 7 South, Range 10 West, Fairbanks Meridian
4 Sections 2 - 11;

5 (34) Township 7 South, Range 11 West, Fairbanks Meridian
6 Sections 1 - 12.

7 (m) The provisions of this section do not apply to taxes applicable under this
8 chapter to production from oil and gas produced from an oil and gas lease, or to gas
9 produced from a gas only lease, located on the Arctic National Wildlife Refuge.

10 * **Sec. 7.** AS 43.55 is amended by adding a new section to read:

11 **Sec. 43.55.028. Legal description of Alaska Peninsula competitive oil and**
12 **gas areawide lease sale area.** For purposes of AS 43.55.025(b), the following
13 comprises the area of the Alaska Peninsula competitive oil and gas areawide lease
14 sale:

- 15 (1) Township 17 South, Ranges 44 - 58 West, Seward Meridian;
16 (2) Township 18 South, Ranges 44 - 58 West, Seward Meridian;
17 (3) Township 19 South, Ranges 44 - 58 West, Seward Meridian;
18 (4) Township 20 South, Ranges 45 - 61 West, Seward Meridian;
19 (5) Township 21 South, Ranges 46 - 54 West, Seward Meridian;
20 (6) Township 21 South, Ranges 57 - 61 West, Seward Meridian;
21 (7) Township 22 South, Ranges 47 - 53 West, Seward Meridian;
22 (8) Township 22 South, Ranges 58 - 61 West, Seward Meridian;
23 (9) Township 23 South, Ranges 47 - 52 West, Seward Meridian;
24 (10) Township 24 South, Ranges 47 - 52 West, Seward Meridian;
25 (11) Township 25 South, Ranges 47 - 52 West, Seward Meridian;
26 (12) Township 26 South, Ranges 47 - 53 West, Seward Meridian;
27 (13) Township 27 South, Ranges 47 - 53 West, Seward Meridian;
28 (14) Township 28 South, Ranges 48 - 53 West, Seward Meridian;
29 (15) Township 29 South, Ranges 48 - 54 West, Seward Meridian;
30 (16) Township 30 South, Ranges 48 - 55 West, Seward Meridian;
31 (17) Township 31 South, Ranges 49 - 56 West, Seward Meridian;

- 1 (18) Township 32 South, Ranges 51 - 57 West, Seward Meridian;
 2 (19) Township 33 South, Ranges 52 - 58 West, Seward Meridian;
 3 (20) Township 34 South, Ranges 53 - 59 West, Seward Meridian;
 4 (21) Township 35 South, Ranges 51 - 59 West, Seward Meridian;
 5 (22) Township 36 South, Ranges 51 - 52 West, Seward Meridian;
 6 (23) Township 36 South, Ranges 55 - 60 West, Seward Meridian;
 7 (24) Township 37 South, Ranges 57 - 62 West, Seward Meridian;
 8 (25) Township 38 South, Ranges 58 - 63 West, Seward Meridian;
 9 (26) Township 39 South, Ranges 59 - 64 West, Seward Meridian;
 10 (27) Township 40 South, Ranges 59 - 65 West, Seward Meridian;
 11 (28) Township 41 South, Ranges 63 - 68 West, Seward Meridian;
 12 (29) Township 42 South, Ranges 63 - 69 West, Seward Meridian;
 13 (30) Township 43 South, Ranges 65 - 70 West, Seward Meridian;
 14 (31) Township 44 South, Ranges 65 - 71 West, Seward Meridian;
 15 (32) Township 45 South, Ranges 67 - 72 West, Seward Meridian;
 16 (33) Township 46 South, Ranges 68 - 73 West, Seward Meridian;
 17 (34) Township 47 South, Ranges 69 - 78 West, Seward Meridian;
 18 (35) Township 48 South, Ranges 70 - 81 West, Seward Meridian;
 19 (36) Township 49 South, Ranges 70 - 83 West, Seward Meridian;
 20 (37) Township 50 South, Ranges 71 - 84 West, Seward Meridian;
 21 (38) Township 51 South, Ranges 71 - 85 West, Seward Meridian;
 22 (39) Township 52 South, Ranges 74 - 75 West, Seward Meridian;
 23 (40) Township 52 South, Ranges 79 - 86 West, Seward Meridian;
 24 (41) Township 53 South, Ranges 85 - 87 West, Seward Meridian;
 25 (42) Township 54 South, Ranges 85 - 87 West, Seward Meridian;
 26 (43) any adjustment to (1) - (42) of this section as described in the
 27 Department of Natural Resources' final written finding of best interest made under
 28 AS 38.05.035.

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

31 CONTINGENT EFFECT OF SECTIONS. (a) Sections 2 and 7 of this Act take effect

1 only if the commissioner of natural resources finds that the requirements of AS 38.05.035(e)
2 and (g) are met and the Alaska Peninsula competitive oil and gas areawide lease sale occurs.

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

5 * **Sec. 9.** If secs. 2 and 7 of this Act take effect under sec. 8 of this Act, they take effect the
6 day the commissioner of natural resources notifies the revisor of statutes that the lease sale
7 described in sec. 8 of this Act has occurred.

8 * **Sec. 10.** Except as provided in sec. 9 of this Act, this Act takes effect immediately under
9 AS 01.10.070(c).