

**CS FOR HOUSE BILL NO. 71(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 4/18/05

Referred: Rules

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

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act extending and amending the requirements applicable to the credit that may be  
2 claimed for certain oil and gas exploration expenses incurred in Cook Inlet against oil  
3 and gas properties production (severance) taxes, and amending the credit against those  
4 taxes for certain exploration expenditures from leases or properties in the state; and  
5 providing for an effective date."

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

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

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

13 (1) 20 percent of the total exploration expenditures that qualify only

1 under (b) and (c) of this section;

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

6 **(3) 40 percent of the total exploration expenditures that qualify**  
 7 **under (b), (c), and (d) of this section;** or

8 **(4)** [(2)] 40 percent of the total exploration expenditures that qualify  
 9 **only** under (b) and (e) of this section [, FOR A TOTAL PRODUCTION TAX  
 10 CREDIT THAT DOES NOT EXCEED 40 PERCENT OF THE TOTAL QUALIFIED  
 11 EXPLORATION EXPENDITURES].

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

13 (b) To qualify for the production tax credit under (a) of this section, an  
 14 exploration expenditure must be incurred for work performed on or after July 1, 2003,  
 15 and before July 1, 2007, **except that an exploration expenditure for a Cook Inlet**  
 16 **prospect must be incurred for work performed on or after July 1, 2005, and**  
 17 **before July 1, 2010, and except that an exploration expenditure, in whole or in**  
 18 **part, south of 68 degrees, 15 minutes, North latitude, and not part of a Cook Inlet**  
 19 **prospect must be incurred for work performed on or after July 1, 2003, and**  
 20 **before July 1, 2010,** and

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

23 (2) if for an exploration well,

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

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

28 (C) must be for goods, services, or rentals of personal property  
 29 reasonably required for the surface preparation, drilling, casing, cementing,  
 30 and logging of an exploration well, and, in the case of a dry hole, for the  
 31 expenses required for abandonment if the well is abandoned within 18 months

1 after the date the well was spudded;

2 (3) may not be for testing, stimulation, or completion costs;  
3 administration, supervision, engineering, or lease operating costs; geological or  
4 management costs; community relations or environmental costs; bonuses, taxes, or  
5 other payments to governments related to the well; or other costs that are generally  
6 recognized as indirect costs or financing costs; and

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

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

11 (c) To be eligible for the [A] 20 percent production tax credit **authorized by**  
12 **(a)(1) of this section or the 40 percent production tax credit authorized by (a)(3)**  
13 **of this section**, exploration expenditures must

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

15 (2) be for an exploration well, **subject to the following:**

16 **(A) for an exploration well other than a well that is**  
17 **described in (B) of this paragraph, the well must be** [THAT IS] located and  
18 drilled in such a manner that the bottom hole is located not less than three  
19 miles away from the bottom hole of a preexisting suspended, completed, or  
20 abandoned oil or gas well; in this **subparagraph** [PARAGRAPH],  
21 "preexisting" means a well that was spudded more than 150 days but less than  
22 35 years before the exploration well was spudded;

23 **(B) for an exploration well that explores a Cook Inlet**  
24 **prospect, the well must be located at least three miles from any other well**  
25 **drilled for oil and gas with all distances measured as the horizontal**  
26 **distance between exploration targets, except that the exploration well that**  
27 **is located within three miles of a well drilled for oil and gas qualifies for**  
28 **the tax credit authorized by this subsection if the exploration well tests**  
29 **potential hydrocarbon traps that the commissioner of natural resources**  
30 **determines, after analyzing evidence submitted by the explorer and from**  
31 **other information that the commissioner of natural resources determines**

1 **relevant, constitute a distinctly separate exploration target.**

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

3 (d) To be eligible for **the** [AN ADDITIONAL] 20 percent production tax  
4 credit **authorized by (a)(2) of this section or the 40 percent production tax credit**  
5 **authorized by (a)(3) of this section,** an exploration expenditure must

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

7 (2) be for an exploration well that is located not less than 25 miles  
8 outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a  
9 plan of development, **except that for an exploration well for a Cook Inlet prospect**  
10 **to qualify under this paragraph, the exploration well must be located not less**  
11 **than 10 miles outside the outer boundary, as delineated on July 1, 2003, of any**  
12 **unit that is under a plan of development.**

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

14 (e) To be eligible for the 40 percent production tax credit **authorized by**  
15 **(a)(4)** [IN (a)] of this section, the exploration expenditure must

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

17 (2) be for seismic exploration; and

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

22 \* **Sec. 6.** AS 43.55.025(f) is amended to read:

23 (f) For a production tax credit under this section,

24 (1) an explorer shall, in a form prescribed by the department and  
25 within six months of the completion of the exploration activity, claim the credit and  
26 submit information sufficient to demonstrate to the department's satisfaction that the  
27 claimed exploration expenditures qualify under this section;

28 (2) an explorer shall agree, in writing,

29 (A) to notify the Department of Natural Resources, within 30  
30 days after completion of seismic or geophysical data processing, completion of  
31 a well, or filing of a claim for credit, whichever is the latest, for which

1 exploration costs are claimed, of the date of completion and submit a report to  
 2 that department describing the processing sequence and providing a list of data  
 3 sets available; **if, under (c)(2)(B) of this section, an explorer submits a**  
 4 **claim for a credit for expenditures for an exploration well that is located**  
 5 **within three miles of a well already drilled for oil and gas, in addition to**  
 6 **the submissions required under (1) of this subsection, the explorer shall**  
 7 **submit the information necessary for the commissioner of natural**  
 8 **resources to evaluate the validity of the explorer's claim that the well is**  
 9 **directed at a distinctly separate exploration target, and the commissioner**  
 10 **of natural resources shall, upon receipt of all evidence sufficient for the**  
 11 **commissioner to evaluate the explorer's claim, make that determination**  
 12 **within 60 days;**

13 (B) to provide to the Department of Natural Resources, within  
 14 30 days after the date of a request, specific data sets, ancillary data, and reports  
 15 identified in (A) of this paragraph;

16 (C) that, notwithstanding any provision of AS 38, information  
 17 provided under this paragraph will be held confidential by the Department of  
 18 Natural Resources for 10 years following the completion date, at which time  
 19 that department will release the information after 30 days' public notice;

20 (3) if more than one explorer holds an interest in a well or seismic  
 21 exploration, each explorer may claim an amount of credit that is proportional to the  
 22 explorer's cost incurred;

23 (4) the department may exercise the full extent of its powers as though  
 24 the explorer were a taxpayer under this title, in order to verify that the claimed  
 25 expenditures are qualified exploration expenditures under this section; and

26 (5) if the department is satisfied that the explorer's claimed  
 27 expenditures are qualified under this section, the department shall issue to the explorer  
 28 a production tax credit certificate for the amount of credit to be allowed against  
 29 production taxes due under this chapter; **however, notwithstanding any other**  
 30 **provision of this section, the department may not issue to an explorer a**  
 31 **production tax credit certificate if the total of production tax credits submitted**

1        **for Cook Inlet production, based on exploration expenditures for work**  
 2        **performed during the period described in (b) of this section for that production,**  
 3        **that have been approved by the department exceeds \$20,000,000.**

4        \* **Sec. 7.** AS 43.55.025(k) is amended to read:

5                (k) In this section,

6                        **(1) "Cook Inlet production" means oil or gas production from the**  
 7        **Cook Inlet sedimentary basin, as that term is defined by regulation adopted to**  
 8        **implement AS 38.05.180(f)(4);**

9                        **(2) "Cook Inlet prospect" means a location within the Cook Inlet**  
 10        **sedimentary basin, as that term is defined by regulation adopted to implement**  
 11        **AS 38.05.180(f)(4);**

12                        **(3) "explorer" means a person who, in exploring for new oil or gas**  
 13        reserves, incurs expenditures.

14        \* **Sec. 8.** AS 43.55.025 is amended by adding a new subsection to read:

15                (l) The provisions of this section do not apply to the Arctic National Wildlife  
 16        Refuge.

17        \* **Sec. 9.** This Act takes effect immediately under AS 01.10.070(c).