

HOUSE BILL NO. 297

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Introduced: 5/3/05

Referred: House Special Committee on Oil and Gas, Finance

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 other leases or properties in the state
5 and, conditionally, for exploration expenditures made in the Alaska Peninsula
6 competitive oil and gas areawide lease sale area; 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 **only**
2 under (b) and (c) of this section;

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

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

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

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

14 (b) To qualify for the production tax credit under (a) of this section, an
15 exploration expenditure must be incurred for work performed on or after July 1, 2003,
16 and before July 1, 2007, **except that an exploration expenditure for a Cook Inlet**
17 **prospect must be incurred for work performed on or after July 1, 2005, and**
18 **before July 1, 2010,** and

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

21 (2) if for an exploration well,

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

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

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

31 (3) may not be for testing, stimulation, or completion costs;

1 administration, supervision, engineering, or lease operating costs; geological or
 2 management costs; community relations or environmental costs; bonuses, taxes, or
 3 other payments to governments related to the well; or other costs that are generally
 4 recognized as indirect costs or financing costs; and

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

8 * **Sec. 3.** AS 43.55.025(b), as amended by sec. 2 of this Act, is amended to read:

9 (b) To qualify for the production tax credit under (a) of this section, an
 10 exploration expenditure must be incurred for work performed on or after July 1, 2003,
 11 and before July 1, 2007, except that an exploration expenditure for a Cook Inlet
 12 prospect must be incurred for work performed on or after July 1, 2005, and before
 13 July 1, 2010, **and except that an exploration expenditure incurred in the Alaska**
 14 **Peninsula competitive oil and gas areawide lease sale area described in**
 15 **AS 43.55.028 must be incurred on or after July 1, 2003, and before July 1, 2010,**
 16 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. 4.** AS 43.55.025(c) is amended to read:

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

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

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

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

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

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

30 (d) To be eligible for the [AN ADDITIONAL] 20 percent production tax
31 credit **authorized by (a)(2) of this section or the 40 percent production tax credit**

1 **authorized by (a)(3) of this section**, an exploration expenditure must

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

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

9 * **Sec. 6.** AS 43.55.025(e) is amended to read:

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

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

13 (2) be for seismic exploration; and

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

18 * **Sec. 7.** AS 43.55.025(f) is amended to read:

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

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

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

25 (A) to notify the Department of Natural Resources, within 30
26 days after completion of seismic or geophysical data processing, completion of
27 a well, or filing of a claim for credit, whichever is the latest, for which
28 exploration costs are claimed, of the date of completion and submit a report to
29 that department describing the processing sequence and providing a list of data
30 sets available; **if, under (c)(2)(B) of this section, an explorer submits a**
31 **claim for a credit for expenditures for an exploration well that is located**

1 within three miles of a well already drilled for oil and gas, in addition to
 2 the submissions required under (1) of this subsection, the explorer shall
 3 submit the information necessary for the commissioner of natural
 4 resources to evaluate the validity of the explorer's claim that the well is
 5 directed at a distinctly separate exploration target, and the commissioner
 6 of natural resources shall, upon receipt of all evidence sufficient for the
 7 commissioner to evaluate the explorer's claim, make that determination
 8 within 60 days;

9 (B) to provide to the Department of Natural Resources, within
 10 30 days after the date of a request, specific data sets, ancillary data, and reports
 11 identified in (A) of this paragraph;

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

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

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

22 (5) if the department is satisfied that the explorer's claimed
 23 expenditures are qualified under this section, the department shall issue to the explorer
 24 a production tax credit certificate for the amount of credit to be allowed against
 25 production taxes due under this chapter; however, notwithstanding any other
 26 provision of this section, the department may not issue to an explorer a
 27 production tax credit certificate if the total of production tax credits submitted
 28 for Cook Inlet production, based on exploration expenditures for work
 29 performed during the period described in (b) of this section for that production,
 30 that have been approved by the department exceeds \$20,000,000.

31 * Sec. 8. AS 43.55.025(k) is amended to read:

1 (k) In this section,

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

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

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

10 * **Sec. 9.** AS 43.55.025 is amended by adding new subsections to read:

11 (l) The provisions of this section apply to work performed on or after the
 12 effective date of this subsection and before July 1, 2010, for exploration expenditures
 13 incurred on land, whether or not state-owned, in the Nenana Basin license area. For
 14 purposes of this subsection, the Nenana Basin license area is the land that is more
 15 specifically described in ADL 0390079, a reference to the file number assigned as an
 16 identifier by the division exercising the authority and duties of the division of lands,
 17 Department of Natural Resources, under AS 38.05, as that description reads on the
 18 effective date of this subsection, and that is coextensive with or is part of the following
 19 subdivisions of the public land rectangular survey system in this state:

20 (1) Township 2 North, Range 6 West, Fairbanks Meridian
 21 Sections 13 - 36;

22 (2) Township 2 North, Range 7 West, Fairbanks Meridian
 23 Sections 13 - 36;

24 (3) Township 2 North, Range 8 West, Fairbanks Meridian
 25 Sections 13 - 36;

26 (4) Township 2 North, Range 9 West, Fairbanks Meridian
 27 Sections 13 - 17 and 19 - 36;

28 (5) Township 2 North, Range 10 West, Fairbanks Meridian
 29 Sections 25, 26, 35, and 36;

30 (6) Township 1 North, Range 7 West, Fairbanks Meridian
 31 Sections 1 - 12, 14 - 23, 25 - 36;

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

- 1 (27) Township 5 South, Range 10 West, Fairbanks Meridian;
 2 (28) Township 5 South, Range 11 West, Fairbanks Meridian;
 3 (29) Township 5 South, Range 12 West, Fairbanks Meridian;
 4 (30) Township 6 South, Range 10 West, Fairbanks Meridian
 5 Sections 2 - 11, 14 - 23, and 26 - 35;
 6 (31) Township 6 South, Range 11 West, Fairbanks Meridian;
 7 (32) Township 6 South, Range 12 West, Fairbanks Meridian
 8 Sections 1 - 12;
 9 (33) Township 7 South, Range 10 West, Fairbanks Meridian
 10 Sections 2 - 11;
 11 (34) Township 7 South, Range 11 West, Fairbanks Meridian
 12 Sections 1 - 12.

13 (m) The provisions of this section do not apply to the Arctic National Wildlife
 14 Refuge.

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

16 **Sec. 43.55.028. Legal description of Alaska Peninsula competitive oil and**
 17 **gas areawide lease sale area.** For purposes of AS 43.55.025(b), the following
 18 comprises the area of the Alaska Peninsula competitive oil and gas areawide lease
 19 sale:

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

- 1 (13) Township 27 South, Ranges 47 - 53 West, Seward Meridian;
- 2 (14) Township 28 South, Ranges 48 - 53 West, Seward Meridian;
- 3 (15) Township 29 South, Ranges 48 - 54 West, Seward Meridian;
- 4 (16) Township 30 South, Ranges 48 - 55 West, Seward Meridian;
- 5 (17) Township 31 South, Ranges 49 - 56 West, Seward Meridian;
- 6 (18) Township 32 South, Ranges 51 - 57 West, Seward Meridian;
- 7 (19) Township 33 South, Ranges 52 - 58 West, Seward Meridian;
- 8 (20) Township 34 South, Ranges 53 - 59 West, Seward Meridian;
- 9 (21) Township 35 South, Ranges 51 - 59 West, Seward Meridian;
- 10 (22) Township 36 South, Ranges 51 - 52 West, Seward Meridian;
- 11 (23) Township 36 South, Ranges 55 - 60 West, Seward Meridian;
- 12 (24) Township 37 South, Ranges 57 - 62 West, Seward Meridian;
- 13 (25) Township 38 South, Ranges 58 - 63 West, Seward Meridian;
- 14 (26) Township 39 South, Ranges 59 - 64 West, Seward Meridian;
- 15 (27) Township 40 South, Ranges 59 - 65 West, Seward Meridian;
- 16 (28) Township 41 South, Ranges 63 - 68 West, Seward Meridian;
- 17 (29) Township 42 South, Ranges 63 - 69 West, Seward Meridian;
- 18 (30) Township 43 South, Ranges 65 - 70 West, Seward Meridian;
- 19 (31) Township 44 South, Ranges 65 - 71 West, Seward Meridian;
- 20 (32) Township 45 South, Ranges 67 - 72 West, Seward Meridian;
- 21 (33) Township 46 South, Ranges 68 - 73 West, Seward Meridian;
- 22 (34) Township 47 South, Ranges 69 - 78 West, Seward Meridian;
- 23 (35) Township 48 South, Ranges 70 - 81 West, Seward Meridian;
- 24 (36) Township 49 South, Ranges 70 - 83 West, Seward Meridian;
- 25 (37) Township 50 South, Ranges 71 - 84 West, Seward Meridian;
- 26 (38) Township 51 South, Ranges 71 - 85 West, Seward Meridian;
- 27 (39) Township 52 South, Ranges 74 - 75 West, Seward Meridian;
- 28 (40) Township 52 South, Ranges 79 - 86 West, Seward Meridian;
- 29 (41) Township 53 South, Ranges 85 - 87 West, Seward Meridian;
- 30 (42) Township 54 South, Ranges 85 - 87 West, Seward Meridian;
- 31 (43) any adjustment to (1) - (42) of this section as described in the

1 Department of Natural Resources' final written finding of best interest made under
2 AS 38.05.035.

3 * **Sec. 11.** The uncodified law of the State of Alaska is amended by adding a new section to
4 read:

5 CONTINGENT EFFECT OF SECTIONS. (a) Sections 3 and 10 of this Act take
6 effect only if the commissioner of natural resources finds that the requirements of
7 AS 38.05.035(e) and (g) are met and the Alaska Peninsula competitive oil and gas areawide
8 lease sale occurs.

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

11 * **Sec. 12.** If secs. 3 and 10 of this Act take effect under sec. 11 of this Act, they take effect
12 the day the commissioner of natural resources notifies the revisor of statutes that the lease sale
13 described in sec. 11 of this Act has occurred.

14 * **Sec. 13.** Except as provided in sec. 12 of this Act, this Act takes effect immediately under
15 AS 01.10.070(c).