

CS FOR HOUSE BILL NO. 386(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered: 3/17/06

Referred: Resources, Finance

Sponsor(s): REPRESENTATIVES KOHRING, Holm, Foster, Kelly

A BILL

FOR AN ACT ENTITLED

1 "An Act making uniform throughout the state the deadline for certain exploration
2 expenditures used as credits against the production tax on oil and gas produced from a
3 lease or property in the state by extending to July 1, 2010, the deadline for those
4 expenditures on leases or properties located north of 68 degrees, 15 minutes, North
5 latitude, and expanding the purposes for which use of that credit is allowed; and
6 delaying to June 30, 2010, the last date by which hydrocarbon exploration geophysical
7 work must be performed or drilling of a stratigraphic test well or exploratory well must
8 be completed in order for a person to qualify for an exploration incentive credit under
9 the oil and gas exploration incentive credit that is not authorized by the Alaska Land
10 Act."

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

12 * **Section 1.** AS 41.09.010(c) is amended to read:

1 (c) An exploration incentive credit may be extended under (a) of this section
2 to a qualified applicant if

3 (1) application for the exploration incentive credit is made by the
4 qualified applicant to the commissioner and is approved before drilling or geophysical
5 work commences;

6 (2) all geophysical work is performed, and all stratigraphic test wells
7 or exploratory wells are drilled, after August 7, 1994, and before July 1, 2010 [2007];
8 and

9 (3) copies of all raw and processed data derived from drilling a
10 stratigraphic test well or exploratory well or performing geophysical work are
11 provided by the qualified applicant to the commissioner within 30 days after the
12 completion, abandonment, or suspension of the well or completion of the geophysical
13 work.

14 * **Sec. 2.** AS 43.55.025(a) is amended to read:

15 (a) **The credit authorized by this section may be applied against the**
16 **production tax due under this chapter, a bonus bid submitted or lease rental**
17 **payment due under AS 38.05, or a state tax liability under AS 43.20 or AS 43.56.**

18 Subject to the terms and conditions of this section, on oil and gas produced on or after
19 July 1, 2004, from an oil and gas lease, or on gas produced from a gas only lease, a
20 credit [AGAINST THE PRODUCTION TAX DUE UNDER THIS CHAPTER] is
21 allowed for exploration expenditures that qualify under (b) of this section in an
22 amount equal to one of the following:

23 (1) 20 percent of the total exploration expenditures that qualify only
24 under (b) and (c) of this section;

25 (2) 20 percent of the total exploration expenditures for work performed
26 before July 1, 2007, and that qualify only under (b) and (d) of this section;

27 (3) 40 percent of the total exploration expenditures that qualify under
28 (b), (c), and (d) of this section; or

29 (4) 40 percent of the total exploration expenditures that qualify only
30 under (b) and (e) of this section.

31 * **Sec. 3.** AS 43.55.025(b) is amended to read:

1 (b) To qualify for the production tax credit under (a) of this section, an
 2 exploration expenditure must be incurred for work performed on or after July 1, 2003,
 3 and before July 1, 2010 [2007], except that an exploration expenditure for a Cook Inlet
 4 prospect must be incurred for work performed on or after July 1, 2005, [AND
 5 BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION
 6 EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15
 7 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET
 8 PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER
 9 JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

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

12 (2) if for an exploration well,

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

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

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

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

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

30 * **Sec. 4.** AS 43.55.025(f) is amended to read:

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

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

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

6 (A) to notify the Department of Natural Resources, within 30
7 days after completion of seismic or geophysical data processing, completion of
8 a well, or filing of a claim for credit, whichever is the latest, for which
9 exploration costs are claimed, of the date of completion and submit a report to
10 that department describing the processing sequence and providing a list of data
11 sets available; if, under (c)(2)(B) of this section, an explorer submits a claim
12 for a credit for expenditures for an exploration well that is located within three
13 miles of a well already drilled for oil and gas, in addition to the submissions
14 required under (1) of this subsection, the explorer shall submit the information
15 necessary for the commissioner of natural resources to evaluate the validity of
16 the explorer's claim that the well is directed at a distinctly separate exploration
17 target, and the commissioner of natural resources shall, upon receipt of all
18 evidence sufficient for the commissioner to evaluate the explorer's claim, make
19 that determination within 60 days;

20 (B) to provide to the Department of Natural Resources, within
21 30 days after the date of a request, specific data sets, ancillary data, and reports
22 identified in (A) of this paragraph;

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

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

30 (4) the department may exercise the full extent of its powers as though
31 the explorer were a taxpayer under this title, in order to verify that the claimed

1 expenditures are qualified exploration expenditures under this section; and

2 (5) if the department is satisfied that the explorer's claimed
3 expenditures are qualified under this section, the department shall issue to the explorer
4 a production tax credit certificate for the amount of credit to be allowed [AGAINST
5 PRODUCTION TAXES DUE UNDER THIS CHAPTER]; however, notwithstanding
6 any other provision of this section, the department may not issue to an explorer a
7 production tax credit certificate if the total of production tax credits submitted for
8 Cook Inlet production, based on exploration expenditures for work performed during
9 the period described in (b) of this section for that production, that have been approved
10 by the department exceeds \$20,000,000.

11 * **Sec. 5.** AS 43.55.025(h) is amended to read:

12 (h) A producer that purchases a production tax credit certificate may apply the
13 credits against its production tax liability under this chapter **or against an obligation**
14 **described in (a) of this section other than the tax due under this chapter. If the**
15 **producer applies the tax credit against the production tax liability under this**
16 **chapter, regardless** [. REGARDLESS] of the price the producer paid for the
17 certificate, the producer may receive a credit against its production tax liability for the
18 full amount of the credit, but for not more than the amount for which the certificate is
19 issued. **However the producer applies the tax credit, a** [A] production tax credit
20 allowed under this section may not be applied more than once.

21 * **Sec. 6.** AS 43.55.025(i) is amended to read:

22 (i) For a production tax credit under this section **that is claimed**

23 **(1) against the tax due under this chapter,**

24 **(A)** [(1)] the amount of the credit that may be applied against
25 the production tax for each tax month may not exceed the total production tax
26 liability of the taxpayer applying the credit for the same month; and

27 **(B)** [(2)] an amount of the production tax credit that is greater
28 than the total tax liability of the taxpayer applying the credit for a tax month
29 may be carried forward and applied against the taxpayer's production tax
30 liability in one or more immediately following months;

31 **(2) against an obligation described in (a) of this section other than**

1 **tax due under this chapter, the amount of the credit that may be applied and the**
2 **balance of the credit that may be carried forward and applied to a liability**
3 **described in (a) of this section during a later period must conform to regulations**
4 **adopted by the department that authorize use of credits allowed by this section**
5 **for purposes other than reduction of the tax obligation due under this chapter.**