

**SENATE BILL NO. 163**

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

**BY THE SENATE RESOURCES COMMITTEE**

**Introduced: 4/6/05**

**Referred: Resources, 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."**

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

5 **\* Section 1.** AS 43.55.025(b) is amended to read:

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

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

13 (2) if for an exploration well,

14 (A) must be incurred by an explorer that holds an interest in the

1 exploration well for which the production tax credit is claimed;

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

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

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

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

17 \* **Sec. 2.** AS 43.55.025(c) is amended to read:

18 (c) To be eligible for a 20 percent production tax credit, exploration  
19 expenditures must

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

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

22 **(A) for an exploration well other than a well that is**  
23 **described in (B) of this paragraph, the well must be** [THAT IS] located and  
24 drilled in such a manner that the bottom hole is located not less than three  
25 miles away from the bottom hole of a preexisting suspended, completed, or  
26 abandoned oil or gas well; in this **subparagraph** [PARAGRAPH],  
27 "preexisting" means a well that was spudded more than 150 days but less than  
28 35 years before the exploration well was spudded;

29 **(B) for an exploration well that explores a Cook Inlet**  
30 **prospect, the well must be located at least three miles from any other well**  
31 **drilled for oil and gas with all distances measured as the horizontal**

1           distance between exploration targets, except that the exploration well that  
 2           is located within three miles of a well drilled for oil and gas qualifies for  
 3           the tax credit authorized by this subsection if the exploration well tests  
 4           potential hydrocarbon traps that the commissioner of natural resources  
 5           determines, after analyzing evidence submitted by the explorer and from  
 6           other information that the commissioner of natural resources determines  
 7           relevant, constitute a distinctly separate exploration target.

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

9                   (d) To be eligible for an additional 20 percent production tax credit, an  
 10                   exploration expenditure must

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

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

18           \* **Sec. 4.** 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. 5. 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.