

**CS FOR SENATE BILL NO. 305(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered: 4/22/06

Referred: Today's Calendar

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

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act repealing the oil production tax and the gas production tax and providing for a  
2 production tax on oil and gas; relating to the calculation of the gross value at the point  
3 of production of oil and gas and to the determination of the value of oil and gas for  
4 purposes of the production tax on oil and gas; providing for tax credits against the  
5 production tax on oil and gas; relating to the relationship of the production tax on oil  
6 and gas to other taxes, to the dates those tax payments and surcharges are due, to  
7 interest on overpayments of the tax, and to the treatment of the tax in a producer's  
8 settlement with the royalty owners; relating to flared gas, and to oil and gas used in the  
9 operation of a lease or property under the production tax; relating to the prevailing  
10 value of oil and gas under the production tax; relating to surcharges on oil; relating to  
11 statements or other information required to be filed with or furnished to the  
12 Department of Revenue, to the penalty for failure to file certain reports for the tax, to

1 the powers of the Department of Revenue, and to the disclosure of certain information  
 2 required to be furnished to the Department of Revenue as applicable to the  
 3 administration of the tax; relating to criminal penalties for violating conditions  
 4 governing access to and use of confidential information relating to the tax, and to the  
 5 deposit of tax money collected by the Department of Revenue; amending the definitions  
 6 of 'gas,' 'oil,' and certain other terms for purposes of the production tax, and as the  
 7 definition of the term 'gas' applies in the Alaska Stranded Gas Development Act, and  
 8 adding further definitions; making conforming amendments; and providing for an  
 9 effective date."

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

11 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
 12 to read:

13 LEGISLATIVE INTENT. (a) It is the intent of the legislature through sec. 11 of this  
 14 Act to confirm by clarification the long-standing interpretation of AS 43.55.020(f) by the  
 15 Department of Revenue.

16 (b) It is the intent of the legislature that the division or other unit of the Department of  
 17 Environmental Conservation assigned responsibility for administration of the programs under  
 18 AS 46.08 that are principally supported by the conservation surcharges on oil levied under  
 19 AS 43.55.201 - 43.55.299 and 43.55.300 - 43.55.310

20 (1) reduce program costs, including personnel costs, as necessary to operate  
 21 within the revenue anticipated to be generated by those surcharges, in the amounts of those  
 22 surcharges as amended by secs. 27 and 29 of this Act; and

23 (2) request appropriations for exceptional program needs and expansions  
 24 beyond what can be provided from the estimated amounts collected from those surcharges  
 25 from alternative funding sources.

26 \* **Sec. 2.** AS 43.05.230(f) is amended to read:

27 (f) A wilful violation of the provisions of this section **or of a condition**  
 28 **imposed under AS 43.55.040(1)(B)** is punishable by a fine of not more than \$5,000,

1 or by imprisonment for not more than two years, or by both.

2 \* **Sec. 3.** AS 43.20.031(c) is amended to read:

3 (c) In computing the tax under this chapter, the taxpayer is not entitled to  
4 deduct any taxes based on or measured by net income. **The taxpayer may deduct the**  
5 **tax levied and paid under AS 43.55.**

6 \* **Sec. 4.** AS 43.20.072(b) is amended to read:

7 (b) A taxpayer's business income to be apportioned under this section to the  
8 state shall be the federal taxable income of the taxpayer's consolidated business for the  
9 tax period, except that

10 (1) taxes based on or measured by net income that are deducted in the  
11 determination of the federal taxable income shall be added back; **the tax levied and**  
12 **paid under AS 43.55 may not be added back;**

13 (2) intangible drilling and development costs that are deducted as  
14 expenses under 26 U.S.C. 263(c) (Internal Revenue Code) in the determination of the  
15 federal taxable income shall be capitalized and depreciated as if the option to treat  
16 them as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) had not been  
17 exercised;

18 (3) depletion deducted on the percentage depletion basis under 26  
19 U.S.C. 613 (Internal Revenue Code) in the determination of the federal taxable income  
20 shall be recomputed and deducted on the cost depletion basis under 26 U.S.C. 612  
21 (Internal Revenue Code); and

22 (4) depreciation shall be computed on the basis of 26 U.S.C. 167  
23 (Internal Revenue Code) as that section read on June 30, 1981.

24 \* **Sec. 5.** AS 43.55.011 is amended by adding new subsections to read:

25 (e) There is levied on the producer of oil or gas a tax for all oil and gas  
26 produced each month from each lease or property in the state, less any oil and gas the  
27 ownership or right to which is exempt from taxation or constitutes a lessor's royalty  
28 interest under an oil and gas lease. The tax is equal to

29 (1) for oil that is produced in the Cook Inlet sedimentary basin, as that  
30 term is defined by regulations adopted to implement AS 38.05.180(f)(4), five percent  
31 of the production tax value of the taxable oil as calculated under AS 43.55.160; and

1 (2) except as to oil described in (1) of this subsection, 22.5 percent of  
2 the production tax value of the taxable oil and gas as calculated under AS 43.55.160.

3 (f) There is levied on the producer of oil or gas a tax for all oil and gas  
4 produced each month from each lease or property in the state the ownership or right to  
5 which constitutes a lessor's royalty interest under an oil and gas lease, except for oil  
6 and gas the ownership or right to which is exempt from taxation. The provisions of  
7 this subsection apply to a lessor's royalty interest under an oil and gas lease as follows:

8 (1) the rate of tax levied on oil produced from a lease is equal to five  
9 percent of the gross value at the point of production of the oil;

10 (2) the rate of tax levied on gas produced from a lease is equal to 1.667  
11 percent of the gross value at the point of production of the gas;

12 (3) if the department determines that, for purposes of reducing the  
13 producer's tax liability under (1) or (2) of this subsection, the producer has received or  
14 will receive consideration from the lessor offsetting all or a part of the producer's  
15 royalty obligation, other than a deduction under AS 43.55.020(d) of the amount of a  
16 tax paid,

17 (A) notwithstanding (1) of this subsection, the tax is equal to

18 (i) for oil that is produced in the Cook Inlet sedimentary  
19 basin, as that term is defined by regulations adopted to implement  
20 AS 38.05.180(f)(4), five percent of the gross value at the production of  
21 the oil; and

22 (ii) for oil, except oil described in (i) of this  
23 subparagraph, and gas 22.5 percent of the gross value at the point of  
24 production of the oil; and

25 (B) notwithstanding (2) of this subsection, the tax is equal to  
26 7.5 percent of the gross value at the point of production of the gas.

27 (g) In addition to the taxes levied under (e) and (f) of this section, if the  
28 average ANS West Coast price per barrel of oil during a month exceeds \$50, there is  
29 levied on the producer of oil a tax for oil produced during that month from each lease  
30 or property in the state, less any oil the ownership or right to which is exempt from  
31 taxation. The tax levied under this subsection is equal to



1 on oil and gas produced from each lease or property during the preceding month. The  
 2 remaining portion of the tax levied under AS 43.55.011(e) - (g), net of any credits  
 3 applied under this chapter, is due on March 31 of the year following the calendar year  
 4 during which the oil and gas were produced. An unpaid amount of tax that is not paid  
 5 when due in accordance with this subsection becomes delinquent. An overpayment of  
 6 tax with respect to a month may be applied against the tax due for any later month.  
 7 Notwithstanding any contrary provision of AS 43.05.280, interest on an overpayment  
 8 is allowed only from a date that is 90 days after the later of (1) the March 31 described  
 9 in this subsection, or (2) the date that the statement required under AS 43.55.030(a)  
 10 and (e) to be filed on or before that March 31 is filed. Interest is not allowed if the  
 11 overpayment was refunded within the 90-day period.

12 \* **Sec. 8.** AS 43.55.020(b) is amended to read:

13 (b) The production tax on oil **and** [OR] gas shall be paid by or on behalf of the  
 14 producer.

15 \* **Sec. 9.** AS 43.55.020(d) is amended to read:

16 (d) In making settlement with the royalty owner **for oil and gas that is**  
 17 **taxable under AS 43.55.011**, the producer may deduct the amount of the tax paid on  
 18 **taxable** royalty oil **and** [OR] gas, or may deduct **taxable** royalty oil or gas equivalent  
 19 in value at the time the tax becomes due to the amount of the tax paid. **Unless**  
 20 **otherwise agreed between the producer and the royalty owner, the amount of the**  
 21 **tax paid under AS 43.55.011(e) and (g) on taxable royalty oil and gas for a month,**  
 22 **other than oil and gas the ownership or right to which constitutes a lessor's**  
 23 **royalty interest under an oil and gas lease, is considered to be the gross value at**  
 24 **the point of production of the taxable royalty oil and gas produced during the**  
 25 **month multiplied by a figure that is a quotient, in which**

26 **(1) the numerator is the producer's total tax liability under**  
 27 **AS 43.55.011(e) and (g) for the month of production; and**

28 **(2) the denominator is the total gross value at the point of**  
 29 **production of the oil and gas taxable under AS 43.55.011(e) and (g) produced by**  
 30 **the producer from all leases and properties in the state during the month.**

31 \* **Sec. 10.** AS 43.55.020(e) is repealed and reenacted to read:

1 (e) Gas flared, released, or allowed to escape in excess of the amount  
2 authorized by the Alaska Oil and Gas Conservation Commission is considered, for the  
3 purpose of AS 43.55.011 - 43.55.180, as gas produced from a lease or property. Oil or  
4 gas used in the operation of a lease or property in the state in drilling for or producing  
5 oil or gas, or for repressuring, except to the extent determined by the Alaska Oil and  
6 Gas Conservation Commission to be waste, is not considered, for the purpose of  
7 AS 43.55.011 - 43.55.180, as oil or gas produced from a lease or property.

8 \* **Sec. 11.** AS 43.55.020(f) is amended to read:

9 (f) If oil or gas is **produced but not sold, or if oil or gas is produced and**  
10 sold under circumstances where the sale price does not represent the prevailing value  
11 for oil or gas of like kind, character, or quality in the field or area from which the  
12 product is produced, the department may require the tax to be paid upon the basis of  
13 the value of oil or gas of the same kind, quality, and character prevailing **for that field**  
14 **or area** during the calendar month of production **or sale** [FOR THAT FIELD OR  
15 AREA].

16 \* **Sec. 12.** AS 43.55 is amended by adding a new section to read:

17 **Sec. 43.55.024. Tax credits for certain losses and expenditures.** (a) A  
18 producer or explorer may take a tax credit for a qualified capital expenditure as  
19 follows:

20 (1) notwithstanding that a qualified capital expenditure may be a  
21 deductible lease expenditure for purposes of calculating the production tax value of oil  
22 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under  
23 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025,

24 (A) a producer or explorer that incurs a qualified capital  
25 expenditure may also elect to take a tax credit against a tax due under  
26 AS 43.55.011(e) in the amount of 25 percent of that expenditure;

27 (B) for a calendar year for which the producer makes an  
28 election under AS 43.55.160(f), instead of taking a tax credit at a rate  
29 authorized by (A) of this paragraph as to each separate qualified capital  
30 expenditure after it has been incurred, a producer that incurs a qualified capital  
31 expenditure during that year and that wishes to apply a credit based on that

1 expenditure against a tax due under AS 43.55.011(e) shall calculate and apply  
2 every month an annualized tax credit in an amount equal to 2 1/12 percent of  
3 the total qualified capital expenditures incurred during that year and for which  
4 the tax credit is taken for that year;

5 (2) a producer or explorer may take a credit for a qualified capital  
6 expenditure incurred in connection with geological or geophysical exploration or in  
7 connection with an exploration well only if the producer or explorer provides to the  
8 department, as part of the statement required under AS 43.55.030(a) for the month for  
9 which the credit is sought to be taken, the producer's or explorer's written agreement

10 (A) to notify the Department of Natural Resources, within 30  
11 days after completion of the geological or geophysical data processing or  
12 completion of the well, or within 30 days after the statement is filed, whichever  
13 is the latest, of the date of completion and to submit a report to that department  
14 describing the processing sequence and provide a list of data sets available;

15 (B) to provide to the Department of Natural Resources, within  
16 30 days after the date of a request, specific data sets, ancillary data, and reports  
17 identified in (A) of this paragraph;

18 (C) that, notwithstanding any provision of AS 38, the  
19 Department of Natural Resources shall hold confidential the information  
20 provided to that department under this paragraph for 10 years following the  
21 completion date, after which the department shall publicly release the  
22 information after 30 days' public notice.

23 (b) A producer or explorer may elect to take a tax credit in the amount of 22.5  
24 percent of a carried-forward annual loss. A credit under this subsection may be applied  
25 against a tax due under AS 43.55.011(e) and may be applied irrespective of whether  
26 the producer or explorer also claims a credit for transitional investment expenditures  
27 authorized by (i) of this section. For purposes of this subsection, a carried-forward  
28 annual loss is the amount of a producer's or explorer's adjusted lease expenditures  
29 under AS 43.55.160 for a previous calendar year that was not deductible in any month  
30 under AS 43.55.160(a) and (b).

31 (c) A credit or portion of a credit under this section may not be used to reduce

1 a person's tax liability under AS 43.55.011(e) for any month below zero, and any  
2 unused credit or portion of a credit not used under this subsection may be applied in a  
3 later month.

4 (d) Except as limited by (i) of this section, a person entitled to take a tax credit  
5 under this section that wishes to transfer the unused credit to another person may  
6 apply to the department for a transferable tax credit certificate. An application under  
7 this subsection must be on a form prescribed by the department and must include  
8 supporting information and documentation that the department reasonably requires.  
9 The department shall grant or deny an application, or grant an application as to a lesser  
10 amount than that claimed and deny it as to the excess, not later than 60 days after the  
11 latest of (1) March 31 of the year following the calendar year in which the qualified  
12 capital expenditure or carried-forward annual loss for which the credit is claimed was  
13 incurred; (2) if the applicant is required under AS 43.55.030(a) and (e) to file a  
14 statement on or before March 31 of the year following the calendar year in which the  
15 qualified capital expenditures or carried-forward annual loss for which the credit is  
16 claimed was incurred, the date the statement was filed; or (3) the date the application  
17 was received by the department. If, based on the information then available to it, the  
18 department is reasonably satisfied that the applicant is entitled to a credit, the  
19 department shall issue the applicant a transferable tax credit certificate for the amount  
20 of the credit. A certificate issued under this subsection does not expire.

21 (e) A person to which a transferable tax credit certificate is issued under (d) of  
22 this section may transfer the certificate to another person, and a transferee may further  
23 transfer the certificate. Subject to the limitations set out in (a) - (c) of this section, and  
24 notwithstanding any action the department may take with respect to the applicant  
25 under (f) of this section, the owner of a certificate may apply the credit or a portion of  
26 the credit shown on the certificate only against a tax due under AS 43.55.011(e).  
27 However, a credit shown on a transferable tax credit certificate may not be applied to  
28 reduce a transferee's total tax due under AS 43.55.011(e) on oil and gas produced  
29 during a calendar year to less than 80 percent of the tax that would otherwise be due  
30 without applying that credit. Any portion of a credit not used under this subsection  
31 may be applied in a later period.

1 (f) The issuance of a transferable tax credit certificate under (d) of this section  
2 does not limit the department's ability to later investigate or audit a tax credit claim to  
3 which the certificate relates or to adjust or deny the claim if the department determines  
4 that the applicant was not entitled to the amount of the credit for which the certificate  
5 was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 -  
6 43.55.180 is increased by the amount of the credit that exceeds that to which the  
7 applicant was entitled. That amount bears interest under AS 43.05.225 from the date  
8 the transferable tax credit certificate was issued. For purposes of this subsection, an  
9 applicant that is an explorer is considered a producer subject to the tax levied under  
10 AS 43.55.011(e).

11 (g) The department may adopt regulations to carry out the purposes of this  
12 section, including prescribing reporting, record keeping, and certification procedures  
13 and requirements to verify the accuracy of credits claimed and to ensure that a credit is  
14 not used more than once, and otherwise implementing this section.

15 (h) A person may not elect to take a tax credit under (a) or (i) of this section  
16 for an expenditure incurred to acquire an asset (1) the cost of previously acquiring  
17 which was a lease expenditure under AS 43.55.160(c) or would have been a lease  
18 expenditure under AS 43.55.160(c) if it had been incurred on or after April 1, 2006; or  
19 (2) that has previously been placed in service in the state. An expenditure to acquire an  
20 asset is not excluded under this subsection if not more than an immaterial portion of  
21 the asset meets a description under (1) or (2) of this subsection. For purposes of this  
22 subsection, "asset" includes geological, geophysical, and well data and interpretations.

23 (i) For the purposes of this section,

24 (1) a producer's or explorer's transitional investment expenditures are  
25 the sum of the expenditures the producer or explorer incurred on or after April 1,  
26 2001, and before April 1, 2006, that would be qualified capital expenditures if they  
27 were incurred on or after April 1, 2006, less the sum of the payments or credits the  
28 producer or explorer received before April 1, 2006, for the sale or other transfer of  
29 assets, including geological, geophysical, or well data or interpretations, acquired by  
30 the producer or explorer as a result of expenditures the producer or explorer incurred  
31 before April 1, 2006, that would be qualified capital expenditures, if they were

1 incurred on or after April 1, 2006;

2 (2) a producer or explorer may elect to take a tax credit against a tax  
3 due under AS 43.55.011(e) in the amount of 20 percent of the producer's or explorer's  
4 transitional investment expenditures, but only to the extent that the amount does not  
5 exceed

6 (A) one-half of the producer's or explorer's qualified capital  
7 expenditures that are incurred during the month for which the credit is taken, if  
8 the producer or explorer does not make an election under AS 43.55.160(f);

9 (B) 1/24 of the producer's or explorer's qualified capital  
10 expenditures that are incurred during the calendar year that includes the month  
11 for which the credit is taken, if the producer or explorer makes an election  
12 under AS 43.55.160(f);

13 (3) a producer or explorer may not take a tax credit for a transitional  
14 investment expenditure

15 (A) in any month that ends after March 31, 2013;

16 (B) more than once; or

17 (C) if a credit for that expenditure was taken under  
18 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025;

19 (4) notwithstanding (d) - (f) of this section, a producer or explorer may  
20 not transfer a tax credit or obtain a transferable tax credit certificate for a transitional  
21 investment expenditure.

22 (j) In this section, "qualified capital expenditure" means, except as otherwise  
23 provided in (h) of this section, an expenditure that is a lease expenditure under  
24 AS 43.55.160 and is

25 (1) incurred for geological or geophysical exploration; or

26 (2) treated as a capitalized expenditure under 26 U.S.C. (Internal  
27 Revenue Code), as amended, regardless of elections made under 26 U.S.C. 263(c)  
28 (Internal Revenue Code), as amended, and is

29 (A) treated as a capitalized expenditure for federal income tax  
30 reporting purposes by the person incurring the expenditure; or

31 (B) eligible to be deducted as an expense under 26 U.S.C.

1 263(c) (Internal Revenue Code), as amended.

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

3 (a) Subject to the terms and conditions of this section, [ON OIL AND GAS  
4 PRODUCED ON OR AFTER JULY 1, 2004, FROM AN OIL AND GAS LEASE,  
5 OR ON GAS PRODUCED FROM A GAS ONLY LEASE,] a credit against the  
6 production tax due under AS 43.55.011(e) [THIS CHAPTER] is allowed for  
7 exploration expenditures that qualify under (b) of this section in an amount equal to  
8 one of the following:

9 (1) 20 percent of the total exploration expenditures that qualify only  
10 under (b) and (c) of this section;

11 (2) 20 percent of the total exploration expenditures for work performed  
12 before July 1, 2007, and that qualify only under (b) and (d) of this section;

13 (3) 40 percent of the total exploration expenditures that qualify under  
14 (b), (c), and (d) of this section; or

15 (4) 40 percent of the total exploration expenditures that qualify only  
16 under (b) and (e) of this section.

17 \* **Sec. 14.** AS 43.55.025(b) is amended to read:

18 (b) To qualify for the production tax credit under (a) of this section, an  
19 exploration expenditure must be incurred for work performed on or after July 1, 2003,  
20 and before July 1, 2016 [2007], except that an exploration expenditure for a Cook Inlet  
21 prospect must be incurred for work performed on or after July 1, 2005, [AND  
22 BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION  
23 EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15  
24 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET  
25 PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER  
26 JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

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

29 (2) if for an exploration well,

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

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

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

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

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

16 \* **Sec. 15.** AS 43.55.025(f) is amended to read:

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

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

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

23 (A) to notify the Department of Natural Resources, within 30  
24 days after completion of seismic or geophysical data processing, completion of  
25 a well, or filing of a claim for credit, whichever is the latest, for which  
26 exploration costs are claimed, of the date of completion and submit a report to  
27 that department describing the processing sequence and providing a list of data  
28 sets available; if, under (c)(2)(B) of this section, an explorer submits a claim  
29 for a credit for expenditures for an exploration well that is located within three  
30 miles of a well already drilled for oil and gas, in addition to the submissions  
31 required under (1) of this subsection, the explorer shall submit the information

1 necessary for the commissioner of natural resources to evaluate the validity of  
 2 the explorer's claim that the well is directed at a distinctly separate exploration  
 3 target, and the commissioner of natural resources shall, upon receipt of all  
 4 evidence sufficient for the commissioner to evaluate the explorer's claim, make  
 5 that determination within 60 days;

6 (B) to provide to the Department of Natural Resources, within  
 7 30 days after the date of a request, specific data sets, ancillary data, and reports  
 8 identified in (A) of this paragraph;

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

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

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

19 (5) if the department is satisfied that the explorer's claimed  
 20 expenditures are qualified under this section, the department shall issue to the explorer  
 21 a production tax credit certificate for the amount of credit to be allowed against  
 22 production taxes due under AS 43.55.011(e) [THIS CHAPTER]; however,  
 23 notwithstanding any other provision of this section, **after the end of the calendar**  
 24 **year following the calendar year in which the total of production tax credit**  
 25 **certificates issued by the department under this section based on exploration**  
 26 **expenditures for Cook Inlet prospects reaches \$20,000,000**, the department may  
 27 not issue to an explorer a production tax credit certificate [IF THE TOTAL OF  
 28 PRODUCTION TAX CREDITS SUBMITTED FOR COOK INLET  
 29 PRODUCTION,] based on **an** exploration **expenditure for a Cook Inlet prospect**  
 30 [EXPENDITURES FOR WORK PERFORMED DURING THE PERIOD  
 31 DESCRIBED IN (b) OF THIS SECTION FOR THAT PRODUCTION, THAT HAVE

1 BEEN APPROVED BY THE DEPARTMENT EXCEEDS \$20,000,000].

2 \* **Sec. 16.** AS 43.55.025(h) is amended to read:

3 (h) A producer that purchases a production tax credit certificate may apply the  
4 credits against its production tax liability under AS 43.55.011(e) [THIS CHAPTER].  
5 Regardless of the price the producer paid for the certificate, the producer may receive  
6 a credit against its production tax liability for the full amount of the credit, but for not  
7 more than the amount for which the certificate is issued. A production tax credit  
8 allowed under this section may not be applied more than once.

9 \* **Sec. 17.** AS 43.55.025(i) is amended to read:

10 (i) For a production tax credit under this section,

11 (1) the amount of the credit that may be applied against the production  
12 tax for each tax month may not exceed the total production tax liability under  
13 AS 43.55.011(e) of the taxpayer applying the credit for the same month; and

14 (2) an amount of the production tax credit that is greater than the total  
15 tax liability under AS 43.55.011(e) of the taxpayer applying the credit for a tax month  
16 may be carried forward and applied against the taxpayer's production tax liability  
17 under AS 43.55.011(e) in one or more immediately following months.

18 \* **Sec. 18.** AS 43.55.030(a) is amended to read:

19 (a) The tax shall be paid to the department, and the person paying the tax shall  
20 file with the department at the time the tax or a portion of the tax is required to be  
21 paid a statement, under oath, on forms prescribed by or acceptable to the department,  
22 giving, with other information required, the following:

23 (1) a description of each [THE] lease or property from which the oil  
24 and [OR] gas were [WAS] produced, by name, legal description, lease number, or  
25 [BY] accounting codes [CODE NUMBERS] assigned by the department;

26 (2) the names of the producer and the person paying the tax;

27 (3) the gross amount of oil and the gross amount of [OR] gas  
28 produced from each [THE] lease or property, and the percentage of the gross amount  
29 of oil and gas owned by each producer for whom the tax is paid;

30 (4) the gross [TOTAL] value at the point of production of the oil  
31 and of the [OR] gas produced from each [THE] lease or property owned by each

1 producer for whom the tax is paid; [AND]

2 (5) the name of the first purchaser and the price received for the oil  
3 **and for the** [OR] gas, **unless relieved from this requirement in whole or in part by**  
4 **the department; and**

5 **(6) the producer's lease expenditures and adjustments as**  
6 **calculated under AS 43.55.160** [IF SOLD IN THE STATE].

7 \* **Sec. 19.** AS 43.55.030(d) is amended to read:

8 (d) Reports by or on behalf of the producer are delinquent the first day  
9 following the day the tax is due. [EACH PRODUCER IS SUBJECT TO A PENALTY  
10 OF \$25 A DAY FOR EACH LEASE OR PROPERTY UPON WHICH THE  
11 REPORT IS NOT FILED. THE PENALTY FOR FAILURE TO FILE A REPORT IS  
12 IN ADDITION TO THE PENALTY FOR DELINQUENT TAXES, AND IS A LIEN  
13 AGAINST THE ASSETS OF THE PRODUCER.]

14 \* **Sec. 20.** AS 43.55.030 is amended by adding a new subsection to read:

15 (e) In addition to other required information, the statement required to be filed  
16 on or before March 31 of a year must show any adjustments or corrections to the  
17 statements that were required under (a) of this section to be filed for the months of the  
18 preceding calendar year during which the oil or gas was produced.

19 \* **Sec. 21.** AS 43.55.040 is amended to read:

20 **Sec. 43.55.040. Powers of Department of Revenue.** Except as provided in  
21 AS 43.05.405 - 43.05.499, the department may

22 (1) require a person engaged in production and the agent or employee  
23 of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil  
24 or gas to furnish, **whether by the filing of regular statements or reports or**  
25 **otherwise,** additional information that is considered by the department as necessary to  
26 compute the amount of the tax; **notwithstanding any contrary provision of law, the**  
27 **disclosure of additional information under this paragraph to the producer**  
28 **obligated to pay the tax does not violate AS 40.25.100(a) or AS 43.05.230(a);**  
29 **before disclosing information under this paragraph that is otherwise required to**  
30 **be held confidential under AS 40.25.100(a) or AS 43.05.230(a), the department**  
31 **shall**

1                    **(A) provide the person that furnished the information a**  
 2                    **reasonable opportunity to be heard regarding the proposed disclosure and**  
 3                    **the conditions to be imposed under (B) of this paragraph; and**

4                    **(B) impose appropriate conditions limiting**

5                    **(i) access to the information to those legal counsel,**  
 6                    **consultants, employees, officers, and agents of the producer who**  
 7                    **have a need to know that information for the purpose of**  
 8                    **determining or contesting the producer's tax obligation; and**

9                    **(ii) the use of the information to use for that**  
 10                   **purpose;**

11                   (2) examine the books, records, and files of such a person;

12                   (3) conduct hearings and compel the attendance of witnesses and the  
 13                   production of books, records, and papers of any person; and

14                   (4) make an investigation or hold an inquiry that is considered  
 15                   necessary to a disclosure of the facts as to

16                   (A) the amount of production from any oil or gas location, or of  
 17                   a company or other producer of oil or gas; and

18                   (B) the rendition of the oil and gas for taxing purposes.

19                   \* **Sec. 22.** AS 43.55.080 is amended to read:

20                   **Sec. 43.55.080. Collection and deposit of revenue. Except as otherwise**  
 21                   **provided under art. IX, sec. 17, Constitution of the State of Alaska, the** [THE]  
 22                   department shall deposit in the general fund the money collected by it under  
 23                   **AS 43.55.011 - 43.55.180** [AS 43.55.011 - 43.55.150].

24                   \* **Sec. 23.** AS 43.55.135 is amended to read:

25                   **Sec. 43.55.135. Measurement.** For the purposes of **AS 43.55.011 - 43.55.180**  
 26                   [AS 43.55.011 - 43.55.150], oil **is** [SHALL BE] measured in terms of a "barrel of oil"  
 27                   and gas **is** [SHALL BE] measured in terms of a "cubic foot of gas."

28                   \* **Sec. 24.** AS 43.55.150(a) is amended to read:

29                   (a) For the purposes of **AS 43.55.011 - 43.55.180** [AS 43.55.011 - 43.55.150],  
 30                   the gross value **at the point of production is** [SHALL BE] calculated using the  
 31                   reasonable costs of transportation of the oil or gas. The reasonable costs of

1 transportation **are** [SHALL BE] the actual costs, except **when the**

2 (1) [WHEN THE] parties to the transportation of oil or gas are  
3 affiliated;

4 (2) [WHEN THE] contract for the transportation of oil or gas is not an  
5 arm's length transaction or is not representative of the market value of that  
6 transportation; **and**

7 (3) [WHEN THE] method of transportation of oil or gas is not  
8 reasonable in view of existing alternative methods of transportation.

9 \* **Sec. 25.** AS 43.55.150 is amended by adding a new subsection to read:

10 (d) Under regulations adopted by the department, if the department determines  
11 that an election under this subsection would improve the efficiency and economy of  
12 tax administration and would result in calculations that represent value and actual  
13 costs of transportation with reasonable accuracy and are not biased toward  
14 understating a producer's tax liability, the department may allow a producer, subject to  
15 limitations prescribed by the department as to the frequency of making elections, to  
16 elect prospectively to calculate the gross value at the point of production of oil or gas  
17 based in whole or part on

18 (1) a formula prescribed by the department that uses, with adjustments  
19 if appropriate, a royalty value or valuation methodology accepted by the

20 (A) Department of Natural Resources under AS 38.05, in the  
21 case of oil or gas produced from a lease issued by the Department of Natural  
22 Resources or produced from a lease or property that is part of a unit approved  
23 by the Department of Natural Resources; or

24 (B) United States Department of the Interior under applicable  
25 federal oil and gas leasing statutes, in the case of oil or gas produced from a  
26 lease issued by the United States Department of the Interior that is not part of a  
27 unit approved by the Department of Natural Resources, or produced from a  
28 lease or property that is part of a unit approved by the United States  
29 Department of the Interior but not approved by the Department of Natural  
30 Resources; or

31 (2) another formula prescribed by the Department of Revenue that

1 reasonably estimates a value for the oil or gas at a specific geographical location, such  
2 as the point of tender or delivery into a common carrier pipeline; the formula may use  
3 factors such as published price indices for oil or gas in or outside the state, quality  
4 differentials for oil or gas, transportation costs between markets, and inflation  
5 adjustments.

6 \* **Sec. 26.** AS 43.55 is amended by adding new sections to article 1 to read:

7 **Sec. 43.55.160. Determination of production tax value of oil and gas.** (a)

8 Except as provided in (f) of this section, for purposes of AS 43.55.011(e) and (g), the  
9 production tax value of the taxable oil and gas produced during a month is the total of  
10 the gross value at the point of production of the oil and one-third of the gross value at  
11 the point of production of the gas that are taxable under AS 43.55.011(e) and (g) and  
12 produced by the producer from all leases or properties in the state, less the producer's  
13 lease expenditures for the month as adjusted under (e) of this section. However, the  
14 production tax value calculated under this subsection may not be less than zero. If a  
15 producer does not produce taxable oil or gas during a month, the producer is  
16 considered to have generated a positive production tax value if the calculation  
17 described in this subsection yields a positive number because the producer's adjusted  
18 lease expenditures for a month are less than zero as a result of the producer's receiving  
19 a payment or credit under (e) of this section or otherwise.

20 (b) For purposes of administration of (a) of this section,

21 (1) any adjusted lease expenditures that would otherwise be deductible  
22 in a month but whose deduction would cause the production tax value calculated under  
23 (a) of this section of the taxable oil and gas produced during the month to be less than  
24 zero may be added to the producer's adjusted lease expenditures for one or more other  
25 months in the same calendar year; the total of any adjusted lease expenditures that are  
26 not deductible in any month during a calendar year because their deduction would  
27 cause the production tax value calculated under (a) of this section of the taxable oil  
28 and gas produced during one or more months to be less than zero may be used to  
29 establish a carried-forward annual loss under AS 43.55.024(b);

30 (2) an explorer that has taken a tax credit under AS 43.55.024(b) or  
31 that has obtained a transferable tax credit certificate under AS 43.55.024(d) for the

1 amount of a tax credit under AS 43.55.024(b) is considered a producer, subject to the  
2 tax levied under AS 43.55.011(e), to the extent that the explorer generates a positive  
3 production tax value as the result of the explorer's receiving a payment or credit  
4 described in (e) of this section.

5 (c) For purposes of this section,

6 (1) a producer's lease expenditures for a period are the total costs  
7 upstream of the point of production of oil and gas that are incurred on or after April 1,  
8 2006, by the producer during the period and that are direct, ordinary, and necessary  
9 costs of exploring for, developing, or producing oil or gas deposits located within the  
10 producer's leases or properties in the state or, in the case of land in which the producer  
11 does not own a working interest, direct, ordinary, and necessary costs of exploring for  
12 oil or gas deposits located within other land in the state; however, lease expenditures  
13 do not include the costs incurred to satisfy a work commitment under an exploration  
14 license under AS 38.05.132; in determining whether costs are direct, ordinary, and  
15 necessary costs of exploring for, developing, or producing oil or gas deposits located  
16 within a lease or property or other land in the state,

17 (A) the department shall give substantial weight to the typical  
18 industry practices and standards in the state and in the United States as to costs  
19 that an operator is allowed to bill a working interest owner that is not the  
20 operator, under unit operating agreements or similar operating agreements that  
21 were in effect on or before December 1, 2005, and were subject to negotiation  
22 with working interest owners, not the operator, with substantial bargaining  
23 power; and

24 (B) as to matters that are not addressed by the industry  
25 practices and standards described in (A) of this paragraph or as to which those  
26 practices and standards are not clear or are not uniform, the department shall  
27 give substantial weight to the standards adopted by the Department of Natural  
28 Resources as to the costs, other than interest, that a lessee is allowed to deduct  
29 from revenue in calculating net profits under a lease issued under  
30 AS 38.05.180(f)(3)(B), (D), or (E);

31 (2) the Department of Revenue may authorize a producer, including a

1 producer that is an operator, to treat as its lease expenditures under this section the  
 2 costs paid by the producer that are billed to the producer by an operator in accordance  
 3 with the terms of a unit operating agreement or similar operating agreement if the  
 4 Department of Revenue finds that

5 (A) the pertinent provisions of the operating agreement are  
 6 substantially consistent with the Department of Revenue's determinations and  
 7 standards otherwise applicable under this subsection; and

8 (B) at least one working interest owner party to the agreement,  
 9 other than the operator, has substantial incentive and ability to effectively audit  
 10 billings under the agreement.

11 (d) For purposes of (c) of this section, "direct costs"

12 (1) includes

13 (A) an expenditure, when incurred, to acquire an item if the  
 14 acquisition cost is otherwise a direct cost, notwithstanding that the expenditure  
 15 may be required to be capitalized rather than treated as an expense for financial  
 16 accounting or federal income tax purposes;

17 (B) payments of property taxes, sales and use taxes, motor fuel  
 18 taxes, and excise taxes;

19 (C) a reasonable allowance, as determined under regulations  
 20 adopted by the department, for overhead expenses directly related to exploring  
 21 for, developing, and producing oil or gas deposits located within leases or  
 22 properties or other land in the state;

23 (2) does not include

24 (A) depreciation, depletion, or amortization;

25 (B) royalty payments for oil or gas;

26 (C) taxes based on or measured by net income;

27 (D) interest or other financing charges or costs of raising equity  
 28 or debt capital;

29 (E) acquisition costs for a lease or property or exploration  
 30 license;

31 (F) costs arising from fraud, wilful misconduct, or negligence;

- 1 (G) fines or penalties imposed by law;
- 2 (H) costs of arbitration, litigation, or other dispute resolution  
3 activities that involve the state or concern the rights or obligations among  
4 owners of interests in, or rights to production from, one or more leases or  
5 properties or a unit;
- 6 (I) donations;
- 7 (J) costs incurred in organizing a partnership, joint venture, or  
8 other business entity or arrangement;
- 9 (K) amounts paid to indemnify the state; the exclusion  
10 provided by this paragraph does not apply to the costs of obtaining insurance  
11 or a surety bond from a third-party insurer or surety;
- 12 (L) surcharges levied under AS 43.55.201 or 43.55.300;
- 13 (M) for a transaction that is an internal transfer or is otherwise  
14 not an arm's length transaction, expenditures incurred that are in excess of fair  
15 market value;
- 16 (N) an expenditure incurred to purchase an interest in any  
17 corporation, partnership, limited liability company, business trust, or any other  
18 business entity, whether or not the transaction is treated as an asset sale for  
19 federal income tax purposes;
- 20 (O) a tax levied under AS 43.55.011;
- 21 (P) the portion of costs incurred for dismantlement, removal,  
22 surrender, or abandonment of a well, facility, pipeline, platform, or other  
23 structure, or for the restoration of a lease, field, unit, area, body of water, or  
24 right-of-way in conjunction with dismantlement, removal, surrender, or  
25 abandonment, that is attributable to production of oil or gas occurring before  
26 the effective date of this section; the portion is calculated as a ratio of  
27 production of oil or gas associated with the well, facility, pipeline, platform, or  
28 other structure, lease, field, unit, area, body of water, or right-of-way occurring  
29 before the effective date of this section to all production of oil or gas  
30 associated with that well, facility, pipeline, platform, or other structure, lease,  
31 field, unit, area, body of water, or right-of-way through the end of the calendar

1 month before commencement of the dismantlement, removal, surrender, or  
2 abandonment.

3 (e) A producer's lease expenditures must be adjusted by subtracting certain  
4 payments or credits received by the producer, as provided in this subsection. If one or  
5 more payments or credits subject to this subsection are received by a producer during  
6 a month or, under (f) of this section, during a calendar year, and if either the total  
7 amount of the payments or credits exceeds the amount of the producer's lease  
8 expenditures or the producer has no lease expenditures, the producer shall nevertheless  
9 subtract those payments or credits from the lease expenditures or from zero,  
10 respectively, and the producer's adjusted lease expenditures for that month or calendar  
11 year are a negative number and shall be applied to the calculation under (a) of this  
12 section as a negative number. The payments or credits that a producer shall subtract  
13 from the producer's lease expenditures, or from zero, under this subsection are  
14 payments or credits, other than tax credits, received by the producer for

15 (1) the use by another person of a production facility in which the  
16 producer has an ownership interest or the management by the producer of a production  
17 facility under a management agreement providing for the producer to receive a  
18 management fee;

19 (2) a reimbursement or similar payment that offsets the producer's  
20 lease expenditures, including a payment from the state or federal government for  
21 reimbursement of the producer's upstream costs, including costs for gathering,  
22 separating, cleaning, dehydration, compressing, or other field handling associated with  
23 the production of oil or gas upstream of the point of production;

24 (3) the sale or other transfer of

25 (A) an asset, including geological, geophysical, or well data or  
26 interpretations, acquired by the producer as a result of a lease expenditure or an  
27 expenditure that would be a lease expenditure if it were incurred on or after  
28 April 1, 2006; for purposes of this subparagraph,

29 (i) if a producer removes from the state, for use outside  
30 the state, an asset described in this subparagraph, the value of the asset  
31 at the time it is removed is considered a payment received by the

1 producer for sale or transfer of the asset;

2 (ii) for a transaction that is an internal transfer or is  
3 otherwise not an arm's length transaction, if the sale or transfer of the  
4 asset is made for less than fair market value, the amount subtracted  
5 must be the fair market value; and

6 (B) oil or gas

7 (i) that is not considered produced from a lease or  
8 property under AS 43.55.020(e); and

9 (ii) the cost of acquiring which is a lease expenditure  
10 incurred by the person that acquires the oil or gas.

11 (f) In place of the adjusted lease expenditures for a month under (a) of this  
12 section, a producer may, at any time, elect to substitute, for every month of a calendar  
13 year, 1/12 of the producer's adjusted lease expenditures for the calendar year. An  
14 election made under this subsection applies to calculation of the tax under  
15 AS 43.55.011(e) and (g).

16 (g) The department shall specify or approve a reasonable allocation method  
17 for determining the portion of a cost that is appropriately treated as a lease expenditure  
18 under (c) of this section if a cost that would otherwise constitute a lease expenditure  
19 under (c) of this section is incurred to explore for, develop, or produce

20 (1) both an oil or gas deposit located within land outside the state and  
21 an oil or gas deposit located within a lease or property, or other land, in the state; or

22 (2) an oil or gas deposit located partly within land outside the state and  
23 partly within a lease or property, or other land, in the state.

24 (h) For purposes of AS 43.55.024(a) and (b) and only as to expenditures  
25 incurred to explore for an oil or gas deposit located within land in which an explorer  
26 does not own a working interest, the term "producer" in (b), (c), and (e) of this section  
27 includes "explorer."

28 (i) The department may adopt regulations that establish additional standards  
29 necessary to carrying out the purposes of this section.

30 (j) For purposes of this section,

31 (1) "explore" includes conducting geological or geophysical

1 exploration, including drilling a stratigraphic test well;

2 (2) "ordinary and necessary" has the meaning given to "ordinary and  
3 necessary" in 26 U.S.C. 162 (Internal Revenue Code), as amended, and regulations  
4 adopted under that section;

5 (3) "stratigraphic test well" means a well drilled for the sole purpose of  
6 obtaining geological information to aid in exploring for an oil or gas deposit and the  
7 target zones of which are located in the state.

8 **Sec. 43.55.170. Additional nontransferable tax credit.** (a) For a month that  
9 ends before April 1, 2016, and for which a producer's tax liability under  
10 AS 43.55.011(e) exceeds zero before application of any credits under this chapter, a  
11 producer that qualifies under (c) of this section may take a tax credit under this  
12 section. If the average amount of oil and gas produced a day during that month and  
13 taxable under AS 43.55.011(e) is

14 (1) not more than 5,000 barrels of oil equivalent, the amount of the  
15 credit

16 (A) for oil subject to tax under AS 43.55.011(e)(1) is five  
17 percent of the producer's production tax value for that month under  
18 AS 43.55.160(a); and

19 (B) for oil and gas subject to tax under AS 43.55.011(e)(2) is  
20 22.5 percent of the producer's production tax value for that month under  
21 AS 43.55.160(a); and

22 (2) more than 5,000 barrels of oil equivalent, the amount of the credit

23 (A) for oil subject to tax under AS 43.55.011(e)(1) is five  
24 percent of the producer's production tax value for that month under  
25 AS 43.55.160(a) multiplied by the quotient of 5,000 divided by the average  
26 amount of oil and gas expressed as barrels of oil equivalent, produced a day  
27 during that month and taxable under AS 43.55.011(e)(1); and

28 (B) for oil and gas subject to tax under AS 43.55.011(e)(2) is  
29 22.5 percent of the producer's production tax value for that month under  
30 AS 43.55.160(a) multiplied by the quotient of 5,000 divided by the average  
31 amount of oil and gas expressed as barrels of oil equivalent, produced a day

1 during that month and taxable under AS 43.55.011(e)(2).

2 (b) A tax credit under this section

3 (1) may be applied only against the tax levied under AS 43.55.011(e);

4 (2) must be applied before any other credit is applied;

5 (3) is not transferable and may not be carried forward or used in a  
6 different month;

7 (4) except as provided in (5) of this subsection, may not be applied if it  
8 would cause the total of the tax credits applied by the producer under this section  
9 during a calendar year to exceed \$14,000,000; and

10 (5) may not be applied if it would cause the total of the tax credits  
11 applied by the producer under this section during 2016 to exceed \$3,500,000.

12 (c) On written application by a producer, including any information the  
13 department may require, the department shall determine whether the producer  
14 qualifies under this section for a calendar year. To qualify under this section, a  
15 producer shall demonstrate that the producer's operation in the state or the producer's  
16 ownership of an interest in a lease or property in the state as a distinct producer entity  
17 would not result in the division among multiple producer entities of any production tax  
18 liability under AS 43.55.011(e) that would be reasonably expected to be attributed to a  
19 single producer entity if the tax credit provision of (a) of this section did not exist.

20 (d) For purposes of this section, a barrel of oil equivalent is

21 (1) one barrel of oil, in the case of oil;

22 (2) 6,000 cubic feet of gas, in the case of gas.

23 **Sec. 43.55.180. Required reports.** (a) The Department of Revenue shall

24 (1) study

25 (A) the effects of the tax rates under AS 43.55.011(f) and of  
26 potential changes in those tax rates on state revenue and on oil and gas  
27 exploration, development, and production on private land; and

28 (B) the fairness of the tax rates under AS 43.55.011(f) and of  
29 potential changes in those tax rates for private landowners; and

30 (2) prepare a report on or before the first day of the 2013 regular  
31 session of the legislature on the results of the study made under (1) of this subsection,

1 including a recommendation as to whether those tax rates should be changed; the  
 2 department shall notify the legislature that the report prepared under this paragraph is  
 3 available.

4 (b) The Department of Revenue shall

5 (1) study the effects of the credits authorized by AS 43.55.025 and  
 6 43.55.170 on state revenue, on the encouragement of exploration, development, and  
 7 production of oil and gas deposits located in the state, and on the encouragement of  
 8 new entrants into the oil and gas industry in the state; and

9 (2) prepare a report on or before the first day of the 2015 regular  
 10 session of the legislature on the results of the study made under (1) of this subsection,  
 11 and shall include with the report a recommendation as to whether the legislature  
 12 should extend the availability of the credits under AS 43.55.025 and 43.55.170 beyond  
 13 April 30, 2016; the department shall notify the legislature that the report prepared  
 14 under this paragraph is available.

15 \* **Sec. 27.** AS 43.55.201 is amended to read:

16 **Sec. 43.55.201. Surcharge levied.** (a) Every producer of oil shall pay a  
 17 surcharge of **\$.01** [\$.02] per barrel of oil produced from each lease or property in the  
 18 state, less any oil the ownership or right to which is exempt from taxation.

19 (b) The surcharge imposed by (a) of this section is in addition to **the tax**  
 20 **imposed by AS 43.55.011** and **is due on the last day of the month on oil produced**  
 21 **from each lease or property during the preceding month. The surcharge** [SHALL  
 22 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -  
 23 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 -  
 24 43.55.310.

25 (c) A producer of oil shall make reports of production in the same manner and  
 26 under the same penalties as required under **AS 43.55.011 - 43.55.180** [AS 43.55.011 -  
 27 43.55.150].

28 \* **Sec. 28.** AS 43.55.201 is amended by adding a new subsection to read:

29 (d) Oil not considered under AS 43.55.020(e) to be produced from a lease or  
 30 property is not considered to be produced from a lease or property for purposes of this  
 31 section.

1 \* **Sec. 29.** AS 43.55.300 is amended to read:

2 **Sec. 43.55.300. Surcharge levied.** (a) Every producer of oil shall pay a  
3 surcharge of **\$.05** [\$.03] per barrel of oil produced from each lease or property in the  
4 state, less any oil the ownership or right to which is exempt from taxation.

5 (b) The surcharge imposed by (a) of this section is in addition to **the tax**  
6 **imposed by AS 43.55.011** and **is due on the last day of the month on oil produced**  
7 **from each lease or property during the preceding month. The surcharge** [SHALL  
8 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -  
9 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 -  
10 43.55.231.

11 (c) A producer of oil shall make reports of production in the same manner and  
12 under the same penalties as required under **AS 43.55.011 - 43.55.180** [AS 43.55.011 -  
13 43.55.150].

14 \* **Sec. 30.** AS 43.55.300 is amended by adding a new subsection to read:

15 (d) Oil not considered under AS 43.55.020(e) to be produced from a lease or  
16 property is not considered to be produced from a lease or property for purposes of this  
17 section.

18 \* **Sec. 31.** AS 43.55.900(6) is repealed and reenacted to read:

19 (6) "gas" means

20 (A) all natural, associated, or casinghead gas;

21 (B) all hydrocarbons that

22 (i) are recovered by mechanical separation of well  
23 fluids or by gas processing; and

24 (ii) exist in a gaseous phase at the completion of  
25 mechanical separation and any gas processing; and

26 (C) all other hydrocarbons produced from a well not defined as  
27 oil;

28 \* **Sec. 32.** AS 43.55.900(7) is repealed and reenacted to read:

29 (7) "gross value at the point of production" means

30 (A) for oil, the value of the oil at the automatic custody transfer  
31 meter or device through which the oil enters into the facilities of a carrier

1 pipeline or other transportation carrier in a condition of pipeline quality; in the  
 2 absence of an automatic custody transfer meter or device, "gross value at the  
 3 point of production" means the value of the oil at the mechanism or device to  
 4 measure the quantity of oil that has been approved by the department for that  
 5 purpose, through which the oil is tendered and accepted in a condition of  
 6 pipeline quality into the facilities of a carrier pipeline or other transportation  
 7 carrier or into a field topping plant;

8 (B) for gas, other than gas described in (C) of this paragraph,  
 9 that is

10 (i) not subjected to or recovered by mechanical  
 11 separation or gas processing, the value of the gas at the first point  
 12 where the gas is accurately metered;

13 (ii) subjected to or recovered by mechanical separation  
 14 but not gas processing, the value of the gas at the first point where the  
 15 gas is accurately metered after completion of mechanical separation;

16 (iii) subjected to or recovered by gas processing, the  
 17 value of the gas at the first point where the gas is accurately metered  
 18 after completion of gas processing;

19 (C) for gas run through an integrated gas processing and gas  
 20 treatment facility that does not accurately meter the gas after the gas  
 21 processing and before the gas treatment, the value of the gas at the first point  
 22 where gas processing is completed or where gas treatment begins, whichever is  
 23 further upstream;

24 \* **Sec. 33.** AS 43.55.900(10) is repealed and reenacted to read:

25 (10) "oil" means

26 (A) crude petroleum oil; and

27 (B) all liquid hydrocarbons that are recovered by mechanical  
 28 separation of well fluids or by gas processing;

29 \* **Sec. 34.** AS 43.55.900 is amended by adding new paragraphs to read:

30 (17) "explorer" means a person who, in exploring for new oil or gas  
 31 reserves, incurs expenditures;

1 (18) "gas processing"

2 (A) means processing a gaseous mixture of hydrocarbons

3 (i) by means of absorption, adsorption, externally  
4 applied refrigeration, artificial compression followed by adiabatic  
5 expansion using the Joule-Thomson effect, or another physical process  
6 that is not mechanical separation;

7 (ii) for the purpose of extracting and recovering liquid  
8 hydrocarbons; and

9 (iii) upstream of any gas treatment and upstream of the  
10 inlet of any gas pipeline system transporting gas to a market;

11 (B) does not include gas treatment;

12 (19) "gas treatment"

13 (A) means conditioning gas and removing from gas  
14 nonhydrocarbon substances for the purpose of rendering the gas acceptable for  
15 tender and acceptance into a gas pipeline system; and

16 (B) includes incidentally removing liquid hydrocarbons from  
17 the gas;

18 (20) "oil and gas lease" includes an oil and gas lease, a gas only lease,  
19 and an oil only lease.

20 \* **Sec. 35.** AS 43.55.011(a), 43.55.011(b), 43.55.011(c), 43.55.012, 43.55.013, 43.55.016,  
21 43.55.025(k)(1), 43.55.025(k)(3), 43.55.900(1), 43.55.900(8), 43.55.900(11), 43.55.900(12),  
22 and 43.55.900(16) are repealed.

23 \* **Sec. 36.** The uncodified law of the State of Alaska is amended by adding a new section to  
24 read:

25 **APPLICABILITY.** (a) Sections 5, 7 - 10, 12, 13, 15 - 18, 20, and 24 - 35 of this Act  
26 apply to oil and gas produced on or after April 1, 2006.

27 (b) Section 11 of this Act applies to oil and gas produced before, on, or after the  
28 effective date of sec. 11 of this Act.

29 \* **Sec. 37.** The uncodified law of the State of Alaska is amended by adding a new section to  
30 read:

31 **TRANSITIONAL PROVISIONS.** (a) Notwithstanding any contrary provision of

1 AS 43.55.024(a), enacted by sec. 12 of this Act, for oil and gas produced on or after April 1,  
2 2006, and before January 1, 2007, the phrase "every month an annualized tax credit in an  
3 amount equal to 2 1/12 percent" in AS 43.55.024(a)(1), enacted by sec. 12 of this Act, shall be  
4 replaced by the phrase "every month during the period April 1, 2006, through December 31,  
5 2006, an annualized tax credit in an amount equal to 2 7/9 percent."

6 (b) Notwithstanding any contrary provision of AS 43.55.024(e), enacted by sec. 12 of  
7 this Act, for oil and gas produced on or after April 1, 2006, and before January 1, 2007, the  
8 phrase "a calendar year" in AS 43.55.024(e), enacted by sec. 13 of this Act, shall be replaced  
9 by the phrase "the last nine months of the calendar year."

10 (c) Notwithstanding any contrary provision of AS 43.55.024(i)(2), enacted by sec. 12  
11 of this Act, for oil and gas produced on or after April 1, 2006, and before January 1, 2007,

12 (1) the number "1/24" in AS 43.55.024(i)(2)(B), enacted by sec. 12 of this  
13 Act, shall be replaced by the number "1/18";

14 (2) the phrase "calendar year" in AS 43.55.024(i)(2)(B), enacted by sec. 12 of  
15 this Act, shall be replaced by the phrase "last nine months of the calendar year."

16 (d) Notwithstanding any contrary provision of AS 43.55.160(f), enacted by sec. 26 of  
17 this Act, for oil and gas produced on or after April 1, 2006, and before January 1, 2007, the  
18 phrase "for every month of a calendar year, 1/12 of the producer's adjusted lease expenditures  
19 for the calendar year" in AS 43.55.160(f), enacted by sec. 26 of this Act, shall be replaced by  
20 the phrase "for each of the last nine months of 2006, one-ninth of the producer's adjusted lease  
21 expenditures for that nine-month period."

22 (e) Notwithstanding any contrary provision of AS 43.55.170(b), enacted by sec. 26 of  
23 this Act, for oil and gas produced on or after April 1, 2006, and before January 1, 2007, the  
24 amount of "\$14,000,000" in AS 43.55.170(b)(4), enacted by sec. 26 of this Act, shall be  
25 replaced by "\$10,500,000."

26 (f) For oil and gas produced before April 1, 2006, the provisions of AS 43.55, and  
27 regulations adopted under AS 43.55, that were in effect before April 1, 2006, and that were  
28 applicable to the oil and gas continue to apply to that oil and gas.

29 (g) Notwithstanding any contrary provision of AS 43.55.020(a), as repealed and  
30 reenacted by sec. 7 of this Act, for oil and gas produced on or after April 1, 2006, and before  
31 the first day of the first month that begins at least 180 days after the effective date of sec. 7 of

1 this Act,

2 (1) the amount of the taxes that would have been levied on the producer under  
3 AS 43.55, as the provisions of that chapter read on March 31, 2006, is due on the last day of  
4 each calendar month on the oil and gas that was produced from each lease or property during  
5 the preceding month;

6 (2) the portion, if any, of the taxes levied under AS 43.55.011(e) - (g), enacted  
7 by sec. 5 of this Act, that is due under AS 43.55.020(a), as repealed and reenacted by sec. 7 of  
8 this Act, and that remains unpaid, net of any credits applied as allowed by law, is due on the  
9 last day of the first month that begins at least 180 days after the effective date of sec. 5 of this  
10 Act.

11 (h) Notwithstanding any contrary provision of AS 43.55.030(a), as amended by sec.  
12 18 of this Act, for oil and gas produced on or after April 1, 2006, and before the first day of  
13 the first month that begins at least 180 days after the effective date of sec. 18 of this Act, the  
14 person paying the tax shall file with the Department of Revenue, at the time an amount of tax  
15 is due

16 (1) under (g)(1) of this section, the statement required under former  
17 AS 43.55.030(a), as that subsection read on March 31, 2006; and

18 (2) under (g)(2) of this section, the statements required under  
19 AS 43.55.030(a), as amended by sec. 18 of this Act.

20 (i) For purposes of taxes to be calculated and due under (g)(1) of this section and  
21 statements to be filed under (h)(1) of this section, regulations that were adopted by the  
22 Department of Revenue under AS 43.55, as the provisions of that chapter read on March 31,  
23 2006, and that were in effect on that date apply to those taxes and statements.

24 \* **Sec. 38.** The uncodified law of the State of Alaska is amended by adding a new section to  
25 read:

26 **TRANSITION: REGULATIONS AND RETROACTIVITY OF REGULATIONS.** (a)  
27 The Department of Revenue may proceed to adopt regulations to implement the changes  
28 made by this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act),  
29 but not before the effective date of the law implemented by the regulation.

30 (b) Notwithstanding any contrary provision of AS 44.62.240, a regulation adopted by  
31 the Department of Revenue to implement, interpret make specific, or otherwise carry out the

1 provisions of secs. 5, 7 - 10, 12, 13, 15 - 18, 20, 24 - 35, and 37 of this Act may apply  
 2 retroactively as of April 1, 2006, if the Department of Revenue expressly designates in the  
 3 regulation that the regulation applies retroactively to that date.

4 \* **Sec. 39.** The uncodified law of the State of Alaska is amended by adding a new section to  
 5 read:

6 REVISOR'S INSTRUCTION. The revisor of statutes is instructed to change the  
 7 heading of

8 (1) AS 43.55 from "Oil and Gas Production Taxes and Oil Surcharge" to "Oil  
 9 and Gas Production Tax and Oil Surcharge";

10 (2) article 1 of AS 43.55 from "Oil and Gas Properties Production Taxes" to  
 11 "Oil and Gas Production Tax";

12 (3) AS 43.55.011 from "Oil production tax" to "Oil and gas production tax";

13 (4) AS 43.55.025 from "Tax credit for oil and gas exploration or gas only  
 14 exploration" to "Alternative tax credit for oil and gas exploration";

15 (5) AS 43.55.150 from "Determination of gross value" to "Determination of  
 16 gross value at the point of production."

17 \* **Sec. 40.** The uncodified law of the State of Alaska is amended by adding a new section to  
 18 read:

19 RETROACTIVITY OF PROVISIONS OF ACT. Sections 5, 7 - 10, 12, 13, 15 - 18,  
 20 20, 24 - 37 of this Act apply retroactively to April 1, 2006, and apply to oil and gas produced  
 21 after March 31, 2006.

22 \* **Sec. 41.** This Act takes effect immediately under AS 01.10.070(c).