# SENATE JOURNAL

## ALASKA STATE LEGISLATURE

## TWENTY-FOURTH LEGISLATURE

## THIRD SPECIAL SESSION

**Juneau, Alaska** **Thursday** **August 10, 2006**

### Thirtieth Day

Pursuant to adjournment the Senate was called to order by President Stevens at 7:05 a.m.

The roll showed eighteen members present. Senators Cowdery, Therriault were absent.

The prayer was offered by the Chaplain, Amanda Green. Senator Hoffman moved and asked unanimous consent that the prayer be spread. Without objection, it was so ordered.

> Father,
>
> When we feel alone and burdened, let us feel Your gentle touch. Be with us this day as we make decisions that involve those who trust us. Teach us the marvelous lesson that it is very possible we may be mistaken occasionally. When we are wrong, make us willing to admit it and when we are right, make us easy to live with. Amen.

Senator Elton led the Senate in the Pledge of Allegiance.

### Certification

Senator Gary Stevens moved and asked unanimous consent that the journal for the twenty-ninth legislative day and House and Senate Joint Journal Supplement No. 18 be approved as certified by the Secretary. Without objection, it was so ordered.

## Messages from the Governor

Executive Proclamation
by
Frank H. Murkowski, Governor

Under the authority of art. II, sec. 9, and art. III, sec. 17, of the Alaska Constitution, and in the public interest, I call the Twenty-fourth Legislature of the State of Alaska into its fourth special session at Juneau, Alaska in the legislative chambers on August 11, 2006, at 10:00 a.m., to consider the repeal of the oil production tax and the gas production tax and providing for a production tax on oil and gas.

Dated at Juneau, Alaska this 9th day of August, 2006.
/s/
Frank H. Murkowski, Governor

## Consideration of the Calendar

### Third Reading of House Bills

**HB 3001**
SENATE CS FOR CS FOR HOUSE BILL NO. 3001(NGD) "An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date" was read the third time.

Senator Guess moved that the bill be returned to second reading for the purpose of a specific amendment, that being Amendment No. 1. Without objection, the bill was returned to second reading.

Senator Guess offered Amendment No. 1:

Page 1, line 7, through page 2, line 8:
Delete all material.

Page 2, line 9:
Delete "**Sec. 2**"
Insert "**Section 1**"

Renumber the following bill sections accordingly.

Page 2, line 13, through page 22, line 22:
Delete all material and insert:
"*** Sec. 2.** AS 43.55.011(a) is amended to read:

(a) There is levied upon the producer of oil a tax for all oil produced from each lease or property in the **Cook Inlet sedimentary basin** [STATE], less any oil the ownership or right to which is exempt from taxation **or constitutes a land owner's royalty interest**. The tax is equal to either the percentage-of-value amount calculated under (b) of this section or the cents-per-barrel amount calculated under (c) of this section, whichever is greater, multiplied by the economic limit factor determined for the oil production of the lease or property under AS 43.55.013. If the amounts calculated under (b) and (c) of this section are equal, the amount calculated under (b) of this section shall be treated as if it were the greater for purposes of this section.

*** Sec. 3.** AS 43.55.011(b) is amended to read:

(b) The percentage-of-value amount equals [12.25 PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL PRODUCED ON OR BEFORE JUNE 30, 1981, FROM THE LEASE OR PROPERTY AND] 15 percent of the gross value at the point of production of taxable oil produced from the lease or property **in the Cook Inlet sedimentary basin,** [AFTER JUNE 30, 1981;] except that [FOR A LEASE OR PROPERTY COMING INTO COMMERCIAL OIL PRODUCTION AFTER JUNE 30, 1981,] the percentage-of-value amount equals 12.25 percent of the gross value at the point of production of taxable oil produced from the lease or property **in the Cook Inlet sedimentary basin** in the first five years after the start of commercial oil production [AND EQUALS 15 PERCENT

OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF TAXABLE OIL PRODUCED THEREAFTER FROM THE LEASE OR PROPERTY].

*** Sec. 4.** AS 43.55.011(c) is amended to read:

(c) The cents-per-barrel amount equals [$0.60 PER BARREL OF TAXABLE OLD CRUDE OIL PRODUCED FROM THE LEASE OR PROPERTY, AND] $0.80 per barrel for all [OTHER] taxable oil produced from the lease or property, [BOTH] as adjusted by AS 43.55.012.

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

(e) There is levied upon the producer of oil a tax for all oil produced from each lease or property in the state outside of the Cook Inlet sedimentary basin, less any oil the ownership or right to which is exempt from taxation or constitutes a land owner's royalty interest. The tax is equal to the greater of

(1) the cents-per-barrel amount calculated under (c) of this section; or

(2) the percentage-of-value amount calculated under (f) of this section plus the tax determined under (g) of this section.

(f) The percentage-of-value amount equals 15 percent of the gross value at the point of production of taxable oil produced from the lease or property in the state outside of the Cook Inlet sedimentary basin, as adjusted under AS 43.55.022.

(g) In addition to the taxes levied using the percentage-of-value amount under (e) of this section, if the average ANS West Coast price per barrel of oil during a month exceeds $40, there is levied on the producer of oil a tax for oil produced during that month from each lease or property in the state outside of the Cook Inlet sedimentary basin, less any oil the ownership or right to which is exempt from taxation. The tax levied under this subsection is equal to

[([ANS West Coast price - 40] x .003) x (ANS wellhead price x .85)]
x (total taxable barrels of oil at the point of production)

where "ANS wellhead price" means the prevailing value for oil produced in the Alaska North Slope area.

(h) For purposes of (g) of this section, the department may calculate the average price or may, by regulation, specify the method by which the average price shall be calculated with reference to one or more published sources of price information. If, in the department's judgment, reliable published sources of price information on Alaska North Slope crude oil cease, or appear likely to soon cease, to be available, or if, in the department's judgment, the price of Alaska North Slope crude oil ceases, or appears likely to soon cease, to be a reliable indicator of the general price level of crude oils, the department shall, by regulation, specify a substitute formula for computing the oil price index. The substitute formula specified by the department under this subsection must bear, as nearly as is reasonably possible, the same relationship to the general price level of crude oils as did the price of Alaska North Slope crude oil.

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

(1) the rate of tax levied on oil is equal to five percent of the gross value at the point of production of the oil;

(2) the rate of tax levied on gas is equal to 1.667 percent of the gross value at the point of production of the gas;

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

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

(i) for oil that is produced from a lease or property in the Cook Inlet sedimentary basin, five percent of the gross value at the point of production of the oil;

(ii) for oil, except oil described in (i) of this subparagraph, 22.8 percent of the gross value at the point of production of the oil; and

(B) notwithstanding (2) of this subsection, for gas the tax is equal to 11.25 percent of the gross value at the point of production of the gas.

*** Sec. 6.** AS 43.55.013(j) is amended to read:

(j) The department may aggregate two or more leases or properties (or portions of them), for purposes of determining economic limit factors under this section and applying them to **AS 43.55.011(a) and 43.55.016(a)** [AS 43.55.011 OR AS 43.55.016], when economically interdependent oil or gas production operations are not confined to a single lease or property. The department may also segregate a lease or property into two or more parts, for purposes of determining economic limit factors under this section and applying them under **AS 43.55.011(a) and 43.55.016(a)** [AS 43.55.011 OR AS 43.55.016], when two or more economically independent oil or gas production operations are being conducted on it, or when old crude oil is produced from the same lease or property as other oil.

*** Sec. 7.** AS 43.55.016(a) is amended to read:

(a) There is levied upon the producer of gas a tax for all gas produced from each lease or property in the **Cook Inlet sedimentary basin** [STATE], less any gas the ownership or right to which is exempt from taxation. The tax is equal to either the percentage-of-value amount calculated under (b) of this section or the cents-per-Mcf amount calculated under (c) of this section, whichever is greater, multiplied by the economic limit factor determined for gas production of the lease or property under AS 43.55.013. If the amounts calculated under (b) and (c) of this section are equal, the amount calculated under (b) of this section shall be treated as if it were the greater for purposes of this section.

*** Sec. 8.** AS 43.55.016(b) is amended to read:

(b) The percentage-of-value amount equals 10 percent of the gross value at the point of production of the taxable gas produced from the lease or property **in the Cook Inlet sedimentary basin**.

*** Sec. 9.** AS 43.55.016 is amended by adding new subsections to read:

(d) There is levied upon the producer of gas a tax for all gas produced from each lease or property in the state outside of the Cook Inlet sedimentary basin, less any gas the ownership or right to which is exempt from taxation. The tax is equal to either the cents-per-Mcf amount calculated under (c) of this section or the percentage-of-value amount calculated under (e) of this section, whichever is greater. If the amounts calculated under (c) and (e) of this section are equal, the amount calculated under (e) of this section shall be treated as if it were the greater for purposes of this section.

(e) The percentage-of-value amount equals 10 percent of the gross value at the point of production of the taxable gas produced from the lease or property in the state outside of the Cook Inlet sedimentary basin, as adjusted under AS 43.55.022.

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

**Sec. 43.55.022. Production deduction.** (a) A producer of oil subject to tax using the percentage-of-value amount in AS 43.55.011(f) and a producer of gas using the percentage-of-value amount in AS 43.55.016(e) may take a deduction against the gross value at the point of production as provided in this section before applying the percentage-of-value tax rate.

(b) Each operating unit in the state may reduce the volume of taxable oil and gas produced from the operating unit by 7,500 barrels of oil equivalent for each day during which oil or gas is produced from the operating unit. The lessees who are producers having leases within an operating unit shall allocate the reduction proportionately to the production in barrels of oil equivalent of oil and gas produced from the unit and to each producer of oil and gas in proportion to the interest of the producer in the oil and gas produced from the unit.

(c) Each producer of oil and each producer of gas may deduct the value of the producer's pro rata share of the reduction provided for in (b) of this section from the gross value at the point of production of oil and the gross value at the point of production of gas produced from the unit before applying the applicable percentage-of-value tax rate.

(d) The department may adopt regulations providing for the allocation of the barrels of oil equivalent production deduction within an operating unit between the oil and gas produced and between producers having an interest in the oil and gas produced from the operating unit.

(e) In this section,

(1) "barrel of oil equivalent" means,

(A) one barrel, in the case of oil;

(B) the amount of gas that has an energy content of 6,000,000 British thermal units, in the case of gas;

(2) "operating unit" means all or part of an oil or gas pool, field, or like area that is the subject of a cooperative or unit plan adopted or operated that is approved by the commissioner of natural resources under AS 38.05.180(p).

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

(a) Subject to the terms and conditions of this section, on oil and gas produced on or after July 1, 2004, from an oil and gas lease, or on gas produced from a gas only lease, a credit against the production tax due under this chapter is allowed for

**(1)** exploration expenditures that qualify under (b) of this section in an amount equal to one of the following:

**(A) 50** [(1) 20] percent of the total exploration expenditures that qualify only under (b) and (c) of this section;

**(B) 50** [(2) 20] percent of the total exploration expenditures for work performed before July 1, 2007, and that qualify only under (b) and (d) of this section;

**(C) 60** [(3) 40] percent of the total exploration expenditures that qualify under (b), (c), and (d) of this section; or

**(D) 60** [(4) 40] percent of the total exploration expenditures that qualify only under (b) and (e) of this section**; and**

**(2) 25 percent of the actual expenditures directly related to the drilling of a development well, excluding expenditures related to corporate overhead or for facilities other than the development well**.

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

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

INCURRED FOR WORK PERFORMED ON OR AFTER JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

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

(2) if for an exploration well,

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

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

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

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

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

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

(c) To be eligible for the **50** [20] percent production tax credit authorized by **(a)(1)(A)** [(a)(1)] of this section or the **60** [40] percent production tax credit authorized by **(a)(1)(C)** [(a)(3)] of this section, exploration expenditures must

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

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

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

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

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

(d) To be eligible for the **<u>50</u>** [20] percent production tax credit authorized by **<u>(a)(1)(B)</u>** [(a)(2)] of this section or the **<u>60</u>** [40] percent production tax credit authorized by **<u>(a)(1)(C)</u>** [(a)(3)] of this section, an exploration expenditure must

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

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

*** Sec. 15.** AS 43.55.025(e) is amended to read:

(e) To be eligible for the **<u>60</u>** [40] percent production tax credit authorized by **<u>(a)(1)(D)</u>** [(a)(4)] of this section, the exploration expenditure must

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

(2) be for seismic exploration; and

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

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

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

(1) an explorer **<u>or person drilling a development well</u>** shall, in a form prescribed by the department and within six

months of the completion of the exploration activity **or the development well**, claim the credit and submit information sufficient to demonstrate to the department's satisfaction that the claimed exploration **expenditures and development well** expenditures qualify under this section;

(2) an explorer shall agree, in writing,

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

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

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

(3) if more than one **person** [EXPLORER] holds an interest in a well**,** [OR] seismic exploration, **or development well** each **person** [EXPLORER] may claim an amount of credit that is proportional to the [EXPLORER'S] cost incurred **by that person**;

(4) the department may exercise the full extent of its powers as though the explorer **or the person drilling a development well** were a taxpayer under this title, in order to

verify that the claimed expenditures are qualified exploration **expenditures or development well** expenditures under this section; and

(5) if the department is satisfied that the [EXPLORER'S] claimed expenditures are qualified under this section, the department shall issue to the explorer **or person drilling a development well** a production tax credit certificate for the amount of credit to be allowed against production taxes due under this chapter; however, notwithstanding any other provision of this section, the department may not issue [TO AN EXPLORER] a production tax credit certificate **under this section** if the total of production tax credits submitted for Cook Inlet production, based on exploration **expenditures and development well** expenditures for work performed during the period described in (b) of this section for that production, that have been approved by the department exceeds $20,000,000.

*** Sec. 17.** AS 43.55.025(g) is amended to read:

(g) **A person receiving a production tax credit certificate under this section** [AN EXPLORER] may transfer, convey, or sell its production tax credit certificate to any person, and any person who receives a production tax credit certificate may also transfer, convey, or sell the certificate.

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

(j) Notwithstanding any other provision of this title, of AS 31.05, or of AS 40.25.100, the department shall provide to the Department of Natural Resources information submitted with a claim under this section to support the eligibility of an exploration **expenditure or development well** expenditure, including seismic exploration data and well data, and any information described in (f)(2) of this section received by the department.

*** Sec. 19.** AS 43.55.025(k) is amended by adding a new paragraph to read:

(4) "development well" means a well drilled to a known producing formation in a previously discovered field."

Renumber the following bill sections accordingly.

Page 23, line 23, through page 34, line 25:

Delete all material.

Renumber the following bill sections accordingly.

Page 34, line 26:
Delete "AS 43.55.201"
Insert "AS 43.55.201(a)"

Page 34, line 27:
Delete "**Sec. 43.55.201. Surcharge levied.**"

Page 34, line 30, through page 35, line 12:
Delete all material.

Renumber the following bill sections accordingly.

Page 35, line 13:
Delete "AS 43.55.300"
Insert "AS 43.55.300(a)"

Page 35, line 14:
Delete "**Sec. 43.55.300. Surcharge levied.**"

Page 35, line 17, through page 35, line 30:
Delete all material.

Renumber the following bill sections accordingly.

Page 36, line 11, through page 41, line 27:
Delete all material and insert:
"*** Sec. 24.** AS 43.55.900 is amended by adding a new paragraph to read:

(17) "Cook Inlet sedimentary basin" has the meaning given in regulations to implement AS 38.05.180(f)(4).

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

TRANSITIONAL PROVISIONS. Notwithstanding any contrary provision of AS 43.55.201(a), as amended by sec. 21 of this Act, or AS 43.55.300(a), as amended by sec. 22 of this Act, for oil produced after March 31, 2006, and before January 1, 2007,

(1) the amount of the surcharges that would have been imposed on the producer under AS 43.55, as the provisions of that

chapter read on March 31, 2006, is due on the last day of each calendar month on oil produced from each lease or property during the preceding month;

(2) the amount, if any, of the surcharges imposed under AS 43.55.201(a), as amended by sec. 21 of this Act, and AS 43.55.300(a), as amended by sec. 22 of this Act, that exceeds the amount due under (1) of this subsection, is due on March 31, 2007.

*** Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY. Sections 2 - 19 and 21 - 24 of this Act are retroactive to April 1, 2006, and apply to oil and gas produced after March 31, 2006.

*** Sec. 27.** This Act takes effect immediately under AS 01.10.070(c)."

The presence of Senator Therriault was noted.

Senator Guess moved for the adoption of Amendment No. 1. Senator Gary Stevens objected.

The question being: "Shall Amendment No. 1 be adopted?" The roll was taken with the following result:

SCS CSHB 3001(NGD)
Second Reading
Amendment No. 1

**YEAS: 7 NAYS: 12 EXCUSED: 0 ABSENT: 1**

Yeas: Davis, Ellis, Elton, French, Guess, Kookesh, Olson

Nays: Bunde, Dyson, Green, Hoffman, Huggins, Seekins, Stedman, Stevens B, Stevens G, Therriault, Wagoner, Wilken

Absent: Cowdery

and so, Amendment No. 1 failed.

SENATE CS FOR CS FOR HOUSE BILL NO. 3001(NGD) was automatically in third reading.

Senator French moved that the bill be returned to second reading for the purpose of a specific amendment, that being Amendment No. 2. Without objection, the bill was returned to second reading.

Senators French, Guess, Ellis, Elton offered Amendment No. 2:

Page 3, line 5:
Delete "or gas"
Delete "and gas"

Page 3, line 6:
Delete "and gas"

Page 3, line 8:
Delete "and (k)"

Page 3, lines 9 - 10:
Delete "and gas"

Page 3, line 12:
Delete "and gas"

Page 4, line 3:
Delete "or gas"

Page 4, line 4:
Delete "and gas"

Page 4, line 5:
Delete "and gas"

Page 4, line 6:
Delete "and (k)"

Page 4, line 9:
Delete "and gas"

Page 4, line 12:
Delete "and gas"

Page 4, line 16:
Delete "and gas"

Page 4, line 18:
Delete "and gas"
Delete ", in BTU equivalent barrels"

Page 4, line 20:
Delete "or gas"
Delete "and gas"

Page 4, line 22:
Delete "and gas"

Page 4, lines 27 - 28:
Delete all material.

Renumber the following paragraph accordingly.

Page 4, line 30:
Delete "or (2)"

Page 5, line 2:
Delete "and (2)"

Page 5, line 3:
Delete "and gas"

Page 5, lines 4 - 22:
Delete all material.

Reletter the following subsections accordingly.

Page 6, line 11:
Delete "or (k)"

Page 6, line 12:
Delete "or gas"

Page 6, line 16, through page 7, line 16:

Delete all material and insert:

"* **Sec. 6.** AS 43.55.013(j) is amended to read:

(j) The department may aggregate two or more leases or properties (or portions of them), for purposes of determining **the** economic limit **factor** [FACTORS] under this section and applying **it** [THEM] to [AS 43.55.011 OR] AS 43.55.016, when economically interdependent [OIL OR] gas production operations are not confined to a single lease or property. The department may also segregate a lease or property into two or more parts, for purposes of determining **the** economic limit **factor** [FACTORS] under this section and applying **it** [THEM] under [AS 43.55.011 OR] AS 43.55.016, when two or more economically independent [OIL OR] gas production operations are being conducted on it [, OR WHEN OLD CRUDE OIL IS PRODUCED FROM THE SAME LEASE OR PROPERTY AS OTHER OIL]."

Renumber the following bill sections accordingly.

Page 7, line 27, following "(a)":

Insert "The production tax on gas shall be paid monthly. The tax on gas is due on the 20th day of each calendar month on gas produced from each lease or property during the preceding month. If the tax on gas is not paid before the end of the month in which it becomes due, the tax becomes delinquent."

Page 8, line 11:

Delete "and gas"

Page 8, lines 19 - 20:

Delete "the sum of"

Page 8, line 21:

Delete "(A)"

Page 8, line 24:

Delete "plus"

Page 8, lines 25 - 28:

Delete all material.

Page 9, line 3:
Delete "**and** [OR]"
Insert "or"

Page 9, line 6:
Delete "**and**"
Insert "**or**"

Page 9, line 7, following "**AS 43.55.011**":
Insert "**or 43.55.016**"

Page 9, line 8:
Delete "**and** [OR]"
Insert "or"

Page 9, line 10, following "**tax**":
Insert "**on oil and monthly payments of tax on gas**"

Page 9, line 14:
Delete "**and gas**"

Page 9, line 15:
Delete "**and gas**"

Page 9, line 17:
Delete "**and gas**"

Page 9, line 22:
Delete "**and gas**"

Page 9, line 25, through page 10, line 1:
Delete all material.

Renumber the following bill sections accordingly.

Page 11, line 14:
Delete "and gas"

Page 13, line 10:
Delete "and gas"

Page 13, line 17:
Delete "and gas"

Page 13, line 18:
Delete "BTU equivalent"

Page 15, line 10:
Delete "or gas"

Page 16, line 17:
Delete "and gas"

Page 16, line 26:
Delete "or gas"

Page 16, line 29:
Delete "or gas"

Page 17, line 5:
Delete "and gas"

Page 17, line 6:
Delete "BTU equivalent"

Page 17, line 8:
Delete "and gas"

Page 17, line 9:
Delete "BTU equivalent"

Page 17, line 11:
Delete "BTU equivalent"

Page 17, line 15:
Delete "and gas"

Page 17, line 16:
Delete "in BTU equivalent barrels"

Page 17, line 20:
Delete "or gas"

Page 17, line 22:
Delete "or gas"

Page 18, line 2:
Delete "and gas"

Page 18, line 24, following "**AS 43.55.011(e) or (f)**":
Insert "**or 43.55.016**"

Page 20, line 30, following "**AS 43.55.011(e) or (f)**":
Insert "**or 43.55.016**"

Page 21, line 9, following "**AS 43.55.011(e) or (f)**":
Insert "**or 43.55.016**"

Page 21, line 18, following "**AS 43.55.011(e) or (f)**":
Insert "**or 43.55.016, as applicable,**"

Page 21, line 21, following "**AS 43.55.011(e) or (f)**":
Insert "**or 43.55.016, as applicable,**"

Page 21, line 23, following "**AS 43.55.011(e) or (f)**":
Insert "**or 43.55.016, as applicable,**"

Page 22, line 2:
Delete "**and** [OR] gas **were** [WAS]"
Insert "or gas was"

Page 22, line 7:
Delete "**and gas**"
Insert "**or gas, as applicable,**"

Page 22, line 9:
Delete "**and of the** [OR] gas"
Insert "**,** or **the total value of the** gas**, as applicable,**"

Page 22, line 12:
Delete "**and for the** [OR]"
Insert "or"

Page 24, line 15:
Delete "**and gas**"

Page 24, line 18:
Delete "and gas"

Page 24, line 20:
Delete "and gas"

Page 24, line 23:
Delete "and gas"

Page 24, line 25:
Delete "and gas"

Page 24, line 28:
Delete "and gas"

Page 24, lines 30 - 31:
Delete "and gas"

Page 25, lines 8 - 13:
Delete all material.

Page 25, line 15:
Delete "and gas"

Page 25, line 17:
Delete "and gas"

Page 25, line 20:
Delete "and gas"

Page 25, line 22:
Delete "and gas"

Page 25, line 25:
Delete "and gas"

Page 25, lines 27 - 28:
Delete "and gas"

Page 26, line 4:
Delete ";"
Insert "."

Page 26, lines 5 - 10:
Delete all material.

Page 26, line 15:
Delete "and gas"

Page 26, line 19:
Delete "or gas"

Page 27, line 2:
Delete "or gas"

Page 27, line 8:
Delete "and gas"

Page 27, line 10:
Delete "or gas"

Page 27, line 12:
Delete "or gas"

Page 28, line 4:
Delete "or gas"

Page 28, line 7:
Delete "or gas"

Page 28, line 9:
Delete "or gas"

Page 28, line 16:
Delete "and gas"

Page 29, line 4:
Delete "or gas"

Page 29, line 13:
Delete "and gas"

Page 29, line 28:
Delete "or gas"

Page 30, line 1:
Delete "or gas"

Page 30, line 30:
Delete "or gas"

Page 30, line 31, through page 31, line 1:
Delete "and gas production, in barrels of oil equivalent,"
Insert "production"

Page 31, line 3:
Delete "and gas production, in barrels of oil equivalent,"
Insert "production"

Page 31, lines 10 - 12:
Delete all material.

Page 31, line 23:
Delete ", in BTU equivalent barrels,"

Page 31, line 27:
Delete "or gas"

Page 32, line 3:
Delete "or gas"

Page 32, line 4:
Delete "or gas"

Page 32, line 5:
Delete "or gas"

Page 32, lines 7 - 11:
Delete all material and insert:
"(h) If a cost that would otherwise constitute a lease expenditure under this section is incurred to explore for, develop, or produce both oil and gas, the department shall allocate the cost between oil and gas to determine the amount applicable to oil and deductible under this section by (1) a ratio of the volume of oil production to the volume of gas production in barrels of oil equivalent for the applicable lease or property, (2) the predominant purpose of the expenditure between oil and gas, or (3) other reasonable allocation methods to determine the portion of the cost that is appropriately treated as a lease expenditure for oil under this section. In this subsection, "barrels of oil equivalent" means 6,000 cubic feet of gas."

Page 32, line 23:
Delete "or gas"

Page 33, line 7:
Delete "or gas"

Page 33, line 22:
Delete "or gas"

Page 33, line 26:
Delete "or gas"

Page 34, line 6:
Delete "or gas"

Page 36, lines 15 - 16:
Delete all material and insert:
"(B) for gas
(i) recovered from or in association with oil, the value of the gas at the point where it is accurately metered or measured after separation from the oil; for gas run through a gas processing plant, the gross value at the

point of production is the full consideration received by the producer for the gas if sold in an arm's length transaction or, in the absence of an arm's length transaction, is the sum of the value of the liquids extracted from the gas at the plant and the value of the residue gas, less a reasonable allowance for processing the gas at the plant and for transporting the gas to the plant from the premises on which the oil production operation is conducted; and

(ii) not recovered from or in association with oil, the value of the gas at the point where it is accurately metered or measured or the value of the gas at the point of sale, if any, on the premises of the lease or property from which the gas is recovered, whichever is the higher value; for gas run through a gas processing plant, the gross value at the point of production is the full consideration received by the producer for the gas if sold in an arm's length transaction or, in the absence of an arm's length transaction, is the sum of the value of the liquids extracted from the gas at the plant and the value of the residue gas, less a reasonable allowance for processing the gas at the plant and for transporting the gas to the plant from the point where it was accurately metered or measured;"

Page 36, lines 23 - 29:
Delete all material.

Renumber the following paragraphs accordingly.

Page 37, lines 28 - 29:
Delete all material.

Renumber the following paragraphs accordingly.

Page 38, line 9:
Delete "(A) for oil,"

Page 38, line 16:
Delete ";"
Insert "."

Page 38, lines 17 - 30:
Delete all material.

Page 38, line 31:
Delete "43.55.013, 43.55.016"
Insert "43.55.013(b), 43.55.013(d)"

Page 39, line 5:
Delete "5, 7 - 10, 12 - 14, 16 - 20, 24, and 26 - 34"
Insert "5, 8 - 10, 12 - 14, 16 - 20, 24, and 26 - 34"

Page 39, line 13:
Delete "and gas"

Page 39, line 20:
Delete "and gas"

Page 39, line 24:
Delete "and gas"

Page 39, line 30:
Delete "and gas"

Page 40, line 30:
Delete "and gas"

Page 40, line 31:
Delete "AS 43.55.160(a)(2)(A) - (D)"
Insert "AS 43.55.160(a)(2)(A) - (C)"

Page 41, lines 6 - 7:
Delete "5, 7 - 10, 12 - 14, 16 - 20, 24 - 34, and 36"
Insert "5, 8 - 10, 12 - 14, 16 - 20, 24 - 34, and 36"

Page 41, lines 10 - 22:
Delete all material.

Renumber the following bill sections accordingly.

Page 41, lines 25 - 26:
Delete "5, 7 - 10, 12 - 14, 16 - 20, and 24 - 36"
Insert "5, 8 - 10, 12 - 14, 16 - 20, and 24 - 36"

Senator French moved for the adoption of Amendment No. 2. Senator Gary Stevens objected.

The question being: "Shall Amendment No. 2 be adopted?" The roll was taken with the following result:

SCS CSHB 3001(NGD)
Second Reading
Amendment No. 2

**YEAS: 7 NAYS: 12 EXCUSED: 0 ABSENT: 1**

Yeas: Davis, Ellis, Elton, French, Guess, Kookesh, Olson

Nays: Bunde, Dyson, Green, Hoffman, Huggins, Seekins, Stedman, Stevens B, Stevens G, Therriault, Wagoner, Wilken

Absent: Cowdery

and so, Amendment No. 2 failed.

SENATE CS FOR CS FOR HOUSE BILL NO. 3001(NGD) was automatically in third reading.

The question being: "Shall SENATE CS FOR CS FOR HOUSE BILL NO. 3001(NGD) "An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date" pass the Senate?" The roll was taken with the following result:

SCS CSHB 3001(NGD)
Third Reading - Final Passage

**YEAS: 14 NAYS: 5 EXCUSED: 0 ABSENT: 1**

Yeas: Bunde, Davis, Dyson, Green, Hoffman, Huggins, Kookesh, Olson, Seekins, Stedman, Stevens B, Stevens G, Wagoner, Wilken

Nays: Ellis, Elton, French, Guess, Therriault

Absent: Cowdery

and so, SENATE CS FOR CS FOR HOUSE BILL NO. 3001(NGD) passed the Senate.

Senator Gary Stevens moved and asked unanimous consent that the vote on the passage of the bill be considered the vote on the effective date clause. Senator Guess objected.

The question being: "Shall the effective date clause be adopted?" The roll was taken with the following result:

SCS CSHB 3001(NGD)
Effective Date Clause

**YEAS: 19 NAYS: 0 EXCUSED: 0 ABSENT: 1**

Yeas: Bunde, Davis, Dyson, Ellis, Elton, French, Green, Guess, Hoffman, Huggins, Kookesh, Olson, Seekins, Stedman, Stevens B, Stevens G, Therriault, Wagoner, Wilken

Absent: Cowdery

and so, the effective date clause was adopted and the bill was referred to the Secretary for engrossment.

**Recess**

President Stevens stated that, without objection, the Senate would recess to a call of the Chair. Without objection, the Senate recessed at 8:08 a.m.

## After Recess

The Senate reconvened at 9:57 p.m.

## Engrossment

**HB 3001**
SENATE CS FOR CS FOR HOUSE BILL NO. 3001(NGD) "An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date" was engrossed, signed by the President and Secretary and returned to the House for consideration.

## Adjournment

Senator Gary Stevens moved and asked unanimous consent that the Third Special Session of the Twenty-fourth Alaska State Senate stand in adjournment sine die. Without objection, the Senate adjourned at 9:58 p.m.

Kirsten Waid
Secretary of the Senate