

**HOUSE BILL NO. 308**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SIXTH LEGISLATURE - SECOND SESSION

**BY REPRESENTATIVES JOHNSON, Neuman, Ramras, Millett, Johansen, Hawker**

**Introduced: 1/19/10**

**Referred: Resources, Finance**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the tax rate applicable to the production of oil and gas; relating to**  
2 **credits against the oil and gas production tax; and relating to the period in which oil and**  
3 **gas production taxes may be assessed."**

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

5 **\* Section 1.** AS 43.55.011(g) is amended to read:

6 (g) For each month of the calendar year for which the producer's average  
7 monthly production tax value under AS 43.55.160(a)(2) per BTU equivalent barrel of  
8 the taxable oil and gas is more than \$30, the amount of tax for purposes of (e)(2) of  
9 this section is determined by multiplying the monthly production tax value of the  
10 taxable oil and gas produced during the month by the tax rate calculated as follows:

11 (1) if the producer's average monthly production tax value per BTU  
12 equivalent barrel of the taxable oil and gas for the month is not more than \$92.50, the  
13 tax rate is 0.2 [0.4] percent multiplied by the number that represents the difference  
14 between that average monthly production tax value per BTU equivalent barrel and

1 \$30; or

2 (2) if the producer's average monthly production tax value per BTU  
3 equivalent barrel of the taxable oil and gas for the month is more than \$92.50, the tax  
4 rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number  
5 that represents the difference between the average monthly production tax value per  
6 BTU equivalent barrel and \$92.50, except that the sum determined under this  
7 paragraph may not exceed 50 percent.

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

9 (a) Subject to the terms and conditions of this section, a credit against the  
10 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that  
11 qualify under (b) of this section in an amount equal to one of the following:

12 (1) 30 percent of the total exploration expenditures that qualify only  
13 under (b) and (c) of this section;

14 (2) 30 percent of the total exploration expenditures that qualify only  
15 under (b) and (d) of this section;

16 (3) 30 [40] percent of the total exploration expenditures that qualify  
17 under (b), (c), and (d) of this section; or

18 (4) 30 [40] percent of the total exploration expenditures that qualify  
19 only under (b) and (e) of this section.

20 \* **Sec. 3.** AS 43.55.025(c) is amended to read:

21 (c) To be eligible for the 30 percent production tax credit authorized by (a)(1)  
22 **or (3)** [OF THIS SECTION OR THE 40 PERCENT PRODUCTION TAX CREDIT  
23 AUTHORIZED BY (a)(3)] of this section, exploration expenditures must

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

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

26 (A) before the well is spudded,

27 (i) the explorer shall submit to the commissioner of  
28 natural resources the information necessary to determine whether the  
29 geological objective of the well is a potential oil or gas trap that is  
30 distinctly separate from any trap that has been tested by a preexisting  
31 well;

1 (ii) at the time of the submittal of information under (i)  
2 of this subparagraph, the commissioner of natural resources may  
3 request from the explorer that specific data sets, ancillary data, and  
4 reports including all results, and copies of well data collected and data  
5 analyses for the well be provided to the Department of Natural  
6 Resources upon completion of the drilling; in this sub-subparagraph,  
7 well data include all analyses conducted on physical material, and well  
8 logs collected from the well and sample analyses; testing geophysical  
9 and velocity data including vertical seismic profiles and check shot  
10 surveys; testing data and analyses; age data; geochemical analyses; and  
11 access to tangible material; and

12 (iii) the commissioner of natural resources must make  
13 an affirmative determination as to whether the geological objective of  
14 the well is a potential oil or gas trap that is distinctly separate from any  
15 trap that has been tested by a preexisting well and what information  
16 under (ii) of this subparagraph must be submitted by the explorer after  
17 completion, abandonment, or suspension under AS 31.05.030; the  
18 commissioner of natural resources shall make that determination within  
19 60 days after receiving all the necessary information from the explorer  
20 based on the information received and on other information the  
21 commissioner of natural resources considers relevant;

22 (B) for an exploration well other than a well to explore a Cook  
23 Inlet prospect, the well must be located and drilled in such a manner that the  
24 bottom hole is located not less than three miles away from the bottom hole of a  
25 preexisting well drilled for oil or gas, irrespective of whether the preexisting  
26 well has been completed, suspended, or abandoned;

27 (C) after completion, suspension, or abandonment under  
28 AS 31.05.030 of the exploration well, the commissioner of natural resources  
29 must determine that the well was consistent with achieving the explorer's  
30 stated geological objective.

31 \* **Sec. 4.** AS 43.55.025(d) is amended to read:

1 (d) To be eligible for the 30 percent production tax credit authorized by (a)(2)  
 2 **or (3)** [OF THIS SECTION OR THE 40 PERCENT PRODUCTION TAX CREDIT  
 3 AUTHORIZED BY (a)(3)] of this section, an exploration expenditure must

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

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

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

12 (e) To be eligible for the **30** [40] percent production tax credit authorized by  
 13 (a)(4) of this section, the exploration expenditure must

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

15 (2) be for seismic exploration; and

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

20 \* **Sec. 6.** AS 43.55 is amended by adding a new section to read:

21 **Sec. 43.55.026. Special credit for certain well-related expenditures.** (a) In  
 22 addition to the credits authorized by AS 43.55.023 - 43.55.025, an explorer or  
 23 producer is entitled to a credit against the tax levied under AS 43.55.011(e) for capital  
 24 and noncapital expenditures incurred after December 31, 2010, for well drilling,  
 25 seismic exploration and analysis, and maintenance and well workovers that are  
 26 directly related to an oil or gas well as provided in this section.

27 (b) An explorer or producer is entitled to a credit of 10 percent of a capital  
 28 expenditure for well drilling or seismic exploration and analysis.

29 (c) An explorer or producer is entitled to a credit of 30 percent of an  
 30 expenditure that is noncapital expenditure for well drilling, seismic exploration and  
 31 analysis, or well maintenance and workovers.

1 (d) To receive a credit under this section, the owner of a well or a person  
2 having a working interest in the property on which the work is performed shall apply  
3 to the department. The application shall be made on the form required by the  
4 department and provide information related to the basis for claiming the credit that is  
5 required under regulations adopted by the department. An application for a credit must  
6 be filed within three months after the end of the calendar year in which the  
7 expenditures that are the basis for the claim are incurred.

8 (e) Whether or not an expenditure is a capital expenditure for purposes of (b)  
9 of this section or a noncapital expenditure for purposes of (c) of this section shall be  
10 determined by applying the generally accepted accounting principles applicable to the  
11 oil and gas industry and regulations adopted by the department.

12 (f) A credit or portion of a credit under this section may not be used to reduce  
13 a person's tax liability under AS 43.55.011(e) for any calendar year below zero, and  
14 any unused credit or portion of a credit not used under this subsection may be applied  
15 in a later calendar year.

16 (g) A person eligible for a credit under this section but not subject to tax under  
17 AS 43.55.011(e) may transfer a credit to a person subject to tax under AS 43.55.011(e)  
18 with written approval by the department. To transfer a credit under this subsection, the  
19 person shall make an application to the department for the transfer and provide the  
20 name of the person to whom the credit would be transferred. After approval by the  
21 department, the department shall issue a certificate representing the amount of the  
22 credit to be transferred. A person receiving the certificate may claim the credit against  
23 a tax due under AS 43.55.011(e) subject to the limitations in (f) of this section.

24 (h) The department shall adopt regulations for administering this section that  
25 must include the means for determining whether an expenditure is a capital  
26 expenditure for the purposes of (b) of this section or a noncapital expenditure for the  
27 purposes of (c) of this section.

28 \* **Sec. 7.** AS 43.55.075(a) is amended to read:

29 (a) Except as provided in AS 43.05.260(c), the amount of a tax imposed by  
30 this chapter must be assessed within three [SIX] years after the return was filed.