

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: CSSB 309(FIN)  
 (S) Publish Date: 4/16/10

Identifier (file name): SB 309 DNR-O&G-04-10-2010 Dept. Affected: Natural Resources  
 Title: Tax Credit to Drill Wells in Cook Inlet RDU: Resource Development  
 Component: Oil and Gas Development  
 Sponsor: SRES  
 Requester: SRES Component Number: 439

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>								
<b>CHANGE IN REVENUES ( )</b>			<b>Indeterminate</b>					

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time								
Part-time								
Temporary								

**ANALYSIS:** *(Attach a separate page if necessary)*  
 CSSB 309 amends AS 43.20.043 to offer certain corporate income tax credits in the amount of 25 percent of qualified capital costs and annual costs associated with these qualified capital costs for wells drilled in the Cook Inlet after December 31, 2009. These tax credits may reduce the cost of drilling new wells in the state by reducing a taxpayer's potential corporate tax liabilities.  
  
 CSSB 309 amends AS 43.55.025(a) adding subsection (5) to include tax credits against the production tax for certain exploration in the Cook Inlet at 100%, 90%, and 80% of total exploration expenditures. CSSB 309 also adds section (m) to AS 43.55.025 so that these tax credits in subsection (5) are provided to three unaffiliated persons that each drill an offshore

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**ANALYSIS CONTINUATION**

exploration well that penetrates and evaluates a prospect in the pre-Tertiary zone from a single jack-up rig. The first person to drill receives a 100% credit but not more than \$25 million; the second person receives a 90% credit but not more than \$22.5 million; the third person receives a 80% credit but not more than \$20 million. The commissioner will determine which well is first, second, and third based on the date and time the well is spud and is given the discretion to determine whether each well penetrated and evaluated a pre-Tertiary target. Should a exploration well that qualifies for one of these credits discovers a reservoir that results in sustained production, half of the tax credit amount must be repaid to the state by the person who received the tax credit. The person has 10 years to make equal monthly installments after sustained production begins.

Because of the considerable uncertainty of any offshore discovery and the unpredictable affect of the tax credits offered under both provisions of CSSB 309 on any exploration and development activity in the Cook Inlet, there is an indeterminate affect on future royalty revenue.