

CS FOR HOUSE BILL NO. 276(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 3/15/12

Referred: Finance

Sponsor(s): REPRESENTATIVES THOMPSON, DICK, MILLETT, TUCK, AND MILLER, Tammie Wilson, Kawasaki, Feige, Joule

A BILL

FOR AN ACT ENTITLED

1 "An Act providing for a credit against the oil and gas production tax for costs incurred
2 for conducting seismic exploration and drilling certain oil or natural gas exploration
3 wells in certain basins; and relating to a limit on certain oil and gas production tax
4 credits."

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

6 * **Section 1.** AS 43.55.025(a) is amended to read:

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

11 (1) 30 percent of the total exploration expenditures that qualify only
12 under (b) and (c) of this section;

13 (2) 30 percent of the total exploration expenditures that qualify only
14 under (b) and (d) of this section;

1 (3) 40 percent of the total exploration expenditures that qualify under
2 (b), (c), and (d) of this section;

3 (4) 40 percent of the total exploration expenditures that qualify only
4 under (b) and (e) of this section; [OR]

5 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
6 section, of the total exploration expenditures described in (b)(1) and (2) of this section
7 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
8 section;

9 **(6) the lesser of \$22,500,000 or 80 percent of the total exploration**
10 **drilling expenditures described in (n) of this section that qualify under (b), (c),**
11 **and (p) of this section; or**

12 **(7) the lesser of \$7,500,000 or 75 percent of the total seismic**
13 **exploration expenditures described in (o) of this section that qualify under (b)**
14 **and (p) of this section.**

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

16 (c) To be eligible for **a** [THE 30 PERCENT] production tax credit authorized
17 by (a)(1), **(3), or (6)** of this section [OR THE 40 PERCENT PRODUCTION TAX
18 CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures
19 must

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

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

22 (A) before the well is spudded,

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

28 (ii) at the time of the submittal of information under (i)
29 of this subparagraph, the commissioner of natural resources may
30 request from the explorer that specific data sets, ancillary data, and
31 reports including all results, and copies of well data collected and data

1 analyses for the well be provided to the Department of Natural
 2 Resources upon completion of the drilling; in this sub-subparagraph,
 3 well data include all analyses conducted on physical material, and well
 4 logs collected from the well and sample analyses; testing geophysical
 5 and velocity data including vertical seismic profiles and check shot
 6 surveys; testing data and analyses; age data; geochemical analyses; and
 7 access to tangible material; and

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

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

23 (C) after completion, suspension, or abandonment under AS
 24 31.05.030 of the exploration well, the commissioner of natural resources must
 25 determine that the well was consistent with achieving the explorer's stated
 26 geological objective.

27 * **Sec. 3.** AS 43.55.025 is amended by adding new subsections to read:

28 (n) The persons that drill the first four exploration wells in an area described
 29 in (p) of this section on state or private lands for the purpose of discovering oil or gas
 30 that penetrate and evaluate a prospect in a basin described in (p) of this section are
 31 eligible for a credit under (a)(6) of this section. A credit may not be taken for more

1 than two exploration wells in a single area described in (p)(1) - (6) of this section. A
2 person or an affiliate of a person may qualify for a credit for not more than two wells
3 under this subsection. The department shall make a determination of the order in
4 which the wells are drilled based on the date and time that the drill bit first turns to the
5 right for the purpose of drilling the well. A person planning to drill an exploration well
6 on private land and to obtain a credit under this subsection shall obtain written consent
7 from the owner of the oil and gas interest for the full public release of all well data
8 collected within two years after receiving a credit under this section and in conjunction
9 with and compliance with the data submission requirements in (f)(2) of this section.
10 The written consent of the owner of the oil and gas interest must be submitted to the
11 commissioner of natural resources before approval of the proposed exploration well.
12 In addition to the requirements in (c) of this section and submission of the written
13 consent of the owner of the oil and gas interest, a person planning to drill an
14 exploration well shall obtain approval from the commissioner of natural resources
15 before the well is spudded. Before approving the exploration well, the commissioner
16 of natural resources must make an affirmative finding that the exploration well is in
17 the best interest of the state based on the following: the location of the well; the
18 proximity to a community in need of a local energy source; the proximity of existing
19 infrastructure; the experience and safety record of the explorer in conducting
20 operations in remote or roadless areas; the projected cost schedule; whether seismic
21 mapping and seismic data sufficiently identify a particular trap for exploration;
22 whether the targeted and planned depth and range are designed to penetrate and fully
23 evaluate the hydrocarbon potential of the proposed prospect and reach the level below
24 which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or
25 more true vertical depth; and whether the exploration plan provides for a full
26 evaluation of the wellbore below surface casing to the depth of the well. Exploration
27 expenditures eligible for the credit in this subsection must be incurred for work
28 performed after June 1, 2012. Whether the exploration well for which a credit is
29 requested under this subsection is located within an area and a basin described under
30 (p) of this section shall be determined by the commissioner of natural resources and
31 reported to the commissioner. A taxpayer that obtains a credit under this subsection

1 may not claim a tax credit under AS 43.55.023 or another provision in this section for
2 the same exploration expenditure.

3 (o) The persons that conduct the first four seismic exploration projects in the
4 areas described in (p) of this section for the purpose of discovering oil or gas in a basin
5 are eligible for the credit under (a)(7) of this section. A credit may not be taken for
6 more than one seismic exploration project in a single area described in (p)(1) - (6) of
7 this section. Exploration expenditures eligible for the credit in this subsection must be
8 incurred for work performed after June 1, 2012. A person planning to conduct a
9 seismic exploration project on private land and to obtain a credit under this subsection
10 shall obtain written consent from the owner of the oil and gas interest for the full
11 public release of all geophysical data and compliance with the data submission
12 requirements in (f)(2) of this section. To qualify for a credit under this subsection, a
13 person shall submit the written consent of the owner of the oil and gas interest for the
14 release of data if applicable, and all data required under (f)(2) of this section to the
15 Department of Natural Resources and shall agree in writing that all seismic data
16 requirements submitted under the requirements of (f)(2) of this section may be made
17 public within two years after receiving the credit in this subsection. A person or an
18 affiliate of a person may qualify for a credit for more than one seismic exploration
19 project under this subsection. A person intending to qualify for the tax credit under
20 this subsection shall obtain approval from the commissioner of natural resources
21 before the commencement of the seismic exploration activities. Before approving a
22 seismic exploration project, the commissioner shall make an affirmative finding that
23 the seismic exploration project is in the best interest of the state based on the location
24 of the project, the projected cost schedule, the data acquisition and data processing
25 plan, the reasons for choosing the particular area for seismic exploration, and the
26 experience and safety record of the person in conducting seismic exploration
27 operations in remote or roadless areas. Whether the seismic exploration project for
28 which a credit is requested under this subsection is located in a basin described in (p)
29 of this section shall be determined by the commissioner of natural resources and
30 reported to the commissioner. A taxpayer that obtains a credit under this subsection
31 may not claim a tax credit under AS 43.55.023 or another provision in this section for

1 the same exploration expenditure.

2 (p) The activity that is the basis for a credit claimed under (a)(6) and (n) of
3 this section or (a)(7) and (o) of this section must be for the exploration of a basin and
4 within the following areas whose central points are determined using the World
5 Geographic System of 1984 datum,

6 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
7 West;

8 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
9 West;

10 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
11 West;

12 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
13 West;

14 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
15 West;

16 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees
17 West.

18 (q) The amount of credit for an exploration expenditure under (a)(1) - (4) of
19 this section for an expenditure that is also a lease expenditure under AS 43.55.165 is
20 reduced by the amount necessary so that the tax benefit percentage is not more than 65
21 percent of the exploration expenditure. In this subsection, "tax benefit percentage"
22 means the sum of the average monthly tax rate under AS 43.55.011(e) and (g) for the
23 calendar year in which the credit is taken and the percentage of the exploration
24 expenditure that may be taken as a credit under (a)(1) - (4) of this section.