

SENATE CS FOR CS FOR HOUSE BILL NO. 276(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered: 4/14/12

Referred: Rules

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

SENATORS Thomas, Olson, Coghill, Dyson, Meyer, Menard, Paskvan, McGuire, Wagoner

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the oil and gas production tax; providing for a reduction in the**
2 **production tax value in the amount of 30 percent of the gross value at the point of**
3 **production for oil and gas produced from certain leases or properties north of 68**
4 **degrees North latitude that were not, as of January 1, 2008, in commercial production or**
5 **within a unit; providing for a credit against the oil and gas production tax for costs**
6 **incurred for conducting seismic exploration and drilling certain oil or natural gas**
7 **exploration wells in certain basins; relating to the determination of the production tax**
8 **value of oil and gas production; providing that the tax rate for new oil or gas production**
9 **south of 68 degrees North latitude and outside of the Cook Inlet sedimentary basin may**
10 **not exceed four percent of the gross value at the point of production; and providing for**
11 **an effective date."**

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

1 * **Section 1.** AS 43.55.011(e) is amended to read:

2 (e) There is levied on the producer of oil or gas a tax for all oil and gas
3 produced each calendar year from each lease or property in the state, less any oil and
4 gas the ownership or right to which is exempt from taxation or constitutes a
5 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), [AND]
6 (o), and (p) of this section, the tax is equal to the sum of

7 (1) the annual production tax value of the taxable oil and gas as
8 calculated under AS 43.55.160(a)(1), as adjusted by AS 43.55.162, multiplied by 25
9 percent; and

10 (2) the sum, over all months of the calendar year, of the tax amounts
11 determined under (g) of this section.

12 * **Sec. 2.** AS 43.55.011(g) is amended to read:

13 (g) For each month of the calendar year for which the producer's average
14 monthly production tax value under AS 43.55.160(a)(2) of a [PER] BTU equivalent
15 barrel of the taxable oil and gas is more than \$30, the amount of tax for purposes of
16 (e)(2) of this section is determined by multiplying the monthly production tax value of
17 the taxable oil and gas produced during the month, as adjusted by AS 43.55.162, by
18 the tax rate calculated as follows:

19 (1) if the producer's average monthly production tax value of a [PER]
20 BTU equivalent barrel of the taxable oil and gas for the month is not more than
21 \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the
22 difference between that average monthly production tax value of a [PER] BTU
23 equivalent barrel and \$30; or

24 (2) if the producer's average monthly production tax value of a [PER]
25 BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50,
26 the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the
27 number that represents the difference between the average monthly production tax
28 value of a [PER] BTU equivalent barrel and \$92.50, except that the sum determined
29 under this paragraph may not exceed 50 percent.

30 * **Sec. 3.** AS 43.55.011 is amended by adding a new subsection to read:

31 (p) For the seven years immediately following the commencement of

1 commercial production of oil or gas produced from leases or properties in the state
 2 that are outside the Cook Inlet sedimentary basin and that do not include land located
 3 north of 68 degrees North latitude, where that commercial production began after
 4 December 31, 2012, and before January 1, 2022, the levy of tax under (e) of this
 5 section for oil and gas may not exceed four percent of the gross value at the point of
 6 production.

7 * **Sec. 4.** AS 43.55.020(a) is amended to read:

8 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
 9 **or (p)** shall pay the tax as follows:

10 (1) an installment payment of the estimated tax levied by
 11 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
 12 month of the calendar year on the last day of the following month; except as otherwise
 13 provided under (2) of this subsection, the amount of the installment payment is the
 14 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be
 15 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
 16 of the installment payment may not be less than zero:

17 (A) for oil and gas produced from leases or properties in the
 18 state outside the Cook Inlet sedimentary basin but not subject to
 19 AS 43.55.011(o) **or (p)**, other than leases or properties subject to
 20 AS 43.55.011(f), the greater of

21 (i) zero; or

22 (ii) the sum of 25 percent and the tax rate calculated for
 23 the month under AS 43.55.011(g) multiplied by the remainder obtained
 24 by subtracting 1/12 of the producer's adjusted lease expenditures for the
 25 calendar year of production under AS 43.55.165 and 43.55.170 that are
 26 deductible for the leases or properties under AS 43.55.160 **and 1/12 of**
 27 **the adjustment to production tax value for the calendar year under**
 28 **AS 43.55.162** from the gross value at the point of production of the oil
 29 and gas produced from the leases or properties during the month for
 30 which the installment payment is calculated;

31 (B) for oil and gas produced from leases or properties subject

1 to AS 43.55.011(f), the greatest of

2 (i) zero;

3 (ii) zero percent, one percent, two percent, three
4 percent, or four percent, as applicable, of the gross value at the point of
5 production of the oil and gas produced from all leases or properties
6 during the month for which the installment payment is calculated; or

7 (iii) the sum of 25 percent and the tax rate calculated for
8 the month under AS 43.55.011(g) multiplied by the remainder obtained
9 by subtracting 1/12 of the producer's adjusted lease expenditures for the
10 calendar year of production under AS 43.55.165 and 43.55.170 that are
11 deductible for those leases or properties under AS 43.55.160 **and 1/12**
12 **of the adjustment to production tax value for the calendar year**
13 **under AS 43.55.162** from the gross value at the point of production of
14 the oil and gas produced from those leases or properties during the
15 month for which the installment payment is calculated;

16 (C) for oil and gas produced from each lease or property
17 subject to AS 43.55.011(j), (k), [OR] (o), **or (p)**, the greater of

18 (i) zero; or

19 (ii) the sum of 25 percent and the tax rate calculated for
20 the month under AS 43.55.011(g) multiplied by the remainder obtained
21 by subtracting 1/12 of the producer's adjusted lease expenditures for the
22 calendar year of production under AS 43.55.165 and 43.55.170 that are
23 deductible under AS 43.55.160 **and 1/12 of the adjustment to**
24 **production tax value for the calendar year under AS 43.55.162** for
25 oil or gas, **as applicable** [RESPECTIVELY], produced from the lease
26 or property from the gross value at the point of production of the oil or
27 gas, **as applicable** [RESPECTIVELY], produced from the lease or
28 property during the month for which the installment payment is
29 calculated;

30 (2) an amount calculated under (1)(C) of this subsection for oil or gas
31 produced from a lease or property

1 **(A)** subject to AS 43.55.011(j), (k), or (o) may not exceed the
 2 product obtained by carrying out the calculation set out in AS 43.55.011(j)(1)
 3 or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1)
 4 or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A)
 5 or 43.55.011(o), as applicable, the amount of taxable gas produced during the
 6 month for the amount of taxable gas produced during the calendar year and
 7 substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of
 8 taxable oil produced during the month for the amount of taxable oil produced
 9 during the calendar year;

10 **(B) subject to AS 43.55.011(p) may not exceed four percent**
 11 **of the gross value at the point of production of the oil or gas;**

12 (3) an installment payment of the estimated tax levied by
 13 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
 14 on the last day of the following month; the amount of the installment payment is the
 15 sum of

16 (A) the applicable tax rate for oil provided under
 17 AS 43.55.011(i), multiplied by the gross value at the point of production of the
 18 oil taxable under AS 43.55.011(i) and produced from the lease or property
 19 during the month; and

20 (B) the applicable tax rate for gas provided under
 21 AS 43.55.011(i), multiplied by the gross value at the point of production of the
 22 gas taxable under AS 43.55.011(i) and produced from the lease or property
 23 during the month;

24 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
 25 credits applied as allowed by law, that exceeds the total of the amounts due as
 26 installment payments of estimated tax is due on March 31 of the year following the
 27 calendar year of production.

28 * **Sec. 5.** AS 43.55.025(a) is amended to read:

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

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

3 (2) 30 percent of the total exploration expenditures that qualify only
4 under (b) and (d) of this section;

5 (3) 40 percent of the total exploration expenditures that qualify under
6 (b), (c), and (d) of this section;

7 (4) 40 percent of the total exploration expenditures that qualify only
8 under (b) and (e) of this section; [OR]

9 (5) 80, 90, or 100 percent, or a lesser amount described in (I) of this
10 section, of the total exploration expenditures described in (b)(1) and (2) of this section
11 and not excluded by (b)(3) and (4) of this section that qualify only under (I) of this
12 section;

13 **(6) the lesser of \$25,000,000 or 80 percent of the total exploration**
14 **drilling expenditures described in (n) of this section and that qualify under (b)**
15 **and (c) of this section; or**

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

19 * **Sec. 6.** AS 43.55.025(c) is amended to read:

20 (c) To be eligible for **a** [THE 30 PERCENT] production tax credit authorized
21 by (a)(1), **(3), or (6)** of this section [OR THE 40 PERCENT PRODUCTION TAX
22 CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures
23 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. 7.** AS 43.55.025 is amended by adding new subsections to read:

1 (n) The persons that drill the first four exploration wells in the state and within
2 the areas described in (p) of this section on state lands, private lands, or federal
3 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a
4 prospect in a basin described in (p) of this section are eligible for a credit under (a)(6)
5 of this section. A credit under this subsection may not be taken for more than two
6 exploration wells in a single area described in (p)(1) - (6) of this section. Exploration
7 expenditures eligible for the credit in this subsection must be incurred for work
8 performed after June 1, 2012, and before July 1, 2016. A person planning to drill an
9 exploration well on private land and to apply for a credit under this subsection shall
10 obtain written consent from the owner of the oil and gas interest for the full public
11 release of all well data after the expiration of the confidentiality period applicable to
12 information collected under (f) of this section. The written consent of the owner of the
13 oil and gas interest must be submitted to the commissioner of natural resources before
14 approval of the proposed exploration well. In addition to the requirements in (c) of this
15 section and submission of the written consent of the owner of the oil and gas interest, a
16 person planning to drill an exploration well shall obtain approval from the
17 commissioner of natural resources before the well is spudded. The commissioner of
18 natural resources shall make a written determination approving or rejecting an
19 exploration well within 60 days after receiving the request for approval or as soon as is
20 practicable thereafter. Before approving the exploration well, the commissioner of
21 natural resources shall consider the following: the location of the well; the proximity
22 to a community in need of a local energy source; the proximity of existing
23 infrastructure; the experience and safety record of the explorer in conducting
24 operations in remote or roadless areas; the projected cost schedule; whether seismic
25 mapping and seismic data sufficiently identify a particular trap for exploration;
26 whether the targeted and planned depth and range are designed to penetrate and fully
27 evaluate the hydrocarbon potential of the proposed prospect and reach the level below
28 which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or
29 more true vertical depth; and whether the exploration plan provides for a full
30 evaluation of the wellbore below surface casing to the depth of the well. Whether the
31 exploration well for which a credit is requested under this subsection is located within

1 an area and a basin described under (p) of this section shall be determined by the
2 commissioner of natural resources and reported to the commissioner. A taxpayer that
3 obtains a credit under this subsection may not claim a tax credit under AS 43.55.023
4 or another provision in this section for the same exploration expenditure.

5 (o) The persons that conduct the first four seismic exploration projects in the
6 state and within the areas described in (p) of this section for the purpose of discovering
7 oil or gas in a basin are eligible for the credit under (a)(7) of this section. A credit
8 under this subsection may not be taken for more than one seismic exploration project
9 in a single area described in (p)(1) - (6) of this section. Exploration expenditures
10 eligible for the credit in this subsection must be incurred for work performed after
11 June 1, 2012, and before July 1, 2016. A person planning to conduct a seismic
12 exploration project on private land and to apply for a credit under this subsection shall
13 obtain written consent from the owner of the oil and gas interest for the full public
14 release of all geophysical data and compliance with the data submission requirements
15 in (f)(2) of this section. Notwithstanding (f)(2)(C)(ii) of this section, to qualify for a
16 credit under this subsection, a person shall submit the written consent of the owner of
17 the oil and gas interest for the release of data if applicable, and all data required under
18 (f)(2) of this section to the Department of Natural Resources and shall agree in writing
19 that all seismic data requirements submitted under the requirements of (f)(2) of this
20 section may be made public two years after receiving a credit under this subsection. A
21 person intending to qualify for the tax credit under this subsection shall obtain
22 approval from the commissioner of natural resources before the commencement of the
23 seismic exploration activities. The commissioner of natural resources shall make a
24 written determination approving or rejecting a seismic project within 60 days after
25 receiving the request for approval or as soon as is practicable thereafter. Before
26 approving a seismic exploration project, the commissioner shall consider the
27 following: the location of the project; the projected cost schedule; the data acquisition
28 and data processing plan; the reasons for choosing the particular area for seismic
29 exploration; and the experience and safety record of the person in conducting seismic
30 exploration operations in remote or roadless areas. Whether the seismic exploration
31 project for which a credit is requested under this subsection is located in a basin

1 described in (p) of this section shall be determined by the commissioner of natural
 2 resources and reported to the commissioner. A taxpayer that obtains a credit under this
 3 subsection may not claim a tax credit under AS 43.55.023 or another provision in this
 4 section for the same exploration expenditure.

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

9 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
 10 West;

11 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
 12 West;

13 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
 14 West;

15 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
 16 West;

17 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
 18 West;

19 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees
 20 West.

21 * **Sec. 8.** AS 43.55.160(a) is amended to read:

22 (a) Except as provided in (b) of this section, **and subject to adjustment**
 23 **under AS 43.55.162,** for the purposes of

24 (1) AS 43.55.011(e), the annual production tax value of the taxable **oil,**
 25 **gas, or** [(A)] oil and gas **subject to this paragraph** produced during a calendar year
 26 [FROM LEASES OR PROPERTIES IN THE STATE THAT INCLUDE LAND
 27 NORTH OF 68 DEGREES NORTH LATITUDE] is the gross value at the point of
 28 production of the **oil, gas, or** oil and gas taxable under AS 43.55.011(e) [AND
 29 PRODUCED BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES],
 30 less the producer's lease expenditures under AS 43.55.165 for the calendar year
 31 applicable to the **oil, gas, or** oil and gas, **as applicable,** produced by the producer from

1 [THOSE] leases or properties, as adjusted under AS 43.55.170; **this paragraph**
 2 **applies to**

3 **(A) oil and gas produced from leases or properties in the**
 4 **state that include land north of 68 degrees North latitude, other than gas**
 5 **produced before 2022 and used in the state;** [THIS SUBPARAGRAPH
 6 DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

7 (B) oil and gas produced [DURING A CALENDAR YEAR]
 8 from leases or properties in the state outside the Cook Inlet sedimentary basin,
 9 no part of which is north of 68 degrees North latitude [, IS THE GROSS
 10 VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS
 11 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
 12 PRODUCER FROM THOSE LEASES OR PROPERTIES, LESS THE
 13 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
 14 CALENDAR YEAR APPLICABLE TO THE OIL AND GAS PRODUCED
 15 BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES, AS
 16 ADJUSTED UNDER AS 43.55.170]; this subparagraph does not apply to gas

17 **(i) produced before 2022 and used in the state; or**

18 **(ii) oil and gas subject to AS 43.55.011(p)** [SUBJECT

19 TO AS 43.55.011(o)];

20 (C) oil produced **before 2022** [DURING A CALENDAR
 21 YEAR] from a lease or property in the Cook Inlet sedimentary basin [IS THE
 22 GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL
 23 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
 24 PRODUCER FROM THAT LEASE OR PROPERTY, LESS THE
 25 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
 26 CALENDAR YEAR APPLICABLE TO THE OIL PRODUCED BY THE
 27 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED
 28 UNDER AS 43.55.170];

29 (D) gas produced **before 2022** [DURING A CALENDAR
 30 YEAR] from a lease or property in the Cook Inlet sedimentary basin [IS THE
 31 GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS

1 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
 2 PRODUCER FROM THAT LEASE OR PROPERTY, LESS THE
 3 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
 4 CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE
 5 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED
 6 UNDER AS 43.55.170];

7 (E) gas produced before 2022 [DURING A CALENDAR
 8 YEAR] from a lease or property in the state outside the Cook Inlet
 9 sedimentary basin and used in the state [IS THE GROSS VALUE AT THE
 10 POINT OF PRODUCTION OF THAT GAS TAXABLE UNDER
 11 AS 43.55.011(e) AND PRODUCED BY THE PRODUCER FROM THAT
 12 LEASE OR PROPERTY, LESS THE PRODUCER'S LEASE
 13 EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR
 14 APPLICABLE TO THAT GAS PRODUCED BY THE PRODUCER FROM
 15 THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170];

16 (F) oil and gas subject to AS 43.55.011(p) produced from
 17 leases or properties in the state;

18 (G) oil and gas produced from a lease or property no part
 19 of which is north of 68 degrees North latitude, other than oil or gas
 20 described in (B), (C), (D), (E), or (F) of this paragraph;

21 (2) AS 43.55.011(g), the monthly production tax value of the taxable

22 (A) oil and gas produced during a month from leases or
 23 properties in the state that include land north of 68 degrees North latitude is the
 24 gross value at the point of production of the oil and gas taxable under
 25 AS 43.55.011(e) and produced by the producer from those leases or properties,
 26 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
 27 calendar year applicable to the oil and gas produced by the producer from
 28 those leases or properties, as adjusted under AS 43.55.170; this subparagraph
 29 does not apply to gas subject to AS 43.55.011(o);

30 (B) oil and gas produced during a month from leases or
 31 properties in the state outside the Cook Inlet sedimentary basin, no part of

1 which is north of 68 degrees North latitude, is the gross value at the point of
2 production of the oil and gas taxable under AS 43.55.011(e) and produced by
3 the producer from those leases or properties, less 1/12 of the producer's lease
4 expenditures under AS 43.55.165 for the calendar year applicable to the oil and
5 gas produced by the producer from those leases or properties, as adjusted under
6 AS 43.55.170; this subparagraph does not apply to gas subject to
7 AS 43.55.011(o);

8 (C) oil produced during a month from a lease or property in the
9 Cook Inlet sedimentary basin is the gross value at the point of production of
10 the oil taxable under AS 43.55.011(e) and produced by the producer from that
11 lease or property, less 1/12 of the producer's lease expenditures under
12 AS 43.55.165 for the calendar year applicable to the oil produced by the
13 producer from that lease or property, as adjusted under AS 43.55.170;

14 (D) gas produced during a month from a lease or property in
15 the Cook Inlet sedimentary basin is the gross value at the point of production
16 of the gas taxable under AS 43.55.011(e) and produced by the producer from
17 that lease or property, less 1/12 of the producer's lease expenditures under
18 AS 43.55.165 for the calendar year applicable to the gas produced by the
19 producer from that lease or property, as adjusted under AS 43.55.170;

20 (E) gas produced during a month from a lease or property
21 outside the Cook Inlet sedimentary basin and used in the state is the gross
22 value at the point of production of that gas taxable under AS 43.55.011(e) and
23 produced by the producer from that lease or property, less 1/12 of the
24 producer's lease expenditures under AS 43.55.165 for the calendar year
25 applicable to that gas produced by the producer from that lease or property, as
26 adjusted under AS 43.55.170.

27 * **Sec. 9.** AS 43.55.160(e) is amended to read:

28 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
29 would otherwise be deductible by a producer in a calendar year but whose deduction
30 would cause an annual production tax value calculated under (a)(1) of this section of
31 taxable oil or gas produced during the calendar year to be less than zero may be used

1 to establish a carried-forward annual loss under AS 43.55.023(b). However, the
 2 department shall provide by regulation a method to ensure that, for a period for which
 3 a producer's tax liability is limited by AS 43.55.011(j), (k), [OR] (o), or (p), any
 4 adjusted lease expenditures under AS 43.55.165 and 43.55.170 that would otherwise
 5 be deductible by a producer for that period but whose deduction would cause a
 6 production tax value calculated under (a)(1)(C), (D), [OR] (E), or (F) of this section to
 7 be less than zero are accounted for as though the adjusted lease expenditures had first
 8 been used as deductions in calculating the production tax values of oil or gas subject to
 9 any of the limitations under AS 43.55.011(j), (k), [OR] (o), or (p) that have positive
 10 production tax values so as to reduce the tax liability calculated without regard to the
 11 limitation to the maximum amount provided for under the applicable provision of
 12 AS 43.55.011(j), (k), [OR] (o), or (p). Only the amount of those adjusted lease
 13 expenditures remaining after the accounting provided for under this subsection may be
 14 used to establish a carried-forward annual loss under AS 43.55.023(b). In this
 15 subsection, "producer" includes "explorer."

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

17 **Sec. 43.55.162. Adjustment to production tax value for increasing oil and**
 18 **gas production.** The production tax value of oil and gas produced during the first 10
 19 consecutive years after the start of sustained production or produced during the first 10
 20 consecutive years after the effective date of this bill section, whichever is later, from a
 21 lease or property north of 68 degrees North latitude that was not, as of January 1,
 22 2008, within a unit or in commercial production, is reduced by, for the calendar year,
 23 30 percent of the gross value at the point of production of that oil and gas. The rate of
 24 tax under AS 43.55.011(g) shall be determined before the application of the
 25 adjustment provided by this section.

26 * **Sec. 11.** This Act takes effect January 1, 2013.