

SENATE BILL NO. 112

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - FIRST SESSION

BY SENATOR DYSON

Introduced: 3/23/11

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a credit against the oil and gas production tax for drilling certain
2 exploration wells using a jack-up rig in the Cook Inlet sedimentary basin."

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

4 * **Section 1.** AS 43.55.025(l) is amended to read:

5 (l) The first three unaffiliated persons that drill an offshore exploration well
6 for the purpose of discovering oil or gas in Cook Inlet that penetrates and evaluates a
7 prospect in the pre-Tertiary zone using a jack-up rig, **and the first person that drills**
8 **an offshore exploration well for the purpose of discovering oil or gas in Cook**
9 **Inlet that penetrates and evaluates a prospect in the pre-Tertiary zone using the**
10 **second jack-up rig placed in Cook Inlet** are eligible for the credit under this
11 subsection. The person that drills the first exploration well is entitled to a credit in the
12 amount of 100 percent of its exploration expenditures or \$25,000,000, whichever is
13 less; the person that drills the second exploration well using the same jack-up rig is
14 entitled to a credit in the amount of 90 percent of its exploration expenditures or

1 \$22,500,000, whichever is less; [AND] the person that drills the third exploration well
2 using the same jack-up rig is entitled to a credit in the amount of 80 percent of its
3 exploration expenditures or \$20,000,000, whichever is less; **and the person that**
4 **drills the first exploration well using the second jack-up rig placed in Cook Inlet**
5 **after March 31, 2010, is entitled to a credit in the amount of 100 percent of its**
6 **exploration expenditures, or \$20,000,000, whichever is less.** A person or an affiliate
7 of a person drilling an exploration well is not entitled to a credit for more than one
8 exploration well under this subsection. The department shall make a determination of
9 the order in which the wells are drilled **using the first and second jack-up rigs**
10 **placed in Cook Inlet after March 31, 2010,** based on the date and time that the drill
11 bit first turns to the right against the seafloor for the purpose of drilling the well.
12 Exploration expenditures eligible for the credit in this subsection may include the
13 necessary and reasonable costs to modify an existing jack-up rig for use in Cook Inlet,
14 may not include the cost to construct or manufacture a jack-up rig, and,
15 notwithstanding (b) of this section, must be incurred for work performed after
16 March 31, 2010. If the exploration well for which a credit is received under this
17 subsection results in sustained production of oil or gas from a reservoir discovered by
18 the exploration well, and notwithstanding that the credit may have been transferred
19 under (g) of this section, 50 percent of the amount of the credit received shall be
20 repaid to the department by the person that received the credit in equal monthly
21 installments over a 10-year period commencing 60 days after the start of sustained
22 production of oil or gas. Whether the exploration well for which a credit is requested
23 under this subsection penetrated and evaluated a prospect in the pre-Tertiary zone and
24 the exploration well resulted in sustained production of oil or gas from a reservoir
25 discovered by the exploration well shall be determined by the commissioner of natural
26 resources and reported to the commissioner. A taxpayer that obtains a credit under this
27 subsection may not claim a tax credit under AS 43.55.023 or another provision in this
28 section for the same exploration expenditure. In this subsection,

29 (1) "jack-up rig" means a mobile drilling platform with extendible legs
30 for support on the ocean floor;

31 (2) "reservoir" means an oil and gas accumulation, discovered and

1 evaluated by testing, that is separate from any other accumulation of oil and gas;
2 (3) "sustained production" means production of oil or gas from a
3 reservoir into a pipeline or other means of transportation to market, but does not
4 include testing, evaluation, or pilot production.