

**SENATE BILL NO. 164**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY SENATORS OLSON, Thomas

Introduced: 1/17/12

Referred: Resources, Finance

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act providing for a credit against the oil and gas production tax for costs incurred**  
2 **in drilling certain oil and gas exploration wells in the Kotzebue basin or the Selawik**  
3 **basin; and providing for an effective date."**

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

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

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

9 (1) 30 percent of the total exploration expenditures that qualify only  
10 under (b) and (c) of this section;

11 (2) 30 percent of the total exploration expenditures that qualify only  
12 under (b) and (d) of this section;

13 (3) 40 percent of the total exploration expenditures that qualify under  
14 (b), (c), and (d) of this section;

1 (4) 40 percent of the total exploration expenditures that qualify only  
2 under (b) and (e) of this section; or

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

7 \* **Sec. 2.** AS 43.55.025(*l*) is amended to read:

8 (l) The first three unaffiliated persons that drill an offshore exploration well  
9 for the purpose of discovering oil or gas in Cook Inlet that penetrates and evaluates a  
10 prospect in the pre-Tertiary zone using a jack-up rig are eligible for the credit under  
11 this subsection. The person that drills the first exploration well is entitled to a credit in  
12 the amount of 100 percent of its exploration expenditures or \$25,000,000, whichever  
13 is 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  
15 \$22,500,000, whichever is less; and the person that drills the third exploration well  
16 using the same jack-up rig is entitled to a credit in the amount of 80 percent of its  
17 exploration expenditures or \$20,000,000, whichever is less. A person or an affiliate of  
18 a person drilling an exploration well is not entitled to a credit for more than one  
19 exploration well under this subsection. The department shall make a determination of  
20 the order in which the wells are drilled based on the date and time that the drill bit first  
21 turns to the right against the seafloor for the purpose of drilling the well. Exploration  
22 expenditures eligible for the credit in this subsection may include the necessary and  
23 reasonable costs to modify an existing jack-up rig for use in Cook Inlet, may not  
24 include the cost to construct or manufacture a jack-up rig, and, notwithstanding (b) of  
25 this section, must be incurred for work performed after March 31, 2010. If the  
26 exploration well for which a credit is received under this subsection results in  
27 sustained production of oil or gas from a reservoir discovered by the exploration well,  
28 and notwithstanding that the credit may have been transferred under (g) of this section,  
29 50 percent of the amount of the credit received shall be repaid to the department by the  
30 person that received the credit in equal monthly installments over a 10-year period  
31 commencing 60 days after the start of sustained production of oil or gas. Whether the

1 exploration well for which a credit is requested under this subsection penetrated and  
 2 evaluated a prospect in the pre-Tertiary zone and the exploration well resulted in  
 3 sustained production of oil or gas from a reservoir discovered by the exploration well  
 4 shall be determined by the commissioner of natural resources and reported to the  
 5 commissioner. A taxpayer that obtains a credit under this subsection may not claim a  
 6 tax credit under AS 43.55.023 or another provision in this section for the same  
 7 exploration expenditure. [IN THIS SUBSECTION,

8 (1) "JACK-UP RIG" MEANS A MOBILE DRILLING PLATFORM  
 9 WITH EXTENDIBLE LEGS FOR SUPPORT ON THE OCEAN FLOOR;

10 (2) "RESERVOIR" MEANS AN OIL AND GAS ACCUMULATION,  
 11 DISCOVERED AND EVALUATED BY TESTING, THAT IS SEPARATE FROM  
 12 ANY OTHER ACCUMULATION OF OIL AND GAS;

13 (3) "SUSTAINED PRODUCTION" MEANS PRODUCTION OF OIL  
 14 OR GAS FROM A RESERVOIR INTO A PIPELINE OR OTHER MEANS OF  
 15 TRANSPORTATION TO MARKET, BUT DOES NOT INCLUDE TESTING,  
 16 EVALUATION, OR PILOT PRODUCTION.]

17 \* **Sec. 3.** AS 43.55.025(m) is amended by adding new paragraphs to read:

18 (5) "jack-up rig" means a mobile drilling platform with extendible legs  
 19 for support on the ocean floor;

20 (6) "reservoir" means an oil and gas accumulation, discovered and  
 21 evaluated by testing, that is separate from any other accumulation of oil and gas;

22 (7) "sustained production" means production of oil or gas from a  
 23 reservoir into a pipeline or other means of transportation to market, but does not  
 24 include testing, evaluation, or pilot production.

25 \* **Sec. 4.** AS 43.55.025 is amended by adding a new subsection to read:

26 (n) The first three persons that drill an exploration well for the purpose of  
 27 discovering oil or gas in the Kotzebue basin or the Selawik basin are eligible for the  
 28 credit under this subsection. To qualify for the credit under this subsection, the well  
 29 for which the credit is claimed must be drilled to a depth greater than 2,000 feet or, if  
 30 authorized by the commissioner of natural resources before the drill bit first turns to  
 31 the right for the purpose of drilling the well, to a target depth of less than 2,000 feet.

1 The person that drills the first exploration well is entitled to a credit in the amount of  
2 100 percent of its exploration well expenditures or \$30,000,000, whichever is less; the  
3 person that drills the second exploration well is entitled to a credit in the amount of 90  
4 percent of its exploration well expenditures or \$27,000,000, whichever is less; and the  
5 person that drills the third exploration well is entitled to a credit in the amount of 80  
6 percent of its exploration well expenditures or \$24,000,000, whichever is less. A  
7 person or an affiliate of a person may qualify for a drilling 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 based on the date and time that the drill bit first  
10 turns to the right for the purpose of drilling the well. Exploration expenditures eligible  
11 for the credit in this subsection must be incurred for work performed after  
12 December 31, 2011. If the exploration well for which a credit is received under this  
13 subsection results in sustained production of oil or gas from a reservoir discovered by  
14 the exploration well, and notwithstanding that the credit may have been transferred  
15 under (g) of this section, 50 percent of the amount of the credit received shall be  
16 repaid to the department by the person that received the credit in equal monthly  
17 installments over a 10-year period commencing 60 days after the start of sustained  
18 production of oil or gas. Whether the exploration well for which a credit is requested  
19 under this subsection is located in the Kotzebue basin or the Selawik basin, reached  
20 the required depth, and resulted in sustained production of oil or gas from a reservoir  
21 discovered by the exploration well shall be determined by the commissioner of natural  
22 resources and reported to the commissioner. A taxpayer that obtains a credit under this  
23 subsection may not obtain a production tax credit under any subsection of  
24 AS 43.55.023 or another provision of this section for the same exploration  
25 expenditure, even if the costs incurred in drilling the qualifying exploration well  
26 exceed the maximum amount of the credit under this subsection.

27 \* **Sec. 5.** This Act takes effect immediately under AS 01.10.070(c).