

SENATE BILL NO. 167

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 1/18/12

Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act providing that the tax rate applicable to the production of oil as the average
2 production tax value of oil, gas produced in the Cook Inlet sedimentary basin, and gas
3 produced outside of the Cook Inlet sedimentary basin and used in the state increases
4 above \$30 shall be 0.4 percent multiplied by the number that represents the difference
5 between that average monthly production tax value and \$30, or the sum of 25 percent
6 and the product of 0.1 percent multiplied by the number that represents the difference
7 between that average monthly production tax value and \$92.50, except that the total rate
8 determined in the calculation may not exceed 50 percent; providing for an increase in
9 the rate of tax on the production of gas as the average production tax value on a BTU
10 equivalent barrel basis of gas produced outside of the Cook Inlet sedimentary basin and
11 not used in the state increases above \$30; relating to payments of the oil and gas
12 production tax; relating to the lease expenditures that may be deducted when

1 **determining production tax value; relating to availability of a portion of the money**
 2 **received from the tax on oil and gas production for appropriation to the community**
 3 **revenue sharing fund; relating to the allocation of lease expenditures and adjustments to**
 4 **lease expenditures; and providing for an effective date."**

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

6 *** Section 1.** AS 29.60.850(b) is amended to read:

7 (b) Each fiscal year, the legislature may appropriate to the community revenue
 8 sharing fund an amount equal to 20 percent of the money received by the state during
 9 the previous calendar year under AS 43.55.011(g) **and (p)**. The amount may not
 10 exceed

11 (1) \$60,000,000; or

12 (2) the amount that, when added to the fund balance on June 30 of the
 13 previous fiscal year, equals \$180,000,000.

14 *** Sec. 2.** AS 43.55.011(e) is amended to read:

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

20 (1) the annual production tax value of the taxable oil and gas as
 21 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

22 (2) the sum, over all months of the calendar year, of the tax amounts
 23 determined under

24 **(A) subsection (g) of this section; and**

25 **(B) subsection (p) of this section.**

26 *** Sec. 3.** AS 43.55.011(g) is amended to read:

27 (g) For each month of the calendar year for which the producer's average
 28 monthly production tax value under **AS 43.55.160(a)(2)(A) - (E) of a**
 29 **[AS 43.55.160(a)(2) PER] BTU equivalent barrel of [THE] taxable oil and gas is more**

1 than \$30, the amount of tax for purposes of (e)(2)(A) [(e)(2)] of this section is
 2 determined by multiplying the monthly production tax value of the taxable oil [AND
 3 GAS] produced during the month, gas produced during the month from a lease or
 4 property in the Cook Inlet sedimentary basin, and gas produced during the
 5 month from a lease or property outside the Cook Inlet sedimentary basin and
 6 used in the state by the tax rate calculated as follows:

7 (1) if the producer's average monthly production tax value under
 8 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
 9 and gas for the month is not more than \$92.50, the tax rate is 0.4 percent multiplied by
 10 the number that represents the difference between the producer's [THAT] average
 11 monthly production tax value under AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU
 12 equivalent barrel of taxable oil and gas and \$30; [OR]

13 (2) if the producer's average monthly production tax value under
 14 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
 15 and gas for the month is more than \$92.50, the tax rate is the sum of 25 percent and
 16 the product of 0.1 percent multiplied by the number that represents the difference
 17 between the producer's average monthly production tax value under
 18 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of taxable oil and gas
 19 and \$92.50, except that the sum determined under this paragraph may not exceed 50
 20 percent;

21 (3) for purposes of this subsection, the average monthly
 22 production tax value under AS 43.55.160(a)(2)(A) - (E) of a BTU equivalent
 23 barrel of taxable oil and gas is calculated by

24 (A) adding all of the monthly production tax values
 25 determined under AS 43.55.160(a)(2)(A) - (E); and

26 (B) dividing the sum calculated under (A) of this paragraph
 27 by the total amount, in BTU equivalent barrels, of

28 (i) taxable oil produced by the producer during the
 29 month;

30 (ii) taxable gas produced by the producer during the
 31 month from a lease or property in the Cook Inlet sedimentary

1 **basin; and**

2 **(iii) taxable gas produced by the producer during**
 3 **the month from a lease or property outside the Cook Inlet**
 4 **sedimentary basin and used in the state.**

5 * **Sec. 4.** AS 43.55.011 is amended by adding a new subsection to read:

6 (p) For each month of the calendar year for which the producer's average
 7 monthly production tax value under AS 43.55.160(a)(2)(F) and (G) of a BTU
 8 equivalent barrel of taxable gas is more than \$30, the amount of tax on the production
 9 of gas for purposes of (e)(2)(B) of this section is determined by multiplying the
 10 monthly production tax value of the taxable gas produced during the month other than
 11 gas produced from a lease or property in the Cook Inlet sedimentary basin or gas
 12 produced outside the Cook Inlet sedimentary basin and used in the state by the tax rate
 13 calculated as follows:

14 (1) if the producer's average monthly production tax value under
 15 AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas for the
 16 month is not more than \$92.50, the tax rate is 0.4 percent multiplied by the number
 17 that represents the difference between the producer's average monthly production tax
 18 value under AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of gas and \$30;

19 (2) if the producer's average monthly production tax value under
 20 AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas for the
 21 month is more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1
 22 percent multiplied by the number that represents the difference between the producer's
 23 average monthly production tax value under AS 43.55.160(a)(2)(F) and (G) of a BTU
 24 equivalent barrel of gas and \$92.50, except that the sum determined under this
 25 paragraph may not exceed 50 percent;

26 (3) for purposes of this subsection, the average monthly production tax
 27 value under AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas
 28 is calculated by

29 (A) adding the monthly production tax value determined under
 30 AS 43.55.160(a)(2)(F) to the monthly production tax value determined under
 31 AS 43.55.160(a)(2)(G); and

1 (B) dividing the sum calculated under (A) of this paragraph by
2 the total amount, in BTU equivalent barrels, of the taxable gas produced by the
3 producer during the month, other than gas produced from a lease or property in
4 the Cook Inlet sedimentary basin or gas produced outside the Cook Inlet
5 sedimentary basin and used in the state.

6 * **Sec. 5.** AS 43.55.020(a) is repealed and reenacted to read:

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

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

17 (A) the monthly production tax value for the month calculated
18 under AS 43.55.160(a)(2)(B) multiplied by the sum of 25 percent and the tax
19 rate calculated for the month under AS 43.55.011(g), added to the monthly
20 production tax value for the month calculated under AS 43.55.160(a)(2)(G)
21 multiplied by the sum of 25 percent and the tax rate calculated for the month
22 under AS 43.55.011(p);

23 (B) the greater of

24 (i) zero percent, one percent, two percent, three percent,
25 or four percent, as applicable under AS 43.55.011(f), of the gross value
26 at the point of production of the oil and gas produced during the month
27 from all leases or properties in the state that include land north of 68
28 degrees North latitude, other than oil and gas subject to
29 AS 43.55.011(i) and gas subject to AS 43.55.011(o); or

30 (ii) the monthly production tax value for the month
31 calculated under AS 43.55.160(a)(2)(A) multiplied by the sum of 25

1 percent and the tax rate calculated for the month under
 2 AS 43.55.011(g), added to the monthly production tax value for the
 3 month calculated under AS 43.55.160(a)(2)(F) multiplied by the sum of
 4 25 percent and the tax rate calculated for the month under
 5 AS 43.55.011(p); and

6 (C) for each lease or property, for gas subject to
 7 AS 43.55.011(j), oil subject to AS 43.55.011(k), and gas subject to
 8 AS 43.55.011(o), the monthly production tax value for the month calculated
 9 under AS 43.55.160(a)(2)(C), (D), or (E), as applicable, multiplied by the sum
 10 of 25 percent and the tax rate calculated for the month under AS 43.55.011(g);

11 (2) an amount calculated under (1)(C) of this subsection for oil or gas
 12 produced from a particular lease or property may not exceed the product obtained by
 13 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
 14 applicable for gas, or set out in AS 43.55.011(k)(1) or (2), as applicable for oil, but
 15 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
 16 amount of taxable gas produced during the month for the amount of taxable gas
 17 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
 18 (2)(A), as applicable, the amount of taxable oil produced during the month for the
 19 amount of taxable oil produced during the calendar year;

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

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

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

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

5 * **Sec. 6.** AS 43.55.020(d) is amended to read:

6 (d) In making settlement with the royalty owner for oil and gas that is taxable
 7 under AS 43.55.011, the producer may deduct the amount of the tax paid on taxable
 8 royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in value at the
 9 time the tax becomes due to the amount of the tax paid. If the total deductions of
 10 installment payments of estimated tax for a calendar year exceed the actual tax for that
 11 calendar year, the producer shall, before April 1 of the following year, refund the
 12 excess to the royalty owner. Unless otherwise agreed between the producer and the
 13 royalty owner, the amount of the tax paid under AS 43.55.011(e) - (g) **and (p)** on
 14 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
 15 right to which constitutes a landowner's royalty interest, is considered to be the gross
 16 value at the point of production of the taxable royalty oil and gas produced during the
 17 calendar year multiplied by a figure that is a quotient, in which

18 (1) the numerator is the producer's total tax liability under
 19 AS 43.55.011(e) - (g) **and (p)** for the calendar year of production; and

20 (2) the denominator is the total gross value at the point of production
 21 of the oil and gas taxable under AS 43.55.011(e) - (g) **and (p)** produced by the
 22 producer from all leases and properties in the state during the calendar year.

23 * **Sec. 7.** AS 43.55.160(a) is amended to read:

24 (a) Except as provided in (b) of this section, for the purposes of

25 (1) AS 43.55.011(e), the annual production tax value of the taxable

26 (A) oil [AND GAS] produced during a calendar year from
 27 leases or properties in the state that include land north of 68 degrees North
 28 latitude is the gross value at the point of production of the oil [AND GAS]
 29 taxable under AS 43.55.011(e) and produced by the producer from those leases
 30 or properties, less the producer's lease expenditures under AS 43.55.165 for the
 31 calendar year applicable to the oil [AND GAS] produced by the producer from

1 those leases or properties **and the portion allocated under (g) of this section**
2 **of the producer's lease expenditures under AS 43.55.165 for the calendar**
3 **year incurred to explore land that is not a lease or property or to explore**
4 **or develop a lease or property before commencement of commercial**
5 **production of oil or gas from the lease or property, if that land or any part**
6 **of the lease or property is located north of 68 degrees North latitude**, as
7 adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY
8 TO GAS SUBJECT TO AS 43.55.011(o);]

9 (B) oil [AND GAS] produced during a calendar year from
10 leases or properties in the state outside the Cook Inlet sedimentary basin, no
11 part of which is north of 68 degrees North latitude, is the gross value at the
12 point of production of the oil [AND GAS] taxable under AS 43.55.011(e) and
13 produced by the producer from those leases or properties, less the producer's
14 lease expenditures under AS 43.55.165 for the calendar year applicable to the
15 oil [AND GAS] produced by the producer from those leases or properties **and**
16 **the portion allocated under (g) of this section of the producer's lease**
17 **expenditures under AS 43.55.165 for the calendar year incurred to explore**
18 **land that is not a lease or property or to explore or develop a lease or**
19 **property before commencement of commercial production of oil or gas**
20 **from the lease or property, if that land or lease or property is located**
21 **outside the Cook Inlet sedimentary basin, and the land and all parts of the**
22 **lease or property are not north of 68 degrees North latitude**, as adjusted
23 under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO
24 GAS SUBJECT TO AS 43.55.011(o);]

25 (C) oil produced during a calendar year from a lease or
26 property in the Cook Inlet sedimentary basin is the gross value at the point of
27 production of the oil taxable under AS 43.55.011(e) and produced by the
28 producer from that lease or property, less the producer's lease expenditures
29 under AS 43.55.165 for the calendar year applicable to the oil produced by the
30 producer from that lease or property **and the portion allocated under (g) of**
31 **this section of the producer's lease expenditures under AS 43.55.165 for**

1 the calendar year incurred to explore land that is not a lease or property
 2 or to explore or develop a lease or property before commencement of
 3 commercial production of oil or gas from the lease or property, if that
 4 land or lease or property is located in the Cook Inlet sedimentary basin, as
 5 adjusted under AS 43.55.170;

6 (D) gas produced during a calendar year from a lease or
 7 property in the Cook Inlet sedimentary basin is the gross value at the point of
 8 production of the gas taxable under AS 43.55.011(e) and produced by the
 9 producer from that lease or property, less the producer's lease expenditures
 10 under AS 43.55.165 for the calendar year applicable to the gas produced by the
 11 producer from that lease or property and the portion allocated under (g) of
 12 this section of the producer's lease expenditures under AS 43.55.165 for
 13 the calendar year incurred to explore land that is not a lease or property
 14 or to explore or develop a lease or property before commencement of
 15 commercial production of oil or gas from the lease or property, if that
 16 land or lease or property is located in the Cook Inlet sedimentary basin, as
 17 adjusted under AS 43.55.170;

18 (E) gas produced during a calendar year from a lease or
 19 property in the state outside the Cook Inlet sedimentary basin and used in the
 20 state is the gross value at the point of production of that gas taxable under
 21 AS 43.55.011(e) and produced by the producer from that lease or property, less
 22 the producer's lease expenditures under AS 43.55.165 for the calendar year
 23 applicable to that gas produced by the producer from that lease or property and
 24 the portion allocated under (g) of this section of the producer's lease
 25 expenditures under AS 43.55.165 for the calendar year incurred to explore
 26 land that is not a lease or property or to explore or develop a lease or
 27 property before commencement of commercial production of oil or gas
 28 from the lease or property, if that land or lease or property is located
 29 outside the Cook Inlet sedimentary basin, as adjusted under AS 43.55.170;

30 (F) gas produced during a calendar year from leases or
 31 properties in the state that include land north of 68 degrees North latitude

1 is the gross value at the point of production of the gas taxable under
 2 AS 43.55.011(e) and produced by the producer from those leases or
 3 properties, less the producer's lease expenditures under AS 43.55.165 for
 4 the calendar year applicable to the gas produced by the producer from
 5 those leases or properties and the portion allocated under (g) of this
 6 section of the producer's lease expenditures under AS 43.55.165 for the
 7 calendar year incurred to explore land that is not a lease or property or to
 8 explore or develop a lease or property before commencement of
 9 commercial production of oil or gas from the lease or property, if that
 10 land or any part of the lease or property is located north of 68 degrees
 11 North latitude, as adjusted under AS 43.55.170; this subparagraph does
 12 not apply to gas subject to AS 43.55.011(o);

13 (G) gas produced during a calendar year from leases or
 14 properties in the state outside the Cook Inlet sedimentary basin, no part of
 15 which is north of 68 degrees North latitude, is the gross value at the point
 16 of production of the gas taxable under AS 43.55.011(e) and produced by
 17 the producer from those leases or properties, less the producer's lease
 18 expenditures under AS 43.55.165 for the calendar year applicable to the
 19 gas produced by the producer from those leases or properties and the
 20 portion allocated under (g) of this section of the producer's lease
 21 expenditures under AS 43.55.165 for the calendar year incurred to explore
 22 land that is not a lease or property or to explore or develop a lease or
 23 property before commencement of commercial production of oil or gas
 24 from the lease or property, if that land or lease or property is located
 25 outside the Cook Inlet sedimentary basin, and the land and all parts of the
 26 lease or property are not north of 68 degrees North latitude, as adjusted
 27 under AS 43.55.170; this subparagraph does not apply to gas subject to
 28 AS 43.55.011(o);

29 (2) AS 43.55.011(g) and (p), the monthly production tax value of the
 30 taxable

31 (A) oil [AND GAS] produced during a month from leases or

1 properties in the state that include land north of 68 degrees North latitude is the
2 gross value at the point of production of the oil [AND GAS] taxable under
3 AS 43.55.011(e) and produced by the producer from those leases or properties,
4 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
5 calendar year applicable to the oil [AND GAS] produced by the producer from
6 those leases or properties **and 1/12 of the portion allocated under (g) of this**
7 **section of the producer's lease expenditures under AS 43.55.165 for the**
8 **calendar year incurred to explore land that is not a lease or property or to**
9 **explore or develop a lease or property before commencement of**
10 **commercial production of oil or gas from the lease or property, if that**
11 **land or any part of the lease or property is located north of 68 degrees**
12 **North latitude**, as adjusted under AS 43.55.170; [THIS SUBPARAGRAPH
13 DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

14 (B) oil [AND GAS] produced during a month from leases or
15 properties in the state outside the Cook Inlet sedimentary basin, no part of
16 which is north of 68 degrees North latitude, is the gross value at the point of
17 production of the oil [AND GAS] taxable under AS 43.55.011(e) and produced
18 by the producer from those leases or properties, less 1/12 of the producer's
19 lease expenditures under AS 43.55.165 for the calendar year applicable to the
20 oil [AND GAS] produced by the producer from those leases or properties **and**
21 **1/12 of the portion allocated under (g) of this section of the producer's**
22 **lease expenditures under AS 43.55.165 for the calendar year incurred to**
23 **explore land that is not a lease or property or to explore or develop a lease**
24 **or property before commencement of commercial production of oil or gas**
25 **from the lease or property, if that land or lease or property is located**
26 **outside the Cook Inlet sedimentary basin, and the land and all parts of the**
27 **lease or property are not north of 68 degrees North latitude**, as adjusted
28 under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO
29 GAS SUBJECT TO AS 43.55.011(o);]

30 (C) oil produced during a month from a lease or property in the
31 Cook Inlet sedimentary basin is the gross value at the point of production of

1 the oil taxable under AS 43.55.011(e) and produced by the producer from that
2 lease or property, less 1/12 of the producer's lease expenditures under
3 AS 43.55.165 for the calendar year applicable to the oil produced by the
4 producer from that lease or property **and 1/12 of the portion allocated under**
5 **(g) of this section of the producer's lease expenditures under AS 43.55.165**
6 **for the calendar year incurred to explore land that is not a lease or**
7 **property or to explore or develop a lease or property before**
8 **commencement of commercial production of oil or gas from the lease or**
9 **property, if that land or lease or property is located in the Cook Inlet**
10 **sedimentary basin**, as adjusted under AS 43.55.170;

11 (D) gas produced during a month from a lease or property in
12 the Cook Inlet sedimentary basin is the gross value at the point of production
13 of the gas taxable under AS 43.55.011(e) and produced by the producer from
14 that lease or property, less 1/12 of the producer's lease expenditures under
15 AS 43.55.165 for the calendar year applicable to the gas produced by the
16 producer from that lease or property **and 1/12 of the portion allocated under**
17 **(g) of this section of the producer's lease expenditures under AS 43.55.165**
18 **for the calendar year incurred to explore land that is not a lease or**
19 **property or to explore or develop a lease or property before**
20 **commencement of commercial production of oil or gas from the lease or**
21 **property, if that land or lease or property is located in the Cook Inlet**
22 **sedimentary basin**, as adjusted under AS 43.55.170;

23 (E) gas produced during a month from a lease or property **in**
24 **the state** outside the Cook Inlet sedimentary basin and used in the state is the
25 gross value at the point of production of that gas taxable under
26 AS 43.55.011(e) and produced by the producer from that lease or property, less
27 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar
28 year applicable to that gas produced by the producer from that lease or
29 property **and 1/12 of the portion allocated under (g) of this section of the**
30 **producer's lease expenditures under AS 43.55.165 for the calendar year**
31 **incurred to explore land that is not a lease or property or to explore or**

1 develop a lease or property before commencement of commercial
2 production of oil or gas from the lease or property, if that land or lease or
3 property is located outside of the Cook Inlet sedimentary basin, as adjusted
4 under AS 43.55.170;

5 (F) gas produced during a month from leases or properties
6 in the state that include land north of 68 degrees North latitude is the
7 gross value at the point of production of the gas taxable under
8 AS 43.55.011(e) and produced by the producer from those leases or
9 properties, less 1/12 of the producer's lease expenditures under
10 AS 43.55.165 for the calendar year applicable to the gas produced by the
11 producer from those leases or properties and 1/12 of the portion allocated
12 under (g) of this section of the producer's lease expenditures under
13 AS 43.55.165 for the calendar year incurred to explore land that is not a
14 lease or property or to explore or develop a lease or property before
15 commencement of commercial production of oil or gas from the lease or
16 property, if that land or any part of the lease or property is located north
17 of 68 degrees North latitude, as adjusted under AS 43.55.170; this
18 subparagraph does not apply to gas subject to AS 43.55.011(o);

19 (G) gas produced during a month from leases or properties
20 in the state outside the Cook Inlet sedimentary basin, no part of which is
21 north of 68 degrees North latitude, is the gross value at the point of
22 production of the gas taxable under AS 43.55.011(e) and produced by the
23 producer from those leases or properties, less 1/12 of the producer's lease
24 expenditures under AS 43.55.165 for the calendar year applicable to the
25 gas produced by the producer from those leases or properties and 1/12 of
26 the portion allocated under (g) of this section of the producer's lease
27 expenditures under AS 43.55.165 for the calendar year incurred to explore
28 land that is not a lease or property or to explore or develop a lease or
29 property before commencement of commercial production of oil or gas
30 from the lease or property, if that land or lease or property is located
31 outside the Cook Inlet sedimentary basin, and the land and all parts of the

1 lease or property are not north of 68 degrees North latitude, as adjusted
 2 under AS 43.55.170; this subparagraph does not apply to gas subject to
 3 AS 43.55.011(o).

4 * **Sec. 8.** AS 43.55.160 is amended by adding new subsections to read:

5 (f) For purposes of (a) of this section, a lease expenditure is applicable to oil
 6 or gas produced from a lease or property, or to oil or gas produced from leases or
 7 properties in an area of the state, if the lease expenditure is

8 (1) a cost to explore, develop, or produce oil or gas from that lease or
 9 property, or to explore, develop, or produce oil or gas from one of those leases or
 10 properties in that area of the state, respectively; and

11 (2) incurred on or after the commencement of commercial production
 12 of oil or gas from the lease or property.

13 (g) For purposes of (a) of this section, a lease expenditure incurred during a
 14 calendar year to explore land that is not a lease or property, or to explore or develop a
 15 lease or property before commencement of commercial production of oil or gas from
 16 the lease or property, shall be allocated as provided in a regulation adopted by the
 17 department under AS 43.55.165(h) to and among oil, gas subject to AS 43.55.011(o),
 18 and gas not subject to AS 43.55.011(o) produced by the producer during that calendar
 19 year from leases or properties in the same area of the state as the land being explored
 20 or the lease or property being explored or developed, respectively.

21 (h) For purposes of (f) and (g) of this section, an area of the state is one of the
 22 following:

23 (1) land north of 68 degrees North latitude;

24 (2) land outside the Cook Inlet sedimentary basin not including any
 25 land north of 68 degrees North latitude; or

26 (3) the Cook Inlet sedimentary basin.

27 * **Sec. 9.** AS 43.55.165(h) is amended to read:

28 (h) The department shall adopt regulations that provide for reasonable
 29 methods of allocating costs between oil and gas, between gas subject to
 30 AS 43.55.011(o) and other gas, and between leases or properties in those
 31 circumstances where an allocation of costs is required to determine lease expenditures

1 that are costs of exploring for, developing, or producing oil deposits or costs of
2 exploring for, developing, or producing gas deposits, or that are costs of exploring for,
3 developing, or producing oil or gas deposits located within different leases or
4 properties. **When adopting a regulation for determining a reasonable method of**
5 **allocating lease expenditures between the production of oil and the production of**
6 **gas, the department shall, to the extent possible, provide for the allocation of**
7 **lease expenditures in proportion to the gross value at the point of production for**
8 **oil produced and gas produced.**

9 * **Sec. 10.** AS 43.55.170 is amended by adding a new subsection to read:

10 (d) The department shall adopt regulations that provide for reasonable
11 methods of allocating the adjustments to a producer's lease expenditures in (a) of this
12 section and the payments and credits described in (b) of this section between oil and
13 gas, between gas subject to AS 43.55.011(o) and other gas, and between leases or
14 properties in those circumstances where an allocation of costs is required to determine
15 lease expenditures that are costs of exploring for, developing, or producing oil
16 deposits, or costs of exploring for, developing, or producing gas deposits, or that are
17 costs of exploring for, developing, or producing oil or gas deposits located within
18 different leases or properties. When determining a reasonable method of allocating the
19 adjustments to a producer's lease expenditures between the production of oil and the
20 production of gas, the department shall consider allocating the adjustments in
21 proportion to the lease expenditures allocated to the production of oil and the
22 production of gas under regulations adopted by the department under
23 AS 43.55.165(h).

24 * **Sec. 11.** The uncodified law of the State of Alaska is amended by adding a new section to
25 read:

26 TRANSITION: INSTALLMENT PAYMENTS OF TAX. A producer required to
27 make an installment payment of tax under AS 43.55.020(a)(1) after December 31, 2011, and
28 before the effective date of this Act, and that underpaid the amount due for the installment
29 payment because of the retroactive application of secs. 2 - 5, 7, and 8 of this Act, shall submit
30 the amount of any underpayment on the date the first installment payment is due under
31 AS 43.55.020(a)(1) after the effective date of this Act. Interest on the amount of an

1 underpayment due because of the retroactive application of secs. 2 - 5, 7, and 8 of this Act
2 does not accrue until the day after the date the first installment payment is due under
3 AS 43.55.020(a)(1) after the effective date of this Act.

4 * **Sec. 12.** The uncodified law of the State of Alaska is amended by adding a new section to
5 read:

6 **TRANSITION: RETROACTIVITY OF REGULATIONS.** Notwithstanding any
7 contrary provision of AS 44.62.240, if the Department of Revenue expressly designates in the
8 regulation that the regulation applies retroactively to that date, a regulation adopted by the
9 Department of Revenue to implement, interpret, make specific, or otherwise carry out secs. 2
10 - 5, 7, and 8 of this Act may apply retroactively to January 1, 2012.

11 * **Sec. 13.** The uncodified law of the State of Alaska is amended by adding a new section to
12 read:

13 **RETROACTIVITY.** Sections 2 - 5, 7, and 8 of this Act are retroactive to January 1,
14 2012.

15 * **Sec. 14.** This Act takes effect immediately under AS 01.10.070(c).