

**SENATE BILL NO. 177**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY SENATOR WAGONER

Introduced: 1/27/12

Referred: Resources

**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 **fully**  
7 evaluates a prospect in the pre-Tertiary zone using a jack-up rig are eligible for the  
8 credit under this subsection. The person that drills the first exploration well is entitled  
9 to a credit in the amount of 100 percent of its exploration expenditures or \$25,000,000,  
10 whichever is less; the person that drills the second exploration well using **a** [THE  
11 SAME] jack-up rig is entitled to a credit in the amount of 90 percent of its exploration  
12 expenditures or \$22,500,000, whichever is less; and the person that drills the third  
13 exploration well using **a** [THE SAME] jack-up rig is entitled to a credit in the amount  
14 of 80 percent of its exploration expenditures or \$20,000,000, whichever is less. A

1 person or an affiliate of a person drilling an exploration well is not entitled to a credit  
2 for more than one exploration well under this subsection. The department shall make a  
3 determination of the order in which the wells are **completed into the pre-Tertiary**  
4 **zone** [DRILLED BASED ON THE DATE AND TIME THAT THE DRILL BIT  
5 FIRST TURNS TO THE RIGHT AGAINST THE SEAFLOOR FOR THE PURPOSE  
6 OF DRILLING THE WELL]. Exploration expenditures eligible for the credit in this  
7 subsection may include the necessary and reasonable costs to modify an existing jack-  
8 up rig for use in Cook Inlet, may not include the cost to construct or manufacture a  
9 jack-up rig, and, notwithstanding (b) of this section, must be incurred for work  
10 performed after March 31, 2010. If the exploration well for which a credit is received  
11 under this subsection results in sustained production of oil or gas from a reservoir **in**  
12 **the pre-Tertiary zone** discovered by the exploration well, and notwithstanding that  
13 the credit may have been transferred under (g) of this section, 50 percent of the  
14 amount of the credit received shall be repaid to the department by the person that  
15 received the credit in equal monthly installments over a 10-year period commencing  
16 60 days after the start of sustained production of oil or gas. Whether the exploration  
17 well for which a credit is requested under this subsection penetrated and **fully**  
18 evaluated a prospect in the pre-Tertiary zone, **whether the exploration well has been**  
19 **evaluated using the best industry practices,** and **whether** the exploration well  
20 resulted in sustained production of oil or gas from a reservoir **in the pre-Tertiary**  
21 **zone** discovered by the exploration well shall be determined by the **Alaska Oil and**  
22 **Gas Conservation Commission and the** commissioner of natural resources and  
23 reported to the commissioner. A taxpayer that obtains a credit under this subsection  
24 may not claim a tax credit under AS 43.55.023 or another provision in this section for  
25 the same exploration expenditure. In this subsection,

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

28 (2) "reservoir" means an oil and gas accumulation, discovered and  
29 evaluated by testing, that is separate from any other accumulation of oil and gas  
30 **previously produced or tested;**

31 (3) "sustained production" means production of oil or gas from a

1 reservoir into a pipeline or other means of transportation to market, but does not  
2 include testing, evaluation, or pilot production.