

**HOUSE BILL NO. 111**

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

BY REPRESENTATIVES KERTTULA, Gara, Tuck, Kawasaki, Tarr

Introduced: 2/11/13

Referred: Resources, Finance

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the oil and gas production tax; relating to oil and gas production tax  
2 credits; amending the minimum tax on oil and gas production; relating to the  
3 determination of the production tax value of oil and gas; relating to the financing of oil  
4 processing facilities on the North Slope by the Alaska Industrial Development and  
5 Export Authority; and providing for an effective date."

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

7 \* **Section 1.** AS 38.05.180(h) is amended to read:

8 (h) The commissioner **shall** [MAY] include terms in **a** [ANY] lease **that**  
9 **impose** [IMPOSING] a minimum work commitment on the lessee **to implement the**  
10 **plan of development submitted by the lessee with a bid for an oil and gas or gas**  
11 **only lease. The terms of the minimum work commitment must** [. THESE TERMS  
12 SHALL BE MADE PUBLIC BEFORE THE SALE, AND MAY] include appropriate  
13 penalty provisions to take effect in the event the lessee does not fulfill the minimum

1 work commitment. If it is demonstrated that a lease has been proven unproductive by  
 2 actions of adjacent lease holders, the commissioner may set aside a work commitment.  
 3 The commissioner may waive for a period not to exceed one two-year period any term  
 4 of a minimum work commitment if the commissioner makes a written finding either  
 5 that conditions preventing drilling or exploration were beyond the lessee's reasonable  
 6 ability to foresee or control or that the lessee has demonstrated through good faith  
 7 efforts an intent and ability to drill or develop the lease during the term of the waiver.

8 \* **Sec. 2.** AS 38.05.180(x) is amended to read:

9 (x) A lessee conducting or permitting any exploration for, or development or  
 10 production of, oil or gas on state land shall provide the commissioner access to all  
 11 noninterpretive data obtained from that lease; **shall provide the commissioner access**  
 12 **to all information necessary to perform an economic analysis under (ii)(2) of this**  
 13 **section, including the capital, operating, production, and development costs and**  
 14 **an estimate of total reserves;** and shall provide copies of that data **and information,**  
 15 as the commissioner may request. The confidentiality provisions of AS 38.05.035  
 16 apply to the information obtained under this subsection.

17 \* **Sec. 3.** AS 38.05.180 is amended by adding new subsections to read:

18 (hh) The commissioner shall require each bidder for an oil and gas lease or gas  
 19 only lease and each lessee applying for an extension or renewal of an oil and gas lease  
 20 or gas only lease to submit a plan of development for exploring, developing, and  
 21 producing from the lease within the period of the lease or the extension or renewal of  
 22 the lease. The commissioner shall review each plan of development and determine  
 23 whether the proposed plan of development is reasonably expected to develop the lease  
 24 in the best interest of the state. The plan of development shall be included in a lease  
 25 along with penalties for failing to comply with the plan of development and other  
 26 terms of the lease. A bidder may not be a qualified bidder for the purposes of (f)(1) of  
 27 this section if the commissioner finds that the bidder has not submitted a proposed  
 28 plan of development that is in the best interest of the state or that the person that  
 29 submitted the plan of development is not reasonably capable of implementing the plan.

30 (ii) The commissioner shall

31 (1) review each oil and gas lease or gas only lease each year for the

1 purpose of determining whether a lease is being developed in the best interest of the  
 2 state, whether the lessee is complying with the plan of development applicable to the  
 3 lease, and whether revision of a plan of development, including the planned rate of  
 4 development, would provide the maximum benefit to the people of the state;

5 (2) every five years, perform an economic analysis on each  
 6 participating area and determine whether the participating area is capable of increased  
 7 production in paying quantities over the current rate of production or plan of  
 8 development;

9 (3) enforce the terms of each oil and gas lease or gas only lease,  
 10 including imposing any applicable penalty or other remedy for noncompliance, within  
 11 a reasonable time after finding that a lessee is out of compliance with the terms of the  
 12 lease;

13 (4) submit a report to the legislature before the first day of each regular  
 14 session that lists each oil and gas or gas only lessee that is found to be out of  
 15 compliance and the action by the commissioner to bring the lessee back into  
 16 compliance or to terminate the lease.

17 (jj) For the purposes of (hh) and (ii) of this section, a plan of development for  
 18 a cooperative or unit under (p) of this section is the plan of development for a lease  
 19 within the cooperative or unit, except where a different plan of development is  
 20 established for a lease within the cooperative or unit.

21 (kk) For purposes of (ii) of this section,

22 (1) "participating area" means that part of an oil and gas lease unit area  
 23 to which production is allocated in the manner described in a unit agreement;

24 (2) "production in paying quantities" means production in quantities  
 25 sufficient to yield a return in excess of drilling, development, and operating costs.

26 \* **Sec. 4.** AS 43.55.011(e) is amended to read:

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

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

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

6 \* **Sec. 5.** AS 43.55.011(f) is repealed and reenacted to read:

7 (f) Except for oil and gas subject to (i) of this section and gas subject to (o) of  
 8 this section, the provisions of this subsection apply to oil and gas produced from each  
 9 lease or property within a unit or nonunitized reservoir that has cumulatively produced  
 10 1,000,000,000 BTU equivalent barrels of oil or gas by the close of the most recent  
 11 calendar year and from which the average daily oil and gas production from the unit or  
 12 nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU  
 13 equivalent barrels. Notwithstanding any contrary provision of law, a producer may not  
 14 apply tax credits to reduce its total tax liability under (e) and (g) of this section for oil  
 15 and gas produced from all leases or properties within the unit or nonunitized reservoir  
 16 below 10 percent of the total gross value at the point of production of that oil and gas.  
 17 If the amount of tax calculated by multiplying the tax rates in (e) and (g) of this  
 18 section by the total production tax value of the oil and gas taxable under (e) and (g) of  
 19 this section produced from all of the producer's leases or properties within the unit or  
 20 nonunitized reservoir is less than 10 percent of the total gross value at the point of  
 21 production of that oil and gas, the tax levied by (e) and (g) of this section for that oil  
 22 and gas is equal to 10 percent of the total gross value at the point of production of that  
 23 oil and gas.

24 \* **Sec. 6.** AS 43.55.011(g) is amended to read:

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

31 (1) if the producer's average monthly production tax value of a [PER]

1 BTU equivalent barrel of the taxable oil and gas for the month is not more than  
 2 \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the  
 3 difference between that average monthly production tax value of a [PER] BTU  
 4 equivalent barrel and \$30; or

5 (2) if the producer's average monthly production tax value of a [PER]  
 6 BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50,  
 7 the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the  
 8 number that represents the difference between the average monthly production tax  
 9 value of a [PER] BTU equivalent barrel and \$92.50, except that the sum determined  
 10 under this paragraph may not exceed 30 [50] percent.

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

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

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

21 (A) for oil and gas produced from leases or properties in the  
 22 state outside the Cook Inlet sedimentary basin but not subject to  
 23 AS 43.55.011(o) or (p), other than leases or properties subject to  
 24 AS 43.55.011(f), the greater of

25 (i) zero; or

26 (ii) the sum of 25 percent and the tax rate calculated for  
 27 the month under AS 43.55.011(g) multiplied by the remainder obtained  
 28 by subtracting 1/12 of the producer's adjusted lease expenditures for the  
 29 calendar year of production under AS 43.55.165 and 43.55.170 that are  
 30 deductible for the leases or properties under AS 43.55.160 and 1/12 of  
 31 the adjustment to production tax value for the calendar year under

1                    **AS 43.55.162** from the gross value at the point of production of the oil  
 2                    and gas produced from the leases or properties during the month for  
 3                    which the installment payment is calculated;

4                    (B) for oil and gas produced from leases or properties subject  
 5                    to AS 43.55.011(f), **10 percent of the gross value at the point of production**  
 6                    **of that oil and gas** [THE GREATEST OF

7                                    (i) ZERO;

8                                    (ii) ZERO PERCENT, ONE PERCENT, TWO  
 9                    PERCENT, THREE PERCENT, OR FOUR PERCENT, AS  
 10                    APPLICABLE, OF THE GROSS VALUE AT THE POINT OF  
 11                    PRODUCTION OF THE OIL AND GAS PRODUCED FROM ALL  
 12                    LEASES OR PROPERTIES DURING THE MONTH FOR WHICH  
 13                    THE INSTALLMENT PAYMENT IS CALCULATED; OR

14                                    (iii) THE SUM OF 25 PERCENT AND THE TAX  
 15                    RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g)  
 16                    MULTIPLIED BY THE REMAINDER OBTAINED BY  
 17                    SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE  
 18                    EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION  
 19                    UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE  
 20                    FOR THOSE LEASES OR PROPERTIES UNDER AS 43.55.160  
 21                    FROM THE GROSS VALUE AT THE POINT OF PRODUCTION  
 22                    OF THE OIL AND GAS PRODUCED FROM THOSE LEASES OR  
 23                    PROPERTIES DURING THE MONTH FOR WHICH THE  
 24                    INSTALLMENT PAYMENT IS CALCULATED];

25                    (C) for oil and gas produced from each lease or property  
 26                    subject to AS 43.55.011(j), (k), (o), or (p), the greater of

27                                    (i) zero; or

28                                    (ii) the sum of 25 percent and the tax rate calculated for  
 29                    the month under AS 43.55.011(g) multiplied by the remainder obtained  
 30                    by subtracting 1/12 of the producer's adjusted lease expenditures for the  
 31                    calendar year of production under AS 43.55.165 and 43.55.170 that are

1 deductible under AS 43.55.160 and 1/12 of the adjustment to  
2 production tax value for the calendar year under AS 43.55.162 for  
3 oil or gas, as applicable [RESPECTIVELY], produced from the lease  
4 or property from the gross value at the point of production of the oil or  
5 gas, as applicable [RESPECTIVELY], produced from the lease or  
6 property during the month for which the installment payment is  
7 calculated;

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

10 (A) subject to AS 43.55.011(j), (k), or (o) may not exceed the  
11 product obtained by carrying out the calculation set out in AS 43.55.011(j)(1)  
12 or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1)  
13 or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A)  
14 or 43.55.011(o), as applicable, the amount of taxable gas produced during the  
15 month for the amount of taxable gas produced during the calendar year and  
16 substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of  
17 taxable oil produced during the month for the amount of taxable oil produced  
18 during the calendar year;

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

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

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

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

1 during the month;

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

6 \* **Sec. 8.** AS 43.55.024(d) is amended to read:

7 (d) A producer may not take a tax credit under (c) of this section for any  
8 calendar year after the later of

9 (1) 2022 [2016]; or

10 (2) if the producer did not have commercial oil or gas production from  
11 a lease or property in the state before April 1, 2006, the ninth calendar year after the  
12 calendar year during which the producer first has commercial oil or gas production  
13 before May 1, 2022 [2016], from at least one lease or property in the state.

14 \* **Sec. 9.** AS 43.55 is amended by adding a new section to read:

15 **Sec. 43.55.026. Heavy oil research and development tax credit.** (a) A  
16 taxpayer may apply 20 percent of the taxpayer's expenditure attributable to this state  
17 for research and development related to improving methods of producing heavy oil in  
18 the state for the taxable year that exceeds the base amount, but not to exceed  
19 \$10,000,000, as a credit against the state tax liability imposed on the taxpayer under  
20 this chapter.

21 (b) Research and development expenditures in this section are attributable to  
22 this state if the research and development is being conducted in this state or the payroll  
23 of employees conducting the research and development is in this state. In this  
24 subsection, payroll of an employee is in this state if compensation is paid to an  
25 employee in this state and reported as paid in this state in the quarterly contribution  
26 report under AS 23.20 to the Department of Labor and Workforce Development.

27 (c) If the tax credit under this section exceeds the taxpayer's tax liability after  
28 other tax credits are taken under this chapter for the year in which the expenditure is  
29 incurred, the excess of the tax credit over the liability may be carried forward for up to  
30 seven years. If an unused credit is carried forward to a tax year from an earlier year,  
31 the credit arising in the earliest year is applied first against the tax liability for the year.

1 (d) A person may not claim a credit under this section for research and  
 2 development expenditures that were deducted in the calculation of tax liability under  
 3 AS 43.55.011(e).

4 (e) Each year, if three or more taxpayers claim the credit authorized under this  
 5 section during the immediately preceding year, the department shall report to the  
 6 legislature the number of taxpayers who claimed credits under this section in the prior  
 7 year, the total cumulative amount of credits granted to all taxpayers under this section  
 8 for the prior tax year, a description of the research and development projects for which  
 9 the credit was granted, and the total cumulative number of employees conducting the  
 10 research and development for which all taxpayers claim the credit.

11 (f) The commissioner shall establish in regulation a method for apportioning  
 12 research expenditures of a producer related to heavy oil production in and outside of  
 13 the state. When developing the regulations, the commissioner may consider the  
 14 relative amounts of heavy oil the producer is seeking to produce in areas in and  
 15 outside of the state or consider another reasonable basis on which fairly to apportion  
 16 costs for research related to in-state oil production and oil produced outside of the  
 17 state.

18 (g) In this section, "base amount" means the average of research and  
 19 development expenditures related to improving methods of producing heavy oil and  
 20 attributable to this state for the three tax years immediately preceding the taxable year  
 21 for which the credit is being claimed.

22 \* **Sec. 10.** AS 43.55.030(a) is amended to read:

23 (a) A producer that produces oil or gas from a lease or property in the state  
 24 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)  
 25 for that oil or gas, shall file with the department on March 31 of the following year a  
 26 statement, under oath, in a form prescribed by the department, giving, with other  
 27 information required **by the department under a regulation adopted by the**  
 28 **department**, the following:

29 (1) a description of each lease or property from which oil or gas was  
 30 produced, by name, legal description, lease number, or accounting codes assigned by  
 31 the department;

1 (2) the names of the producer and, if different, the person paying the  
2 tax, if any;

3 (3) the gross amount of oil and the gross amount of gas produced from  
4 each lease or property, and the percentage of the gross amount of oil and gas owned by  
5 the producer;

6 (4) the gross value at the point of production of the oil and of the gas  
7 produced from each lease or property owned by the producer and the costs of  
8 transportation of the oil and gas;

9 (5) the name of the first purchaser and the price received for the oil and  
10 for the gas, unless relieved from this requirement in whole or in part by the  
11 department;

12 (6) the producer's qualified capital expenditures, as defined in  
13 AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other  
14 payments or credits under AS 43.55.170;

15 (7) the production tax values of the oil and gas under AS 43.55.160;

16 (8) any claims for tax credits to be applied; [AND]

17 (9) calculations showing the amounts, if any, that were or are due  
18 under AS 43.55.020(a) and interest on any underpayment or overpayment; **and**

19 **(10) for each expenditure that is the basis for a credit claimed**  
20 **under AS 43.55.023 or 43.55.025, a description of the expenditure, a detailed**  
21 **description of the purpose of the expenditure, and a description of the lease or**  
22 **property for which the expenditure was incurred; notwithstanding**  
23 **AS 40.25.100(a) and AS 43.05.230(a), information submitted under this**  
24 **paragraph may be disclosed to the public and shall be disclosed to the legislature**  
25 **in a report submitted within 10 days after the convening of the next regular**  
26 **legislative session following the date a statement is filed under this section.**

27 \* **Sec. 11.** AS 43.55.030(e) is amended to read:

28 (e) An explorer or producer that incurs a lease expenditure under  
29 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar  
30 year but does not produce oil or gas from a lease or property in the state during the  
31 calendar year shall file with the department on March 31 of the following year a

1 statement, under oath, in a form prescribed by the department, giving, with other  
 2 information required **by the department under a regulation adopted by the**  
 3 **department**, the following:

4 (1) the producer's qualified capital expenditures, as defined in  
 5 AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other  
 6 payments or credits under AS 43.55.170; [AND]

7 (2) if the explorer or producer receives a payment or credit under  
 8 AS 43.55.170, calculations showing whether the explorer or producer is liable for a  
 9 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount; **and**

10 **(3) for each expenditure that is the basis for a credit claimed under**  
 11 **this chapter, a description of the expenditure, a detailed description of the**  
 12 **purpose of the expenditure, and a description of the lease or property for which**  
 13 **the expenditure was incurred; notwithstanding AS 40.25.100(a) and**  
 14 **AS 43.05.230(a), information submitted under this paragraph may be disclosed to**  
 15 **the public and shall be disclosed to the legislature in a report submitted within 10**  
 16 **days after the convening of the next regular legislative session following the date**  
 17 **a statement is filed under this section.**

18 \* **Sec. 12.** AS 43.55.160(a) is amended to read:

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

21 (1) AS 43.55.011(e), the annual production tax value of the taxable oil,  
 22 gas, or oil and gas subject to this paragraph produced during a calendar year is the  
 23 gross value at the point of production of the oil, gas, or oil and gas taxable under  
 24 AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the  
 25 calendar year applicable to the oil, gas, or oil and gas, as applicable, produced by the  
 26 producer from leases or properties, as adjusted under AS 43.55.170; this paragraph  
 27 applies to

28 (A) oil and gas produced from leases or properties in the state  
 29 that include land north of 68 degrees North latitude, other than gas produced  
 30 before 2022 and used in the state;

31 (B) oil and gas produced from leases or properties in the state

1 outside the Cook Inlet sedimentary basin, no part of which is north of 68  
2 degrees North latitude; this subparagraph does not apply to gas

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

4 (ii) oil and gas subject to AS 43.55.011(p);

5 (C) oil produced before 2022 from a lease or property in the  
6 Cook Inlet sedimentary basin;

7 (D) gas produced before 2022 from a lease or property in the  
8 Cook Inlet sedimentary basin;

9 (E) gas produced before 2022 from a lease or property in the  
10 state outside the Cook Inlet sedimentary basin and used in the state;

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

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

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

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

25 (B) oil and gas produced during a month from leases or  
26 properties in the state outside the Cook Inlet sedimentary basin, no part of  
27 which is north of 68 degrees North latitude, is the gross value at the point of  
28 production of the oil and gas taxable under AS 43.55.011(e) and produced by  
29 the producer from those leases or properties, less 1/12 of the producer's lease  
30 expenditures under AS 43.55.165 for the calendar year applicable to the oil and  
31 gas produced by the producer from those leases or properties, as adjusted under

1 AS 43.55.170; this subparagraph does not apply to gas subject to  
2 AS 43.55.011(o);

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

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

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

22 \* **Sec. 13.** AS 43.55 is amended by adding a new section to read:

23 **Sec. 43.55.162. Adjustments to production tax value.** (a) The annual  
24 production tax value of oil produced from a lease or property north of 68 degrees  
25 North latitude by the producer is reduced, during the first seven consecutive years  
26 after the start of commercial production by 20 percent of the gross value at the point of  
27 production of oil produced during the calendar year. This subsection does not apply to  
28 a lease or property that

29 (1) was in commercial production before January 1, 2007;

30 (2) is located within a unit area that has never had commercial  
31 production; or

1                   (3) is located within a unit for more than 20 years before the first  
2 commercial production on the lease or property.

3                   (b) The annual production tax value of oil or gas produced by a producer is  
4 reduced during the first five consecutive years after the start of commercial production  
5 by 10 percent if the oil or gas is produced from a participating area established after  
6 December 31, 2012, that is within a unit formed under AS 38.05.180(p) before  
7 January 1, 2003, if the participating area does not contain a reservoir that had  
8 previously been in a participating area established before January 1, 2012. This  
9 subsection does not apply to production from a lease or property located within a unit  
10 for more than 20 years before the first commercial production on the lease or property.

11                  (c) The annual production tax value of heavy oil produced by a producer is  
12 reduced by 10 percent of the gross value at the point of production of heavy oil  
13 produced, for the calendar year, from a lease or property that is located within a unit  
14 area existing on January 1, 2014.

15                  (d) For a calendar year after 2012, the annual production tax value of oil  
16 produced by a producer that produced oil in 2012 is reduced by 10 percent of the gross  
17 value at the point of production of the volume of oil produced during the calendar year  
18 in excess of the total volume produced by the producer in 2012. The volume of oil  
19 produced by a producer in 2012 is the average daily statewide production of the  
20 producer, excluding from the calculation the days on which production is significantly  
21 reduced, multiplied by the number of days in the calendar year. For the purposes of  
22 this subsection, production is significantly reduced when the production volume of oil  
23 for the day is less than one-half of the quotient of the total volume of oil production  
24 that is produced by the producer for the year and the number of days in the calendar  
25 year. A producer that increases its volume of production through the purchase, merger,  
26 or other acquisition of another producer is the sum of the producer's total target  
27 volume and the total target volume for the producer that is purchased, merged with, or  
28 otherwise acquired; however, if the producer that is purchased, merged with, or  
29 otherwise acquired did not have a target volume determined under this section, the  
30 volume of the increased production that is attributable to the purchase, merger, or  
31 other acquisition may not be considered for the purpose of determining whether the

1 producer that acquired the additional production has increased the volume of  
2 production above its target volume.

3 (e) A reduction in production tax value provided by this section may not be  
4 combined with any other reduction in production tax value provided by this section in  
5 the same year. Oil or gas from a lease or property that produces oil or gas that results  
6 in a production tax reduction under (a) of this section is ineligible for a production tax  
7 reduction under (b) and (c) of this section and may not be used in the calculation of  
8 production volume under (d) of this section.

9 (f) A reduction in production tax value provided by this section may not  
10 reduce the production tax value of a producer below zero.

11 (g) The rate of tax under AS 43.55.011(g) shall be determined before the  
12 application of the adjustment provided by this section.

13 (h) In this section,

14 (1) "commercial production" means the production of oil for the  
15 purpose of sale or other beneficial use, except when the sale or beneficial use is  
16 incidental to the testing of an unproved well or unproved completion interval;

17 (2) "participating area" means that part of an oil and gas lease unit to  
18 which production is allocated in the manner described in a unit agreement.

19 \* **Sec. 14.** AS 43.55.990 is amended by adding a new paragraph to read:

20 (14) "heavy oil" means oil with an American Petroleum Institute  
21 gravity of less than 18 degrees.

22 \* **Sec. 15.** AS 44.88.080 is amended by adding a new paragraph to read:

23 (32) to acquire an interest in a project as necessary or appropriate to  
24 provide working or venture capital for an oil or natural gas development project under  
25 AS 44.88.800 and 44.88.810, whether by purchase, gift, or lease.

26 \* **Sec. 16.** AS 44.88 is amended by adding new sections to read:

27 **Article 9A. Interest in Oil and Gas Resources.**

28 **Sec. 44.88.800. Acquisition of interest in businesses.** (a) The authority may  
29 acquire, through purchase or other means, an interest in a lease held by a corporation  
30 or other business entity in an oil or natural gas field in the state that has been explored,  
31 but only if the authority determines the leaseholder has made reasonable efforts to

1 obtain financing from the private sector to develop the lease and those efforts have, in  
 2 whole or part, been unsuccessful. The authority shall exercise due diligence in  
 3 acquiring a leasehold interest under this section.

4 (b) If the authority acquires a leasehold interest under this section, the  
 5 authority may use the authority's assets, as appropriate, to aid in the development of  
 6 the oil or natural gas field in which the business entity has a leasehold interest.

7 **Sec. 44.88.810. Alaska resource development fund.** (a) The Alaska resource  
 8 development fund is established in the authority for the purpose of developing oil and  
 9 gas resources, and consists of appropriations to the fund. The authority shall manage  
 10 the fund and may create separate accounts within it. Income of the fund or of  
 11 enterprises of the authority shall be separately accounted for and may be appropriated  
 12 to the fund.

13 (b) The authority may use money from the fund to carry out the purpose of the  
 14 fund set out in (a) of this section.

15 \* **Sec. 17.** AS 44.88.900(10) is amended to read:

16 (10) "project" means

17 (A) a plant or facility used or intended for use in connection  
 18 with making, processing, preparing, transporting, or producing in any manner,  
 19 goods, products, or substances of any kind or nature or in connection with  
 20 developing or utilizing a natural resource, or extracting, smelting, transporting,  
 21 converting, assembling, or producing in any manner, minerals, raw materials,  
 22 chemicals, compounds, alloys, fibers, commodities and materials, products, or  
 23 substances of any kind or nature;

24 (B) a plant or facility used or intended for use in connection  
 25 with a business enterprise;

26 (C) commercial activity by a business enterprise;

27 (D) a plant or facility demonstrating technological advances of  
 28 new methods and procedures and prototype commercial applications for the  
 29 exploration, development, production, transportation, conversion, and use of  
 30 energy resources;

31 (E) infrastructure for a new tourism destination facility or for

1 the expansion of a tourism destination facility; in this subparagraph, "tourism  
2 destination facility" does not include a hotel or other overnight lodging facility;

3 (F) a plant or facility, other than a plant or facility described in  
4 (D) of this paragraph, for the generation, transmission, development,  
5 transportation, conversion, or use of energy resources;

6 (G) a plant or facility that enhances, provides for, or promotes  
7 economic development with respect to transportation, communications,  
8 community public purposes, technical innovations, prototype commercial  
9 applications of intellectual property, or research;

10 (H) a plant or facility used or intended for use as a federal  
11 facility, including a United States military, national guard, or coast guard  
12 facility;

13 (I) infrastructure for an area that is designated as a military  
14 facility zone under AS 26.30;

15 **(J) development of an oil and gas field by providing**  
16 **working or venture capital in exchange for an equity interest;**

17 \* **Sec. 18.** The uncodified law of the State of Alaska is amended by adding a new section to  
18 read:

19 APPLICABILITY. (a) Section 1 of this Act and AS 38.05.180(hh), enacted by sec. 3  
20 of this Act, apply to a proposed lease sale and the renewal or extension of a lease on or after  
21 the effective date of this Act.

22 (b) The reduction in production tax value under AS 43.55.162, enacted by sec. 13 of  
23 this Act, applies to oil or gas produced after December 31, 2013.

24 \* **Sec. 19.** The uncodified law of the State of Alaska is amended by adding a new section to  
25 read:

26 LEGISLATIVE APPROVAL; NORTH SLOPE OIL PROCESSING FACILITY. (a)  
27 The Alaska Industrial Development and Export Authority may issue a loan to a producer of  
28 oil or gas to finance the construction and improvement of an oil processing facility on the  
29 Alaska North Slope and flow lines and other surface infrastructure for the facility. A loan  
30 under this section shall

31 (1) be issued to a producer that produces less than 100,000 barrels of oil a day;

1                   (2) be issued for the purpose of financing a facility to facilitate production  
2 from a unit established after January 1, 2014; and

3                   (3) have an interest rate that does not exceed the prime rate of interest plus one  
4 percent.

5           (b) In this section, "prime rate" means the lowest United States money center prime  
6 rate of interest that is published in the Wall Street Journal.

7       \* **Sec. 20.** Section 19 of this Act is repealed June 30, 2017. Repeal of sec. 19 of this Act  
8 does not affect loans issued by the Alaska Industrial Development and Export Authority under  
9 sec. 19 of this Act before June 30, 2017.

10       \* **Sec. 21.** This Act takes effect January 1, 2014.