

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 22, 2016

1:06 p.m.

MEMBERS PRESENT

Representative Benjamin Nageak, Co-Chair
Representative David Talerico, Co-Chair
Representative Bob Herron
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Andy Josephson
Representative Geran Tarr
Representative Mike Chenault (alternate)

MEMBERS ABSENT

Representative Mike Hawker, Vice Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 247

"An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the

limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 247

SHORT TITLE: TAX;CREDITS;INTEREST;REFUNDS;O & G

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

| | | |
|----------|-----|---------------------------------|
| 01/19/16 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/19/16 | (H) | RES, FIN |
| 02/03/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/03/16 | (H) | Heard & Held |
| 02/03/16 | (H) | MINUTE(RES) |
| 02/05/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/05/16 | (H) | -- MEETING CANCELED -- |
| 02/10/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/10/16 | (H) | Heard & Held |
| 02/10/16 | (H) | MINUTE(RES) |
| 02/12/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/12/16 | (H) | Heard & Held |
| 02/12/16 | (H) | MINUTE(RES) |
| 02/13/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/13/16 | (H) | -- MEETING CANCELED -- |
| 02/22/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/22/16 | (H) | Heard & Held |
| 02/22/16 | (H) | MINUTE(RES) |
| 02/24/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/24/16 | (H) | Heard & Held |
| 02/24/16 | (H) | MINUTE(RES) |
| 02/25/16 | (H) | RES AT 8:30 AM BARNES 124 |
| 02/25/16 | (H) | Heard & Held |
| 02/25/16 | (H) | MINUTE(RES) |
| 02/25/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/25/16 | (H) | Heard & Held |
| 02/25/16 | (H) | MINUTE(RES) |
| 02/26/16 | (H) | RES AT 1:00 PM BARNES 124 |
| 02/26/16 | (H) | Heard & Held |

02/26/16 (H) MINUTE(RES)
02/27/16 (H) RES AT 10:00 AM BARNES 124
02/27/16 (H) Heard & Held
02/27/16 (H) MINUTE(RES)
02/29/16 (H) RES AT 1:00 PM BARNES 124
02/29/16 (H) Heard & Held
02/29/16 (H) MINUTE(RES)
02/29/16 (H) RES AT 6:00 PM BARNES 124
02/29/16 (H) Heard & Held
02/29/16 (H) MINUTE(RES)
03/01/16 (H) RES AT 1:00 PM BARNES 124
03/01/16 (H) Heard & Held
03/01/16 (H) MINUTE(RES)
03/02/16 (H) RES AT 1:00 PM BARNES 124
03/02/16 (H) Heard & Held
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03/02/16 (H) RES AT 6:00 PM BARNES 124
03/02/16 (H) Heard & Held
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03/07/16 (H) RES AT 1:00 PM BARNES 124
03/07/16 (H) Heard & Held
03/07/16 (H) MINUTE(RES)
03/07/16 (H) RES AT 6:00 PM BARNES 124
03/07/16 (H) Heard & Held
03/07/16 (H) MINUTE(RES)
03/08/16 (H) RES AT 1:00 PM BARNES 124
03/08/16 (H) Heard & Held
03/08/16 (H) MINUTE(RES)
03/09/16 (H) RES AT 1:00 PM BARNES 124
03/09/16 (H) Heard & Held
03/09/16 (H) MINUTE(RES)
03/11/16 (H) RES AT 1:00 PM BARNES 124
03/11/16 (H) -- MEETING CANCELED --
03/14/16 (H) RES AT 1:00 PM BARNES 124
03/14/16 (H) Heard & Held
03/14/16 (H) MINUTE(RES)
03/14/16 (H) RES AT 6:00 PM BARNES 124
03/14/16 (H) Heard & Held
03/14/16 (H) MINUTE(RES)
03/16/16 (H) RES AT 1:00 PM BARNES 124
03/16/16 (H) Scheduled but Not Heard
03/18/16 (H) RES AT 1:00 PM BARNES 124
03/18/16 (H) Scheduled but Not Heard
03/19/16 (H) RES AT 1:00 PM BARNES 124
03/19/16 (H) Heard & Held
03/19/16 (H) MINUTE(RES)
03/21/16 (H) RES AT 1:00 PM BARNES 124

03/21/16 (H) Heard & Held
03/21/16 (H) MINUTE(RES)
03/21/16 (H) RES AT 6:00 PM BARNES 124
03/21/16 (H) -- MEETING CANCELED --
03/22/16 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

RENA DELBRIDGE, Staff
Representative Mike Hawker
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 247, answered questions and presented amendments to the proposed committee substitute, Version P, on behalf of the committee co-chairs.

KEN ALPER, Director
Tax Division
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 247, answered questions related to amendments to the proposed committee substitute, Version P, on behalf of the governor.

ACTION NARRATIVE

[1:06:59 PM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 1:06 p.m. Representatives Seaton, Olson, Johnson, Tarr, Josephson, Talerico, and Nageak were present at the call to order. Representatives Chenault (alternate) and Herron arrived as the meeting was in progress.

HB 247-TAX;CREDITS;INTEREST;REFUNDS;O & G

[1:07:41 PM](#)

CO-CHAIR NAGEAK announced that the only order of business is HOUSE BILL NO. 247, "An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery

infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

[Before the committee was the proposed committee substitute (CS) for HB 247, Version 29-GH2609\P, Shutts, 3/18/16, adopted as the working document on 3/19/16.]

[During this hearing, amendments to Version P of HB 247 were discussed or adopted. Because of their length, the longer amendments are found at the end of the minutes for this bill. The shorter amendments are included in the main text.]

[1:08:02 PM](#)

CO-CHAIR TALERICO moved to adopt Amendment 1, labeled 29-GH2609\P.55, Shutts, 3/21/16. [Amendment 1 is provided at the end of the minutes on HB 247.]

REPRESENTATIVE TARR objected for the purpose of discussion.

[1:08:31 PM](#)

RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, explained Amendment 1 on behalf of the committee

co-chairs. She said the amendment is offered by Co-Chair Nageak and is largely a technical amendment related to miscellaneous items identified by staff, by Legislative Legal and Research Services, and by the Department of Revenue (DOR). Bringing attention to page 1 of Amendment 1, she pointed out that all of the changes proposed on this page go to the interest rate section of Version P, the proposed committee substitute (CS). These changes delineate the interest rate very clearly as shifting to compound interest prospectively and not as of 2014, she specified, as there is a lack of clarity in the way that Version P is drafted.

MS. DELBRIDGE turned to page 2 of Amendment 1 and brought attention to the changes proposed for page 3, lines 19 and 31, and page 4, line 12, of Version P. She explained that these make a change to the three conforming sections of Version P for the liquefied natural gas (LNG) storage facility credit, the in-state refinery credit, and the gas storage credit related to Section 17 regarding outstanding liability. In the bill's original version the outstanding liability changes were drafted as 43.55.028(e), but in Version P it became subsection (j). These three changes make that correction.

MS. DELBRIDGE continued on page 2 of Amendment 1 and addressed the three changes related to page 8, lines 2, 4, and 6, of Version P. She said that during drafting related to the well lease expenditure credit, the existing "that" in statute was changed to "an". The Department of Revenue had a concern that this may inadvertently change the way that a taxpayer may read this and wanted to ensure that "an" be returned to "that". These three changes make that change in Version P.

MS. DELBRIDGE continued on page 2 of Amendment 1 and reviewed the change related to page 8, line 31, of Version P. She explained that due to a drafting error here the cap of \$200 million is referenced as the \$200 million "limitations". This proposed change to "limitation" would make the word singular.

MS. DELBRIDGE continued on page 2 of Amendment 1 and said the last change goes to page 9, line 12, of Version P. It would add "or claimant" after "applicant". This change was recommended by Legislative Legal and Research Services to clarify that there could be an applicant or a claimant of a tax certificate.

[1:12:20 PM](#)

MS. DELBRIDGE turned to page 3 of Amendment 1 and said the first change on this page relates to page 9, line 13, of Version P, and would add "or claimant's" after "applicant's". She then drew attention to Section 17 on page 9 of Version P, which states: "If an applicant has an outstanding liability to the state directly related to the applicant's oil or gas production or exploration" She said it was pointed out that this language does not include the development stage and might cause lack of clarity in the future. Thus, page 9, line 13, of Version P would be further changed to include the concept of development with exploration and production.

MS. DELBRIDGE continued on page 3 of Amendment 1 and pointed out that the second change on this page would again add "or claimant" after "applicant" [to page 9, line 14, of Version P], and would also add "or refund" after "certificate". She further pointed out that the next three changes on page 3 of the amendment are the same thing.

MS. DELBRIDGE continued on page 3 of Amendment 1 and addressed the second to last change relating to page 17, line 7, of Version P. She explained that when Section 17 for outstanding liability was added to the bill, it was made to apply to the in-state refinery credit and deleted a reference in the in-state refinery credit to a tax liability. That is also defined within that credit and the Department of Revenue (DOR) pointed out that it would be good to therefore delete that definition within the in-state refinery credit, which is what this amendment does.

MS. DELBRIDGE continued on page 3 of Amendment 1 and specified that the last change relates to the [legislative] working group on page 18, line 16, of Version P. The CS states, "The working group is to be supported by legislative consultants 'now' under contract through the Legislative Budget and Audit Committee." It was pointed out by Representative Johnson that "now" is a potentially challenging term as far as reading of the statute goes. Thus, this change would remove the word "now".

[1:14:44 PM](#)

REPRESENTATIVE JOSEPHSON referenced the fourth change on page 1 of Amendment 1 regarding page 3, lines 12-13, of Version P. He understood that as originally drafted in the CS this would be a retroactive interest compounding to 2014, but that this was inadvertent.

MS. DELBRIDGE replied it would not necessarily be retroactive, but it is unclear. Certainly the effective date does not support retroactivity, but the future changes would be much more clear if it was left to say that after January 2014 the interest is simple, as it was, and that on January 1, 2017, it becomes compounding.

[1:15:38 PM](#)

KEN ALPER, Director, Tax Division, Department of Revenue (DOR), on behalf of the governor, thanked the committee and its staff for bringing forth these technical changes that would clean up some inconsistencies and inadvertent issues in the bill. He said DOR's attorney from the Department of Law just now found two small technical issues with the proposed new language in Amendment 1 that he would like to bring to the committee's attention. These would not make any substantive change but would clean up errors in some of the language in the amendment.

[1:16:34 PM](#)

REPRESENTATIVE TARR, responding to Mr. Alper, expressed her interest in hearing about those technical issues. She then drew attention to page 3, line [14], of Amendment 1 which would add language to page 9, line 15, of Version P that states, "or pay only that portion of a refund". She understood that this provision in Version P would limit the amount that the state holds back to the amount that is in question, the amount of the outstanding liability. Thus, she understood, the department may purchase only that portion of a certificate or pay only that portion of a refund, so it would be done for both instances.

MS. DELBRIDGE responded yes and said it was the recommendation of Legislative Legal and Research Services.

[1:17:33 PM](#)

REPRESENTATIVE JOSEPHSON requested an explanation of the two technical issues brought forth by Mr. Alper.

MR. ALPER, regarding the first issue, explained that the structure added by the amendment to the interest rate section creates a third different category for the three different timelines. The earliest language being pre-2014, the current language being not restricted to 2014-2016, and then the new section at the bottom of page 1 of Amendment 1 for what begins on January 1, 2017. In the other two, after the words "bears

interest", it states "in each calendar quarter". Therefore, to maintain consistency, he would suggest that on page 1, line 18, of Amendment 1, after the word "interest", the words "in each calendar quarter" be added. Regarding the second issue, he brought attention to page 3, line 24, of Amendment 1 and advised that "AS" should be inserted in front of "43.20.053(j)(4)" because references to statutes generally have that Alaska Statute reference code.

REPRESENTATIVE JOSEPHSON requested that the aforementioned issues be pointed out in the CS itself.

MS. DELBRIDGE offered her belief that following the language on page 3, line 13, of Version P, there be inserted a "(C)" and the (C) would be applicable "on and after January 1, 2017, bears interest" and then add "in each calendar quarter" before "at the rate". That would mirror the language used in subparagraphs (A) and (B).

[1:19:51 PM](#)

CO-CHAIR NAGEAK asked whether the objection to Amendment 1 is maintained.

REPRESENTATIVE JOSEPHSON said it sounds like the carrier of the amendment is willing to consider the aforementioned suggestions [if they are proposed as a friendly amendment]. He stated he does not have any other objection.

[1:20:24 PM](#)

CO-CHAIR TALERICO moved Conceptual Amendment 1 to Amendment 1 as follows:

On page 1, line 18, after the word "interest" add "in each calendar quarter"; on page 3, lines 23-24, insert "AS" in front of both of the numbered statutes.

There being no objection, Conceptual Amendment 1 to Amendment 1 was adopted.

[1:21:04 PM](#)

[Representative Tarr's objection to Amendment 1 was treated as removed.] There being no further objection, Amendment 1, as amended, was adopted.

[1:21:22 PM](#)

CO-CHAIR TALERICO moved to adopt Amendment 2, labeled 29-GH2609\P.22, Shutts, 3/19/16, which read:

Page 9, line 21, following "owed.":

Insert "In this subsection, "outstanding liability" means an amount of tax, interest, penalty, fee, rental, royalty, or other charge for which the state has issued a demand for payment that has not been paid when due and, if contested, has not been finally resolved against the state."

REPRESENTATIVE TARR objected for the purpose of discussion.

MS. DELBRIDGE explained Amendment 2 on behalf of the co-chairs. She said the amendment is offered by Co-Chair Nageak and would insert into Version P a definition for the term "outstanding liability". This definition is verbatim that proposed by DOR in the original version of HB 247. Extensive work was done on the way outstanding liability would be handled in the CS, but it was brought to the [co-chairs'] attention that still retaining a definition of outstanding liability would offer the greatest clarity to taxpayers and readers of statute.

[1:22:24 PM](#)

REPRESENTATIVE JOSEPHSON inquired whether, even though there is this definition, the CS only focuses on late production tax.

MS. DELBRIDGE answered she does not believe that is correct in the sense that the new outstanding liability language on page 9 of Version P is Section 17. She said Section 17 is quite clear that if the applicant has an outstanding liability to the state directly related to oil and gas exploration, development, and production; so, it is not only related to tax. Section 17 adjusts how outstanding liability will be handled and it is handled much as defined, yet there is not a definition in statute. The definition just adds that clarity. She offered her belief that a number of future amendments also point that out and seek to add that definition.

[1:23:28 PM](#)

REPRESENTATIVE TARR removed her objection to Amendment 2.

[1:23:51 PM](#)

REPRESENTATIVE JOSEPHSON asked Mr. Alper whether in DOR's view it is material that line 13 of Version P only says gas production or exploration and does not say development.

MR. ALPER replied he would first like to hear what Ms. Delbridge has to say.

MS. DELBRIDGE offered her belief that Amendment 1 changed that and so it now says exploration, production, and development.

[1:24:27 PM](#)

There being no further objection, Amendment 2 was adopted.

[1:24:36 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 3, labeled 29-GH2609\P.13, Nauman/Shutts, 3/19/16. [Amendment 3 is provided at the end of the minutes on HB 247.]

CO-CHAIR NAGEAK objected.

[1:24:46 PM](#)

REPRESENTATIVE SEATON explained that Amendment 3 would add protection for Alaska's small businesses in case of bankruptcy by a non-producer. He said that to prevent shenanigans such as payment of corporate officers, the federal bankruptcy court allows secured creditors to back up 90 days from the filing date and recover money that was paid to people. Thus, the bankruptcy court can recover money that was paid to small businessmen in Alaska who sold supplies or provided service to a non-producing oil and gas explorer that the state is giving credits to. For example, with Buccaneer Energy Ltd. and the jack-up rig Endeavour, there were fuel sales, trucking services, harbor fees, and crane fees, and payments were made on these. Then Buccaneer filed bankruptcy. The people supplying those things did not know at the time that Buccaneer was planning to file bankruptcy. The bankruptcy court from Houston [Texas] required recoupment from these small businesses in the range of \$20,000-\$50,000. The legal fees to fight such a recoupment of payment are significant, so many of these companies just had to make a deal and pay back money when they had in good [faith] sold product to, and used by, the company that had gone bankrupt.

REPRESENTATIVE SEATON continued his explanation of Amendment 3, saying it would insert a new section, Section 28, that would require anybody in exploration or development to post a surety bond of \$250,000 that is only good for unsecured creditors. Secured creditors that should do their due diligence in looking at the people they are financing could not come back and take it away from the small businesses in Alaska that do not have the wherewithal to research a company. Drawing attention to page 1, line 11, of Amendment 3, he stated that a surety bond would no longer need to be retained once a company was producing, because by that point in time there would be more security. Thus, under Amendment 3, in the case of new entrants that do not have oil and gas under production, small businesses in Alaska would be protected by the posting of a surety bond. He offered his understanding that some committee members do not believe \$250,000 is a high enough limit and therefore he is open to the offering of a different number.

[1:28:28 PM](#)

MS. DELBRIDGE spoke to Amendment 3 on behalf of the co-chairs. She said the \$250,000 limit may be something that requires discussion. There is concern, she said, about how this might potentially interact with federal bankruptcy rules that relate to transfers made in advance of a bankruptcy. Being unfamiliar with the subject, she suggested the committee may want to consult the Department of Law or Legislative Legal and Research Services. Another concern is that having commercial quantities of production may not equate to being profitable. For example, there may potentially be an instance of a different company that was in production theoretically with commercial quantities, and this company may have left some creditors short locally.

REPRESENTATIVE SEATON responded that Amendment 3 was drafted by Legislative Legal and Research Services and no flags were raised by the agency. Several ways were looked at to do this and this one identifies unsecured creditors licensed in Alaska to ensure it does not go to people not licensed to do business in Alaska.

[1:30:13 PM](#)

REPRESENTATIVE HERRON understood this was a problem in the Cook Inlet. He inquired whether Cook Inlet is the target or anywhere in Alaska is the target.

REPRESENTATIVE SEATON replied the target is anywhere in Alaska where people are receiving credits from the state. These people

may not be well financed because they are using the credits as security for getting financing. This would ensure that any Alaskan business, where ever located, is protected. It was not wanted for the surety bond to extend to companies after becoming profitable, so that is why it identifies for after a company is producing oil and gas in commercial quantities. But, he added, he is open to taking other suggestions.

REPRESENTATIVE HERRON asked what the insurance premium cost would be to the company for a \$250,000 bond.

REPRESENTATIVE SEATON answered that he did not research premium costs, but that a \$250,000 bond, which is really just an insurance premium, is small when compared to a trucking company.

[1:32:08 PM](#)

REPRESENTATIVE CHENAULT agreed with Representative Seaton that there needs to be provisions somewhere in the bill to try to protect corporations and small businesses in Alaska. While this was seen by one company on the Cook Inlet, he said, it is not the first time that he has seen it in business. When an out-of-state corporation comes to Alaska to work and then tries to leave without protecting Alaskans, and the state is paying a credit to corporations, then he thinks an amendment should be enacted into this bill to allow that. While he does not know if it works through the federal court, it is something that should be done for Alaskan businesses.

REPRESENTATIVE JOSEPHSON posited that a surety bond would put the vendor in a better position under federal bankruptcy law so that when assets are marshalled in a bankruptcy the vendor would be higher on the totem pole. This is a great amendment, he said, because it is appropriate, pro Alaska, and responds to a real, not fictitious problem.

REPRESENTATIVE TARR agreed with the previous speakers' comments and said this is a lesson learned the hard way and if there is an opportunity to protect Alaska businesses, she supports that.

[1:34:24 PM](#)

[The objection by Co-Chair Nageak was treated as removed.] There being no further objection, Amendment 3 was adopted.

[1:34:42 PM](#)

REPRESENTATIVE SEATON postponed offering Amendment 4 due to a drafting error within the amendment. He requested an at-ease.

1:34:50 PM

The committee took an at-ease from 1:34 p.m. to 1:41 p.m.

1:41:10 PM

REPRESENTATIVE SEATON said he will not offer Amendment 4 at this time due to another drafting error in the revised version.

1:41:38 PM

CO-CHAIR NAGEAK turned to Amendment 5 and expressed his objection to the amendment.

REPRESENTATIVE SEATON moved to adopt Amendment 5, labeled 29-GH2609\P.29, Shutts, 3/21/16. [Amendment 5 is provided at the end of the minutes on HB 247.]

REPRESENTATIVE SEATON explained that Amendment 5 would end the well lease expenditure credit, AS 43.55.023(1), in Cook Inlet, but would retain the ramp down of this credit for Middle Earth as written in Version P. This 40 percent of the well lease expenditures is added to the net operating loss, which allows a 65 percent state cash payment for Cook Inlet projects. The legislature's consultant, [analytical], demonstrated that credit support is not needed at all for Cook Inlet gas development in either infield drilling or unconstrained market projects because of the economic support of the high gas prices of \$5-\$7 per thousand cubic feet (Mcf). It is a net present loss to the state at any price, although the net present value is positive to the company above a price of \$7/Mcf even in constrained markets. This production credit will never be repaid to the state because gas contracts through 2023 at \$8.19/Mcf only pay 17 cents/Mcf or 2 percent production tax. These well lease expenditure [credits] also apply to private lands where the state gets no royalty from the gas. Oil production in Cook Inlet pays a production tax of zero. Amendment 5 is not retroactive. Qualification for the 25 percent net operating loss credit and the 20 percent [qualified capital expenditure] credit would still remain, and would allow the 45 percent through the end of the year starting on July 1. The bill before the committee is seeking to lower the state's liability and the legislature's consultants have said it is not needed for gas. These well lease expenditures would exist as they are, with 65

percent, through the end of the current fiscal year. This ramp down and reduction is very appropriate.

1:44:48 PM

MS. DELBRIDGE spoke to Amendment 5 on behalf of the co-chairs. She clarified that Amendment 5 amends Version P, the committee substitute (CS), in which the net operating loss [credit] for this region is reduced to 10 percent. So, she said, rather than an ongoing 65 percent state support, under Version P it would be 10 percent for a net operating loss [credit] plus a reduction of the [well] lease expenditure [credit], for a total of 50 percent in 2017 and around 40 percent in 2018. Amendment 5 would retain the well lease expenditure credit in Middle Earth. Also the alternative exploration credit of 30-40 percent would still apply in Middle Earth "outside of this bill in CS." She offered her belief that the consultants were clear that in Cook Inlet it looked like a profitable endeavor for gas production in an unconstrained market, a market in which a company could sell all the gas it was producing on its schedule. However, the consultants were equally clear that this is a constrained market, and there was some clarity that in this circumstance the credits have been working to help curb the constraints of that market and provide companies with that opportunity. Certainly the consultants suggested that the incentive for the work that is being undertaken with the well lease expenditure (WLE) credit for infield work, not new development, is, in their minds, more than necessary. The question always remains for the committee as to whether that work, whether economic or uneconomic, would exist without the incentives that the state has provided and how quickly one wishes to withdraw those incentives without potentially jeopardizing any kind of supply issues.

1:46:40 PM

MR. ALPER, at Co-Chair Nageak's request, spoke to Amendment 5. He said the amendment does separate and create different credit regimes for Cook Inlet versus Middle Earth, which is doable if that is the will of the committee. However, he pointed out, a technical correction was made to some of the language that is in page 2 of the amendment, and he would like to put on the record that DOR would want to re-correct and re-make the technical change to this amendment should it pass.

1:47:25 PM

REPRESENTATIVE SEATON stated that the committee has done lots of work looking at what is necessary in Cook Inlet. He said the committee must ask itself the policy question of whether going forward it wants to do 65 percent state support or larger for projects for which there is no market. If there is a market, the legislature's analysts have said it is economic the way it is. For infield work, the legislature's analysts have identified no scenario in which infield production of gas along the shoreline in Cook Inlet, not offshore, is uneconomic. So, the only case that is being talked about is whether to put large amounts of cash into projects that are going to have a product that cannot be sold profitably. In this time of fiscal constraint this question needs to be looked at closely especially since we have a fiscal regime that says there is zero production tax for oil and only 2 percent production tax on gas and how does the state generate the revenue to pay these credits. He said there is a another amendment that would change that 10 percent net operating loss [credit] to 25 percent so that if Amendment 5 is passed there is a way to make that work so that it is 45 percent. Thus, the committee is not stuck with a lower net operating loss combined with the capital credit.

[1:49:33 PM](#)

CO-CHAIR NAGEAK removed his objection to Amendment 5.

CO-CHAIR TALERICO objected to the amendment.

A roll call vote was taken. Representatives Seaton, Josephson, and Tarr voted in favor of Amendment 5. Representatives Johnson, Olson, Herron, Chenault (alternate), Talerico, and Nageak voted against it. Therefore, Amendment 5 failed by a vote of 3-6.

[1:50:53 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 6, labeled 29-GH2609\P.30, Shutts, 3/21/16, which read:

Page 5, line 26, following "January 1, 2014":

Insert ";

(4) a credit for a qualified capital expenditure incurred to explore for, develop, or produce oil or gas deposits located in the Cook Inlet sedimentary basin may only be taken if the expenditure is incurred before January 1, 2017"

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE SEATON explained that Amendment 6 would require that qualified capital expenditure under AS 43.55.023(a) be done before January 1, 2017. The credits earned before January would still be redeemed at the regular schedule and priority. The reasons for this termination are the same as those for Amendment 5, but Amendment 6 would allow for existing scheduled work to receive the 45 percent state support from January 1 through the end of the year. He pointed out that the capital credit, unlike the net operating loss credit, goes to profitable producing companies for infield expenses. The legislature's consultants have told the committee repeatedly that the infield work onshore does not need to have credit support because it has ample cost support, as evidenced by the long-term contracts that have just been signed starting at \$7.49 [per Mcf] and going through to 2023 at \$8.19 [per Mcf]. Thus, there is ample economic incentive for infield work. These capital credit expenditures will mainly be going to onshore areas. He posited that if there is reason for other specific expenditures, especially since the committee has not eliminated the well lease expenditures, then the capital credit expenditures should be eliminated effective in January of this coming year.

[1:53:21 PM](#)

CO-CHAIR NAGEAK removed his objection to Amendment 6.

REPRESENTATIVE HERRON objected and requested Ms. Delbridge to respond to Amendment 6.

MS. DELBRIDGE replied on behalf of the co-chairs, stating that Amendment 6 absolutely changes the way that the levers were adjusted within the committee substitute. The qualified capital expenditure credit was retained at 20 percent in Version P to provide that ongoing support for a number of phases of work from development to production, including ongoing production, that delivers the oil and the gas that is being used generally in Southcentral Alaska. In maintaining that lever the co-chairs believed it was appropriate to continue that credit support for that work. Amendment 6 is another way of pulling those [levers] in Cook Inlet, as explained by Representative Seaton.

[1:54:31 PM](#)

REPRESENTATIVE HERRON asked Mr. Alper whether there is a number in regard to what has happened between January 2014 and to-date.

MR. ALPER replied that a lot of exploration and development work has occurred in Cook Inlet. The governor's original bill proposed eliminating the [qualified capital expenditure] credit and maintaining the [net operating loss] credit at the higher level of 25 percent. If Amendment 6 were to pass, he said, it would be his wish to restore a certain element to the [net operating loss] credit. As stated by Ms. Delbridge, it is really about the decision to support the development operations of producers, the people who are in production selling oil and gas potentially at a profit under the realm of the tax cap, or to concentrate the state's credit support on just the folks that have an operating loss. Of the \$400 million in credits the state gave in the Cook Inlet area last year, one-third to one-half was probably in this category. It is hard to separate this number out, he added, but it is definitely a material number.

[1:56:07 PM](#)

REPRESENTATIVE HERRON removed his objection to Amendment 6.

REPRESENTATIVE OLSON objected to the amendment.

[1:56:27 PM](#)

REPRESENTATIVE SEATON concluded his explanation of Amendment 6, stating it is a balancing act in policy whether to have the 20 percent capital credits which will heavily go to profitable producers in the Cook Inlet, people with ongoing work. Only 18,000 barrels of oil a day are produced in the Cook Inlet, so it is almost all gas production and it is almost all coming from wells and fields that have been there for a long time. The debate and policy call here is whether the committee wants to have the state's limited capital pay for infield work that is profitable by any stretch of the testimony by the legislature's consultants, or to encourage new developments with the higher net operating loss. He reiterated that a revision to the net operating loss credit would be needed in Version P given he had not wanted to roll everything into one amendment.

[1:57:57 PM](#)

A roll call vote was taken. Representatives Seaton, Josephson, and Tarr voted in favor of Amendment 6. Representatives Chenault, Johnson, Olson, Herron, Talerico, and Nageak voted against it. Therefore, Amendment 6 failed by a vote of 3-6.

[1:58:43 PM](#)

CO-CHAIR NAGEAK turned to Amendment 7 and expressed his objection to the amendment.

REPRESENTATIVE SEATON moved to adopt Amendment 7, labeled 29-GH2609\P.31, Nauman/Shutts, 3/21/16. [Amendment 7 is provided at the end of the minutes on HB 247.]

REPRESENTATIVE SEATON explained Amendment 7 would maintain some level of capital credit, but less. He noted that, again, it is a policy decision of how much should go to existing profitable producers that heavily use the [qualified capital expenditure] credit and how much should go to stimulate and support new operations. Drawing attention to page 1, line 21, of Amendment 7, he noted that it is not to exceed 30 percent and therefore it is considering that the net operating loss credit would be returned to 25 percent and would allow a capital credit of 5 percent to provide some support for the existing producers. A total of 30 percent is what is in Version P, he pointed out, so Amendment 7 would just change the mix of which kind of project would be supported - whether that would be existing producers adding to their profit margin or stimulating new producers by making their fields economic.

[2:00:37 PM](#)

CO-CHAIR NAGEAK removed his objection to Amendment 7.

CO-CHAIR TALERICO objected to the amendment.

[2:00:46 PM](#)

REPRESENTATIVE JOHNSON requested Ms. Delbridge to comment.

MS. DELBRIDGE requested clarification from the sponsor as to whether Amendment 7 would set a different carried-forward annual loss for Middle Earth and for Cook Inlet. She understood that in the instance of Middle Earth it would remain the 10 percent that is in Version P and it would be reduced to 5 percent for Cook Inlet. She further understood that overall a credit or a certificate could not be issued if those credits cumulatively exceeded 30 percent of expenditures that qualify for a credit.

REPRESENTATIVE SEATON responded that the purpose of Amendment 7 is that credits would not be over 30 percent in the Cook Inlet, whether they expended more money or not, but the net operating

loss and the 5 percent could not be over 30 percent. Those that do not have a net operating loss would still be able to get 5 percent state support, but the combination of net operating loss under (b) and the capital credits could not exceed 30 percent.

[2:02:25 PM](#)

The committee took an at-ease from 2:02 p.m. to 2:05 p.m.

[2:05:45 PM](#)

REPRESENTATIVE SEATON withdrew Amendment 7.

REPRESENTATIVE SEATON stated that Amendment 8, labeled 29-GH2609\P.32, Nauman/Shutts, 3/21/16, is not being offered.

[2:06:39 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 9, labeled 29-GH2609\P.14, Nauman/Shutts, 3/19/16, which read:

Page 6, line 5:
Delete "35"
Insert "25 [35]"

Page 18, line 20, following "APPLICABILITY.":
Insert "(a)"

Page 18, following line 21:
Insert a new subsection to read:
"(b) The change in the percentage of the carried-forward annual loss tax credit applicable to oil or gas deposits located north of 68 degrees North latitude under AS 43.55.023(b), enacted by sec. 12 of this Act, applies to a tax credit taken for a tax year beginning on or after the effective date of sec. 12 of this Act."

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE SEATON explained Amendment 9 would change the percentage of expenses on which credits are earned to the same that are currently earned in Cook Inlet and Middle Earth, which is 25 percent. He recalled that in the evolution of tax bills for the North Slope tax base, there was credit at 25 percent. That was replaced with a new regime of a 35 percent tax rate and a per-barrel credit which had a band of per-barrel reductions

across a normal band of prices. However, it is very complex to calculate the actual tax rate for each company, especially with the sliding scale that is variable with price. Amendment 9 would not change any tax rates, it would simply fix a rate at which credits are earned at the same 25 percent of expenses as previously on the North Slope and as currently in the other basins. While it would not change any process, application, or redemption of credits, it would have a big effect. Currently with \$1 billion of spending, the state owes \$350 million in tax credits. If Amendment 9 was passed, the \$1 billion of spending would be \$250 million payment to the state at 25 percent, which is what it was previously when there was lots of activity on the North Slope and was sufficient to aid production. He pointed out that when the state first started going with the production profits tax (PPT), Pedro van Meurs urged that the state limit its credits to 25 percent as the credits are based on expenditures by oil companies regardless of whether it is profitable to the State of Alaska, and the state is in exactly that situation right now where it owes 35 percent of all these expenditures but the state is not making any money. The question is, What is enough state participation to encourage investment? Because this was seen on the North Slope previously, he is asking members to support Amendment 9.

[2:09:59 PM](#)

REPRESENTATIVE JOSEPHSON stated his support for Amendment 9. He said he realizes that Senate Bill 21 [More Alaska Production Act (MAPA), passed in 2013, Twenty-Eighth Alaska State Legislature] dropped the 20 percent capital credit, although it may still be closing out its two-year window. He related he has repeatedly read that the state does not see any production tax beneath [an oil price] of about \$75 or \$80 a barrel, and he thinks the state has shifted too much to the taxpayers in that price range. The Department of Revenue has just announced its projection that the state is going to spend over \$100 million more on credits than it will reap in royalty, production tax, corporate income tax, and ad valorem tax, (excluding the 25 percent royalty put into the permanent fund constitutionally). The state's credit system is not sustainable in this economic climate, so this would be a way to rein it in. The gross value reduction (GVR) on new areas is 20 percent in perpetuity. In looking at the Oil and Gas Competitiveness Review Board [records] he said he could not identify any place where someone could have a GVR in perpetuity. Amendment 9 helps to moderate a program that is too generous.

[2:11:52 PM](#)

MS. DELBRIDGE spoke to Amendment 9 on behalf of the co-chairs. She said the co-chairs have expressed their opposition to a fundamental change to the existing North Slope tax regime as set into law under Senate Bill 21, a bill that was affirmed by voters. She said the net operating loss (NOL) credit can also be thought of as a part of the fundamental tax calculation in the sense that the state wants a company to keep spending money even if it is losing money because that spend is potentially that future production. These are refunded for a fairly limited group of taxpayers; they are refunded not to the majors with legacy production that have more than 50,000 barrels a day, but to the smaller companies with less than that, in which instance one would consider how much support one wants to provide to those smaller companies. The NOL is also used as sort of an equalizer for new companies that do not have existing production to come onto the North Slope. It is their upfront state support for developing these new resources in new areas. These are the reasons the co-chairs are opposed to the general change in the NOL on the North Slope.

[2:13:23 PM](#)

REPRESENTATIVE HERRON offered his understanding that Dr. Pedro van Meurs did say 25 percent for credits but when it was matched with 25 percent production tax rate. He asked whether he is correct in this understanding.

MS. DELBRIDGE deferred to Mr. Alper for a recollection in this regard, but said that typically, yes, the net operating loss is commensurate or equal with the amount of tax the state is on the other side. That's much as the federal tax system works. So, it's a sense that when a company is making money the state is going to take the company's money from it in a tax as the state's share. But, when a company is losing money the state is going to make sure that the company is able to realize the value of that loss against its future liability. The State of Alaska has chosen to refund that to certain taxpayers.

MR. ALPER recalled that the original PPT proposal had a 20 percent capital credit, a 20 percent tax rate, and a 20 percent operating loss credit. He recalled Dr. van Meurs stating that he did not believe in credits in excess of 20 or 25 percent, because they essentially become counter-productive and could encourage too much certain behaviors that might work against the economics. Mr. Alper said he uses the numbers of 20, 20, and 20 to point out that going back to PPT there was a divergence

between the tax rate and the credit rate. The PPT tax rate was 22.5 percent and the operating loss credit was 20 percent. In Alaska's Clear and Equitable Share (ACES) [House Bill 2001, passed in 2007, Twenty-Fifth Alaska State Legislature] it became 25 and 25. He noted the administration does not have a position on Amendment 9, and said Representative Seaton brings up an important theoretical concept with the amendment. In ACES there was a 25 percent base tax rate, but effectively because of progressivity it typically turned out to be higher than that. So, the effective tax rate was larger than 25 percent with an operating loss credit of less than the effective tax rate, 25 percent. With Senate Bill 21 the base tax rate is 35 percent, but the nature of the calculation is a subtraction mechanism - the per-barrel credit. So, in most cases, the effective tax rate is less than 35 percent and there is a phenomenon in place on the North Slope right now where the operating loss credit is actually larger than the effective tax rate, something that hasn't been seen before. As he understands Representative Seaton's testimony, that is the phenomenon that the representative is attempting to address with Amendment 9.

[2:16:25 PM](#)

CO-CHAIR NAGEAK maintained his objection to Amendment 9.

[2:16:36 PM](#)

REPRESENTATIVE SEATON concluded his explanation of Amendment 9 by stating that the discussion of the tax rate and the credit is very apropos, but the portion of this that is not brought in is the \$5 or sliding-scale tax reduction, because that is reducing that tax rate and so that is not recognized at all in the calculation. A 50 percent tax rate could be set and a reduction of \$20 per barrel could be given and the state could say a company should be able to get a 50 percent credit because the tax rate is there and not taking into account the per-barrel tax credit, which is a huge deduction from the state's revenue position. Amendment 9 does not try to get in and balance at every price, especially the sliding-scale, and balance that against what is the tax and what is the effective tax paid, although that could be done so that a company gets a credit for whatever its effective tax rate is. But, that is a difficult calculation to make, so that is why Amendment 9 is being offered to go back to the 25 percent.

[2:18:01 PM](#)

CO-CHAIR NAGEAK again maintained his objection to Amendment 9.

A roll call vote was taken. Representatives Tarr, Seaton, and Josephson voted in favor of Amendment 9. Representatives Herron, Chenault, Johnson, Olson, Talerico, and Nageak voted against it. Therefore, Amendment 9 failed by a vote of 3-6.

[2:19:16 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 10, labeled 29-GH2609\P.18, Nauman/Shutts, 3/19/16. [Amendment 10 is provided at the end of the minutes on HB 247.]

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE SEATON explained that Amendment 10 would limit the per-barrel tax credit to \$5. He recalled that when Senate Bill 21 came before the House Resources Standing Committee the maximum credit was \$5 per barrel. The committee substitute for Senate Bill 21 made the bill slightly progressive at higher prices by ramping down the per-barrel credit as the price approached \$150 per barrel, at which price the credit would be zero. At prices between \$90 and \$100 the per-barrel credit increased 20 percent, going from \$5 to \$6 per barrel. At prices between \$80 and \$90 the credit increased another 16 percent, going from \$6 to \$7 per barrel. At prices less than \$80 the credit increased another 14 percent, going from \$7 to \$8 per barrel. The problem is that these increases above the \$5 have contributed to the minimum tax being reached at a price of about \$85 a barrel. He posited that these credits really need to be looked at and taken into account, and therefore Amendment 10 would limit the maximum per-barrel tax credit to \$5 a barrel.

[2:21:03 PM](#)

MS. DELBRIDGE spoke to Amendment 10 on behalf of the co-chairs. She said the co-chairs are opposed to fundamentally changing aspects of the North Slope fiscal regime put into place with Senate Bill 21. To address only part of that system, in this case the sliding-scale credit, without evaluating the system as a whole and the way that that would shift the give and the get for the state and for companies throughout the system has the potential for consequences that have not been fully vetted in this committee.

[2:21:46 PM](#)

CO-CHAIR NAGEAK maintained his objection to Amendment 10.

A roll call vote was taken. Representatives Josephson, Tarr, and Seaton voted in favor of Amendment 10. Representatives Chenault, Herron, Johnson, Olson, Talerico, and Nageak voted against it. Therefore, Amendment 10 failed by a vote of 3-6.

[2:22:45 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 11, labeled 29-GH2609\P.34, Nauman/Shutts, 3/21/16. [Amendment 11 is provided at the end of the minutes on HB 247.]

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE SEATON explained that Amendment 11 would change the per-barrel tax credit to a flat \$5 across all price ranges, which is exactly the way that "the bill" [Senate Bill 21] passed the other body and came over to the House Resources Standing Committee in the first place.

[2:23:27 PM](#)

MS. DELBRIDGE spoke to Amendment 11 on behalf of the co-chairs. She understood that this amendment would set a hard floor for use of the \$5 per-barrel tax credit that is now for new oil on the North Slope. This amendment, then, would apply that \$5 per-barrel tax credit "if we fail to make it meet the criteria in [AS 43.55.160](f) and (g) potentially North Slope-wide." The co-chairs are fundamentally opposed to any changes to Senate Bill 21, understanding as with the previous amendment, that to work changes to a piece of that system without contemplating the way it shifts the entire equilibrium of that system at highs and lows and between the state and industry was not thoroughly vetted and considered in this committee with HB 247.

[2:24:41 PM](#)

REPRESENTATIVE CHENAULT requested clarification regarding Representative Seaton's statement about the bill that came over from the other body.

REPRESENTATIVE SEATON clarified he was not speaking of HB 247, but rather the bill that established the tax rate that came from the other body [Senate Bill 21].

[2:25:18 PM](#)

REPRESENTATIVE JOSEPHSON addressed the sliding-scale per-barrel tax credit of \$0-\$8 that currently exists under law, noting that as the price rises, the amount of the credit drops. He asked whether it is Representative Seaton's view that in the event of better prices there is a winner and a loser relative to that calculation.

REPRESENTATIVE SEATON answered by addressing the question about the progressivity of the sliding-scale, especially at higher prices, versus \$5. He said the higher the price goes it is \$5 fixed, so it would become a lesser and lesser percentage of the price. Because it would stay there, there would be some loss, but the state could absorb some loss at higher prices because [the companies] are making money. Whereas under the sliding scale of the credit going higher than \$5 a barrel at lower prices, that jump from \$100 to the range of \$90 is actually increasing that per-barrel credit by 20 percent (\$1) compared to \$5. So, it makes much less difference going higher than lower.

[2:27:25 PM](#)

MR. ALPER provided some "off the cuff" dollar values for the changes that Amendment 11 would make. He said the elimination of the higher-than-\$5 credit at low oil prices under the current sliding scale really has no value at today's [low] prices. At a price range of \$80-\$100, that would probably be worth [\$100 million] to \$300 million of additional revenue to the state. At prices beyond \$110 or \$120 there would be a little bit of diminishment in expected revenue, peaking at extremely high prices of above \$160 the state might lose around \$750 million. However, in that high price environment the state would be getting many billions of dollars in production tax revenue. Combining all of the oil into the single section and referring to AS 43.55.011(f), which is the minimum tax, would extend the floor to oil that currently enjoys the gross value reduction (GVR). That was a provision included in the governor's original bill and its value is in the neighborhood of \$10-\$20 million.

[2:28:47 PM](#)

CO-CHAIR NAGEAK maintained his objection to Amendment 11.

A roll call vote was taken. Representatives Seaton, Josephson, and Tarr voted in favor of Amendment 11. Representatives Herron, Chenault, Johnson, Olson, Talerico, and Nageak voted against it. Therefore, Amendment 11 failed by a vote of 3-6.

[2:29:40 PM](#)

CO-CHAIR NAGEAK turned to Amendment 12 and stated his objection to the amendment.

REPRESENTATIVE SEATON withdrew Amendment 12, labeled 29-GH2609\P.19, Nauman/Shutts, 3/19/16.

[2:29:55 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 13, labeled 29-GH2609\P.17, Nauman/Shutts, 3/19/16. [Amendment 13 is provided at the end of the minutes on HB 247.]

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE SEATON explained Amendment 13. He recounted that the gross value reduction (GVR) was originally called the gross revenue exclusion. He said it is really a gross tax based on a value at the point of production in that all the applicable upstream expenses are subtracted to reach a value of the oil and then a percentage is taken off. He posited that this is a credit because it is off the full value after the calculation of the value at the point of production. He further recounted that the GVR was discussed as an equity measure for new oil, retroactive to 2003, between legacy fields with depreciated assets and new fields requiring facilities. However, he pointed out, there is no time limit on the GVR, it extends for the life of the field, so the state continues to lose money even after the allowance and later recovery of capital. Amendment 13 would put a five-year limit after the start of production of new/GVR oil, and any new oil fields in production before 2017 would still get the full five years of reduction starting in 2017. The amendment tries to adjust the state's situation so that the state is not in quite such a fiscal condition.

[2:32:04 PM](#)

REPRESENTATIVE HERRON inquired whether this is a definition of new oil.

REPRESENTATIVE SEATON replied that Amendment 13 would remove the gross value reduction (GVR) after five years and then the oil would be taxed just as a regular oil field would be taxed. The amendment does not put in a different definition, it just says that the credit would extend for five years for this new oil and

then it will be regular oil. Otherwise, the state is facing a time in the future where everything is new oil and the state has much less revenue.

REPRESENTATIVE HERRON requested Mr. Alper or Ms. Delbridge to speak to whether this is a new oil definition.

MR. ALPER responded that the definition of new oil is what qualifies for the gross value reduction and that is a complex, three-part portion of statute. There are three different tests, one of which must be met. That definition holds. The question is, How long is it necessary to give the tax benefits that come with being new oil? He recalled Representative Herron last week referencing an Oklahoma statute that provides a reduced tax benefit for 36-months. "The way this is written, it is open-ended," he continued. He said his understanding of the purpose of a new oil tax reduction is to compensate companies for the higher upfront capital cost of developing new oil. But, he continued, at some point one could argue that those costs are recaptured and the question is, Does the oil graduate at some point and go from being new oil to being old oil? That conversation was had in the body during the debate over Senate Bill 21, it was unresolved, and existing statute is that new oil remains new forever.

[2:34:28 PM](#)

REPRESENTATIVE TARR stated her support for Amendment 13 and making it clear that new oil is not new forever. She recalled that during the Senate Bill 21 debate members were under the gun and took until 4:00 a.m. the night that the bill was passed out of committee. Had the committee spent more time, she posited, it may have gotten there because the conversation was about new oil and she thinks that at some point it is reasonable to say it is not new anymore and has graduated to become old oil. The amendment does not have an immediate impact, she said, which gives everyone an opportunity to know the policy change and to determine what it means in their company's overall profile.

[2:35:36 PM](#)

CO-CHAIR NAGEAK maintained his objection to Amendment 13.

A roll call vote was taken. Representatives Seaton, Josephson, and Tarr voted in favor of Amendment 13. Representatives Olson, Herron, Johnson, Talerico, and Nageak voted against it. Therefore, Amendment 13 failed by a vote of 3-5.

2:36:26 PM

REPRESENTATIVE SEATON moved to adopt Amendment 14, labeled 29-GH2609\P.15, Nauman/Shutts, 3/19/16. [Amendment 14 is provided at the end of the minutes on HB 247.]

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE SEATON explained that while Amendment 14 is long, it would only do one thing - remove AS 43.55.160(g). Subsection (g) is the additional 10 percent gross value reduction for new fields that have a royalty above 12.5 percent, which, he said, is really a tax credit override of the royalty terms. When leases are offered to bid or companies bid on dollars and terms and win a lease, some bids include higher royalty or profit sharing. Royalty modification, he pointed out, is available through the Department of Natural Resources (DNR). If a project is found, but the royalty terms make it uneconomic, an application for royalty modification can be filed with DNR and if justified the royalty can be modified for a time to ensure it becomes an economic field. The state's ownership interest is royalty and what is had in Amendment 14 is a tax provision that is put in specifically to override the competitive process of a royalty or a lease bid in the higher royalties. Now is an appropriate time to come in and ensure that if a company needs royalty modification it goes through the statutes for royalty modification and receives that for the economics of its field instead of having a one size fits all for all new oil.

2:39:05 PM

MS. DELBRIDGE spoke to Amendment 14 on behalf of the co-chairs. She said the co-chairs are concerned about Amendment 14 because it is a material change to the terms in Senate Bill 21 that were put forth to benefit new oil. Nothing changes the royalty. Certainly Representative Seaton presents a perspective that a tax decrease on certain royalty properties is the state taking less overall for those leases. The language included in Amendment 14 would make sure that property receiving this did not include a lease that was already within a unit in 2003 and providing those leases have royalty shares of more than 12.5 percent. It is clearly designed to apply to certain new oil production areas. The co-chairs' concern is that those most affected by this are not here to fully explain the potential impacts related to a change in this provision right now and the committee has not considered this topic at this point.

MR. ALPER, in regard to Amendment 14, stated that there is not, to [DOR's] knowledge, any oil currently enjoying this 30 percent gross value reduction. Qualifying for this reduction requires that all the leases within a given unit be at greater than 12.5 percent and all be state leases. So, this 30 percent provision would never apply, say, in a high royalty field in the National Petroleum Reserve-Alaska (NPR-A), it would have to be on state land. He recalled that this amendment to add the 30 percent rate was a relatively late amendment to Senate Bill 21. It came in the House Finance Committee, the last committee, so it might have received a bit less discussion than some of the other core provisions of that bill. He said Ms. Delbridge is correct that it would be a material change to Senate Bill 21 as written.

[2:41:08 PM](#)

REPRESENTATIVE JOSEPHSON asked what the thinking was in the policy when the state moved from 12.25 or 12.5 percent, a traditional royalty rate, to a rate of about 16.67 percent.

MR. ALPER qualified that this question might better be asked of DNR than of him. However, he said, the higher royalty rate offerings for the bids, the getting of companies to bid on the lease offerings, was made once people knew there was oil being produced in the area and therefore people might be prepared to take a bit more of a risk and give the owner a higher share. This is seen all over oil developing areas, he noted, such as the very high royalty rates on private land in, say, North Dakota, because it is known that there is oil under there and the producers are prepared to pay the 20-25 percent royalties. Key about the specific language in AS 43.55.160(g) is that every lease within a unit has to be above 12.5 percent. There is generally something of a patchwork or checkerboard of different ownership interest, different leaseholds, in a unit. So, to qualify for this high rate, it would need to be a circumstance where every last lease would be at the higher rate level.

[2:42:40 PM](#)

REPRESENTATIVE SEATON agreed that this has not been discussed before the committee, but said he thinks it needs to be discussed. Credits or issues that are costing the state a lot need to be discussed in further committees and putting this on the record at this point in time will allow the industry to come forward and participate and defend why 30 percent of their gross revenue should be excluded from taxation on these areas.

[2:43:42 PM](#)

CO-CHAIR NAGEAK maintained his objection to Amendment 14.

A roll call vote was taken. Representatives Seaton, Josephson, and Tarr voted in favor of Amendment 14. Representatives Johnson, Olson, Herron, Chenault, Talerico, and Nageak voted against it. Therefore, Amendment 14 failed by a vote of 3-6.

[2:44:33 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 15, labeled 29-GH2609\P.16, Nauman/Shutts, 3/19/16. [Amendment 15 is provided at the end of the minutes on HB 247.]

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE SEATON explained that Amendment 15 looks at the 20 percent gross revenue reduction. He distributed a handout to committee members with a two-page letter addressed to him from Ken Alper of DOR dated 2/2/16 and accompanied by four pages of graphs and charts. The handout was produced by DOR in response to his February 2015 request for an analysis of what the North Slope 20 percent gross revenue exclusion was doing for the state over the long term and whether it was paying off. These documents were distributed during one of the committee's previous hearings on HB 247.

REPRESENTATIVE SEATON drew attention to the chart on page 12 of the handout titled, "Net Present Value of 30-Year Project, Production Tax Only to State at NPV6.15%." He noted that the analysis was based on a 30-year field life, with a peak production of 15,000 barrels a day. With the 20 percent gross revenue exclusion at an average oil price of \$80 for the entire life of the field, the state would have a net present value loss of \$36 million under the production tax only. The 6.15 percent discount rate is the discount rate used by the permanent fund, he explained. He then brought attention to the bottom chart on page 12 titled, "Net Present Value of 30-Year Project, Total Revenues to State/Muni at NPV6.15%." Referring to the furthest right column, he noted that with the general fund unrestricted revenue (GFUR) the state still loses \$26 million at \$60 a barrel, even considering all of the corporate income tax, property tax, royalty, and production tax; the state never recoups its investment even with all of those fund sources. Amendment 15 would reduce the GVR from 20 percent to 10 percent

with the purpose being to reduce the state's liability caused from this credit against the gross before calculation of tax due. It would prevent the state from having net present value losses from its investment at oil prices of \$60 and \$80.

[2:49:10 PM](#)

MS. DELBRIDGE spoke to Amendment 15 on behalf of the co-chairs. While the co-chairs appreciate the analysis that was provided, she said, they are again concerned about making a very material change to the tax regime in place today on the North Slope. The specific point of the gross value reductions that were implemented with Senate Bill 21 was to incentivize the new oil that the state needs to continue feeding the pipeline and to support continued revenue to the state. The decision [in Senate Bill 21] was made in the context that providing a tax benefit in exchange for being able to induce people to go after that new oil was a good tradeoff and appropriate. The co-chairs oppose these changes to the existing Senate Bill 21 regime.

[2:50:06 PM](#)

CO-CHAIR NAGEAK maintained his objection to Amendment 15.

[2:50:17 PM](#)

REPRESENTATIVE TARR supported Amendment 15. She understood Ms. Delbridge's comments, but said the state has some challenging times ahead even if circumstances change and oil prices adjust. Even at \$60, which would seem like a godsend after today's long period of low prices, there is still significant loss to the state. So if it is not today, it is clearly shown through Amendment 15 and the previous couple that this is a topic that must be delved into. The industry has asked for stability and the state definitely needs stability.

REPRESENTATIVE CHENAULT referred to the charts and stated he wishes that one point in time could be picked out and make it look as bad as it might really actually be. The low oil price situation has only been for a year or so now, he said. For years the state was real happy that oil was up to \$100 and as high as \$140, so he could pick oil at \$100 and show a \$346 million surplus. When talking about a 30-year project, no one has a clue what the price of oil is going to be next week and he does not believe that oil is going to be at \$30 a barrel for the next 30 years. If it is, then projects will not come on line because there would be no profit to be made and in fact industry

is losing money. Seldom are analysts spot-on on what the cost is on any given day. Therefore, he said, care must be taken about how the pinch points are changed and try to look at a long-term view and what is best for the state and what brings the state revenue over the long haul. While there is concern about the short term and where to get revenue, care must be taken on how to address the issue.

[2:53:48 PM](#)

REPRESENTATIVE SEATON concluded his explanation of Amendment 15. He offered his appreciation for committee members looking at the amendment and urged that members look at the full DOR analysis that was done on prices between \$50 and \$100 a barrel. He said he did not ask for analysis on \$30 a barrel, given that obviously everyone is broke at \$30 a barrel. He pointed out that he was very concerned when he looked at the production tax and saw net present value losses over the entire life of a field, because that is what the state is doing. The state is investing upfront in fields and subsequently the life of the field, and it is very disconcerting when looking at net present value losses at prices of \$60 and \$80, whether considering just production tax or all revenue that comes from that source; that becomes difficult to sustain. Representative Seaton recalled the handouts that were provided to members by Econ One Research, Inc., during the committee's consideration of Senate Bill 21. That analysis was for prices between \$80 and \$140 a barrel, he recounted, so the committee did not look at a full range of analysis because it did not look at anything under \$80 a barrel. Not looking at a full range can now be seen as being a mistake. He agreed the committee has not had a full discussion on this, and he wishes it had. He withdrew Amendment 15.

[2:56:23 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 16, labeled 29-GH2609\P.35, Shutts, 3/21/16, which read:

Page 3, line 10:
Delete "three"
Insert "seven [THREE]"

CO-CHAIR NAGEAK objected for the purpose of discussion.

REPRESENTATIVE TARR noted that a theme will be seen in her amendments, which is that she appreciates the work done by the administration, the comprehensive view, and the only plan she

has seen coming forward at this point in time. Some of the amendments she will offer speak to provisions in the governor's original version of the bill that she thinks are worth retaining.

REPRESENTATIVE TARR explained that Amendment 16 relates to Section 7 of the original bill that changed the interest rate for delinquent taxes from 3 percent above the Federal Reserve discount rate to 7 percent above. She recounted that prior to passage of Senate Bill 21 in 2013 that interest rate was 11 percent. Too high of an interest rate can create an unintended consequence of unwanted behavior, she continued, but so can an interest rate that is too low. The proposed rate of 7 percent above relates to how the state is going to be paying for these credits. If the state is going to have to borrow from one of its savings accounts to pay these credits, then the interest rate should be set to match the lost opportunity cost, because that money would otherwise be earning for the state. Seven percent above hits the sweet spot in the middle for encouraging good behavior on both sides. She recalled the committee's discussion about accelerating the rate for the audit review and that Mr. Alper had indicated that DOR has a plan for doing that. The public is demanding some of these changes, she said. This proposal would not have a direct impact on anything related to investment in exploration, development, or production.

[2:59:57 PM](#)

MS. DELBRIDGE spoke to Amendment 16 on behalf of the co-chairs. She said the co-chairs did not include an interest rate increase in Version P because they felt it punitive to increase the amount of money being collected from industry while industry is waiting out a period under which the state is undertaking an activity that the state is requiring. Also, analytica, the legislature's consultant, expressed serious concerns with the governor's original bill having a series of incremental changes that suggested the state was attempting to squeeze money out of industry in a number of different places even when industry is operating at serious losses in the state and that that creates a hesitancy and a fear related to the state's investment climate that could threaten future activity.

[3:01:09 PM](#)

REPRESENTATIVE TARR concluded her explanation of Amendment 16 by saying she would not characterize it as punitive because DOR is meeting its statutory requirement for getting those audits done.

The committee could have addressed this in the bill, she said, it was discussed and is something she is interested in. The quicker things can be trued up is something she supports and an opportunity to do so would be a positive move. There could be a circumstance of the interest rate being so low that it may not encourage the payment of those taxes because a company may also have the same opportunity to have those dollars invested elsewhere and earning above 4 percent, making it advantageous for the company to keep back some of those dollars, earn a bit more, and then settle up with the state. She reiterated she is trying for the sweet spot in the middle that encourages everyone to do their best job. She added that it would be worthwhile to figure out how the state can be more aggressive with its audits and that this would be appreciated by the companies as well.

MS. DELBRIDGE clarified that it is illegal for a company to not pay its taxes to the best of its ability in understanding them to be. In regard to concerns related to the concept that someone may intentionally do that related to interest, she said she wants to make it clear that that is an illegal activity.

[3:03:14 PM](#)

REPRESENTATIVE OLSON commented that the last several audits have gone 5 years, 51 weeks, approximately, and have barely missed the statute of limitations. He asked whether he is correct that most recently it was 2008.

MR. ALPER replied, yes, the 2009 audits are due March 31, 2016.

REPRESENTATIVE OLSON understood that about 60 percent of the \$265 million collected was interest.

MR. ALPER provided a correction, stating it was about 40 percent interest and 60 percent principle, but agreed that that is still a large number. The number is smaller as the 2009 audits are being finished, he specified, because there are more years at the low interest rate since Senate Bill 21 and fewer years at the higher interest rate. The governor's original bill, as replicated by Representative Tarr's amendment, was to go towards the middle. He agreed with Ms. Delbridge that it is illegal to purposely underpay taxes, but noted that anecdotally DOR is finding that in the past when a tax assessment was given the company would pay it because it is a two-way interest rate. The company might challenge it and go through the appeals process, and if the company won the state paid them back at 11 percent interest going back to the beginning, which means a lot of

money. Now companies are more likely to fight it out and not pay the state anything while they work their way through the process because the downside is relatively low for them at the ongoing 3 percent interest.

REPRESENTATIVE OLSON inquired whether the state has a usury law on its books.

MR. ALPER answered he is not an expert on that, but that he does remember some payday loan bills floating around although he does not know their final determination.

REPRESENTATIVE OLSON remarked that he is curious as to whether the state would be approaching it with an 11 percent compounded interest.

[3:05:30 PM](#)

REPRESENTATIVE TARR stressed she was not suggesting that any companies are knowingly engaging in any illegal behavior, rather she was referencing what Mr. Alper was suggesting in terms of those different behaviors because the interest rate is two-way. Regarding Representative Olson's question about how much is interest versus principle, she commented that the relationship now would be more weighted towards actual penalty due and less weighted towards interest under the lower interest rate.

[3:06:26 PM](#)

CO-CHAIR NAGEAK maintained his objection to Amendment 16.

A roll call vote was taken. Representatives Josephson and Tarr voted in favor of Amendment 16. Representatives Chenault, Johnson, Olson, Seaton, Talerico, and Nageak voted against it. Therefore, Amendment 16 failed by a vote of 2-6.

AMENDMENTS to HB 247, VERSION P

The following amendments to HB 247, Version P, were either discussed or adopted during the hearing. Shorter amendments are provided in the main text.

Amendment 1, labeled 29-GH2609\P.55, Shutts, 3/21/16:

Page 3, line 8:
Delete "or"

Insert "[OR]"

Page 3, line 9, following "2014,":

Insert "and before January 1, 2017,"

Page 3, lines 9 - 10:

Delete "[IN EACH CALENDAR QUARTER]"

Insert "in each calendar quarter"

Page 3, lines 12 - 13:

Delete "compounded quarterly as of the last day of that quarter"

Page 3, line 13:

Following "quarter":

Insert "i

(C) on and after January 1, 2017, bears interest at the rate of three percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter, compounded quarterly as of the last day of that quarter;"

Page 3, line 19:

Delete "AS 43.55.028(e)"

Insert "AS 43.55.028(j)"

Page 3, line 31:

Delete "AS 43.55.028(e)"

Insert "AS 43.55.028(j)"

Page 4, line 12:

Delete "AS 43.55.028(e)"

Insert "AS 43.55.028(j)"

Page 8, line 2:

Delete "an [THAT]"

Insert "that"

Page 8, line 4:

Delete "an"

Insert "that"

Page 8, line 6:

Delete "an"

Insert "that"

Page 8, line 31:
Delete "limitations"
Insert "limitation"

Page 9, line 12, following "applicant":
Insert "or claimant"

Page 9, line 13:
Following "applicant's":
Insert "or claimant's"
Delete "production or exploration"
Insert "exploration, development, or production"

Page 9, line 14:
Following "applicant":
Insert "or claimant"
Following "certificate":
Insert "or refund"

Page 9, line 15, following "certificate":
Insert "or pay only that portion of a refund"

Page 9, line 16, following "applicant's":
Insert "or claimant's"

Page 9, line 17, following "certificate":
Insert "or payment for a refund"

Page 17, line 7:
Delete "and 41.09.090"
Insert "41.09.090; and 43.20.053(j)(4)"

Page 18, line 16:
Delete "now"

Amendment 3, labeled 29-GH2609\P.13, Nauman/Shutts, 3/19/16:

Page 1, line 5, following "**entities;**":
Insert "**relating to a business license for an oil or gas business;**"

Page 17, following line 6:
Insert a new bill section to read:
"*** Sec. 28.** AS 43.70.020 is amended by adding a new subsection to read:

(g) A person whose business engages in oil or gas exploration or development must, in addition to filing the regular application required by this section, file with the commissioner a surety bond of \$250,000 running to unsecured creditors licensed in the state before being entitled to a license under this chapter. The commissioner shall waive the surety bond requirement under this subsection if the business produces oil or gas in commercial quantities."

Renumber the following bill sections accordingly.

Page 18, lines 25 - 26:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 28:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 31:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 2:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 5:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 8:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 10:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 15:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 17:

Delete "sec. 29"

Insert "sec. 30"

Page 20, line 12:
Delete "Sections 30 and 34"
Insert "Sections 31 and 35"

Page 20, line 13:
Delete "29, 32, and 33"
Insert "30, 33, and 34"

Page 20, line 15:
Delete "secs. 36 and 37"
Insert "secs. 37 and 38"

Amendment 5, labeled 29-GH2609\P.29, Shutts, 3/21/16:

Page 7, line 22, through page 8, line 16:

Delete all material and insert:

"* Sec. 15. AS 43.55.023(1) is amended to read:

(1) A producer or explorer may apply for a tax credit for a well lease expenditure incurred in the state south of 68 degrees North latitude after June 30, 2010, as follows:

(1) notwithstanding that a well lease expenditure incurred in the state south of 68 degrees North latitude may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under (a) of this section, AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well lease expenditure in the state south of 68 degrees North latitude may elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 40 percent of that expenditure; a tax credit under this paragraph may be applied for a single calendar year;

(2) a producer or explorer may take a credit for a well lease expenditure incurred in the state south of 68 degrees North latitude in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2); and

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2);

(3) a producer or explorer may take a credit for a well lease expenditure incurred in the state in the Cook Inlet sedimentary basin only if the producer or explorer incurs the expenditure before July 1, 2016.

* Sec. 16. AS 43.55.023(1), as amended by sec. 15 of this Act, is amended to read:

(1) A producer or explorer may apply for a tax credit for a well lease expenditure incurred in the state south of 68 degrees North latitude after June 30, 2010, as follows:

(1) notwithstanding that a well lease expenditure incurred in the state south of 68 degrees North latitude may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under (a) of this section, [AS 38.05.180(i), AS 41.09.010,] AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well lease expenditure in the state south of 68 degrees North latitude may elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of

(A) 40 percent of an [THAT] expenditure incurred before January 1, 2017;

(B) 30 percent of an expenditure incurred on or after January 1, 2017, and before January 1, 2018;

(C) 20 percent of an expenditure incurred on or after January 1, 2018 [; A TAX CREDIT UNDER THIS PARAGRAPH MAY BE APPLIED FOR A SINGLE CALENDAR YEAR];

(2) a producer or explorer may take a credit for a well lease expenditure incurred in the state south of 68 degrees North latitude in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2); and

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2);

(3) a producer or explorer may take a credit for a well lease expenditure incurred in the state in the Cook Inlet sedimentary basin only if the producer or explorer incurs the expenditure before July 1, 2016."

Renumber the following bill sections accordingly.

Page 18, line 20:
Delete "16, and 17"
Insert "17, and 18"

Page 18, lines 25 - 26:
Delete "sec. 29"
Insert "sec. 30"

Page 18, line 27:
Delete "18, 23, and 24"
Insert "19, 24, and 25"

Page 18, line 28:
Delete "sec. 29"
Insert "sec. 30"

Page 18, line 31:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 2:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 5:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 8:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 10:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 14:
Delete "sec. 21"
Insert "sec. 22"

Page 19, line 15:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 17:

Delete "sec. 29"
Insert "sec. 30"

Page 20, line 12:
Delete "Sections 30 and 34"
Insert "Sections 31 and 35"

Page 20, following line 12:
Insert a new bill section to read:
" * **Sec. 37.** Section 15 of this Act takes effect
July 1, 2016."

Renumber the following bill sections accordingly.

Page 20, line 13:
Delete "18 - 25, 27, 29, 32, and 33"
Insert "19 - 26, 28, 30, 33, and 34"

Page 20, line 15:
Delete "secs. 36 and 37"
Insert "secs. 37 - 39"

Amendment 7, labeled 29-GH2609\P.31, Nauman/Shutts, 3/21/16:

Page 5, line 8:
Delete "A"
Insert "Subject to the limitation in (q) of this
section, a [A]"

Page 6, line 11, following "latitude,":
Insert "excluding the Cook Inlet sedimentary
basin,"

Page 6, line 12, following "loss.":
Insert "Subject to the limitation in (q) of this
section, for lease expenditures incurred on or after
January 1, 2017, to explore for, develop, or produce
oil or gas deposits located in the Cook Inlet
sedimentary basin, a producer or explorer may elect to
take a tax credit in the amount of five percent of a
carried-forward annual loss."

Page 8, following line 16:
Insert a new bill section to read:
" * **Sec. 16.** AS 43.55.023 is amended by adding a new
subsection to read:

(q) A producer or explorer may not take a tax credit or apply for a transferable tax credit certificate resulting from an expenditure that qualifies for a credit under (a) or (b) of this section for expenditures incurred in the Cook Inlet sedimentary basin if, in a calendar year, the total amount of credits and certificates applied for under (a) and (b) of this section exceed 30 percent of the combined expenditures that qualify for a credit under (a) and (b) of this section."

Renumber the following bill sections accordingly.

Page 18, line 20:

Delete "16, and 17"

Insert "17, and 18"

Page 18, lines 25 - 26:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 27:

Delete "18, 23, and 24"

Insert "19, 24, and 25"

Page 18, line 28:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 31:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 2:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 5:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 8:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 10:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 14:

Delete "sec. 21"

Insert "sec. 22"

Page 19, line 15:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 17:

Delete "sec. 29"

Insert "sec. 30"

Page 20, line 12:

Delete "Sections 30 and 34"

Insert "Sections 31 and 35"

Page 20, line 13:

Delete "18 - 25, 27, 29, 32, and 33"

Insert "19 - 26, 28, 30, 33, and 34"

Page 20, line 15:

Delete "secs. 36 and 37"

Insert "secs. 37 and 38"

Amendment 10, labeled 29-GH2609\P.18, Nauman/Shutts, 3/19/16:

Page 8, following line 16:

Insert a new bill section to read:

"* **Sec. 16.** AS 43.55.024(j) is amended to read:

(j) A producer may apply against the producer's tax liability for the calendar year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for each barrel of oil taxable under AS 43.55.011(e) that does not meet any of the criteria in AS 43.55.160(f) or (g) and that is produced during a calendar year after December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax credit under this subsection may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). The amount of the tax credit for a barrel of taxable oil subject to this subsection produced during a month of the calendar year is

(1) [\$8 FOR EACH BARREL OF TAXABLE OIL IF THE AVERAGE GROSS VALUE AT THE POINT OF PRODUCTION FOR THE MONTH IS LESS THAN \$80 A BARREL;

(2) \$7 FOR EACH BARREL OF TAXABLE OIL IF THE AVERAGE GROSS VALUE AT THE POINT OF PRODUCTION FOR THE MONTH IS GREATER THAN OR EQUAL TO \$80 A BARREL, BUT LESS THAN \$90 A BARREL;

(3) \$6 FOR EACH BARREL OF TAXABLE OIL IF THE AVERAGE GROSS VALUE AT THE POINT OF PRODUCTION FOR THE MONTH IS GREATER THAN OR EQUAL TO \$90 A BARREL, BUT LESS THAN \$100 A BARREL;

(4)] \$5 for each barrel of taxable oil if the average gross value at the point of production for the month is [GREATER THAN OR EQUAL TO \$100 A BARREL, BUT] less than \$110 a barrel;

(2) [(5)] \$4 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$110 a barrel, but less than \$120 a barrel;

(3) [(6)] \$3 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$120 a barrel, but less than \$130 a barrel;

(4) [(7)] \$2 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$130 a barrel, but less than \$140 a barrel;

(5) [(8)] \$1 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$140 a barrel, but less than \$150 a barrel;

(6) [(9)] zero if the average gross value at the point of production for the month is greater than or equal to \$150 a barrel."

Renumber the following bill sections accordingly.

Page 18, line 20:

Delete "16, and 17"

Insert "17, and 18"

Page 18, lines 25 - 26 :

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 27:

Delete "18, 23, and 24"

Insert "19, 24, and 25"

Page 18, line 28:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 31:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 2:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 5:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 8:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 10:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 14:

Delete "sec. 21"

Insert "sec. 22"

Page 19, line 15:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 17:

Delete "sec. 29"

Insert "sec. 30"

Page 20, line 12:

Delete "Sections 30 and 34"

Insert "Sections 31 and 35"

Page 20, line 13:

Delete "18 - 25, 27, 29, 32, and 33"

Insert "19 - 26, 28, 30, 33, and 34"

Page 20, line 15:

Delete "secs. 36 and 37"
Insert "secs. 37 and 38"

Amendment 11, labeled 29-GH2609\P.34, Nauman/Shutts, 3/21/16:

Page 8, following line 16:

Insert a new bill section to read:

"* **Sec. 16.** AS 43.55.024(i) is amended to read:

(i) A producer may apply against the producer's tax liability for the calendar year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under AS 43.55.011(e) [THAT MEETS ONE OR MORE OF THE CRITERIA IN AS 43.55.160(f) OR (g) AND] that is produced during a calendar year after December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax credit authorized by this subsection may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f) [ZERO]."

Re-number the following bill sections accordingly.

Page 17, line 7:

Delete "and 41.09.090"

Insert "41.09.090; and AS 43.55.024(j)"

Page 18, line 20:

Delete "16, and 17"

Insert "17, and 18"

Page 18, lines 25 - 26:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 27:

Delete "18, 23, and 24"

Insert "19, 24, and 25"

Page 18, line 28:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 31:

Delete "sec. 29"

Insert "sec. 30"

Page 19, line 2:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 5:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 8:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 10:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 14:
Delete "sec. 21"
Insert "sec. 22"

Page 19, line 15:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 17:
Delete "sec. 29"
Insert "sec. 30"

Page 20, line 12:
Delete "Sections 30 and 34"
Insert "Sections 31 and 35"

Page 20, line 13:
Delete "18 - 25, 27, 29, 32, and 33"
Insert "19 - 26, 28, 30, 33, and 34"

Page 20, line 15:
Delete "secs. 36 and 37"
Insert "secs. 37 and 38"

Amendment 13, labeled 29-GH2609\P.17, Nauman/Shutts, 3/19/16:

Page 11, following line 15:
Insert a new bill section to read:
" * **Sec. 21.** AS 43.55.160(f) is amended to read:
(f) On and after January 1, 2014, in the
calculation of an annual production tax value of a

producer under (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or gas produced from a lease or property north of 68 degrees North latitude meeting one or more of the following criteria is reduced by 20 percent: (1) the oil or gas is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a participating area established after December 31, 2011, that is within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. This subsection does not apply to gas produced before 2022 that is used in the state or to gas produced on and after January 1, 2022. For oil or gas produced after January 1, 2017, the reduction under this subsection shall apply to oil or gas produced from a lease or property for the first five years after the commencement of production in commercial quantities of oil or gas from that lease or property. For oil or gas produced before January 1, 2017, the reduction under this subsection for a lease or property shall expire January 1, 2022. A reduction under this subsection may not reduce the gross value at the point of production below zero. In this subsection, "participating area" means a reservoir or portion of a reservoir producing or contributing to production as approved by the Department of Natural Resources."

Page 18, lines 25 - 26:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 27:

Delete "23, and 24"

Insert "24, and 25"

Page 18, line 28:

Delete "sec. 29"

Insert "sec. 30"

Page 18, line 31:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 2:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 5:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 8:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 10:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 14:
Delete "sec. 21"
Insert "sec. 22"

Page 19, line 15:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 17:
Delete "sec. 29"
Insert "sec. 30"

Page 20, line 12:
Delete "Sections 30 and 34"
Insert "Sections 31 and 35"

Page 20, line 13:
Delete "18 - 25, 27, 29, 32, and 33"
Insert "18 - 20, 22 - 26, 28, 30, 33, and 34"

Page 20, line 15:
Delete "secs. 36 and 37"
Insert "secs. 37 and 38"

Amendment 14, labeled 29-GH2609\P.15, Nauman/Shutts, 3/19/16:

Page 5, following line 6:

Insert a new bill section to read:

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

(a) For a calendar year, a producer subject to tax under AS 43.55.011 shall pay the tax as follows:

(1) for oil and gas produced before January 1, 2014, an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

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

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated;

(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), the greatest of

(i) zero;

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable, of the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated; or

(iii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for

the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from those leases or properties during the month for which the installment payment is calculated;

(C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for each lease or property, the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160 for the oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

(D) for oil and gas subject to AS 43.55.011(p), the lesser of

(i) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated, but not less than zero; or

(ii) four percent of the gross value at the point of production of the oil and gas produced from the leases or properties during the month, but not less than zero;

(2) an amount calculated under (1)(C) of this subsection for oil or gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during

the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;

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

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

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

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

(5) for oil and gas produced on and after January 1, 2014, and before January 1, 2022, an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise provided under (6) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

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

(i) zero; or

(ii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated;

(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), the greatest of

(i) zero;

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable, of the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated; or

(iii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from those leases or properties during the month for which the installment payment is calculated, except that, for the purposes of this calculation, a reduction from the gross value at the point of production may apply for oil and gas subject to AS 43.55.160(f) [OR (g)];

(C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for each lease or property, the greater of

(i) zero; or

(ii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160 for the oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

(D) for oil and gas subject to AS 43.55.011(p), the lesser of

(i) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated, but not less than zero; or

(ii) four percent of the gross value at the point of production of the oil and gas produced from the leases or properties during the month, but not less than zero;

(6) an amount calculated under (5)(C) of this subsection for oil or gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;

(7) for oil and gas produced on or after January 1, 2022, an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) for oil produced from leases or properties that include land north of 68 degrees North latitude, the greatest of

(i) zero;

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable, of the gross value at the point of production of the oil produced from the leases or

properties during the month for which the installment payment is calculated; or

(iii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil under AS 43.55.160(h)(1) from the gross value at the point of production of the oil produced from those leases or properties during the month for which the installment payment is calculated, except that, for the purposes of this calculation, a reduction from the gross value at the point of production may apply for oil subject to AS 43.55.160(f) [OR 43.55.160(f) AND (g)];

(B) for oil produced before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, other than leases or properties subject to AS 43.55.011(p), the greater of

(i) zero; or

(ii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil under AS 43.55.160(h)(2) from the gross value at the point of production of the oil produced from the leases or properties during the month for which the installment payment is calculated;

(C) for oil and gas produced from leases or properties subject to AS 43.55.011(p), except as otherwise provided under (8) of this subsection, the sum of

(i) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil under AS 43.55.160(h)(3) from the gross value at the point of production of the oil produced from the leases or properties during the month for which the installment payment is calculated, but not less than zero; and

(ii) 13 percent of the gross value at the point of production of the gas produced from the

leases or properties during the month, but not less than zero;

(D) for oil produced from leases or properties in the state, no part of which is north of 68 degrees North latitude, other than leases or properties subject to (B) or (C) of this paragraph, the greater of

(i) zero; or

(ii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil under AS 43.55.160(h)(4) from the gross value at the point of production of the oil produced from the leases or properties during the month for which the installment payment is calculated;

(E) for gas produced from each lease or property in the state, other than a lease or property subject to AS 43.55.011(p), 13 percent of the gross value at the point of production of the gas produced from the lease or property during the month for which the installment payment is calculated, but not less than zero;

(8) an amount calculated under (7)(C) of this subsection may not exceed four percent of the gross value at the point of production of the oil and gas produced from leases or properties subject to AS 43.55.011(p) during the month for which the installment payment is calculated;

(9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the point of production is determined under AS 43.55.011(f)(1) or (2) but substituting the phrase "month for which the installment payment is calculated" in AS 43.55.011(f)(1) and (2) for the phrase "calendar year for which the tax is due."

Renumber the following bill sections accordingly.

Page 6, line 20:

Delete "or (g)"

Page 8, following line 16:

Insert new bill sections to read:

"* **Sec. 17.** AS 43.55.024(i) is amended to read:

(i) A producer may apply against the producer's tax liability for the calendar year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under AS 43.55.011(e) that meets one or more of the criteria in AS 43.55.160(f) [OR (g)] and that is produced during a calendar year after December 31, 2013. A tax credit authorized by this subsection may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below zero.

* **Sec. 18.** AS 43.55.024(j) is amended to read:

(j) A producer may apply against the producer's tax liability for the calendar year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for each barrel of oil taxable under AS 43.55.011(e) that does not meet any of the criteria in AS 43.55.160(f) [OR (g)] and that is produced during a calendar year after December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax credit under this subsection may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). The amount of the tax credit for a barrel of taxable oil subject to this subsection produced during a month of the calendar year is

(1) \$8 for each barrel of taxable oil if the average gross value at the point of production for the month is less than \$80 a barrel;

(2) \$7 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$80 a barrel, but less than \$90 a barrel;

(3) \$6 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$90 a barrel, but less than \$100 a barrel;

(4) \$5 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$100 a barrel, but less than \$110 a barrel;

(5) \$4 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$110 a barrel, but less than \$120 a barrel;

(6) \$3 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$120 a barrel, but less than \$130 a barrel;

(7) \$2 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$130 a barrel, but less than \$140 a barrel;

(8) \$1 for each barrel of taxable oil if the average gross value at the point of production for the month is greater than or equal to \$140 a barrel, but less than \$150 a barrel;

(9) zero if the average gross value at the point of production for the month is greater than or equal to \$150 a barrel."

Renumber the following bill sections accordingly.

Page 11, following line 15:

Insert new bill sections to read:

"* Sec. 24. AS 43.55.160(a) is amended to read:

(a) For oil and gas produced before January 1, 2022, except as provided in (b) and [,] (f) [, AND (g)] of this section, for the purposes of

(1) AS 43.55.011(e)(1) and (2), the annual production tax value of taxable oil, gas, or oil and gas produced during a calendar year in a category for which a separate annual production tax value is required to be calculated under this paragraph is the gross value at the point of production of that oil, gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil and gas in that category produced by the producer during the calendar year, as adjusted under AS 43.55.170; a separate annual production tax value shall be calculated for

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

(B) oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude and that qualifies for a tax credit under AS 43.55.024(a) and (b); this subparagraph does not apply to

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

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

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

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

(E) gas produced before 2022 from each lease or property in the state outside the Cook Inlet sedimentary basin and used in the state, other than gas subject to AS 43.55.011(p);

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

(G) oil and gas produced from leases or properties in the state no part of which is north of 68 degrees North latitude, other than oil or gas described in (B), (C), (D), (E), or (F) of this paragraph;

(2) AS 43.55.011(g), for oil and gas produced before January 1, 2014, the monthly production tax value of the taxable

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

(B) oil and gas produced during a month from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(C) oil produced during a month from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the oil taxable under AS 43.55.011(e) and produced by the

producer from that lease or property, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil produced by the producer from that lease or property, as adjusted under AS 43.55.170;

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

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

* **Sec. 25.** AS 43.55.160(h) is amended to read:

(h) For oil produced on and after January 1, 2022, except as provided in (b) and [,] (f) [, AND (g)] of this section, for the purposes of AS 43.55.011(e)(3), the annual production tax value of oil taxable under AS 43.55.011(e) produced by a producer during a calendar year

(1) from leases or properties in the state that include land north of 68 degrees North latitude is the gross value at the point of production of that oil, less the producer's lease expenditures under AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil and gas deposits located in the state north of 68 degrees North latitude or located in leases or properties in the state that include land north of 68 degrees North latitude, as adjusted under AS 43.55.170;

(2) before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, other than leases or

properties subject to AS 43.55.011(p), is the gross value at the point of production of that oil, less the producer's lease expenditures under AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil and gas deposits located in the state outside the Cook Inlet sedimentary basin and south of 68 degrees North latitude, other than oil and gas deposits located in a lease or property that includes land north of 68 degrees North latitude or that is subject to AS 43.55.011(p) or, before January 1, 2027, from which commercial production has not begun, as adjusted under AS 43.55.170;

(3) from leases or properties subject to AS 43.55.011(p) is the gross value at the point of production of that oil, less the producer's lease expenditures under AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil and gas deposits located in leases or properties subject to AS 43.55.011(p) or, before January 1, 2027, located in leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude from which commercial production has not begun, as adjusted under AS 43.55.170;

(4) from leases or properties in the state no part of which is north of 68 degrees North latitude, other than leases or properties subject to (2) or (3) of this subsection, is the gross value at the point of production of that oil less the producer's lease expenditures under AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil and gas deposits located in the state south of 68 degrees North latitude, other than oil and gas deposits located in a lease or property in the state that includes land north of 68 degrees North latitude, and excluding lease expenditures that are deductible under (2) or (3) of this subsection or would be deductible under (2) or (3) of this subsection if not prohibited by (b) of this section, as adjusted under AS 43.55.170."

Renumber the following bill sections accordingly.

Page 17, following line 6:

Insert a new bill section to read:

"* **Sec. 33.** AS 43.98.050 is amended to read:

Sec. 43.98.050. Duties. The duties of the board include the following:

(1) establish and maintain a salient collection of information related to oil and gas exploration, development, and production in the state and related to tax structures, rates, and credits in other regions with oil and gas resources;

(2) review historical, current, and potential levels of investment in the state's oil and gas sector;

(3) identify factors that affect investment in oil and gas exploration, development, and production in the state, including tax structure, rates, and credits; royalty requirements; infrastructure; workforce availability; and regulatory requirements;

(4) review the competitive position of the state to attract and maintain investment in the oil and gas sector in the state as compared to the competitive position of other regions with oil and gas resources;

(5) in order to facilitate the work of the board, establish procedures to accept and keep confidential information that is beneficial to the work of the board, including the creation of a secure data room and confidentiality agreements to be signed by individuals having access to confidential information;

(6) make written findings and recommendations to the Alaska State Legislature before

(A) January 31, 2015, or as soon thereafter as practicable, regarding

(i) changes to the state's regulatory environment and permitting structure that would be conducive to encouraging increased investment while protecting the interests of the people of the state and the environment;

(ii) the status of the oil and gas industry labor pool in the state and the effectiveness of workforce development efforts by the state;

(iii) the status of the oil-and-gas-related infrastructure of the state, including a description of infrastructure deficiencies; and

(iv) the competitiveness of the state's fiscal oil and gas tax regime when compared to other regions of the world;

(B) January 15, 2017, regarding

(i) the state's tax structure and rates on oil and gas produced south of 68 degrees North latitude;

(ii) a tax structure that takes into account the unique economic circumstances for each oil and gas producing area south of 68 degrees North latitude;

(iii) a reduction in the gross value at the point of production for oil and gas produced south of 68 degrees North latitude that is similar to the reduction in gross value at the point of production in AS 43.55.160(f) [AND (g)];

(iv) other incentives for oil and gas production south of 68 degrees North latitude;

(C) January 31, 2021, or as soon thereafter as practicable, regarding

(i) changes to the state's fiscal regime that would be conducive to increased and ongoing long-term investment in and development of the state's oil and gas resources;

(ii) alternative means for increasing the state's ability to attract and maintain investment in and development of the state's oil and gas resources; and

(iii) a review of the current effectiveness and future value of any provisions of the state's oil and gas tax laws that are expiring in the next five years."

Renumber the following bill sections accordingly.

Page 17, line 7:

Delete "and 41.09.090"

Insert "41.09.090; and AS 43.55.160(g),"

Page 18, line 20:

Delete "16, and 17"

Insert "19, and 20"

Page 18, line 20, following "APPLICABILITY.":

Insert "(a)"

Page 18, following line 21:

Insert a new subsection to read:

"(b) The repeal of AS 43.55.160(g) by sec. 34 of this Act and the conforming changes to AS 43.55.020(a), as amended by sec. 11 of this Act, AS 43.55.024(i) and (j), as amended by secs. 17 and 18

of this Act, AS 43.55.160(a) and (h), as amended by secs. 24 and 25 of this Act, and AS 43.98.050, as amended by sec. 33 of this Act, apply to oil or gas produced from a lease or property on or after the effective date of sec. 34 of this Act."

Page 18, lines 25 - 26:

Delete "sec. 29"

Insert "sec. 35"

Page 18, line 27:

Delete "secs. 13, 14, 18, 23, and 24"

Insert "secs. 14, 15, 21, 28, and 29"

Page 18, line 28:

Delete "sec. 29"

Insert "sec. 35"

Page 18, line 31:

Delete "sec. 29"

Insert "sec. 35"

Page 19, line 2:

Delete "sec. 29"

Insert "sec. 35"

Page 19, line 5:

Delete "sec. 29"

Insert "sec. 35"

Page 19, line 8:

Delete "sec. 29"

Insert "sec. 35"

Page 19, line 10:

Delete "sec. 29"

Insert "sec. 35"

Page 19, line 14:

Delete "sec. 21"

Insert "sec. 26"

Page 19, line 15:

Delete "sec. 29"

Insert "sec. 35"

Page 19, line 17:

Delete "sec. 29"
Insert "sec. 35"

Page 20, line 12:
Delete "Sections 30 and 34"
Insert "Sections 36 and 40"

Page 20, line 13:
Delete "Sections 13, 14, 18 - 25, 27, 29, 32, and 33"
Insert "Sections 14, 15, 21 - 23, 26 - 30, 32, 35, 38, and 39"

Page 20, line 15:
Delete "secs. 36 and 37"
Insert "secs. 42 and 43"

Amendment 15, labeled 29-GH2609\P.16, Nauman/Shutts, 3/19/16:

Page 11, following line 15:
Insert a new bill section to read:
" * **Sec. 21.** AS 43.55.160(f) is amended to read:
(f) On and after January 1, 2014, in the calculation of an annual production tax value of a producer under (a)(1)(A) or (h)(1) of this section, the gross value at the point of production of oil or gas produced from a lease or property north of 68 degrees North latitude meeting one or more of the following criteria is reduced by 10 [20] percent: (1) the oil or gas is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a participating area established after December 31, 2011, that is within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. This subsection does not apply to gas produced before 2022 that is used in the state or to gas produced on and after January 1, 2022. A reduction under this subsection may not reduce

the gross value at the point of production below zero. In this subsection, "participating area" means a reservoir or portion of a reservoir producing or contributing to production as approved by the Department of Natural Resources."

Page 18, line 20, following "APPLICABILITY."
Insert "(a)"

Page 18, following line 21:
Insert a new subsection to read:
"(b) The change in the percentage reduction in the gross value at the point of production of oil or gas produced from a lease or property under AS 43.55.160(f), as amended by sec. 21 of this Act, applies to oil or gas produced from a lease or property on or after the effective date of sec. 21 of this Act."

Page 18, lines 25 - 26:
Delete "sec. 29"
Insert "sec. 30"

Page 18, line 27:
Delete "23, and 24"
Insert "24, and 25"

Page 18, line 28:
Delete "sec. 29"
Insert "sec. 30"

Page 18, line 31:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 2:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 5:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 8:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 10:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 14:
Delete "sec. 21"
Insert "sec. 22"

Page 19, line 15:
Delete "sec. 29"
Insert "sec. 30"

Page 19, line 17:
Delete "sec. 29"
Insert "sec. 30"

Page 20, line 12:
Delete "Sections 30 and 34"
Insert "Sections 31 and 35"

Page 20, line 13:
Delete "18 - 25, 27, 29, 32, and 33"
Insert "18 - 20, 22 - 26, 28, 30, 33, and 34"

Page 20, line 15:
Delete "secs. 36 and 37"
Insert "secs. 37 and 38"

[End of amendments for this meeting.]

[HB 247 was held over.]

[3:07:40 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:08 p.m.