SB

2001

HFIN
FILE

HOUSE COMMITTEE REPC T

(11)
Date Referred to Committee: May 31, 2006

FURTHER REFERRALS:

Date of Committee Action: 6/2/06

The FINANCE Committee considered: CSSB 2001(FIN)

CS FOR SENATE BILL NO. 2001(FIN) OIL AND GAS TAX

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date."

Recommends it be replaced with [/] HCS *or* [ ] CS for CSSB 2001 (FIN)
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR ______ [X] Same Title [ ] New Title

[ ] attach amendments
[ ] add new referral to ____________Committee
[ ] Letter of Intent___________Committee

List of Abbrev for Depts.: ADM CED COR CRT EED DEC DFG GOV HSS LWF LAW LEG MVA DNR DPS REV DOT UA

NEW FISCAL NOTES *Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
REV		✓		

PREVIOUS FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DNR	1			✓

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
[signature]	STOLTZE			✓	✓
Beth Kerttula	Kerttula				✓
[signature]	Joule				X
Mike Hawker	Hawker	*			
[signature]	Holm	X			
Mike Kelly	KELLY				X
[signature]	FOSTER	X			
Chair: [signature]	Meyer	X			
Chair: [signature]	Chenault	X			

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HCS CSSB 2001 (FIN)
() Publish Date:

Revision Date/Time (Note if correction):
Title: An Act Relating to the Production Tax on Oil and Gas
Sponsor: Rules Committee
Requester: Senate Finance

Dept. Affected: Revenue
RDU: Tax and Treasury
Component: Tax
Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	875.0	892.5	910.4	928.6	947.1	966.1
Travel						
Contractual	850.0	587.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous (OH office, etc)	53.0	53.0	53.0	53.0	53.0	53.0
TOTAL OPERATING	**1,820.0**	**1,533.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	*See analysis section*					

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,820.0	1,533.4	1,081.6	1,100.2	1,121.1	1,142.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,820.0**	**1,533.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**

Estimate of any current year (FY2006) cost:
Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time	10	10	10	10	10	10
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

Relative to Status Quo

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net profit would be subject to a 20% tax, less a credit of 20% which applies to capital costs upstream of the point of production. There would also be a progressive surcharge based on 0.175% of the difference between actual per barrel net income and $45, applied to net income. The surcharge would not be considered a deductible lease expenditure. There would be an additional allowance of up to $12 million per company for companies producing less than 100,000 barrels of oil equivalent per day, and a lesser amount for companies with production levels between 50,000 and 100,000 boe per day. The allowance expires in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period April 1, 2001 through April 1, 2006, recoverable at $1 for every $2 in capital expenditures. Transition costs cannot be recovered after 2013.

Prepared by: Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis
Phone: 269-1019
Division: Tax Division
Date/Time: 6/3/06 9:00 AM

Approved by: Jerry Burnett
Date: 6/3/2006
Agency: Department of Revenue

(Revised 9/7/2005 OMB)

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HCS CSSB 2001 (FIN)

ANALYSIS CONTINUATION

The additional conservation surcharge on oil is increased from 3 cents to 4 cents. The CS, as amended, also includes a New Area Development credit of $6M ($500K per month) applicable to production, NOT ANS and NOT Cook Inlet, which also has a 10 yr sunset. This should not have an impact on projected revenues.

The bill would be effective April 1, 2006.

The figures in the table below reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. The status quo assumes the January 2005 ELF aggregation decision by the Department of Revenue for Prudhoe Bay continues.

The cost assumptions are as follows:

- $100 mm/yr exploration
- $1/bbl on-going capital on all barrels
- $3.50/bbl developmental capital on 2/3 of existing conventional oil
- $8/bbl developmental capital on 2/3 of existing heavy oil
- $3.50/bbl developmental capital on new conventional oil
- $8/bbl developmental capital on new heavy oil
- $3/bbl operating cost on conventional oil
- $5/bbl operating cost on heavy oil

The table shows the 2006-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a $40 price, and a $60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 8 additional positions for auditors: 1 O & G Specialist (Range 23), 3 O & G Revenue Auditor IV (Range 22), and 4 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax. In addition, we request 2 additional Tax Tech III positions (Range 14) to process additional information and tax returns that will be required, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase. Contractual expenditures include $100,000 and $70,000 for programming in FY 07 and FY 08, respectively, $400,000 in each of FY 07 and FY 08 for help in writing regulations $100,000 in each year for consulting services and an estimate of chargeback costs. Supplies include computers and other supplies necessary for new positions. $275,000 in contractual expenditures planned in FY 06 are moved to FY 07 in this fiscal note.

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HCS CSSB 2001 (FIN)

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

FISCAL NOTE

The revenues provided in the table below do not reflect increased revenues in FY06 that would result from an effective date of 4/1/06. At the DOR forecast price of $58.72, the bill would provide approximately $200 million over the status quo system.

Fiscal Year	DOR Forecast	Col. 15 Status Quo Tax	Col. 16 Tax from Bill	Col. 17 Gain from Bill
2007	$53.60	989	1,663	674
2008	$46.90	759	1,284	525
2009	$25.50	355	261	-93
2010	$25.50	315	230	-85
2011	$25.50	281	227	-54
2012	$25.50	271	223	-48

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$40.00	708	961	253
2008	$40.00	655	935	280
2009	$40.00	631	1,004	372
2010	$40.00	582	972	391
2011	$40.00	544	994	451
2012	$40.00	536	1,003	468

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$60.00	1,120	1,993	873
2008	$60.00	1,032	1,942	910
2009	$60.00	978	2,035	1,057
2010	$60.00	901	1,981	1,080
2011	$60.00	842	2,022	1,179
2012	$60.00	831	2,040	1,208

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number:	1
Bill Version:	SB 2001
(S) Publish Date:	5/20/06

Revision Date/Time (Note if correction):

Title	Relating to the production tax on oil and gas etc.	Dept. Affected:	Natural Resources
		RDU	Resource Development
		Component	Oil & Gas Development
Sponsor	Rules by Request of Governor		
Requester	Governor	Component No.	439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

There is no anticipated fiscal impact for DNR associated with implementation of this legislation.

Prepared by	Bill VanDyke, Acting Director	Phone	907-269-8800
Division	Oil & Gas	Date/Time	5/19/2006
Approved by	Michael Menge, Commissioner	Date	5/19/2006
Agency	Natural Resources		

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number:	3
Bill Version:	CSSB 2001(FIN)
(S) Publish Date	5/21/06

Revision Date/Time (Note if correction):		Dept. Affected	Revenue
Title	An Act Relating to the Production Tax on Oil and Gas	RDU	Tax and Treasury
		Component	Tax
Sponsor	Rules Committee		
Requester	Senate Finance	Component No.	2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	577.6	589.2	600.9	613.0	625.2	637.7
Travel						
Contractual	517.5	487.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous (OH office, etc)	37.1	37.1	37.1	37.1	37.1	37.1
TOTAL OPERATING	**1,174.2**	**1,114.1**	**756.2**	**768.7**	**783.3**	**798.2**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	*See analysis section*					

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,174.2	1,114.1	756.2	768.7	783.3	798.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,174.2**	**1,114.1**	**756.2**	**768.7**	**783.3**	**798.2**

Estimate of any current year (FY2006) cost:

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time	7	7	7	7	7	7
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

Relative to Status Quo

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net profit would be subject to a 22.5% tax, less a credit of 20% which applies to capital costs upstream of the point of production. There would be an additional allowance of up to $12 million per company. The allowance expires in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period April 1, 2001 through April 1, 2005, recoverable at $1 for every $2 in capital expenditures. Transition costs cannot be recovered after 2013.

Prepared by	Dan Dickinson	Phone	269-1019
Division	Tax Division	Date/Time	5/21/2006 5:45PM
Approved by	Kevin Jardell	Date	5/21/2006
Agency	Office of the Governor		

(Revised 8/17/2005 WB)

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CSSB 2001(FIN)

ANALYSIS CONTINUATION

The additional conservation surcharge on oil is increased from 3 cents to 4 cents

The bill would be effective April 1, 2006

The figures in the table below reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. The status quo assumes the January 2005 ELF aggregation decision by the Department of Revenue for Prudhoe Bay continues.

The cost assumptions are as follows:

- $100 mm/yr exploration
- $1/bbl on-going capital on all barrels
- $3.50/bbl developmental capital on 2/3 of existing conventional oil
- $8/bbl developmental capital on 2/3 of existing heavy oil
- $3.50/bbl developmental capital on new conventional oil
- $8/bbl developmental capital on new heavy oil
- $3/bbl operating cost on conventional oil
- $5/bbl operating cost on heavy oil

The table shows the 2006-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a $40 price, and a $60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 5 additional positions for auditors: 1 O & G Specialist (Range 23), 1 O & G Revenue Auditor IV (Range 22), and 3 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax, an amendment in the Senate regarding requires additional staff. In addition, we request 2 additional Tax positions (Range 14) to process additional information and tax returns that will be re[illegible]ed, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase

Contractual expenditures include $100,000 and $70,000 for programming in FY 07 and FY 08, respectively, $300,000 in each of FY 07 and FY 08 for help in writing regulations, $100,000 in each year for consulting services and an estimate of chargeback costs. Supplies include computers and other supplies necessary for new positions

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CSSB 2001(FIN)

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

FISCAL NOTE # 3

Fiscal Year	DOR Forecast	Col. 15 Status Quo Tax	Col 16 Tax from Bill	Col 17 Gain from Bill
2007	$53.60	989	1,756	767
2008	$46.90	759	1,340	581
2009	$25.50	355	353	-2
2010	$25.50	315	321	6
2011	$25.50	281	318	36
2012	$25.50	271	313	42

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$40.00	708	1,121	413
2008	$40.00	655	1,095	440
2009	$40.00	631	1,164	532
2010	$40.00	582	1,132	551
2011	$40.00	544	1,155	611
2012	$40.00	536	1,163	628

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$60.00	1,120	2,271	1,151
2008	$60.00	1,032	2,217	1,185
2009	$60.00	978	2,279	1,301
2010	$60.00	901	2,231	1,330
2011	$60.00	842	2,272	1,429
2012	$60.00	831	2,292	1,460

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 2001
(S) Publish Date: 5/20/06

Revision Date/Time (Note if correction):		Dept. Affected:	Revenue
Title	An Act Relating to the Production Tax on Oil and Gas	RDU	Tax and Treasury
Sponsor	Rules Committee	Component	Tax
Requester	Governor	Component No.	2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	875.0	892.5	910.4	928.6	947.1	966.1
Travel						
Contractual	525.0	487.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	53.0	53.0	53.0	53.0	53.0	53.0
TOTAL OPERATING	**1,495.0**	**1,433.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	***See analysis section***					

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,495.0	1,433.4	1,081.6	1,100.2	1,121.1	1,142.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,495.0**	**1,433.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**

Estimate of any current year (FY2006) cost: 275.0
Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: [ ]

POSITIONS

Full-time	10	10	10	10	10	10
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

Relative to Status Quo

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net income would be subject to a 20% tax, less a credit of 20% which applies to capital costs upstream of the point of production. There would be an additional allowance of up to $12 million per company. The allowance expires in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period July 1, 2001 through July 1, 2006, recoverable at $1 for every $2 in capital expenditures. Transition costs cannot be recovered after 2013.

Prepared by	Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis	Phone	269-1019
Division	Tax Division	Date/Time	5/20/06 9:00 AM
Approved by	Jerry Burnett	Date	5/20/2006
Agency	Department of Revenue		

FISCAL NOTE # 2

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. SB 2001

ANALYSIS CONTINUATION

The additional conservation surcharge on oil is increased from 3 cents to 4 cents.

The bill would be effective July 1, 2006.

The figures in the table below reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. The status quo assumes the January 2005 ELF aggregation decision by the Department of Revenue for Prudhoe Bay continues.

The cost assumptions are as follows:

- $100 mm/yr exploration
- $1/bbl on-going capital on all barrels
- $3.50/bbl developmental capital on 2/3 of existing conventional oil
- $8/bbl developmental capital on 2/3 of existing heavy oil
- $3.50/bbl developmental capital on new conventional oil
- $8/bbl developmental capital on new heavy oil
- $3/bbl operating cost on conventional oil
- $5/bbl operating cost on heavy oil

The table shows the 2006-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a $40 price, and a $60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 5 additional positions for auditors: 1 O & G Specialist (Range 23), 1 O & G Revenue Auditor IV (Range 22), and 3 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax, an amendment in the Senate regarding requires additional staff. In addition, we request 2 additional Tax Tech III positions (Range 14) to process additional information and tax returns that will be required, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase.

Contractual expenditures include $100,000 and $70,000 for programming in FY 07 and FY 08, respectively, $300,000 in each of FY 07 and FY 08 for help in writing regulations, $100,000 in each year for consulting services and an estimate of chargeback costs.. Supplies include computers and other supplies necessary for new positions.

FISCAL NOTE # 2

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. SB 2001

ANALYSIS CONTINUATION Millions of Dollars

Fiscal Year	DOR Forecast	Col. 15 Status Quo Tax	Col. 16 Tax from Bill	Col. 17 Gain from Bill
2007	$53.60	989	1,689	700
2008	$46.90	759	1,273	514
2009	$25.50	355	286	-68
2010	$25.50	315	255	-61
2011	$25.50	281	251	-30
2012	$25.50	271	247	-25

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$40.00	708	926	218
2008	$40.00	655	901	246
2009	$40.00	631	969	338
2010	$40.00	582	938	356
2011	$40.00	544	960	416
2012	$40.00	536	969	433

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$60.00	1,120	1,948	829
2008	$60.00	1,032	1,894	863
2009	$60.00	978	1,956	979
2010	$60.00	901	1,908	1,007
2011	$60.00	842	1,949	1,107
2012	$60.00	831	1,969	1,138

HOUSE FINANCE COMMITTEE ROLL CALL

DATE: 6/1/06

Amendment: #5

MEMBER	Favor	Oppose
JOULE	✓	
KELLY		✓
KERTTULA	✓	
MOSES		
STOLTZE	✓	
WEYHRAUCH		✓
FOSTER		✓
HAWKER		✓
HOLM		✓
CHENAULT		✓
MEYER		✓
	3	7

HOUSE FINANCE COMMITTEE ROLL CALL

DATE: __________

Amendment: Amt 4

MEMBER	Favor	Oppose
HOLM		✓
JOULE	✓	
KELLY		✓
KERTTULA	✓	
MOSES		
STOLTZE		✓
WEYHRAUCH		✓
FOSTER		✓
HAWKER		✓
MEYER		✓
CHENAULT		✓

HOUSE FINANCE COMMITTEE ROLL CALL

DATE: 5/31 6/1

Amendment: 2 SB2001

MEMBER	Favor	Oppose
FOSTER		✓
HAWKER		✓
HOLM	✓	
JOULE	✓	
KELLY	✓	
KERTTULA	✓	
MOSES	—	
STOLTZE	✓	
WEHYRAUCH		✓
MEYER		✓
CHENAULT		✓

HOUSE FINANCE COMMITTEE ROLL CALL

DATE: 6\11

Amendment: Am 3

MEMBER	Favor	Oppose
HAWKER		✓
HOLM	✓	
JOULE	✓	
KELLY	✓	
KERTTULA	✓	
MOSES		
STOLTZE		✓
WEYHRAUCH		✓
FOSTER		✓
CHENAULT		✓
MEYER		✓

CORRECTION

To correct an error in the session designation on page 1
from Second Session to Second Special Session.

Please discard: **CSSB 2001(FIN)**
Work Order: 24-GS2094\F

and replace it with this corrected version.

CSSB 2001(FIN)
Work Order: 24-GS2094\F

Senate Secretary's Office
May 22, 2006

Adopted

#1

6/1/2006
(4:30 P.M.)

A M E N D M E N T

OFFERED IN THE HOUSE BY Chenault

TO: HCS CSSB 2001(FIN) (24-GS2094\M Work Draft)

Page 4, lines 20, following "in":

Delete "barrels of oil"

Insert "Btu equivalent barrels."

Page 4, line 21:

Delete "equivalent."

Insert "For purposes of this subsection, "Btu equivalent barrel" means (1) in the case of oil, one barrel; (2) in the case of gas, the amount of gas that has an energy content of 6,000,000 British thermal units."

Page 6, line 5, following "allowed to":

Delete "carry forward to a later period"

Insert "use for a different month"

Page 6, line 7, following "if any,":

Delete "are"

Insert "is"

Page 6, line 8, following "considered":

Insert "the amount of"

Page 6, line 9, following "(i)":

Delete "of"

Insert "or"

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Page 6, line 10, following "levied":

Delete "under"

Insert "by"

Page 6, line 15, following "amount of":

Delete "the"

Page 6, line 18, following "may be":

Delete "carried forward to a later period"

Insert "used for a different month"

Page 6, line 19, following "person,":

Delete "and"

Insert "or"

Page 6, line 23, following "department":

Delete "and be consistent with the regulations adopted"

Page 6, line 24:

Delete "under AS 43.55.160(e)(4)"

Page 6, line 31, through page 7, line 1:

Delete all material

Page 14, lines 9-10:

Delete all material

Page 14, line 11:

Delete "(2)"

Page 14, line 14:

Delete "(A")

Insert "(1)"

Page 14, line 15:

Delete "(B)"

Insert "(2)"

Page 14, line 18:

Delete "(i)"

Insert "(A)"

Page 14, line 2[illegible]:

Delete "(ii)"

Insert "(B)"

Page 22, line 12, following "costs are":

Delete "direct"

Insert "lease expenditures,"

Page 22, lines 13-14:

Delete all material

Page 23, line 17, following "gas":

Insert ","

Page 25, line 2, following "production":

Insert "in barrels of oil equivalent"

Page 25, line 5, following "production":

Insert "in barrels of oil equivalent"

Page 25, line 8, following "abandonment:":

Delete all material

Page 25, line 9:

Delete "feet of gas is considered to be equivalent to one barrel of oil;"

Page 25, line 14, following "to a":

Delete "gravel pad"

Insert "pad, platform, or other structure

Page 31, line 29, following "read:":

Insert the following material:

"(17) "barrel of oil equivalent" means

(A) in the case of oil, one barrel;

(B) in the case of gas, 6,000 cubic feet"

Page 31, line 30:

Delete "(17)"

Insert "(18)"

Page 32, line 1:

Delete "(18)"

Insert "(19)"

Page 32, line 3:

Delete "(19)"

Insert "(20)"

Page 32, line 12:

Delete "(20)"

Insert "(21)"

Page 32, line 17:

Delete "(21)"

Insert "(22)"

Page 32, line 28:

Delete "(22)"

Insert "(23)"

Page 33, line 4:

Delete "(23)"

Insert "(24)"

Page 33, line 6:

Delete "(24)"

Insert "(25)"

Page 35, line 13, following "law":

Delete "that was not"

Insert ", that exceeds the amount"

Page 35, line 14, following "begins", through line 15:

Delete all material

Insert "after the last payment under (1) of this subsection is due."

Page 36, line 4:

Delete "was not"

Insert "exceeds the amount"

Page 36, line 4, following "begins", through line 5:

Delete all material

1 Insert "after the last payment under (1) of this subsection is due."

#6

Adopted

6/2/2006
sh (3:45 P.M.)

AMENDMENT

OFFERED IN THE HOUSE BY Chenault

TO: HCS CSSB 2001(FIN) (24-GS2094\I Work Draft)

Page 5, line 30:

Delete "oil and"

Page 6, line 1:

Delete "oil or"

Page 6, line 3, following "that":

Delete "oil or"

Page 6, line 3, following "allocated to":

Delete "oil and"

Page 6, line 7:

Delete "oil and"

Page 6, line 25:

Delete "oil and"

Page 20, line 30, following "(1)" through page 21, line 5:

Delete all material

Insert "oil and gas produced during a month from a lease or property in the state that includes 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 (g) and produced by the producer from that lease or property, less the producer's lease expenditures for the month applicable to that oil and gas, as adjusted under (e) of this section; (2) oil and gas produced during a month from a lease or property in the state outside the Cook Inlet sedimentary basin and south 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 (g) and produced by the producer from that lease or property, less the producer's lease expenditures for the month applicable to that oil and gas, as adjusted under (e) of this section; (3) oil"

Page 21, line 10:

Delete "(3)"

Insert "(4)"

Page 23, line 13, following "(4)" through line 19:

Delete all material

Insert "the lease expenditures that are applicable to oil or gas produced from a lease or property shall be determined under regulations adopted by the department that provide for reasonable methods of allocating costs between oil and gas and among leases or properties;"

Page 28, line 6, following "tax":

Delete "**credit**"

Insert "**credits**"

Page 28, line 6, following "(a)"

Insert the following material:

"For a month for which a producer's tax liability under AS 43.55.011(e) on oil and gas produced from leases or properties outside the Cook Inlet sedimentary basin and south of 68 degrees North latitude exceeds zero before application of any credits under this chapter, a producer that is qualified under (e) of this section may apply a tax credit against that liability of up to $500,000.

(b) A producer may not take a tax credit under (a) of this section for any month that ends the later of

(1) April 30, 2016; or

(2) the 10th anniversary of the last day of the month for which the producer first has commercial oil or gas production before May 1, 2016, from at least one lease or property in the state outside the Cook Inlet sedimentary basin and south of 68 degrees North latitude, if the producer did not have commercial oil or gas production from a lease or property in the state outside the Cook Inlet sedimentary basin and south of 68 degrees North latitude before April 1, 2006.

(c)"

Page 28, line 8, following "credits under this":

Delete "chapter,"

Insert "chapter other than a credit under (a) of this section, but after application of any credit under (a) of this section,"

Page 28 line 8, following "qualified under":

Delete "(c)"

Insert "(e)"

Page 28, line 20:

Delete "(b")

Insert "(d)"

Page 28, line 20, following "under":

Insert "(e) of"

Page 28, line 24, following "production":

Insert "before May 1, 2016,"

Page 28, line 27:

Delete "(c)"

Insert "(e)"

Page 29, line 3, following "credit":

Delete "provision of (a)"

Insert "provisions of (a) or (e)"

Page 29, following line 3:

Insert the following material:

"(f) A tax credit authorized by (a) of this section may not be applied to reduce a producer's tax liability for any month under AS 43.55.011(e) on oil and gas produced from leases or properties outside the Cook Inlet sedimentary basin and south of 68 degrees North latitude below zero. An unused portion of a tax credit authorized by (a) of this section that could otherwise be applied for a month but whose application would cause the producer's tax liability for the month on oil and gas produced from leases or properties outside the Cook Inlet sedimentary basin and south of 68 degrees North latitude to be less than zero may be applied for one or more other months in the same calendar year to the extent otherwise allowed under this section."

Page 29, line 4:

Delete "(d)"

Insert "(g)"

Page 29, line 4, following "by":

Insert "(c) of"

Page 29, line 10:

Delete "(e)"

Insert "(h)"

#7

Adopted

6/2/2006
(3:45 P.M.)

A M E N D M E N T

OFFERED IN THE HOUSE BY Chenault

TO: HCS CSSB 2001(FIN) (24-GS2094\I Work Draft as page 4, line 21 was amended on June 1)

Page 4, line 18, following "AS 43.55.160," through line 19:

Delete all material

Insert "divided by"

Page 4, line 21, following "thermal units.":

Insert "The production tax value is calculated (1) using the monthly average of the producer's costs of transportation for the calendar year, as provided by AS 43.55.160(i), and (2) substituting for the month's lease expenditures 1/12 of the adjusted lease expenditures for the calendar year, as provided by AS 43.55.160(f)."

Page 13, line 10, following "(A)":

Delete "one-half"

Insert "1/10"

Page 13, line 13, following "(B)":

Delete "1/24"

Insert "1/120"

Page 19, line 1, following "adding":

Delete "a new subsection"

Insert "new subsections"

Page 19, following line 5:

Insert the following material:

"(f) For purposes of AS 43.05.260(a), the statement required to be filed on or before March 31 of a year is considered to be the return for the tax imposed by AS 43.55.011(e) - (g) for oil and gas produced each month of the preceding calendar year."

Page 22, line 11, following "interest,":

Delete "are the"

Insert "that are"

Page 27, following line 23:

Insert the following material:

"(i) Notwithstanding any contrary provision of AS 43.55.150, for purposes of (a) of this section, if the price index determined under AS 43.55.011(h) is greater than zero for any month during a calendar year, the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and (g) must be calculated for every month of that calendar year under regulations adopted by the department that provide for using a monthly average of the producer's costs of transportation for the calendar year."

Page 27, line 24:

Delete "(i)"

Insert "(j)"

Page 27, line 29:

Delete "(j)"

Insert "(k)"

Transitional Investment Credit
Effect of Amendment
source: Dept. of Revenue
6/2/2006

Current Language in .024(j)(2)

yearly investment past years		35
lookback period		5
total Transitional Investment Expenditures (TIE)		175
credit rate		20%
TIE credit available	A	35
current investment		70
one-half of current capital investments	B	35
2 for 1 means that 100% of the TIE credit is recoupable in one year	lesser of A or B	35

Effect of Amendment

yearly investment past years		35
lookback period		5
total Transitional Investment Expenditures (TIE)		175
credit rate		20%
TIE credit available	C	35
current investment		70
one-tenth of current capital investments	D	7
2 for 1 means that TIE can be recouped in five years consistent with intent	lesser of C or D	7

5.5

failed

#2
4

24-GS2094\I.5
Bullock
6/1/06

AMENDMENT

OFFERED IN THE HOUSE BY REPRESENTATIVE KELLY

TO: HCS CSSB 2001(FIN), Draft Version "I"

Page 4, line 9:

Delete ".175 percent"

Insert ".25 percent"

Page 4, line 16:

Delete "45"

Insert "35"

Failed 4-6 #3 it

AMENDMENT

OFFERED IN THE HOUSE BY REPRESENTATIVE KELLY

TO: HCS CSSB 2001(FIN)

Page 11, line 12

Insert:

"(f) Under standards established in regulations adopted by the department and subject to availability of taxes paid under this chapter, the department may issue a cash refund for the full value of a transferable tax credit certificate acquired and held by the Alaska Retirement Management Board."

Re-letter accordingly

EXPLANATION

- This amendment allows but does not require the Department of Revenue to issue a cash refund for a transferable tax credit certificate held by the ARM Board. Legislation enabling the ARM Board to purchase transferable tax credits will be introduced next session. If the department is not given this authority in the PPT bill, the PPT legislation would have to be re-opened to permit the small producers the opportunity to use this additional buyer of transferable tax credits. It is anticipated that the future ARM Board legislation will establish a percent purchase level that will serve to set a floor for sale of transferable credits.

- If the ARM Board has the ability to purchase the tax credits for a set amount and redeem them from the Department of Revenue, it could significantly improve the rate of return on the portfolio and reduce the State's long term unfunded liability.

- This amendment will also be beneficial to new and small producers since dispersal of the funds through the ARM Board would not require an appropriation. At certain times in the year the funds could get to the producers on a shortened time frame failed 2-8 #4

AMENDMENT

OFFERED IN THE HOUSE BY REPRESENTATIVE Kerttula
TO: HCS CSSB 2001(FIN); Version I

Page 10, line 14, following "month":

Insert "so long as it is applied within 10 years after the credit was first claimed"

Page 10, line 31.

Delete ""does not expire"

Insert "is valid for 10 years after the date the certificate is issued"

Page 11, line 3:

Delete "(a) – (c)"

Insert "(a) – (d)"

Page 11, line 18, following "if":

Insert "the certificate is still valid and"

Failed 3-7

#5

AMENDMENT

OFFERED IN THE HOUSE BY REPRESENTATIVE Joule
TO: HCS CSSB 2001(FIN); Version I

Page 22, line 5 through page 23, line 8:

Delete all material and insert:

(c) For purposes of this section,

(1) a producer's lease expenditures for a period are the ordinary and necessary costs upstream of the point of production of oil and gas that are incurred on or after April 1, 2006, by the producer during the period and that are direct costs of exploring for, developing, or producing oil or gas deposits located within the producer's leases or properties in the state or, in the case of land in which the producer does not own a working interest, are the direct costs of exploring for oil or gas deposits located within other land in the state;

(2) the department shall adopt regulations establishing the list of allowable lease expenditures; in developing the regulations, the department may consider

(A) typical industry practices and standards in the state that determine the costs that an operator is allowed to bill a working interest owner that is not the operator, under unit operating agreements or similar operating agreements that were in effect on or before December 1, 2005, and were subject to negotiation with at least one working interest owner with substantial bargaining power, other than the operator; and

(B) standards adopted by the Department of Natural Resources that determine the costs, other than interest, that a lessee is allowed to deduct from revenue in calculating net profits under a lease issued under AS 38.05.180(f)(3)(B), (D), or (E);

(3) the department may authorize a producer, including a producer that is an operator, to treat as its lease expenditures under this section the costs paid by the producer that are billed to the producer by an operator in accordance with the terms of a unit operating agreement or similar operating agreement if the department finds that

(A) the pertinent provisions of the operating agreement are consistent with the department regulations and standards otherwise applicable under this subsection; and

(B) at least one working interest owner party to the agreement, other than the operator, has substantial incentive and ability to effectively audit billings under the agreement;

Renumber following subsections accordingly.

Adopted
6/1/06

24-GS2094\I
Bullock
5/31/06

HOUSE CS FOR CS FOR SENATE BILL NO. 2001(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SPECIAL SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date."

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

*** Section 1.** The uncodified law of the State of Alaska is amended by adding a new section to read:

LEGISLATIVE INTENT. (a) It is the intent of the legislature through sec. 11 of this Act to confirm by clarification the long-standing interpretation of AS 43.55.020(f) by the Department of Revenue.

(b) It is the intent of the legislature that the division or other unit of the Department of Environmental Conservation assigned responsibility for administration of the programs under

AS 46.08 that are principally supported by the conservation surcharges on oil levied under AS 43.55.201 - 43.55.299 and 43.55.300 - 43.55.310

(1) reduce program costs, including personnel costs, as necessary to operate within the revenue anticipated to be generated by those surcharges, in the amounts of those surcharges as amended by secs. 26 and 28 of this Act; and

(2) request appropriations for exceptional program needs and expansions beyond what can be provided from the estimated amounts collected from those surcharges from alternative funding sources.

* **Sec. 2.** AS 43.05.230(f) is amended to read:

(f) A wilful violation of the provisions of this section **or of a condition imposed under AS 43.55.040(1)(B)** is punishable by a fine of not more than $5,000, or by imprisonment for not more than two years, or by both.

* **Sec. 3.** AS 43.20.031(c) is amended to read:

(c) In computing the tax under this chapter, the taxpayer is not entitled to deduct any taxes based on or measured by net income. **The taxpayer may deduct the tax levied and paid under AS 43.55.**

* **Sec. 4.** AS 43.20.072(b) is amended to read:

(b) A taxpayer's business income to be apportioned under this section to the state shall be the federal taxable income of the taxpayer's consolidated business for the tax period, except that

(1) taxes based on or measured by net income that are deducted in the determination of the federal taxable income shall be added back; **the tax levied and paid under AS 43.55 may not be added back;**

(2) intangible drilling and development costs that are deducted as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) in the determination of the federal taxable income shall be capitalized and depreciated as if the option to treat them as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) had not been exercised;

(3) depletion deducted on the percentage depletion basis under 26 U.S.C. 613 (Internal Revenue Code) in the determination of the federal taxable income shall be recomputed and deducted on the cost depletion basis under 26 U.S.C. 612

(Internal Revenue Code); and

(4) depreciation shall be computed on the basis of 26 U.S.C. 167 (Internal Revenue Code) as that section read on June 30, 1981.

* Sec. 5. AS 43.55.011 is amended by adding new subsections to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each month from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (i) and (j) of this section, the tax is equal to 20 percent of the production tax value of the taxable oil and gas as calculated under AS 43.55.160.

(f) There is levied on the producer of oil or gas a tax for all oil and gas produced each month from each lease or property in the state the ownership or right to which constitutes a landowner's royalty interest, except for oil and gas the ownership or right to which is exempt from taxation. The provisions of this subsection apply to a landowner's royalty interest as follows:

(1) the rate of tax levied on oil is equal to five percent of the gross value at the point of production of the oil;

(2) the rate of tax levied on gas is equal to 1.667 percent of the gross value at the point of production of the gas;

(3) if the department determines that, for purposes of reducing the producer's tax liability under (1) or (2) of this subsection, the producer has received or will receive consideration from the royalty owner offsetting all or a part of the producer's royalty obligation, other than a deduction under AS 43.55.020(d) of the amount of a tax paid,

(A) notwithstanding (1) of this subsection, the tax is equal to

(i) for oil that is produced from a lease or property in the Cook Inlet sedimentary basin, five percent of the gross value at the point of production of the oil;

(ii) for oil, except oil described in (i) of this subparagraph, 20 percent of the gross value at the point of production of the oil; and

(B) notwithstanding (2) of this subsection, for gas the tax is equal to 11.25 percent of the gross value at the point of production of the gas.

(g) In addition to the taxes levied under (e) and (f) of this section, during each month for which the price index determined under (h) of this section is greater than zero, there is levied on the producer of oil or gas a tax for all oil and gas produced during that month from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (i) and (j) of this section, the tax levied under this subsection is equal to .175 percent of the production tax value of the taxable oil and gas as calculated under AS 43.55.160, multiplied by the price index determined under (h) of this section. However, application of this subsection may not, when added to the tax levied under (e) of this section, impose a tax levy of more than 50 percent of the production tax value of taxable oil and gas as calculated under AS 43.55.160.

(h) For purposes of (g) of this section, the price index for a month is calculated by subtracting 45 from the number that is equal to the quotient of the production tax value of the taxable oil and gas produced during that month, as calculated under AS 43.55.160, substituting for that month's adjusted lease expenditures 1/12 of the adjusted lease expenditures for the calendar year that includes that month, divided by the amount of the taxable oil and gas produced during that month, in barrels of oil equivalent.

(i) For a month that ends before April 1, 2021, the total tax levied by (e) and (g) of this section on gas produced from a lease or property in the Cook Inlet sedimentary basin may not exceed

(1) for a lease or property that first commenced commercial production of gas before April 1, 2006, the product obtained by multiplying (A) the amount of gas produced during that month from the lease or property, times (B) the average rate of tax that was imposed under this chapter on gas produced from the lease or property for the 12-month period ending on March 31, 2006, times (C) the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f);

(2) for a lease or property that first commences commercial production of gas after March 31, 2006, the product obtained by multiplying (A) the amount of gas produced during that month from the lease or property, times (B) the average rate of tax that was imposed under this chapter on gas produced from all leases or properties in the Cook Inlet sedimentary basin for the 12-month period ending on March 31, 2006, times (C) the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f).

(j) For a month that ends before April 1, 2021, the total tax levied by (e) and (g) of this section on oil produced from a lease or property in the Cook Inlet sedimentary basin may not exceed

(1) for a lease or property that first commenced commercial production of oil before April 1, 2006, the product obtained by multiplying (A) the amount of oil produced during that month from the lease or property, times (B) the average rate of tax that was imposed under this chapter on oil produced from the lease or property for the 12-month period ending on March 31, 2006, times (C) the average prevailing value for oil delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f);

(2) for a lease or property that first commences commercial production of oil after March 31, 2006, the product obtained by multiplying (A) the amount of oil produced during that month from the lease or property, times (B) the average rate of tax that was imposed under this chapter on oil produced from all leases or properties in the Cook Inlet sedimentary basin for the 12-month period ending on March 31, 2006, times (C) the average prevailing value for oil delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f).

(k) Notwithstanding any contrary provision of AS 38.05.180(i), AS 41.09.010, AS 43.20.043, AS 43.55.024, 43.55.025, or 43.55.170, tax credits under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, AS 43.55.024, 43.55.025, and 43.55.170 that are allocated to oil and gas produced from leases or properties in the Cook Inlet sedimentary basin and that are available to be applied against a tax levied by (e) of this section on oil or gas produced from leases or properties in the Cook Inlet sedimentary basin during a month may be applied only against the tax levied by (e) of this section on that oil or gas. The amount by which the tax credits allocated to oil and gas produced from leases or properties in the Cook Inlet sedimentary basin and that the producer would otherwise be allowed to carry forward to a later period or transfer to another person that exceeds the amount of tax credits whose application would reduce the tax levied by (e) of this section on that oil and gas to zero, ~~if any~~, are considered excess tax credits and the excess tax credits are subject to the following:

(1) for each lease or property for which a limitation under (i) of (j) of this section on the tax levied under (e) and (g) of this section has the effect of reducing the producer's tax below the amount of tax that would be levied in the absence of that limitation, the producer shall calculate the amount of that reduction;

(2) the producer shall calculate the total of the reductions calculated under (1) of this subsection for all affected leases or properties;

(3) the producer shall reduce the amount of the excess tax credits by the total calculated under (2) of this subsection, but not to less than zero;

(4) any amount of excess tax credits remaining after reduction under (3) of this subsection may be carried forward to a later period, transferred to another person, and applied against a tax levied on oil or gas produced from a lease or property located anywhere in the state to the extent otherwise allowed under applicable law governing the tax credits.

(*l*) Allocation of credits under (k) of this section shall be made under regulations adopted by the department and be consistent with the regulations adopted under AS 43.55.160(c)(4) that provide for reasonable methods of allocating tax credits to oil and gas produced from leases or properties in the Cook Inlet sedimentary basin. The method of allocating tax credits available under AS 43.55.170 shall be based on the number of barrels of oil equivalent produced from a lease or property.

(m) The department shall by regulation establish sampling, testing, and averaging methods for determining the energy content of a producer's gas produced during a month.

(n) In this section, "barrel of oil equivalent" means (1) in the case oil, one barrel; (2) in the case of gas, 6,000 cubic feet.

* Sec. 6. AS 43.55.017(a) is amended to read:

(a) Except as provided in this chapter, the taxes imposed by this chapter are in place of all taxes now imposed by the state or any of its municipalities, and neither the state nor a municipality may impose a tax **on** [UPON]

(1) producing oil or gas leases;

(2) oil or gas produced or extracted in the state;

(3) the value of intangible drilling and **development costs, as described in 26 U.S.C. 263(c) (Internal Revenue Code), as amended through January 1, 1974** [EXPLORATION EXPENSES].

* Sec. 7. AS 43.55.020(a) is repealed and reenacted to read:

(a) Ninety-five percent of the total tax levied by AS 43.55.011(e) - (g), net of any credits applied under this chapter, is due on the last day of each calendar month on oil and gas produced from each lease or property during the preceding month. The remaining portion of the tax levied by AS 43.55.011(e) - (g), net of any credits applied under this chapter, is due on March 31 of the year following the calendar year during which the oil and gas were produced. An unpaid amount of tax that is not paid when due in accordance with this subsection becomes delinquent. An overpayment of tax with respect to a month may be applied against the tax due for any later month. Notwithstanding any contrary provision of AS 43.05.280, interest on an overpayment is allowed only from a date that is 90 days after the later of (1) the March 31 described in this subsection, or (2) the date that the statement required under AS 43.55.030(a) and (e) to be filed on or before that March 31 is filed. Interest is not allowed if the overpayment was refunded within the 90-day period.

* Sec. 8. AS 43.55.020(b) is amended to read:

(b) The production tax on oil **and** [OR] gas shall be paid by or on behalf of the producer.

* Sec. 9. AS 43.55.020(d) is amended to read:

(d) In making settlement with the royalty owner **for oil and gas that is taxable under AS 43.55.011,** the producer may deduct the amount of the tax paid on **taxable** royalty oil **and** [OR] gas, or may deduct **taxable** royalty oil or gas equivalent in value at the time the tax becomes due to the amount of the tax paid. Unless otherwise agreed between the producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) and (g) on taxable royalty oil and gas for a month, other than oil and gas the ownership or right to which constitutes a landowner's royalty interest, is considered to be the gross value at the point of production of the taxable royalty oil and gas produced during the month multiplied by a figure that is a quotient, in which

(1) the numerator is the producer's total tax liability under AS 43.55.011(e) and (g) for the month of production; and

(2) the denominator is the total gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and (g) produced by the producer from all leases and properties in the state during the month.

*** Sec. 10.** AS 43.55.020(e) is repealed and reenacted to read:

(e) Gas flared, released, or allowed to escape in excess of the amount authorized by the Alaska Oil and Gas Conservation Commission is considered, for the purpose of AS 43.55.011 - 43.55.180, as gas produced from a lease or property. Oil or gas used in the operation of a lease or property in the state in drilling for or producing oil or gas, or for repressuring, except to the extent determined by the Alaska Oil and Gas Conservation Commission to be waste, is not considered, for the purpose of AS 43.55.011 - 43.55.180, as oil or gas produced from a lease or property.

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

(f) If oil or gas is produced but not sold, or if oil or gas is produced and sold under circumstances where the sale price does not represent the prevailing value for oil or gas of like kind, character, or quality in the field or area from which the product is produced, the department may require the tax to be paid upon the basis of the value of oil or gas of the same kind, quality, and character prevailing for that field or area during the calendar month of production or sale [FOR THAT FIELD OR AREA].

*** Sec. 12.** AS 43.55 is amended by adding a new section to read:

Sec. 43.55.024. Tax credits for certain losses and expenditures. (a) A producer or explorer may take a tax credit for a qualified capital expenditure as follows:

(1) notwithstanding that a qualified capital expenditure 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 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025,

(A) a producer or explorer that incurs a qualified capital expenditure may also elect to take a tax credit against a tax due under AS 43.55.011(e) in the amount of 20 percent of that expenditure;

(B) for a calendar year for which the producer makes a substitution under AS 43.55.160(f), instead of taking a tax credit at a rate authorized by (A) of this paragraph as to each separate qualified capital expenditure after it has been incurred, a producer that incurs a qualified capital expenditure during that year and that wishes to apply a credit based on that expenditure against a tax due under AS 43.55.011(e) shall calculate and apply every month an annualized tax credit in an amount equal to 1 2/3 percent of the total qualified capital expenditures incurred during that year and for which the tax credit is taken for that year;

(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer provides to the department, as part of the statement required under AS 43.55.030(a) for the month for which the credit is sought to be taken, the producer's or explorer's written agreement

(A) to notify the Department of Natural Resources, within 30 days after completion of the geological or geophysical data processing or completion of the well, or within 30 days after the statement is filed, whichever is the latest, of the date of completion and to submit a report to that department describing the processing sequence and provide a list of data sets available;

(B) to provide to the Department of Natural Resources, within 30 days after the date of a request, specific data sets, ancillary data, and reports identified in (A) of this paragraph;

(C) that, notwithstanding any provision of AS 38, the

Department of Natural Resources shall hold confidential the information provided to that department under this paragraph for 10 years following the completion date, after which the department shall publicly release the information after 30 days' public notice.

(b) A producer or explorer may elect to take a tax credit in the amount of 20 percent of a carried-forward annual loss. A credit under this subsection may be applied against a tax due under AS 43.55.011(e). For purposes of this subsection, a carried-forward annual loss is the amount of a producer's or explorer's adjusted lease expenditures under AS 43.55.160 for a previous calendar year that was not deductible in any month under AS 43.55.160(a) and (b).

(c) A credit or portion of a credit under this section may not be used to reduce a person's tax liability under AS 43.55.011(e) for any month below zero, and any unused credit or portion of a credit not used under this subsection may be applied in a later month.

(d) Except as limited by (j) of this section, a person entitled to take a tax credit under this section that wishes to transfer the unused credit to another person may apply to the department for a transferable tax credit certificate. An application under this subsection must be on a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than 60 days after the latest of (1) March 31 of the year following the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; (2) if the applicant is required under AS 43.55.030(a) and (e) to file a statement on or before March 31 of the year following the calendar year in which the qualified capital expenditures or carried-forward annual loss for which the credit is claimed was incurred, the date the statement was filed; or (3) the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant a transferable tax credit certificate for the amount of the credit. A certificate issued under this subsection does not expire.

(e) A person to which a transferable tax credit certificate is issued under (d) of this section may transfer the certificate to another person, and a transferee may further transfer the certificate. Subject to the limitations set out in (a) - (c) of this section, and notwithstanding any action the department may take with respect to the applicant under (g) of this section, the owner of a certificate may apply the credit or a portion of the credit shown on the certificate only against a tax due under AS 43.55.011(e). However, a credit shown on a transferable tax credit certificate may not be applied to reduce a transferee's total tax due under AS 43.55.011(e) on oil and gas produced during a calendar year to less than 80 percent of the tax that would otherwise be due without applying that credit. Any portion of a credit not used under this subsection may be applied in a later period.

(f) Under standards established in regulations adopted by the department and subject to appropriations made by law, the department, on the written application of the person to whom a transferable tax credit has been issued under (d) of this section and whose average amount of oil and gas produced a day taxable under AS 43.55.011(e) is not more than 50,000 barrels of oil equivalent a day for the preceding calendar year, shall issue a cash refund, in whole or in part, for the certificate if the department finds

(1) after investigation and audit of the tax credit claim by the department, that the applicant is entitled to the credit to the extent of the refund amount;

(2) within 24 months after having applied for the transferable tax credit certificate, that the applicant incurred a qualified capital expenditure or was the successful bidder on a bid submitted for a lease on state land under AS 38.05.180(f);

(3) that the amount of the refund would not exceed the total of qualified capital expenditures and successful bids described in (2) of this subsection that have not been the subject of a finding made under this paragraph for purposes of a previous refund;

(4) that the applicant does not have an outstanding liability to the state for unpaid delinquent taxes under this title; and

(5) that the sum of the amount of the refund applied for and amounts

previously refunded to the applicant during the calendar year under this subsection would not exceed $25,000,000.

(g) The issuance of a transferable tax credit certificate under (d) of this section does not limit the department's ability to later audit a tax credit claim to which the certificate relates or to adjust the claim if the department determines that the applicant was not entitled to the amount of the credit for which the certificate was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit that exceeds that to which the applicant was entitled, or the applicant's available valid outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased under this subsection, the increase bears interest under AS 43.05.225 from the date the transferable tax credit certificate was issued. For purposes of this subsection, an applicant that is an explorer is considered a producer subject to the tax levied by AS 43.55.011(e).

(h) The department may adopt regulations to carry out the purposes of this section, including prescribing reporting, record keeping, and certification procedures and requirements to verify the accuracy of credits claimed and to ensure that a credit is not used more than once, and otherwise implementing this section.

(i) A person may not elect to take a tax credit under (a) or (j) of this section for an expenditure incurred to acquire an asset (1) the cost of previously acquiring which was a lease expenditure under AS 43.55.160(c) or would have been a lease expenditure under AS 43.55.160(c) if it had been incurred on or after April 1, 2006; or (2) that has previously been placed in service in the state. An expenditure to acquire an asset is not excluded under this subsection if not more than an immaterial portion of the asset meets a description under (1) or (2) of this subsection. For purposes of this subsection, "asset" includes geological, geophysical, and well data and interpretations.

(j) For the purposes of this section,

(1) a producer's or explorer's transitional investment expenditures are the sum of the expenditures the producer or explorer incurred on or after April 1, 2001, and before April 1, 2006, that would be qualified capital expenditures if they were incurred on or after April 1, 2006, less the sum of the payments or credits the

producer or explorer received before April 1, 2006, for the sale or other transfer of assets, including geological, geophysical, or well data or interpretations, acquired by the producer or explorer as a result of expenditures the producer or explorer incurred before April 1, 2006, that would be qualified capital expenditures, if they were incurred on or after April 1, 2006;

(2) a producer or explorer may elect to take a tax credit against a tax due under AS 43.55.011(e) in the amount of 20 percent of the producer's or explorer's transitional investment expenditures, but only to the extent that the amount does not exceed

(A) one-half of the producer's or explorer's qualified capital expenditures that are incurred during the month for which the credit is taken, if the producer or explorer does not make a substitution under AS 43.55.160(f);

(B) 1/24 of the producer's or explorer's qualified capital expenditures that are incurred during the calendar year that includes the month for which the credit is taken, if the producer or explorer makes a substitution under AS 43.55.160(f);

(3) a producer or explorer may not take a tax credit for a transitional investment expenditure

(A) for any month that ends the later of

(i) April 30, 2013; or

(ii) the seventh anniversary of the last day of the month for which the producer first applies a credit under this subsection against a tax due under AS 43.55.011(e), if the producer did not have commercial production of oil or gas from a lease or property in the state before April 1, 2006;

(B) more than once; or

(C) if a credit for that expenditure was taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025;

(4) notwithstanding (d), (e), and (g) of this section, a producer or explorer may not transfer a tax credit or obtain a transferable tax credit certificate for a transitional investment expenditure.

(k) As a condition of receiving a tax credit under this section, a producer or explorer that obtains the tax credit for or directly related to a pipeline, facility, or other asset that is or becomes subject to regulation by the Federal Energy Regulatory Commission or the Regulatory Commission of Alaska, or a successor regulatory body shall at all times support and in all rate proceedings file to flow through 100 percent of the tax credits to ratepayers as a reduction in the costs of service for the pipeline, facility, or other asset.

(*l*) In this section,

(1) "barrel of oil equivalent" means one barrel, in the case of oil, or 6,000 cubic feet, in the case of gas;

(2) "qualified capital expenditure" means, except as otherwise provided in (i) of this section, an expenditure that is a lease expenditure under AS 43.55.160 and is

(A) incurred for geological or geophysical exploration; or

(B) treated as a capitalized expenditure under 26 U.S.C. (Internal Revenue Code), as amended, regardless of elections made under 26 U.S.C. 263(c) (Internal Revenue Code), as amended, and is

(i) treated as a capitalized expenditure for federal income tax reporting purposes by the person incurring the expenditure; or

(ii) eligible to be deducted as an expense under 26 U.S.C. 263(c) (Internal Revenue Code), as amended.

*** Sec. 13.** AS 43.55.025(a) is amended to read:

(a) Subject to the terms and conditions of this section, [ON OIL AND GAS PRODUCED ON OR AFTER JULY 1, 2004, FROM AN OIL AND GAS LEASE, OR ON GAS PRODUCED FROM A GAS ONLY LEASE,] a credit against the production tax due under <u>**AS 43.55.011(e)**</u> [THIS CHAPTER] is allowed for exploration expenditures that qualify under (b) of this section in an amount equal to one of the following:

(1) 20 percent of the total exploration expenditures that qualify only under (b) and (c) of this section;

(2) 20 percent of the total exploration expenditures for work performed before July 1, 2007, and that qualify only under (b) and (d) of this section;

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

(4) 40 percent of the total exploration expenditures that qualify only under (b) and (c) of this section.

* **Sec. 14.** AS 43.55.025(b) is amended to read:

(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed on or after July 1, 2003, and before July 1, <u>2016</u> [2007], except that an exploration expenditure for a Cook Inlet prospect must be incurred for work performed on or after July 1, 2005, [AND BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

(1) may be for seismic or geophysical exploration costs not connected with a specific well;

(2) if for an exploration well,

(A) must be incurred by an explorer that holds an interest in the exploration well for which the production tax credit is claimed;

(B) may be for either an oil or gas discovery well or a dry hole; and

(C) must be for goods, services, or rentals of personal property reasonably required for the surface preparation, drilling, casing, cementing, and logging of an exploration well, and, in the case of a dry hole, for the expenses required for abandonment if the well is abandoned within 18 months after the date the well was spudded;

(3) may not be for testing, stimulation, or completion costs; administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or

other payments to governments related to the well; or other costs that are generally recognized as indirect costs or financing costs; and

(4) may not be incurred for an exploration well or seismic exploration that is included in a plan of exploration or a plan of development for any unit on May 13, 2003.

* **Sec. 15.** AS 43.55.025(f) is amended to read:

(f) For a production tax credit under this section,

(1) an explorer shall, in a form prescribed by the department and within six months of the completion of the exploration activity, claim the credit and submit information sufficient to demonstrate to the department's satisfaction that the claimed exploration expenditures qualify under this section;

(2) an explorer shall agree, in writing,

(A) to notify the Department of Natural Resources, within 30 days after completion of seismic or geophysical data processing, completion of a well, or filing of a claim for credit, whichever is the latest, for which exploration costs are claimed, of the date of completion and submit a report to that department describing the processing sequence and providing a list of data sets available; if, under (c)(2)(B) of this section, an explorer submits a claim for a credit for expenditures for an exploration well that is located within three miles of a well already drilled for oil and gas, in addition to the submissions required under (1) of this subsection, the explorer shall submit the information necessary for the commissioner of natural resources to evaluate the validity of the explorer's claim that the well is directed at a distinctly separate exploration target, and the commissioner of natural resources shall, upon receipt of all evidence sufficient for the commissioner to evaluate the explorer's claim, make that determination within 60 days;

(B) to provide to the Department of Natural Resources, within 30 days after the date of a request, specific data sets, ancillary data, and reports identified in (A) of this paragraph;

(C) that, notwithstanding any provision of AS 38, information provided under this paragraph will be held confidential by the Department of

Natural Resources for 10 years following the completion date, at which time that department will release the information after 30 days' public notice;

(3) if more than one explorer holds an interest in a well or seismic exploration, each explorer may claim an amount of credit that is proportional to the explorer's cost incurred;

(4) the department may exercise the full extent of its powers as though the explorer were a taxpayer under this title, in order to verify that the claimed expenditures are qualified exploration expenditures under this section; and

(5) if the department is satisfied that the explorer's claimed expenditures are qualified under this section, the department shall issue to the explorer a production tax credit certificate for the amount of credit to be allowed against production taxes due under **<u>AS 43.55.011(e)</u>** [THIS CHAPTER; HOWEVER, NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE DEPARTMENT MAY NOT ISSUE TO AN EXPLORER A PRODUCTION TAX CREDIT CERTIFICATE IF THE TOTAL OF PRODUCTION TAX CREDITS SUBMITTED FOR COOK INLET PRODUCTION, BASED ON EXPLORATION EXPENDITURES FOR WORK PERFORMED DURING THE PERIOD DESCRIBED IN (b) OF THIS SECTION FOR THAT PRODUCTION, THAT HAVE BEEN APPROVED BY THE DEPARTMENT EXCEEDS $20,000,000].

* **Sec. 16.** AS 43.55.025(h) is amended to read:

(h) A producer that purchases a production tax credit certificate may apply the credits against its production tax liability under **<u>AS 43.55.011(e)</u>** [THIS CHAPTER]. Regardless of the price the producer paid for the certificate, the producer may receive a credit against its production tax liability for the full amount of the credit, but for not more than the amount for which the certificate is issued. A production tax credit allowed under this section may not be applied more than once.

* **Sec. 17.** AS 43.55.025(i) is amended to read:

(i) For a production tax credit under this section,

(1) the amount of the credit that may be applied against the production tax for each tax month may not exceed the total production tax liability **<u>under AS 43.55.011(e)</u>** of the taxpayer applying the credit for the same month; and

(2) an amount of the production tax credit that is greater than the total tax liability **under AS 43.55.011(e)** of the taxpayer applying the credit for a tax month may be carried forward and applied against the taxpayer's production tax liability **under AS 43.55.011(e)** in one or more immediately following months.

* Sec. 18. AS 43.55.030(a) is amended to read:

(a) The tax shall be paid to the department**,** and the person paying the tax shall file with the department at the time the tax **or a portion of the tax** is required to be paid a statement, under oath, on forms prescribed by or acceptable to the department, giving**,** with other information required, the following:

(1) a description of **each** [THE] lease or property from which the oil **and** [OR] gas **were** [WAS] produced, by name, legal description, lease number**,** or [BY] accounting **codes** [CODE NUMBERS] assigned by the department;

(2) the names of the producer and the person paying the tax;

(3) the gross amount of oil **and the gross amount of** [OR] gas produced from **each** [THE] lease or property, and the percentage of the gross amount **of oil and gas** owned by each producer for whom the tax is paid;

(4) the **gross** [TOTAL] value **at the point of production** of the oil **and of the** [OR] gas produced from **each** [THE] lease or property owned by each producer for whom the tax is paid; [AND]

(5) the name of the first purchaser and the price received for the oil **and for the** [OR] gas**, unless relieved from this requirement in whole or in part by the department; and**

(6) the producer's lease expenditures and adjustments as calculated under AS 43.55.160 [IF SOLD IN THE STATE].

* Sec. 19. AS 43.55.030(d) is amended to read:

(d) Reports by or on behalf of the producer are delinquent the first day following the day the tax is due. [EACH PRODUCER IS SUBJECT TO A PENALTY OF $25 A DAY FOR EACH LEASE OR PROPERTY UPON WHICH THE REPORT IS NOT FILED. THE PENALTY FOR FAILURE TO FILE A REPORT IS IN ADDITION TO THE PENALTY FOR DELINQUENT TAXES, AND IS A LIEN AGAINST THE ASSETS OF THE PRODUCER.]

* **Sec. 20.** AS 43.55.030 is amended by adding a new subsection to read:

(e) In addition to other required information, the statement required to be filed on or before March 31 of a year must show any adjustments or corrections to the statements that were required under (a) of this section to be filed for the months of the preceding calendar year during which the oil or gas was produced.

* **Sec. 21.** AS 43.55.040 is amended to read:

Sec. 43.55.040. Powers of Department of Revenue. Except as provided in AS 43.05.405 - 43.05.499, the department may

(1) require a person engaged in production and the agent or employee of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil or gas to furnish**, whether by the filing of regular statements or reports or otherwise,** additional information that is considered by the department as necessary to compute the amount of the tax**; notwithstanding any contrary provision of law, the disclosure of additional information under this paragraph to the producer obligated to pay the tax does not violate AS 40.25.100(a) or AS 43.05.230(a); before disclosing information under this paragraph that is otherwise required to be held confidential under AS 40.25.100(a) or AS 43.05.230(a), the department shall**

(A) provide the person that furnished the information a reasonable opportunity to be heard regarding the proposed disclosure and the conditions to be imposed under (B) of this paragraph; and

(B) impose appropriate conditions limiting

(i) access to the information to those legal counsel, consultants, employees, officers, and agents of the producer who have a need to know that information for the purpose of determining or contesting the producer's tax obligation; and

(ii) the use of the information to use for that purpose;

(2) examine the books, records, and files of such a person;

(3) conduct hearings and compel the attendance of witnesses and the production of books, records, and papers of any person; and

(4) make an investigation or hold an inquiry that is considered necessary to a disclosure of the facts as to

(A) the amount of production from any oil or gas location, or of a company or other producer of oil or gas; and

(B) the rendition of the oil and gas for taxing purposes.

* **Sec. 22.** AS 43.55.080 is amended to read:

Sec. 43.55.080. Collection and deposit of revenue. <u>**Except as otherwise provided under art. IX, sec. 17, Constitution of the State of Alaska, the**</u> [THE] department shall deposit in the general fund the money collected by it under <u>**AS 43.55.011 - 43.55.180**</u> [AS 43.55.011 - 43.55.150].

* **Sec. 23.** AS 43.55.135 is amended to read:

Sec. 43.55.135. Measurement. For the purposes of <u>**AS 43.55.011 - 43.55.180**</u> [AS 43.55.011 - 43.55.150], oil <u>**is**</u> [SHALL BE] measured in terms of a "barrel of oil" and gas <u>**is**</u> [SHALL BE] measured in terms of a "cubic foot of gas."

* **Sec. 24.** AS 43.55.150(a) is amended to read:

(a) For the purposes of <u>**AS 43.55.011 - 43.55.180**</u> [AS 43.55.011 - 43.55.150], the gross value <u>**at the point of production is**</u> [SHALL BE] calculated using the reasonable costs of transportation of the oil or gas. The reasonable costs of transportation <u>**are**</u> [SHALL BE] the actual costs, except <u>**when the**</u>

(1) [WHEN THE] parties to the transportation of oil or gas are affiliated;

(2) [WHEN THE] contract for the transportation of oil or gas is not an arm's length transaction or is not representative of the market value of that transportation; <u>**and**</u>

(3) [WHEN THE] method of transportation of oil or gas is not reasonable in view of existing alternative methods of transportation.

* **Sec. 25.** AS 43.55 is amended by adding new sections to article 1 to read:

Sec. 43.55.160. Determination of production tax value of oil and gas. (a) Except as provided in (f) of this section, for purposes of AS 43.55.011(e) and (g), the production tax value of the taxable (1) oil and gas produced during a month, other than from leases or properties in the Cook Inlet sedimentary basin, is the total of the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and (g) and produced by the producer from all leases or properties in the state outside the Cook Inlet sedimentary basin, less the producer's lease expenditures for the month as adjusted under (e) of this section, other than lease expenditures applicable to oil or gas produced from leases or properties in the Cook Inlet sedimentary basin; (2) 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 (g) and produced by the producer from that lease or property, less the producer's lease expenditures for the month applicable to that oil, as adjusted under (e) of this section; (3) 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 (g) and produced by the producer from that lease or property, less the producer's lease expenditures for the month applicable to that gas, as adjusted under (e) of this section. However, a production tax value calculated under this subsection may not be less than zero. If a producer does not produce taxable oil or gas during a month, the producer is considered to have generated a positive production tax value if a calculation described in this subsection yields a positive number because the producer's adjusted lease expenditures for a month are less than zero as a result of the producer's receiving a payment or credit under (e) of this section or otherwise.

(b) For purposes of administration of (a) of this section,

(1) any adjusted lease expenditures that would otherwise be deductible in a month but whose deduction would cause a production tax value calculated under (a) of this section of taxable oil or gas produced during the month to be less than zero may be added to the producer's adjusted lease expenditures for one or more other months in the same calendar year; the total of any adjusted lease expenditures that are not deductible in any month during a calendar year because their deduction would cause a production tax value calculated under (a) of this section of taxable oil or gas produced during one or more months to be less than zero may be used to establish a carried-forward annual loss under AS 43.55.024(b);

(2) an explorer that has taken a tax credit under AS 43.55.024(b) or that has obtained a transferable tax credit certificate under AS 43.55.024(d) for the

amount of a tax credit under AS 43.55.024(b) is considered a producer, subject to the tax levied under AS 43.55.011(e), to the extent that the explorer generates a positive production tax value as the result of the explorer's receiving a payment or credit described in (e) of this section.

(c) For purposes of this section,

(1) a producer's lease expenditures for a period are the ordinary and necessary costs upstream of the point of production of oil and gas that are incurred on or after April 1, 2006, by the producer during the period and that are direct costs of exploring for, developing, or producing oil or gas deposits located within the producer's leases or properties in the state or, in the case of land in which the producer does not own a working interest, are the direct costs of exploring for oil or gas deposits located within other land in the state; in determining whether costs are direct and ordinary and necessary costs of exploring for, developing, or producing oil or gas deposits located within a lease or property or other land in the state,

Lease expend.

(A) the department shall give substantial weight to the typical industry practices and standards in the state that determine the costs that an operator is allowed to bill a working interest owner that is not the operator, under unit operating agreements or similar operating agreements that were in effect on or before December 1, 2005, and were subject to negotiation with at least one working interest owner with substantial bargaining power, other than the operator; and

(B) as to matters that are not addressed by the industry practices and standards described in (A) of this paragraph or as to which those practices and standards are not clear or are not uniform, the department shall give substantial weight to the standards adopted by the Department of Natural Resources that determine the costs, other than interest, that a lessee is allowed to deduct from revenue in calculating net profits under a lease issued under AS 38.05.180(f)(3)(B), (D), or (E);

(2) the Department of Revenue may authorize a producer, including a producer that is an operator, to treat as its lease expenditures under this section the costs, other than items listed in (d) of this section, paid by the producer that are billed

to the producer by an operator in accordance with the terms of a unit operating agreement or similar operating agreement if the Department of Revenue finds that

(A) the pertinent provisions of the operating agreement are substantially consistent with the Department of Revenue's determinations and standards otherwise applicable under this subsection; and

(B) at least one working interest owner party to the agreement, other than the operator, has substantial incentive and ability to effectively audit billings under the agreement;

(3) an activity does not need to be physically located on, near, or within the premises of the lease or property within which an oil or gas deposit being explored for, developed, or produced is located in order for the cost of the activity to be a cost upstream of the point of production of the oil or gas;

(4) the lease expenditures that are applicable to oil or gas produced from leases or properties in the Cook Inlet sedimentary basin and the lease expenditures that are applicable to other oil and gas shall be determined under regulations adopted by the department that provide for reasonable methods of allocating costs between oil and gas, among leases or properties in the Cook Inlet sedimentary basin, and between the Cook Inlet sedimentary basin and the rest of the state;

(5) "direct costs" include

(A) an expenditure, when incurred, to acquire an item if the acquisition cost is otherwise a direct cost, notwithstanding that the expenditure may be required to be capitalized rather than treated as an expense for financial accounting or federal income tax purposes;

(B) payments of or in lieu of property taxes, sales and use taxes, motor fuel taxes, and excise taxes;

(C) a reasonable allowance, as determined under regulations adopted by the department, for overhead expenses directly related to exploring for, developing, and producing oil or gas deposits located within leases or properties or other land in the state.

(d) For purposes of (c) of this section, lease expenditures do not include

(1) depreciation, depletion, or amortization;

(2) oil or gas royalty payments, production payments, lease profit shares, or other payments or distributions of a share of oil or gas production, profit, or revenue;

(3) taxes based on or measured by net income;

(4) interest or other financing charges or costs of raising equity or debt capital;

(5) acquisition costs for a lease or property or exploration license;

(6) costs arising from fraud, wilful misconduct, or gross negligence;

(7) fines or penalties imposed by law;

(8) costs of arbitration, litigation, or other dispute resolution activities that involve the state or concern the rights or obligations among owners of interests in, or rights to production from, one or more leases or properties or a unit;

(9) donations;

(10) costs incurred in organizing a partnership, joint venture, or other business entity or arrangement;

(11) amounts paid to indemnify the state; the exclusion provided by this paragraph does not apply to the costs of obtaining insurance or a surety bond from a third-party insurer or surety;

(12) surcharges levied under AS 43.55.201 or 43.55.300;

(13) for a transaction that is an internal transfer or is otherwise not an arm's length transaction, expenditures incurred that are in excess of fair market value;

(14) an expenditure incurred to purchase an interest in any corporation, partnership, limited liability company, business trust, or any other business entity, whether or not the transaction is treated as an asset sale for federal income tax purposes;

(15) a tax levied under AS 43.55.011;

(16) the portion of costs incurred for dismantlement, removal, surrender, or abandonment of a facility, pipeline, well pad, platform, or other structure, or for the restoration of a lease, field, unit, area, body of water, or right-of-way in conjunction with dismantlement, removal, surrender, or abandonment, that is

attributable to production of oil or gas occurring before April 1, 2006; the portion is calculated as a ratio of the amount of oil and gas production associated with the facility, pipeline, well pad, platform, or other structure, lease, field, unit, area, body of water, or right-of-way occurring before April 1, 2006, to the total amount of oil and gas production associated with that facility, pipeline, well pad, platform, or other structure, lease, field, unit, area, body of water, or right-of-way through the end of the calendar month before commencement of the dismantlement, removal, surrender, or abandonment; for purposes of the ratio calculated under this paragraph, 6,000 cubic feet of gas is considered to be equivalent to one barrel of oil; a cost is not excluded under this paragraph if the dismantlement, removal, surrender, or abandonment for which the cost is incurred is undertaken for the purpose of replacing, renovating, or improving the facility, pipeline, well pad, platform, or other structure;

(17) losses or damages resulting from an unpermitted oil discharge that is not confined to a gravel pad, or costs to contain, clean up, or remediate such an unpermitted oil discharge to the extent that those costs exceed the routine costs of operation for a producer or explorer that would otherwise be incurred as lease expenditures in the absence of the unpermitted oil discharge; this paragraph does not apply to the cost of developing and maintaining an oil discharge prevention and contingency plan under AS 46.04.030;

(18) costs incurred to satisfy a work commitment under an exploration license under AS 38.05.132.

(e) Unless the payment or credit has already been subtracted in calculating billed costs under (c)(2) of this section, a producer's lease expenditures must be adjusted by subtracting certain payments or credits received by the producer or by an operator acting for the producer, as provided in this subsection. If one or more payments or credits subject to this subsection are received by a producer or by an operator acting for the producer during a month or, under (f) of this section, during a calendar year, and if either the total amount of the payments or credits exceeds the amount of the producer's lease expenditures or the producer has no lease expenditures, the producer shall nevertheless subtract those payments or credits from the lease expenditures or from zero, respectively, and the producer's adjusted lease expenditures for that month or calendar year are a negative number and shall be applied to the calculation under (a) of this section as a negative number. The payments or credits that a producer shall subtract from the producer's lease expenditures, or from zero, under this subsection are payments or credits, other than tax credits, received by the producer or by an operator acting for the producer for

(1) the use by another person of a production facility in which the producer has an ownership interest or the management by the producer of a production facility under a management agreement providing for the producer to receive a management fee;

(2) a reimbursement or similar payment that offsets the producer's lease expenditures, including an insurance recovery from a third-party insurer and a payment from the state or federal government for reimbursement of the producer's upstream costs, including costs for gathering, separating, cleaning, dehydration, compressing, or other field handling associated with the production of oil or gas upstream of the point of production;

(3) the sale or other transfer of

(A) an asset, including geological, geophysical, or well data or interpretations, acquired by the producer as a result of a lease expenditure or an expenditure that would be a lease expenditure if it were incurred on or after April 1, 2006; for purposes of this subparagraph,

(i) if a producer removes from the state, for use outside the state, an asset described in this subparagraph, the value of the asset at the time it is removed is considered a payment received by the producer for sale or transfer of the asset;

(ii) for a transaction that is an internal transfer or is otherwise not an arm's length transaction, if the sale or transfer of the asset is made for less than fair market value, the amount subtracted must be the fair market value; and

(B) oil or gas

(i) that is not considered produced from a lease or property under AS 43.55.020(e); and

(ii) the cost of acquiri..g which is a lease expenditure incurred by the person that acquires the oil or gas.

(f) In place of the adjusted lease expenditures for a month under (a) of this section, a producer may, at any time, elect to substitute, for every month of a calendar year, 1/12 of the producer's adjusted lease expenditures for the calendar year. For every month of a calendar year in which the price index for a producer determined under AS 43.55.011(h) is greater than zero for one or more months, the producer shall substitute, in place of the adjusted lease expenditures under (a) of this section, 1/12 of the producer's adjusted lease expenditures for the calendar year. A substitution made under this subsection applies to the calculation of the tax under AS 43.55.011(e) and (g).

(g) The department shall specify or approve a reasonable allocation method for determining the portion of a cost that is appropriately treated as a lease expenditure under (c) of this section if a cost that would otherwise constitute a lease expenditure under (c) of this section is incurred to explore for, develop, or produce

(1) both an oil or gas deposit located within land outside the state and an oil or gas deposit located within a lease or property, or other land, in the state; or

(2) an oil or gas deposit located partly within land outside the state and partly within a lease or property, or other land, in the state.

(h) For purposes of AS 43.55.024(a) and (b) and only as to expenditures incurred to explore for an oil or gas deposit located within land in which an explorer does not own a working interest, the term "producer" in (b), (c), and (e) of this section includes "explorer."

(i) The department may adopt regulations that establish additional standards necessary to carrying out the purposes of this section, including the incorporation of the concepts of 26 U.S.C. 482 (Internal Revenue Code), as amended, the related or accompanying regulations of that section, and any ruling or guidance issued by the United States Internal Revenue Service that relates to that section.

(j) For purposes of this section,

(1) "explore" includes conducting geological or geophysical exploration, including drilling a stratigraphic test well;

(2) "ordinary and necessary" has the meaning given in 26 U.S.C. 162 (Internal Revenue Code), as amended, and regulations adopted under that section;

(3) "stratigraphic test well" means a well drilled for the sole purpose of obtaining geological information to aid in exploring for an oil or gas deposit and the target zones of which are located in the state.

Sec. 43.55.170. Additional nontransferable tax credit. (a) For a month for which a producer's tax liability under AS 43.55.011(e) exceeds zero before application of any credits under this chapter, a producer that is qualified under (c) of this section and whose average amount of oil and gas produced a day and taxable under AS 43.55.011(e) is less than 100,000 barrels of oil equivalent a day may apply a tax credit under this section against that liability. A producer whose average amount of oil and gas produced a day and taxable under AS 43.55.011(e) is

(1) not more than 50,000 barrels of oil equivalent may apply a tax credit of up to $1,000,000 for the month;

(2) more than 50,000 and less than 100,000 barrels of oil equivalent may apply a tax credit of up to the following fraction of $1,000,000 for the month:

$$1 - [2 \times (AP - 50,000)]/100,000,$$

where AP = the average amount of oil and gas, expressed as barrels of oil equivalent, produced a day during the month and taxable under AS 43.55.011(e).

(b) A producer may not take a tax credit under this section for any month that ends the later of

(1) April 30, 2016; or

(2) the 10th anniversary of the last day of the month for which the producer first has commercial oil or gas production from at least one lease or property in the state, if the producer did not have commercial oil or gas production from a lease or property in the state before April 1, 2006.

(c) On written application by a producer, including any information the department may require, the department shall determine whether the producer qualifies under this section for a calendar year. To qualify under this section, a producer must demonstrate that its operation in the state or its ownership of an interest in a lease or property in the state as a distinct producer entity would not result in the division among multiple producer entities of any production tax liability under AS 43.55.011(e) that would be reasonably expected to be attributed to a single producer entity if the tax credit provision of (a) of this section did not exist.

(d) A tax credit authorized by this section may not be applied to reduce a producer's tax liability under AS 43.55.011(e) for any month below zero. An unused portion of a tax credit that could otherwise be applied for a month but whose application would cause the producer's tax liability under AS 43.55.011(e) for the month to be less than zero may be applied for one or more other months in the same calendar year to the extent otherwise allowed under this section.

(e) An unused tax credit or portion of a tax credit under this section is not transferable and may not be carried forward to or used in a later calendar year.

Sec. 43.55.180. Required reports. (a) The Department of Revenue shall

(1) study

(A) the effects of the tax rates under AS 43.55.011(f) and of potential changes in those tax rates on state revenue and on oil and gas exploration, development, and production on private land; and

(B) the fairness of the tax rates under AS 43.55.011(f) and of potential changes in those tax rates for private landowners; and

(2) prepare a report on or before the first day of the 2013 regular session of the legislature on the results of the study made under (1) of this subsection, including a recommendation as to whether those tax rates should be changed; the department shall notify the legislature that the report prepared under this paragraph is available.

(b) The Department of Revenue shall

(1) study the effects of the credits authorized by AS 43.55.025 and 43.55.170 on state revenue, on the encouragement of exploration, development, and production of oil and gas deposits located in the state, and on the encouragement of new entrants into the oil and gas industry in the state; and

(2) prepare a report on or before the first day of the 2015 regular session of the legislature on the results of the study made under (1) of this subsection, and shall include with the report a recommendation as to whether the legislature

should extend the availability of the credits under AS 43.55.025 and 43.55.170; the department shall notify the legislature that the report prepared under this paragraph is available.

* **Sec. 26.** AS 43.55.201 is amended to read:

Sec. 43.55.201. Surcharge levied. (a) Every producer of oil shall pay a surcharge of **$.01** [$.02] per barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation.

(b) The surcharge imposed by (a) of this section is in addition to **the tax imposed by AS 43.55.011** and **is due on the last day of the month on oil produced from each lease or property during the preceding month. The surcharge** [SHALL BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 - 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 - 43.55.310.

(c) A producer of oil shall make reports of production in the same manner and under the same penalties as required under **AS 43.55.011 - 43.55.180** [AS 43.55.011 - 43.55.150].

* **Sec. 27.** AS 43.55.201 is amended by adding a new subsection to read:

(d) Oil not considered under AS 43.55.020(e) to be produced from a lease or property is not considered to be produced from a lease or property for purposes of this section.

* **Sec. 28.** AS 43.55.300 is amended to read:

Sec. 43.55.300. Surcharge levied. (a) Every producer of oil shall pay a surcharge of **$.04** [$.03] per barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation.

(b) The surcharge imposed by (a) of this section is in addition to **the tax imposed by AS 43.55.011** and **is due on the last day of the month on oil produced from each lease or property during the preceding month. The surcharge** [SHALL BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 - 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 - 43.55.231.

(c) A producer of oil shall make reports of production in the same manner and under the same penalties as required under <u>AS 43.55.011 - 43.55.180</u> [AS 43.55.011 - 43.55.150].

*** Sec. 29.** AS 43.55.300 is amended by adding a new subsection to read:

(d) Oil not considered under AS 43.55.020(e) to be produced from a lease or property is not considered to be produced from a lease or property for purposes of this section.

*** Sec. 30.** AS 43.55.900(6) is repealed and reenacted to read:

(6) "gas" means

(A) all natural, associated, or casinghead gas;

(B) all hydrocarbons that

(i) are recovered by mechanical separation of well fluids or by gas processing in a gas processing plant; and

(ii) exist in a gaseous phase at the completion of mechanical separation and any gas processing in a gas processing plant; and

(C) all other hydrocarbons produced from a well not defined as oil;

*** Sec. 31.** AS 43.55.900(7) is repealed and reenacted to read:

(7) "gross value at the point of production" means

(A) for oil, the value of the oil at its point of production without deduction of any costs upstream of that point of production;

(B) for gas, the value of the gas at its point of production without deduction of any costs upstream of that point of production;

*** Sec. 32.** AS 43.55.900(10) is repealed and reenacted to read:

(10) "oil" means

(A) crude petroleum oil; and

(B) all liquid hydrocarbons that are recovered by mechanical separation of well fluids or by gas processing in a gas processing plant;

*** Sec. 33.** AS 43.55.900 is amended by adding new paragraphs to read:

(17) "Cook Inlet sedimentary basin" has the meaning given in regulations adopted to implement AS 38.05.180(f)(4);

(18) "explorer" means a person who, in exploring for new oil or gas reserves, incurs expenditures;

(19) "gas processing"

(A) means processing a gaseous mixture of hydrocarbons

(i) by means of absorption, adsorption, externally applied refrigeration, artificial compression followed by adiabatic expansion using the Joule-Thomson effect, or another physical process that is not mechanical separation; and

(ii) for the purpose of extracting and recovering liquid hydrocarbons;

(B) does not include gas treatment;

(20) "gas processing plant" means a facility that

(A) extracts and recovers liquid hydrocarbons from a gaseous mixture of hydrocarbons by gas processing; and

(B) is located upstream of any gas treatment and upstream of the inlet of any gas pipeline system transporting gas to a market;

(21) "gas treatment"

(A) means conditioning gas and removing from gas nonhydrocarbon substances for the purpose of rendering the gas acceptable for tender and acceptance into a gas pipeline system;

(B) includes incidentally removing liquid hydrocarbons from the gas;

(C) does not include

(i) dehydration required to facilitate the movement of gas fror the well to the point where gas processing takes place;

(ii) the scrubbing of liquids from gas to facilitate gas processing;

(22) "landowner's royalty interest" means

(A) a lessor's royalty interest under an oil and gas lease; or

(B) a royalty interest that is

(i) held by a surface owner of land from which oil or gas is produced; and

(ii) granted in exchange for the right to use the surface of that land or as compensation for damage to the surface of that land;

(23) "oil and gas lease" includes an oil and gas lease, a gas only lease, and an oil only lease;

(24) "point of production" means

(A) for oil, the automatic custody transfer meter or device through which the oil enters into the facilities of a carrier pipeline or other transportation carrier in a condition of pipeline quality; in the absence of an automatic custody transfer meter or device, "point of production" means the mechanism or device to measure the quantity of oil that has been approved by the department for that purpose, through which the oil is tendered and accepted in a condition of pipeline quality into the facilities of a carrier pipeline or other transportation carrier or into a field topping plant;

(B) for gas, other than gas described in (C) of this paragraph, that is

(i) not subjected to or recovered by mechanical separation or run through a gas processing plant, the first point where the gas is accurately metered;

(ii) subjected to or recovered by mechanical separation but not run through a gas processing plant, the first point where the gas is accurately metered after completion of mechanical separation;

(iii) run through a gas processing plant, the first point where the gas is accurately metered downstream of the plant;

(C) for gas run through an integrated gas processing plant and gas treatment facility that does not accurately meter the gas after the gas processing and before the gas treatment, the first point where gas processing is completed or where gas treatment begins, whichever is further upstream.

* **Sec. 34.** AS 43.55.011(a), 43.55.011(b), 43.55.011(c), 43.55.012, 43.55.013, 43.55.016, 43.55.025(k)(1), 43.55.025(k)(3), 43.55.900(1), 43.55.900(8), 43.55.900(11), 43.55.900(12), and 43.55.900(16) are repealed.

* **Sec. 35.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. (a) Sections 5, 7 - 10, 12, 13, 15 - 18, 20, 24, and 26 - 34 of this Act and AS 43.55.160 and 43.55.170, enacted by sec. 25 of this Act, apply to oil and gas produced after March 31, 2006.

(b) Section 11 of this Act applies to oil and gas produced before, on, or after the effective date of sec. 11 of this Act.

* **Sec. 36.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITIONAL PROVISIONS. (a) Notwithstanding any contrary provision of AS 43.55.024(a), enacted by sec. 12 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the phrase "every month an annualized tax credit in an amount equal to 1 2/3 percent" in AS 43.55.024(a)(1)(B), enacted by sec. 12 of this Act, shall be replaced by the phrase "every month during the period April 1, 2006, through December 31, 2006, an annualized tax credit in an amount equal to 2.222 percent."

(b) Notwithstanding any contrary provision of AS 43.55.024(e), enacted by sec. 12 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the phrase "a calendar year" in AS 43.55.024(e), enacted by sec. 12 of this Act, shall be replaced by the phrase "the last nine months of the calendar year."

(c) Notwithstanding any contrary provision of AS 43.55.024(j)(2), enacted by sec. 12 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007,

(1) the number "1/24" in AS 43.55.024(j)(2)(B), enacted by sec. 12 of this Act, shall be replaced by the number "1/18";

(2) the phrase "calendar year" in AS 43.55.024(j)(2)(B), enacted by sec. 12 of this Act, shall be replaced by the phrase "last nine months of the calendar year."

(d) Notwithstanding any contrary provision of AS 43.55.160(f), enacted by sec. 25 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the phrase "for every month of a calendar year, 1/12 of the producer's adjusted lease expenditures for the calendar year" in AS 43.55.160(f), enacted by sec. 25 of this Act, shall be replaced by the phrase "for each of the last nine months of 2006, one-ninth of the producer's adjusted lease expenditures for that nine-month period."

(e) For oil and gas produced before April 1, 2006, the provisions of AS 43.55, and regulations adopted under AS 43.55, that were in effect before April 1, 2006, and that were applicable to the oil and gas continue to apply to that oil and gas.

(f) Notwithstanding any contrary provision of AS 43.55.020(a), as repealed and reenacted by sec. 7 of this Act, for oil and gas produced after March 31, 2006, and before the first day of the first month that begins at least 270 days after the effective date of sec. 7 of this Act,

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(1) the amount of the taxes that would have been levied on the producer by AS 43.55, as the provisions of that chapter read on March 31, 2006, is due on the last day of each calendar month on the oil and gas that was produced from each lease or property during the preceding month,

(2) the amount, if any, of the taxes levied by AS 43.55.011(e) - (g), enacted by sec. 5 of this Act, net of any credits applied as allowed by law that was not due under (1) of this subsection, is due on the last day of the first month that begins at least 300 days after the effective date of sec. 5 of this Act.

(g) Notwithstanding any contrary provision of AS 43.55.030(a), as amended by sec. 18 of this Act, for oil and gas produced after March 31, 2006, and before the first day of the first month that begins at least 270 days after the effective date of sec. 18 of this Act, the person paying the tax shall file with the Department of Revenue, at the time an amount of tax is due

(1) under (f)(1) of this section, the statement required under former AS 43.55.030(a), as that subsection read on March 31, 2006; and

(2) under (f)(2) of this section, the statements required under AS 43.55.030(a), as amended by sec. 18 of this Act.

(h) Notwithstanding any contrary provision of AS 43.55.201(a) or (b), as amended by sec. 26 of this Act, or AS 43.55.300(a) or (b), as amended by sec. 28 of this Act, for oil produced after March 31, 2006, and before the first day of the first month that begins at least 270 days after the effective date of secs. 26 and 28 of this Act,

(1) the amount of the surcharges that would have been imposed on the producer under AS 43.55, as the provisions of that chapter read on March 31, 2006, is due on the last day of each calendar month on oil produced from each lease or property during the

preceding month;

(2) the amount, if any, of the surcharges imposed under AS 43.55.201(a), as amended by sec. 26 of this Act, and AS 43.55.300(a), as amended by sec. 28 of this Act, that was not due under (1) of this subsection, is due on the last day of the first month that begins at least 300 days after the effective date of secs. 26 and 28 of this Act.

(i) Notwithstanding any contrary provision of AS 43.55.201(c), as amended by sec. 26 of this Act, or AS 43.55.300(c), as amended by sec. 28 of this Act, for oil produced after March 31, 2006, and before the first day of the first month that begins at least 270 days after the effective date of secs. 26 and 28 of this Act, at the time an amount of surcharge is due

(1) under (h)(1) of this section, the producer shall file the report of production required under former AS 43.55.201(c) and 43.55.300(c), as those provisions read on March 31, 2006; and

(2) under (h)(2) of this section, the producer shall file the report of production required under AS 43.55.201(c), as amended by sec. 26 of this Act, and AS 43.55.300(c), as amended by sec. 28 of this Act.

(j) For purposes of taxes to be calculated and due under (f)(1) of this section and statements to be filed under (g)(1) of this section, regulations that were adopted by the Department of Revenue under AS 43.55, as the provisions of that chapter read on March 31, 2006, and that were in effect on that date apply to those taxes and statements.

* **Sec. 37.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any contrary provision of AS 44.62.240, a regulation adopted by the Department of Revenue to implement, interpret, make specific, or otherwise carry out the provisions of secs. 5, 7 - 10, 12, 13, 15 - 18, 20, 24 - 34, and 36 of this Act may apply retroactively as of April 1, 2006, if the Department of Revenue expressly designates in the regulation that the regulation applies retroactively to that date.

* **Sec. 38.** The uncodified law of the State of Alaska is amended by adding a new section to read:

REVISOR'S INSTRUCTION. The revisor of statutes is instructed to change the heading of

(1) AS 43.55 from "Oil and Gas Production Taxes and Oil Surcharge" to "Oil and Gas Production Tax and Oil Surcharge";

(2) article 1 of AS 43.55 from "Oil and Gas Properties Production Taxes" to "Oil and Gas Production Tax";

(3) AS 43.55.011 from "Oil production tax" to "Oil and gas production tax";

(4) AS 43.55.025 from "Tax credit for oil and gas exploration or gas only exploration" to "Alternative tax credit for oil and gas exploration";

(5) AS 43.55.150 from "Determination of gross value" to "Determination of gross value at the point of production."

* **Sec. 39.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY OF PROVISIONS OF ACT. Sections 5, 7 - 10, 12, 13, 15 - 18, and 24 - 38 of this Act are retroactive to April 1, 2006.

* **Sec. 40.** This Act takes effect immediately under AS 01.10.070(c).

Comments of SB2001
May 31, 2006
Pedro van Meurs

Attn: Bill Corbus
Commissioner of Revenue
State of Alaska
From: Pedro van Meurs

There are now many modifications and amendments in SB2001 to the bill originally proposed by the Governor. The original bill, I believe had 19 pages, now we are up to 35 pages. I find that SB2001 is now difficult to understand, even for an expert in petroleum fiscal matters such as me. I believe that this bill would also be difficult to administer.

On the assumption that the final bill will have a progressive feature in it, I also believe that the feature in SB2001 needs to be amended. It harms heavy oils by having an insertion point that is too low and is not progressive enough to be meaningful in case of real changes to long term expectations.

Also the GRE is now much to complex, without reason in my view.

Following is my list of comments and suggestions:

Section 5. With respect to (h):

Comment 1: This section has now become horrendously complicated as a result of all these special GRE values.

I believe the GRE should be simplified by simply deduction 2/3 of the gross value of the gas in all of Alaska under AS.43.55.160.

The reasons for this recommendation are the following. Cook Inlet is a mature declining oil and gas basin. For such a basin, lowering government take makes sense.

Bristol Bay and Nana Basin are extreme high risk exploration areas. Again having a lower government take on gas makes sense for such areas. We really need to give strong support to exploration in these two areas.

A large gas discovery in either of these two areas could alter dramatically the entire gas distribution economics in the State of Alaska and would create a much more flexible Alaska Gas Pipeline.

Section 5. With respect to Section (i):

I cannot see how there would be any tax on gas under (e) if there would be a GRE of 2/3 applicable to Cook Inlet. Also the progressive feature under (g) is now based on the net value (the "production tax value"). For a producer which produces primarily gas in Cook Inlet, the production tax value would be zero with the 2/3 GRE. Furthermore the progressive feature would only click in at a very high corresponding gas price based on my recommendation of a $ 45 insertion point. on a barrel equivalent basis this would be $ 7.50 per mmBtu net. In addition there would be small company allowance under AS 43.55.170 which would ensure that even if there would be a modest profit, the production tax value would still be zero. It seems impossible for a company in Cook Inlet to pay any tax even under low or average gas prices. There might be some tax under high gas prices as Cherrie Nienhuis seems to have calculated. Therefore, this section is complete overkill and makes the PPT difficult to administer for no reason whatsoever.

Therefore the best solution would be to delete section (i).

However, if Legislators concerned about Cook Inlet want to be absolutely sure that there are no taxes in Cook Inlet than as **an alternative Section (i) could be simplified by stating that for Cook Inlet the tax rate under (e) is 0% and under (g) is 0.** This would maintain the credits for Cook Inlet, but would set the rates at zero. We need then regulations to ring fence Cook Inlet for PPT purposes. I believe that zero tax rates for Cook Inlet are acceptable. The gas production in the basin is expected to decline strongly over the next three decades. Therefore, the long term impact of setting Cook Inlet rates at zero is low.

Section 12. With respect to (a)(2):

I would strongly advise to delete (a)(2).

This section is very difficult to administer. It would require a complete coordination between DNR and DOR as far as this credit is concerned. In practice, this section has the potential to create significant delays in the granting of the credit. This defeats the purpose of the PPT, which is to encourage new exploration.

Section 12. With respect to (f):

This section is an unnecessary complication. The chance that tax credits cannot be transferred to any one for a reasonable price under (e) is very low. At least five companies will pay PPT and will be able to use the credits. The 80% figure in (e) could be lowered to 60% if there is a concern that the "buyers market" for credits is not strong enough. The buyers will exact a discount. But this discount is likely not to exceed 5% to 20%.

With respect to the North Slope a 2/3 exclusion would create a level playing field for gas producers which are not part of the stranded gas contract, such as Anadarko or Chevron. I assume that all PPT deductions and credits can be taken against the condensates, as was presented by Roger Marks to the Legislature in January 2006 and in my GRE-May 1 memo. Therefore Anadarko and Chevron and others would pay approximately a 7% tax, just as the Sponsors under the proposed contract.

Therefore a flat 2/3 GRE would be reasonable and in the interest of the State in terms of promotion of gas exploration in all areas of Alaska. We should not forget that we always receive the royalties on state lands, the property taxes and the corporate income tax.

Comment 2: The insertion point of $ 35 per barrel for the progressive feature is too low. It should be noted that this value is in nominal dollars. Over a period of 30 years this value could reduce in real 2006 dollars to well below $ 20 per barrel. Such a low insertion point could seriously hamper re-investment in heavy oils, in particular 5 or 10 years from now.

It should be noted that the heavy oils in Alaska are not of a uniform quality. There is a wide range of heavy oil fields from 25 degrees API to 10 degrees API. It is essential for maintaining oil production that gradually technology is developed to increasingly produce oil from heavier oil fields. A low insertion point of $ 35 per barrel could seriously hamper such a development over time.

Therefore, I would strongly recommend to raise this number to $ 45.

Comment 3: At the same time, I believe that there is space to make the progressive feature slightly more progressive.

I believe that the fundamental principle should be to create a new stable relationship between the oil and gas industry and the State.

Alaskans may look unfavourably at the PPT in the future, if world oil supply and demand conditions change for whatever reason during the next thirty years in a way that would create a new oil price deck with an average expectation of over $ 100 per barrel. It is likely that a large number of nations would adjust government takes on oil upward. Alaska may look rather rapidly out of date. This would induce the Legislature to change the PPT. It is much better to prevent this from happening in the first place by having a more progressive system that would automatically adjust to these circumstances.

Therefore I would recommend a tax of 0.2 percent in section 5 sub (g) instead of 0.1 percent.

It is not worth setting up an entire government administration just to pay cash for credits to small companies.

Given all the criteria under (f), this will likely be a slow process in the first place. There is no need for this extra layer of complexity.

I would therefore recommend deleting this section (f) and decreasing 80% in section (e) to 60%.

Section 12. With respect to (j) (2):

This section does not seem to implement the 2 for 1 concept that was suggested.

The 2 for 1 concept involved that if producer's or explorer's made twice the capital expenditures between April 1, 2006 and April 1, 2013 compared to the investments that they had made during five years from April 1, 2001 to April 1, 2006, that they would be entitled to the credits on the transitional investment expenditures. It seems to me that the section can actually be read in a way that all the producer has to do is invest 40% of what was invested before. The <u>tax credit</u> of 20% is compared with <u>one-half of the capital expenditures</u> in (2)(A). I believe that the transitional capital expenditures themselves should be compared with one half of the new capital expenditures. It might be that I misunderstand the wording of this section.

I strongly recommend to do a legal review of section (j)(2) in order to determine whether the section correctly implements the (2) for (1) concept.

Section 14. With respect to (b):

I would strongly suggest not to extend the current credit to the year 2016 as is now provided for in this section.

The PPT should be streamlined as soon as possible.

With a general profits based system under which exploration costs can already be deducted, a GRE as suggested by me of 2/3 for gas and a tax credit of 20% there is more sufficient incentive to explore in Alaska. There is no need to maintain two parallel credit systems for exploration for a decade. It is therefore acceptable for the current credit to expire as planned.

Section 15. With respect to (f):

This section still relates to the original exploration credit which I would recommend that it expires as planned originally. **I therefore see no need for amendments relative to the original Oil and Gas Production Tax other than clarifying that the credit can be claimed against taxes due under AS. 43.55.011(e).**

Section 25. With respect to (a):

This section can be greatly simplified if my suggestions with respect to Section 5, with respect to (h) and (i) would be adopted.

Section 43.55.180. With respect to (b):

This section can be simplified by eliminating the reference to AS 43.55.025, if my suggestions with respect to Section 14 would be adopted.

In general, there would be many consequential changes to SB2001 as a result of my suggestions above and these will all assist in making the PPT law easier to understand and administer.

Best regards,

Pedro van Meurs

Dan Dickinson

	Current CS	House	Senate
Market	70	70	70
All Costs	-15	-15	-15
Net Value	55	55	55
Prog Insertion Point	45	35	35
Price Index	10	20	20
Prog Rate	0.175	0.250	0.100
Product	1.750	5.000	2.000
Base Rate	20.000	21.500	22.500
Effective Rate	21.750	26.500	24.500

Dept of Revenue
1-Jun-06

COOK INLET

Cook Inlet
- Cook Inlet Gas
  - Existing Production
    - PPT at 20% - with the .011 (i) comparison
    - .011 (i) comparison is
      - Comparison Period is April 1 2005 through March 31 2006
      - ELF on a lease by lease basis
      - Price is PV
      - Sets a ceiling on a lease or property basis
      - Only total increase can come from increased volume
    - Using PPT or .011 (i) ceiling
    - Credits are deductible HOWEVER
      - Can only take CI taxes to zero
      - Cannot be used outside CI, sold or transferred unless
      - Credits would have been available under PPT
  - New Production
    - PPT at 20% - with the .011 (i) comparison
    - .011 (i) comparison is
      - Comparison Period is April 1 2005 through March 31 2006
      - Average of all existing production
      - Sets a ceiling on a unit by unit basis
    - Using PPT or .011 (i) ceiling
    - Credits are deductible HOWEVER
      - Can only take CI taxes to zero
      - Cannot be used outside CI, sold or transferred unless
      - Credits would have been available under PPT
- Cook Inlet Oil
  - Same scheme as above
    - However, OIL ELF was zero for the period
      - so Oil taxes will remain at zero for the period

Department will write regulations to allocate costs between Cook Inlet and rest of State

6/3/2006 **COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS**

source DOR

		House CS for CS for SB 305 Version B	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001(FIN) Version X
tax rate	general	21.5% 011(e)--page 3	20% 011(e) - page 3	22.5% 011(e) - page 3	20% .011(e) - page 3
	Cook Inlet *	3/4 rev. excl for Cook Inlet oil 160(a) --page 19	3/4 rev. excl for Cook Inlet oil .160(a) - page 18	3/4 rev. excl for Cook Inlet oil 160(a) - page 19	ELF tax ceiling on Cook Inlet oil .011(j) - page 5
	Cook Inlet Gas	ELF tax ceiling on Cook Inlet gas 011(i) --page 5	ELF tax ceiling on Cook Inlet gas .011(g) - page 4	ELF tax ceiling on Cook Inlet gas .011(i) - page 4	ELF tax ceiling on Cook Inlet gas .011(i) - pages 4-5
credit rate		20% 024(a)--pages 7-8	20% 024(a) - page 6-7	20% .024(a) - page 7	20% 024(a) - page 9
private royalty tax rate		5% oil & 1.67% gas Report from Commish 011(l)--pages 3-4 & 180 pg 27	5% oil & 1.67% gas Report from Commish 011(l) - pages 3-4 & 180 p 26	5% oil & 1.67% gas Report from Commish 011(l) - pages 3-4 & .180 p 27	5% oil & 1.67% gas Report from Commish .011(l) - pages 3-4 & 180 p 30
Gas (GRE)		ANS gas 2/3 included (1/3 excl), CI gas 1/3 included, new gas 1/2 included 160(a) page 19	ANS gas 2/3 included (1/3 excl.), CI gas 1/3 included, new gas 1/2 included 160(a) pages 18-19	ANS gas 2/3 included (1/3 excl.), CI gas 1/3 included, new gas 1/2 included 160(a) pages 19-20	n/a
progressivity surcharge		over $35/bbl (net value/boe) x .0025 x net value 011(g) and (h) page 4-5	none	over $35/bbl (net value/boe) x .001 x net value with new boe rules .011(g) & (h)--page 4	over $45/bbl (net value/boe) x .00175 x net value with new boe rules .011(g) & (h)--page 4
progressivity tax cap		when combined with PPT basic tax, cannot exceed 50% 011(g)--page	n/a	when combined with PPT basic tax, cannot exceed 50% .011(g)--page 4	when combined with PPT basic tax, cannot exceed 50% 011(g)--page 4
special gas progressivity?		n/a	n/a	n/a	n/a
progressivity deductible?		no 160(d)(2)(O)--page 23	n/a	no .160(d)(15)--page 23	no .160(d)(15)--page 24
transition		5 yrs lookback capex 2 for 1 recoupment 024(j)--page 11	5 yrs lookback capex 2 for 1 recoupment 024(j)--pages 10-11	5 yrs lookback capex 2 for 1 recoupment 024(j)--pages 11-12	5 yrs lookback capex 2 for 1 recoupment (CORRECTED) 024(j)--pages 12-14
transition treatment		20% credit, no oil price test 024(j)--pages 11-12	20% credit, no oil price test 024(j) --pages 10-11	20% credit, no oil price test 024(j) --pages 11-12	20% credit, no oil price test 024(j) --pages 12-14
sunset of transition		7 yr rolling 024 (j)(3) page 12	7 yr rolling 024 (j)(3) page 11	7 yr rolling 024 (j)(3) page 12	7 yr rolling 024 (j)(3) page 13
base allowance		$12M credit ($1M per month) (equates to $60M ded.) based on production 170(a)--page 26	$12M credit ($1M per month) (equates to $60M ded.) NOT based on production 170(a)--page 25	$12M credit ($1M per month) (equates to $53.3M ded.) NOT based on production 170(a)--page 26	$12M credit ($1M per month) (equates to $60M ded.) based on production 170(c)--page 28-29
sunset of base allowance		10 yr rolling 170(a)--page 26	10 yr rolling 170(b)--pages 25-26	10 yr rolling 170(b)--pages 26-27	10 yr rolling 170(d)--pages 29
new area development credit		n/a	n/a	n/a	$6M credit ($500,000 per mo) for areas NOT ANS, NOT Cook Inlet 170(a)--page 28
sunset of new area development credit					10 yr rolling 170(b)--page 28
safe harbor		95%, annual true-up, no interest 020(a)--page 6	95%, annual true-up, no interest 020(a)--page 5	95%, annual true-up, no interest 020(a)--page 5	95%, annual true-up, no interest 020(a)--page 7
pmt < safe harbor??		interest only 020(a)--page 6	interest only 020(a)--page 6	interest only 020(a)--page 5	interest only 020(a)--page 7

6/3/2006 **COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS**

source DOR	House CS for CS for SB 305 Version B	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001(FIN) Version X
effective date	4/1/2006 *Sec 39 --page 35*	7/1/2006 *Sec 36 --page 31*	4/1/2006 *Sec 39 --page 35*	4/1/2006 *Sec. 39 --page 38*
transition payment	10 mos pymt on old system, true-up in 11th mo. *Sec 36(g)(h)--page 33*	10 mos pymt on old system, true up in 11th mo *Sec. .7(f)(g)--pages 32- 33*	10 mos pymt on old system, true up in 11th mo *Sec 37(f)(g)--pages 33-34*	10 mos pymt on old system; true-up in 10th mo (clarification) *Sec 37(f)(g)--page 36*
spill surcharge total spill surcharge split (201/.300) spill surcharge payable	no change (5 cents) 1/4 increase 1 cent *page 28*	no change (5 cents) 1/4 increase 1 cent *pages 27-28*	no change (5 cents) 1/4 increase 1 cent *pages 28-29*	no change (5 cents) 1/4 increase 1 cent *pages 31-32*
surcharge treatment	not creditable, not ded *160(d)(2)(L)--page 23*	not creditable, not ded *.160(d)(12)--page 22*	not creditable, not ded. *160(d)(12)--page 23*	not creditable, not ded *.160(d)(12)--page 24-25*
SB 185 credit	extends 10 years; removes $20M Cook Inlet limit *025(b), .025(f)--pages 13-14*	extends 10 years; removes $20M Cook Inlet limit *025(b), .025(f)--pages 12-15*	extends 10 years; removes $20M Cook Inlet limit *025(b), .025(f)--pages 13-16*	extends 10 years, removes $20M Cook Inlet limit *.025(b), .025(f)--pages 15-17*
abandonment	no deduction or credit for abandonment on old production (improved language) *160(d)(2)(P)--page 23*	no deduction or credit for abandonment on old production (further improved language) *160(d)(16)--pages 22- 23*	no deduction or credit for abandonment on old production (further improved language) *160(d)(16)--pages 23-24*	no deduction or credit for abandonment on old production (further improved language) *160(d)(16)--pages 24-25*
credits usable	against PPT only *024(a)--page 7-8*	against PPT only *024(a)--pages 6-7*	against PPT only *.024(a)--pages 7-8*	against PPT only *024(a)--pages 9-10*
credits transferable	yes--20% tax limit *024(d)--(e)--page 9-10*	yes--20% tax limit *024(d)--(e)--pages 8-9*	yes--20% tax limit *024(d)--(e)--page 9*	yes--20% tax limit *024(d)--(e)--pages 10-11*
credits refundable?	up to $25M depends on investment, production limit *024(f)--page 10*	up to $25M depends on investment, production limit *024(f)--page 9*	up to $25M depends on investment, production limit *024(f)--pages 9-10*	up to $25M depends on investment, production limit *024(f)--pages 11-12*
credits for annual loss	yes, at 20% *024(b)--page 8-9*	yes, at 20% *.024(b)--pages 7-8*	yes, at 22.5% *024(b)--page 8*	yes, at 20% *024(b)--page 10*
point of production	upstream of gas treatment upstream (definition added) *900(7)--page 29*	upstream of gas treatment upstream (definition added) *900(7)--pages 29-30*	upstream of gas treatment upstream (definition added) *900(7)--pages 29-30*	upstream of gas treatment upstream (definition added) *900(7)--page 32*
DNR royalty value	no	no	no	no
IRC sec. 482 as a tool	yes (w/o §6662) *160(i)--page 25*	yes (w/o §6662) *160(i)--page 25*	yes (w/o §6662) *160(i)--page 26*	yes (w/o §6662) *160(i)--page 27*
oil spill	any oil spill cleanup costs not ded *160(d)(2)(Q)--(page 23)*	any oil spill cleanup costs not ded (exception for gravel pad) *160(d)(17)--(page 23)*	any oil spill cleanup costs not ded (exception for gravel pad) *160(d)(17)--page 24*	any oil spill cleanup costs not ded (improved pad language) *160(d)(17)--page 25*
DNR gets exploration Data	yes .024(a)--pages 7-8	yes 024(a)--page 7	yes 024(a)(2)-- page 8	yes 024(a)(2)--page 9
020 (f) Sales Language	yes 020(f)--page 7	yes 020(f)--page 6	yes 020(f)--page 7	yes 020(f)--page 8
NPSL regs after industry practice	yes 160(c)(1)(A)--page 21	yes (in Alaska only) 160(c)(1)(A)--page 20	yes (in Alaska only) 160(c)(1)(A)--page 21	yes (in Alaska only) .160(c)(1)(A)--page 22
credit flow through re FERC	yes, regulated fac only *024(k)--page 12*	yes, regulated fac only *024(k)--page 11*	yes, regulated fac only *024(k)--page 12*	yes, regulated fac only *.024(k)--page 14*
disallowed deduction for negligence	exp re negligence not allowable *160(d)(2)(F)--page 22*	exp re gross negligence not allowable *160(d)(6)--page 23*	exp re gross negligence not allowable *160(d)(6)--page 23*	exp re gross negligence not allowable *160(d)(6)--page 24*
high energy fund established	yes *011(h)*	no	no	no

Process (a) PPT @ 20% (b) apply credits / tax cut

SB

Gas Rev Exclusion

Cook Inlet Examples
PPT with various Adjustments

	GRE of 2/3			011 (i) Lookback test			$12 mm Credit		
	Change from PPT base	Tax	Change from Current	Change from PPT base 20%	Tax	Change from Current	Change from PPT base	Tax	Change from Current
Cook Inlet Gas $ 2.50									
Big Vol High ELF	(18,958,333)	(8,520,833)	(18,473,958)	-	10,437,500	484,375	(12,000,000)	(1,562,500)	(11,515,625)
Big Vol Low ELF	(18,958,333)	(8,520,833)	(12,786,458)	(7,759,375)	2,678,125	(1,587,500)	(12,000,000)	(1,562,500)	(5,828,125)
Mid Range	(14,583,333)	(6,708,333)	(12,177,083)	(2,031,250)	5,843,750	375,000	(11,875,000)	(4,000,000)	(9,409,750)
Small Vol Low ELF	(1,458,333)	(1,270,833)	(1,598,958)	(596,875)	(409,375)	(737,500)	(1,187,500)	(1,000,000)	(1,328,125)
Small Vol High ELF	(1,458,333)	(1,270,833)	(2,036,458)	-	187,500	(578,125)	(1,187,500)	(1,000,000)	(1,765,625)
TOTAL	(55,416,667)	(26,291,667)	(47,072,917)	(10,387,500)	18,737,500	(2,043,750)	(38,250,000)	(9,125,000)	(29,906,250)
Cook Inlet Gas $ 4.50									
Big Vol High ELF	(34,125,000)	(937,500)	(18,953,125)	(20,271,875)	12,915,625	(5,000,000)	(12,000,000)	21,187,500	3,271,875
Big Vol Low ELF	(34,125,000)	(937,500)	(8,615,625)	(30,509,375)	2,678,125	(5,000,000)	(12,000,000)	21,187,500	13,509,375
Mid Range	(28,250,000)	(875,000)	(10,718,750)	(19,531,250)	5,843,750	(4,000,000)	(12,000,000)	13,375,000	3,531,250
Small Vol Low ELF	(2,625,000)	(687,500)	(1,278,125)	(2,346,875)	(409,375)	(1,000,000)	(2,937,500)	(1,000,000)	(1,590,625)
Small Vol High ELF	(2,625,000)	(687,500)	(2,065,625)	(1,559,375)	378,125	(1,000,000)	(2,937,500)	(1,000,000)	(2,378,125)
TOTAL	(99,750,000)	(4,125,000)	(41,531,250)	(74,218,750)	21,406,250	(16,000,000)	(41,875,000)	53,750,000	16,343,750
Cook Inlet Gas $ 6.50									
Big Vol High ELF	(49,291,667)	6,645,833	(19,232,292)	(43,021,875)	12,915,625	(12,962,500)	(12,000,000)	43,937,500	18,059,375
Big Vol Low ELF	(49,291,667)	6,645,833	(4,444,792)	(53,259,375)	2,678,125	(8,412,500)	(12,000,000)	43,937,500	32,846,875
Mid Range	(37,016,667)	4,958,333	(9,260,417)	(37,031,250)	5,843,750	(8,375,000)	(12,000,000)	30,875,000	16,656,250
Small Vol Low ELF	(3,791,667)	(104,167)	(957,292)	(4,096,875)	(409,375)	(1,262,500)	(4,687,500)	(1,000,000)	(1,853,125)
Small Vol High ELF	(3,791,667)	(104,167)	([illegible]94,792)	(3,309,375)	378,125	(1,612,500)	(4,687,500)	(1,000,000)	(2,990,625)
TOTAL	(144,083,333)	18,041,667	(35,989,583)	(140,718,750)	21,406,250	(32,625,000)	(45,375,000)	116,750,000	62,719,750
Cook Inlet Gas $ 8.50									
Big Vol High ELF	(64,458,333)	14,229,167	(19,611,458)	(65,771,875)	12,915,625	(20,925,000)	(12,000,000)	68,687,500	32,846,875
Big Vol Low ELF	(64,458,333)	14,229,167	(273,958)	(76,009,375)	2,678,125	(11,825,000)	(12,000,000)	66,687,500	52,184,375
Mid Range	(49,583,333)	10,791,667	(7,602,083)	(54,531,250)	5,843,750	(12,750,000)	(12,000,000)	48,375,000	29,781,250
Small Vol Low ELF	(4,958,333)	479,167	(636,458)	(5,846,875)	(409,375)	(1,525,000)	(6,437,500)	(1,000,000)	(2,115,625)
Small Vol High ELF	(4,958,333)	479,167	(2,123,958)	(5,059,375)	378,125	(2,225,000)	(6,437,500)	(1,000,000)	(3,602,125)
TOTAL	(188,416,667)	40,208,333	(30,447,917)	(207,218,750)	21,406,250	(49,250,000)	(48,875,000)	179,750,000	109,093,750

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Cook Inlet Examples
PPT with various Adjustments

	Volume	Value Ex Royalty	ELF	Current Tax	Costs	"Net Value"	20% Tax on Net Value	Credits	Tax After Credits
		Value * Volume * 87 5%		ELF * Value * 10%		Value - Costs	Net Value * 20		Tax - Credits
Cook Inlet Gas Value:	**$**	**2.50**							
Big Vol High ELF	65,000,000	142,187,500	0.7000000	9,953,125	65,000,000	77,187,500	15,437,500	5,000,000	10,437,500
Big Vol Low ELF	65,000,000	142,187,500	0.3000000	4,265,625	65,000,000	77,187,500	15,437,500	5,000,000	10 437,500
Mid Range	50,000,000	109,375,000	0.5000000	5,468,750	50,000,000	59,375,000	11,875,000	4 000,000	7,875,000
Small Vol Low ELF	5,000,000	10,937,500	0.3000000	328,125	5,000,000	5,937,500	1,187,500	1,000,000	187,500
Small Vol High ELF	5,000,000	10,937,500	0.7000000	765,625	5,000,000	5,937,500	1,187,500	1,000,000	187,500
TOTAL	190,000,000	415,625,000		20,781,250	190,000,000	225,625,000	45,125,000	16,000,000	29,125,000
Cook Inlet Gas Value:	**$**	**4.50**							
Big Vol High ELF	65,000,000	255,937,500	0.7000000	17,915,625	65,000,000	190,937,500	38,187,500	5,000,000	33,187,500
Big Vol Low ELF	65,000,000	255,937,500	0.3000000	7,678,125	65,000,000	190,937,500	38 187,500	5,000,000	33,187,500
Mid Range	50,000,000	196,875,000	0.5000000	9,843,750	50,000,000	146,875,000	29,375,000	4,000,000	25,375,000
Small Vol Low ELF	5,000,000	19,687,500	0.3000000	590,625	5,000,000	14,687,500	2,937,500	1,000,000	1,937,500
Small Vol High ELF	5,000,000	19,687,500	0.7000000	1,378,125	5,000,000	14,687,500	2,937,500	1,000,000	1,937,500
TOTAL	190,000,000	748,125,000		37,406,250	190,000,000	558,125,000	111,625,000	16,000,000	95,625,000
Cook Inlet Gas Value:	**$**	**6.50**							
Big Vol High ELF	65,000,000	369,687,500	0.7000000	25,878,125	65,000,000	304,687,500	60,937,500	5,000,000	55,937,500
Big Vol Low ELF	65,000,000	369,687,500	0.3000000	11,090,625	65,000,000	304,687,500	60,937,500	5,000,000	55,937,500
Mid Range	50,000,000	284,375,000	0.5000000	14,218,750	50,000,000	234,375,000	46,875,000	4,000,000	42,875,000
Small Vol Low ELF	5,000,000	28,437,500	0.3000000	853,125	5,000,000	23,437,500	4,687,500	1,000,000	3,687,500
Small Vol High ELF	5,000,000	28,437,500	0.7000000	1,990,625	5,000,000	23,437,500	4,687,500	1,000,000	3,687,500
TOTAL	190,000,000	1,080,625,000		54,031,250	190,000,000	890,625,000	178,125,000	16,000,000	162,125,000
Cook Inlet Gas Value:	**$**	**8.50**							
Big Vol High ELF	65,000,000	483,437,500	0.7000000	33,840,625	65,000,000	418,437,500	83,687,500	5,000,000	78,687,500
Big Vol Low ELF	65,000,000	483,437,500	0.3000000	14,503,125	65,000,000	418,437,500	83,687,500	5,000,000	78,687,500
Mid Range	50,000,000	371,875,000	0.5000000	18,593,750	50,000,000	321,875,000	64,375,000	4,000,000	60,375,000
Small Vol Low ELF	5,000,000	37,187,500	0.3000000	1,115,625	5,000,000	32,187,500	6,437,500	1,000,000	5,437,500
Small Vol High ELF	5,000,000	37,187,500	0.7000000	2,603,125	5,000,000	32,187,500	6,437,500	1,000,000	5,437,500
TOTAL	190,000,000	1,413,125,000		70,656,250	190,000,000	1,223,125,000	244,625,000	16,000,000	228,625,000

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Cook Inlet Gas
Credit Usage Example
Comparison of Effect of Allocation of Base Credit
source: Dept. of Revenue
6/1/2006
for: House Finance Committee

			Example A1 all prod. in CI		Example A2 50% prod. CI
<u>Tentative Tax</u>					
PPT tax before credits	*A*		100		100
Base credit			12		6
total capex credit--Cook Inlet	*X*	110		110	
capex credits usable under PPT			88		94
PPT tax after credits			0		0
ELF tax before credits	*B*		95		95
Lower of A or B			95		95
Tax Benefit enjoyed (ELF less than PPT)	*A - B = Y*		5		5
<u>Tax Calculation</u>					
Lower of A or B			95		95
Base credit			12		6
capex credits usable			83		89
Net tax after credits			0		0
capex credits used			83		89
capex credits deemed used (tax benefit enjoyed)	*Y*		5		5
total capex credits deemed used (not to exceed total credits X)	*Z*		88		94
capex credit available for use outside Cook Inlet or carryforward	*X - Z*		22		16

Cook Inlet Gas
Credit Usage Example
ELF lower than base credit
source: Dept. of Revenue
6/1/2006
for: House Finance Committee

			Example B1		Example B2
Tentative Calculation					
PPT tax before credits	A		38		38
Base credit			6		6
total capex credit--Cook Inlet	X	40		40	
capex credits usable under PPT			32		32
PPT tax after credits			0		0
ELF tax before credits					
ELF tax before credits	B		8		5
Lower of A or B			8		5
Tax Benefit enjoyed (ELF less than PPT)	A - B = Y		30		33
Tax Calculation					
Lower of A or B			8		5
Base credit			6		5
capex credits usable			2		0
Net tax after credits			0		0
capex credits used			2		0
capex credits deemed used (tax benefit enjoyed)	Y		30		33
total capex credits deemed used (not to exceed total cre	Z		32		33
capex credit available for use outside Cook Inlet or carryforward	X - Z		8		7

Dept of Rev

6/1/2006

COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS

source: DOR

		SENATE (page refs = S. Fin. CS)	HOUSE (page refs = H. Fin CS)	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001(FIN) Version I
tax rate	general	22.5% general	21.5% *.011(e)--page 3*	20% *.011(e) - page 3*	22.5% *.011(e) - page 3*	20% *.011(e) - page 3*
	Cook Inlet Oil	5% on Cook Inlet oil	3/4 rev. excl. for Cook Inlet oil .160(a) --page 19	3/4 rev. excl for Cook Inlet oil .160(a) - page 18	3/4 rev. excl for Cook Inlet oil .160(a) - page 19	ELF tax ceiling on Cook Inlet oil .011(j) - page 5
	Cook Inlet Gas	*.011(e)--pages 3-4*	ELF tax ceiling on Cook Inlet gas *.011(i) --page 5*	ELF tax ceiling on Cook Inlet gas *.011(g) - page 4*	ELF tax ceiling on Cook Inlet gas *.011(g) - page 5*	ELF tax ceiling on Cook Inlet gas *.011(i) - page 4*
credit rate		25% *.024(a)--page 7*	20% *.024(a)--pages 7-8*	20% *.024(a) - page 6-7*	20% *.024(a) - page 7*	20% *.024(a) - page 8-9*
private royalty tax rate		5% oil & 1.67% gas Report from Commish *.011(l)--page 4 & .180 pg 26*	5% oil & 1.67% gas Report from Commish *.011(l)--pages 3-4 & .180 pg 27*	5% oil & 1.67% gas Report from Commish *.011(l) - pages 3-4 & .180 p. 26*	5% oil & 1.67% gas Report from Commish *.011(l) - pages 3-4 & .180 p. 27*	5% oil & 1.67% gas Report from Commish *.011(l) - pages 3-4 & .180 p. 29*
Gas (GRE)		Gas Revenue (Value) Exclusion of 2/3 (1/3 included) *.160(a) page 19*	ANS gas 2/3 included (1/3 excl); CI gas 1/3 included; new gas 1/2 included *.160(a) page 19*	ANS gas 2/3 included (1/3 excl.); CI gas 1/3 included, new gas 1/2 included *.160(a) pages 18-19*	ANS gas 2/3 included (1/3 excl.); CI gas 1/3 included, new gas 1/2 included *.160(a) pages 19-20*	n/a
progressivity surcharge		over $50/bbl, (ANSwc - $50) x .002 x ANSwh x .775 x bbls (oil only) *.011(g) and (h)--pages 4-5*	over $35/bbl (net value/boe) x .0025 x net value *.011(g) and (h) page 4-5*	none	over $35/bbl (net value/boe) x .001 x net value with new boe rules *.011(g) & (h)--page 4*	over $45/bbl (net value/boe) x .00175 x net value with new boe rules *.011(g) & (h)--page 4*
progressivity tax cap		no	when combined with PPT basic tax, cannot exceed 50% *.011(g)--page*	n/a	when combined with PPT basic tax, cannot exceed 50% *.011(g)--page 4*	when combined with PPT basic tax, cannot exceed 50% *.011(g)--page 4*
special gas progressivity?		no	n/a	n/a	n/a	n/a
progressivity deductible?		no *.160(d)(2)(O)--page 22*	no *.160(d)(2)(O)--page 23*	n/a	no *.160(d)(15)--page 23*	no *.160(d)(15)--page 24*
transition		5 yrs lookback capex 2 for 1 recoupment *.024(i)--pages 10--11*	5 yrs lookback capex 2 for 1 recoupment *.024(j)--page 11*	5 yrs.lookback capex 2 for 1 recoupment *.024(j)- pages 10-11*	5 yrs.lookback capex 2 for 1 recoupment *.024(j)--pages 11-12*	5 yrs.lookback capex 2 for 1 recoupment *.024(j)--pages 12-13*
transition treatment		20% credit; no oil price test *.024(i)--pages 10-11*	20% credit; no oil price test *.024(j)--pages 11-12*	20% credit; no oil price test *.024(j) - pages 10-11*	20% credit; no oil price test *.024(j) --pages 11-12*	20% credit; no oil price test *.024(j) - pages 12-13*
sunset of transition		3/31/2013 *.024(i)--page 11*	7 yr rolling *.024 (j)(3) page 12*	7 yr rolling *.024 (j)(3) page 11*	7 yr rolling *.024 (j)(3) page 12*	7 yr rolling *.024 (j)(3)--page 13*
base allowance		Revised 5000 bbl equivalent credit capped at 14 million *.170(a)--pages 25-26*	$12M credit ($1M per month) (equates to $60M ded.) based on production *.170(a)--page 26*	$12M credit ($1M per month) (equates to $60M ded.) NOT based on production *.170(a)--page 25*	$12M credit ($1M per month) (equates to $53.3M ded.) NOT based on production *.170(a)--page 26*	$12M credit ($1M per month) (equates to $60M ded.) based on production *.170(a)--page 28*
sunset of base allowance		3/31/2016 w/commissioner report *.170(a)--page 25, .180 pg 26-27*	10 yr rolling *.170(a)--page 26*	10 yr rolling *.170(b)--pages 25-26*	10 yr rolling *.170(b)--pages 26-27*	10 yr rolling *.170(b)--page 28*
safe harbor		95%, annual true-up, no interest *.020(a)--pages 5-6*	95%, annual true-up, no interest *.020(a)--page 6*	95%, annual true-up, no interest *.020(a)--page 5*	95%, annual true-up, no interest *.020(a)--page 5*	95%, annual true-up, no interest *.020(a)--page 7*
pmt < safe harbor??		interest only *.020(a)--pages 5-6*	interest only *.020(a)--page 6*	interest only *.020(a)--page 6*	interest only *.020(a)- page 5*	interest only *.020(a)--page 7*
effective date		4/1/2006 *Sec. 40 - page 33*	4/1/2006 *Sec. 34 - page 35*	7/1/2006 *Sec. 36 - page 31*	4/1/2006 *Sec. 39 - page 35*	4/1/2006 *Sec. 39 - page 37*

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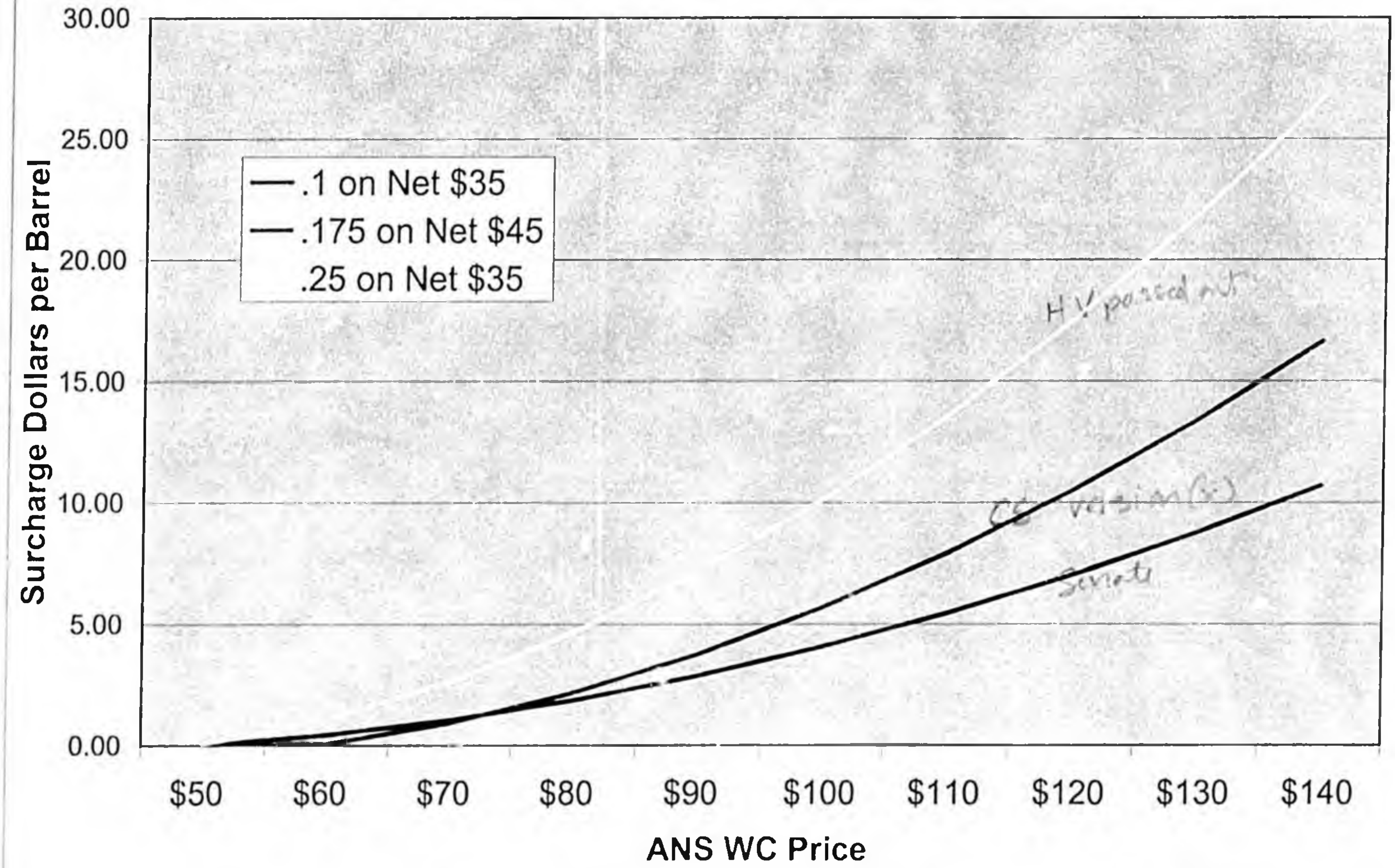
COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS

source: DOR	SENATE (page refs = S. Fin. CS)	HOUSE (page refs = H. Fin CS)	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001(FIN) Version I
transition payment	6 mos. pymt on old system; true-up in 7th mo. *sec. 37(g)--pages 31-32*	10 mos. pymt on old system; true up in 11th mo. *Sec. 36(g)(h)--page 33*	10 mos. pymt on old system; true up in 11th mo. *Sec. 37(l)(g)--pages 32- 33*	10 mos. pymt on old system; true up in 11th mo. *Sec. 37(l)(g)--pages 33-34*	10 mos. pymt on old system; true-up in 10th mo. (clarification) *Sec. 36(l)(g)--page 35*
spill surcharge total spill surcharge split (.201/.300) spill surcharge payable	increase 1 cent, to 6 cents 1/5 increase 2 cent *.201, .300 pages 27--28*	no change (5 cents) 1/4 increase 1 cent *page 28*	no change (5 cents) 1/4 increase 1 cent *pages 27-28*	no change (5 cents) 1/4 increase 1 cent *pages 28-29*	no change (5 cents) 1/4 increase 1 cent *page 30*
surcharge treatment	not creditable, not ded. *.160(d)(2)(L)--page 22*	not creditable, not ded. *.160(d)(2)(L)--page 23*	not creditable, not ded. *.160(d)(12)--page 22*	not creditable, not ded. *.160(d)(12)--page 23*	not creditable, not ded *.160(d)(12)--page 24*
SB 185 credit	extends 10 years; fixes $20 m issue *.025(b), .025(l)--page 12-14*	extends 10 years; removes $20M Cook Inlet limit *.025(b), .025(l)--pages 13-14*	extends 10 years; removes $20M Cook Inlet limit *.025(b), .025(l)--pages 12-15*	extends 10 years; removes $20M Cook Inlet limit *.025(b), .025(l)--pages 13-16*	extends 10 years; removes $20M Cook Inlet limit *.025(b), .025(l)--pages 15-17*
abandonment	no deduction or credit for abandonment on old production *.160(d)(2)(P) page 22*	no deduction or credit for abandonment on old production (improved language) *.160(d)(2))(P)--page 23*	no deduction or credit for abandonment on old production (further improved language) *.160(d)(16)--pages 22- 23*	no deduction or credit for abandonment on old production (further improved language) *.160(d)(16)--pages 23-24*	no deduction or credit for abandonment on old production (further improved language) *.160(d)(16)--pages 24-25*
credits usable	against PPT only *.024(a) --page 7*	against PPT only *.024(a)--page 7-8*	against PPT only *.024(a)--pages 6-7*	against PPT only *.024(a)--pages 7-8*	against PPT only *.024(a)--pages 8-9*
credits transferable	yes--20% tax limit *.024(d)--(e)--page 8-9*	yes--20% tax limit *.024(d)--(e)--page 9-10*	yes--20% tax limit *.024(d)--(e)--pages 8-9*	yes--20% tax limit *.024(d)--(e)--page 9*	yes--20% tax limit *.024(d)--(e)--pages 10-11*
credits refundable?	no	up to $25M depends on investment, production limit *.024(l)--page 10*	up to $25M depends on investment, production limit *.024(l)--page 9*	up to $25M depends on investment, production limit *.024(l)--pages 9-10*	up to $25M depends on investment, production limit *.024(l)--pages 11-12*
credits for annual loss	yes, at 22.5% *.024(b)--page 8*	yes, at 20% *.024(b)--page 8-9*	yes, at 20% *.024(b)--pages 7-8*	yes, at 22.5% *.024(b)--page 8*	yes, at 20% *.024(b)--page 10*
point of production	upstream of gas treatment upstream *.900(7)--pages 28-29*	upstream of gas treatment upstream (definition added) *.900(7)--page 29*	upstream of gas treatment upstream (definition added) *.900(7)--pages 29 30*	upstream of gas treatment upstream (definition added) *.900(7)--pages 29-30*	upstream of gas treatment upstream (definition added) *.900(7)--page 31*
DNR royalty value	no	no	no	no	no
IRC sec. 482 as a tool	yes (incl. §6662) *.160(i)--page 24*	yes (w/o §6662) *.160(i)--page 25*	yes (w/o §6662) *.160(i)--page 25*	yes (w/o §6662) *.160(i)--page 26*	yes (w/o §6662) *.160(i)--page 27*
oil spill	yes, if on lease (except negligent) *(not precluded)*	any oil spill cleanup costs not ded. *.160(d)(2)(O)--(page 23)*	any oil spill cleanup costs not ded (exception for gravel pad) *160(d)(17)--(page 23)*	any oil spill cleanup costs not ded.(exception for gravel pad) *.160(d)(17)--page 24*	any oil spill cleanup costs not ded.(exception for gravel pad) *.160(d)(17)--page 25*
DNR gets exploration Data	yes 024(a) page 8	yes 024(a)--pages 7-8	yes 024(a)--page 7	yes .024(a)(2)--page 8	yes 024(a)(2)--page 9-10
020 (l) Sales Language	yes 020(l) page 7	yes 020(l)--page 7	yes .020(l)--page 6	yes .020(l)--page 7	yes .020(l)--page 8
NPSL regs alter industry practice	yes 160(c)(1)(A) page 20	yes 160(c)(1)(A)--page 21	yes (in Alaska only) .160(c)(1)(A)--page 20	yes (in Alaska only) .160(c)(1)(A)--page 21	yes (in Alaska only) .160(c)(1)(A)--page 22
credit flow through re. FERC	yes, regulated & non-regulated *.024(j)--pages 11-12*	yes, regulated fac. only *.024(k)--page 12*	yes, regulated fac. only *.024(k)--page 11*	yes, regulated fac. only *.024(k)--page 12*	yes, regulated fac. only *.024(k)--page 14*
high energy fund established	no	yes *011(h)*	no	no	no

Chart 1

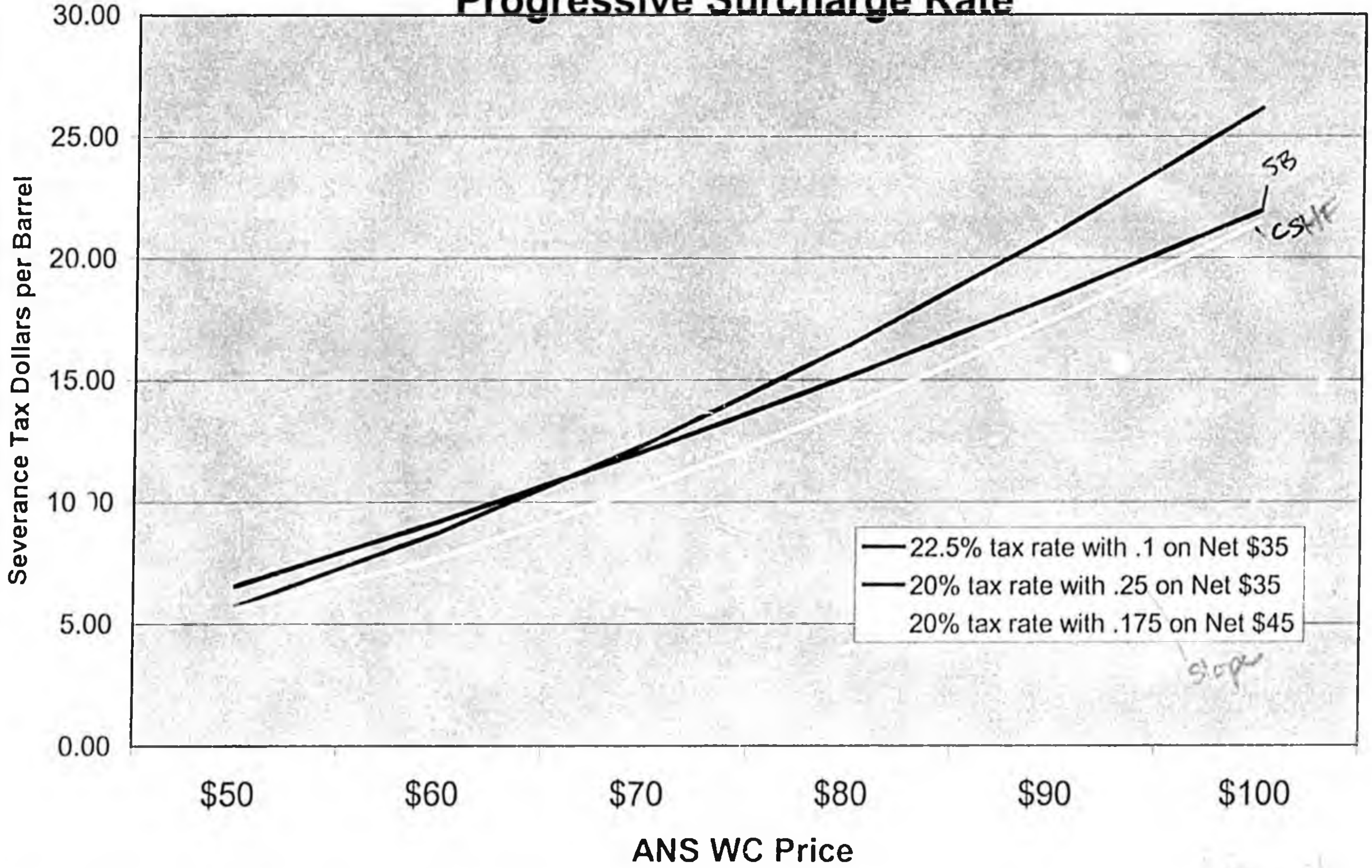
Progressive Surcharge per Barrel, FY 2006-2030, CSSB 2001 (FIN)



handout 6/1/06

Chart 2

Severance Tax per Barrel, FY 2006-2030, CSSB 2001 (FIN) with Variations in Tax and Progressive Surcharge Rate

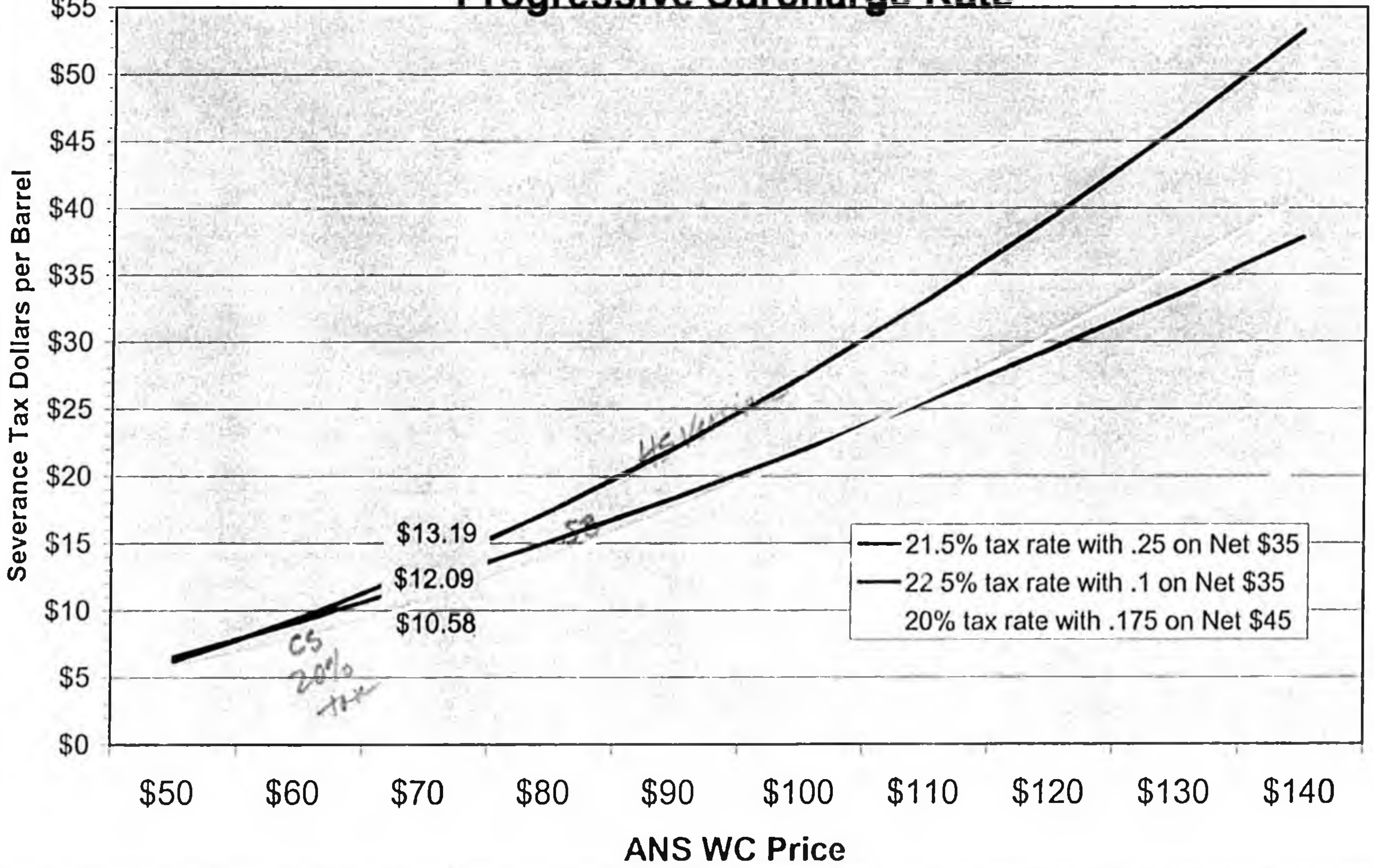


Source: ADOR - DRAFT

handout 6/1/06

Chart 3

Total Severance Tax (including Surcharge) per Barrel, FY 2006-2030, CSSB 2001 (FIN) with Variations in Tax and Progressive Surcharge Rate



Source: ADOR - DRAFT