

SB

305

(FILE 3)

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SENATE FINANCE
COMMITTEE
Amendment # # 1
To Bill Number: SB 305
Sponsor: Green
Date: 4/21/06 Logged by: Mindy

24-GS2052P.5
Chenoweth
4/19/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR GREEN

TO: CSSB 305(FIN), Draft Version "P"

- 1 Page 1, lines 4 - 5:
- 2 Delete "tax for certain expenditures and losses"
- 3 Insert "production tax on oil and gas"
- 4
- 5 Page 4, line 7:
- 6 Delete "during"
- 7 Insert "for"
- 8
- 9 Page 23, line 29, following "a":
- 10 Insert "tax"
- 11
- 12 Page 24, line 13:
- 13 Delete "credit applied"
- 14 Insert "credits applied by the producer"
- 15
- 16 Page 24, line 15 - 16:
- 17 Delete "credit applied"
- 18 Insert "credits applied by the producer"
- 19
- 20 Page 27, line 30:
- 21 Delete "(2)"
- 22 Insert "(20)"

SENATE FINANCE COMMITTEE
4/21/2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#1		
Motion	adopt		
<u>Motion by</u>	Green		
<u>Objection by</u>	Green		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Dyson			
Senator Hoffman			
Senator Olson			
Senator Stedman			
Senator Bunde			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

SENATE FINANCE
COMMITTEE
Amendment # # 2
To Bill Number: SB 305
Sponsor: Green
Date: 4/21/06 logged by: Mindy

Adopted

24-GS2052/P.1
Chenoweth
4/19/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR GREEN

TO: CSSB 305(FIN), Draft Version "P"

- 1 Page 5, line 24, following "AS 43.55.011(e)":
2 Insert "and (g)"
3
4 Page 5, line 30, following "AS 43.55.011(e)":
5 Insert "and (g)"
6
7 Page 6, line 1, following "AS 43.55.011(e)":
8 Insert "and (g)"
9
10 Page 6, line 6:
11 Delete "AS 43.55.011 - 43.55.170"
12 Insert "AS 43.55.011 - 43.55.180"
13
14 Page 6, line 10:
15 Delete "AS 43.55.011 - 43.55.170"
16 Insert "AS 43.55.011 - 43.55.180"
17
18 Page 8, line 18, following "credit":
19 Insert "is claimed"
20
21 Page 9, line 9:
22 Delete "43.55.170"
23 Insert "43.55.180"

1

2 Page 10, line 17, following "under":

3 Insert "AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or"

4

5 Page 16, line 23:

6 Delete "AS 43.55.011 - 43.55.170"

7 Insert "AS 43.55.011 - 43.55.180"

8

9 Page 16, line 25:

10 Delete "AS 43.55.011 - 43.55.170"

11 Insert "AS 43.55.011 - 43.55.180"

12

13 Page 16, line 29:

14 Delete "AS 43.55.011 - 43.55.170"

15 Insert "AS 43.55.011 - 43.55.180"

16

17 Page 24, line 3:

18 Delete "5,000 or more"

19 Insert "more than 5,000"

20

21 Page 24, following line 26:

22 Insert a new section to read:

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

24 (1) study

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

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

30 (2) prepare a report on or before the first day of the 2013 regular

31 session of the legislature on the results of the study made under (1) of this subsection.

1 including a recommendation as to whether those tax rates should be changed; the
 2 department shall notify the legislature that the report prepared under this paragraph is
 3 available.

4 (b) The Department of Revenue shall

5 (1) study the effects of the credits authorized by AS 43.55.025 and
 6 43.55.170 on state revenue, on the encouragement of exploration, development, and
 7 production of oil and gas deposits located in the state, and on the encouragement of
 8 new entrants into the oil and gas industry in the state; and

9 (2) prepare a report on or before the first day of the 2015 regular
 10 session of the legislature on the results of the study made under (1) of this subsection,
 11 and shall include with the report a recommendation as to whether the legislature
 12 should extend the availability of the credits under AS 43.55.025 and 43.55.170 beyond
 13 June 30, 2016; the department shall notify the legislature that the report prepared
 14 under this paragraph is available."

15
 16 Page 25, line 7:

17 Delete "AS 43.55.011 - 43.55.170"

18 Insert "AS 43.55.011 - 43.55.180"

19
 20 Page 25, line 24:

21 Delete "AS 43.55.011 - 43.55.170"

22 Insert "AS 43.55.011 - 43.55.180"

23
 24 Page 28, lines 4 - 27:

25 Delete all material.

26
 27 Renumber the following bill sections accordingly.

28
 29 Page 31, line 6:

30 Delete "38"

31 Insert "37"

- 1
- 2 Page 31, line 24:
- 3 Delete "43"
- 4 Insert "42"
- 5
- 6 Page 31, line 27:
- 7 Delete "37 - 39, and 41"
- 8 Insert "36 - 38, and 40"
- 9
- 10 Page 31, line 29:
- 11 Delete "42"
- 12 Insert "41"

SENATE FINANCE COMMITTEE
4/21/2006 COMMITTEE ACTION

Bill Number	58 305		
Amendment	#2		
Motion	adopt		
<u>Motion by</u>	Green		
<u>Objection by</u>	Green		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Hoffman			
Senator Olson			
Senator Stedman			
Senator Bunde			
Senator Dyson			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
MOTION	PASS		

NOT offered

SENATE FINANCE
COMMITTEE

Amendment # #3

To Bill Number: SB 305

Sponsor: Green

Date: 4/2/06 Logged by: Mindy

AMENDMENT

OFFERED IN THE SENATE FINANCE
COMMITTEE

BY Senator Green

TO: CSSB 305(FIN) (24-GS2052\P Work Draft; 4/18/06; Chenoweth)

- 1 Page 20, line 25, following "(B)":
- 2 Delete all material and insert "oil or gas royalties, production payments, lease profit
- 3 shares, or other payments or distributions of a share of oil or gas production, profit, or revenue;"
- 4
- 5 Page 26, line 4, following "processing":
- 6 Insert "in a gas processing plant"
- 7
- 8 Page 26, line 6, following "processing":
- 9 Insert "in a gas processing plant"
- 10
- 11 Page 26, line 23:
- 12 Delete "gas processing"
- 13 Insert "run through a gas processing plant"
- 14
- 15 Page 26, line 26:
- 16 Delete "gas processing"
- 17 Insert " run through a gas processing plant"
- 18
- 19 Page 26, line 28:
- 20 Delete "subjected to or recovered by gas processing"
- 21 Insert " run through a gas processing plant"

- 1 Page 26, line 30:
2 Delete all material and insert "downstream of the plant;"
3
- 4 Page 26, line 31, following "processing":
5 Insert "plant"
6
- 7 Page 27, line 9, following "processing":
8 Insert "in a gas processing plant"
9
- 10 Page 27, line 18, following "separation;":
11 Insert "and"
12
- 13 Page 27, line 20:
14 Delete "and"
15
- 16 Page 27, lines 21 - 22:
17 Delete all material.
18
- 19 Page 27, following line 23:
20 Insert the following new material:
21 "(19) "gas processing plant" means a facility that
22 (A) extracts and recovers liquid hydrocarbons from a gaseous
23 mixture of hydrocarbons by gas processing; and
24 (B) is located upstream of any gas treatment and upstream of the
25 inlet of any gas pipeline system transporting gas to a market;"
26
- 27 Page 27, line 24:
28 Delete "(19)"
29 Insert "(20)"
30
- 31 Page 27, line 27, following "system;":

1 Delete "and"

2

3 Page 27, following line 29:

4 Insert the following new material:

5 "(C) does not include

6 (i) dehydration required to facilitate the movement of gas

7 from the well to the point where gas processing takes place;

8 (ii) the scrubbing of liquids from gas to facilitate gas

9 processing;"

10 Page 27, line 30:

11 Delete "(2)"

12 Insert "(21)"

SENATE FINANCE COMMITTEE
4 / 2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#3		
Motion	adopt		
<u>Motion by</u>			
<u>Objection by</u>			
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Dyson			
Senator Hoffman			
Senator Olson			
Senator Stedman			
Senator Bunde			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	not offered		

4/21 1:30pm Feb

SENATE FINANCE
COMMITTEE
Amendment # #4
To Bill Number: SB 305
Sponsor: Wilken
Date: 4/21/06 logged by: Mindy

ADOPTED

24-GS2052P.4
Chenoweth
4/20/06

A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR WILKEN

TO: CSSB 305(FIN), Draft Version "P"

1 Page 2, line 13:

2 Delete "INTENT OF SEC. 11 OF THIS ACT."

3 Insert "LEGISLATIVE INTENT, (a)"

4

5 Page 2, following line 15:

6 Insert a new subsection to read:

7 "(b) It is the intent of the legislature that the division or other unit of the Department
8 of Environmental Conservation assigned responsibility for administration of the programs
9 under AS 46.08 that are principally supported by the conservation surcharges on oil levied
10 under AS 43.55.201 - 43.55.299 and 43.55.300 - 43.55.310

11 (1) reduce program costs, including personnel costs, as necessary to operate
12 within the revenue anticipated to be generated by those surcharges, in the amounts of those
13 surcharges as amended by secs. 27 and 29 of this Act; and

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

17

18 Page 25, line 15:

19 Delete "\$.04"

20 Insert "\$.05"

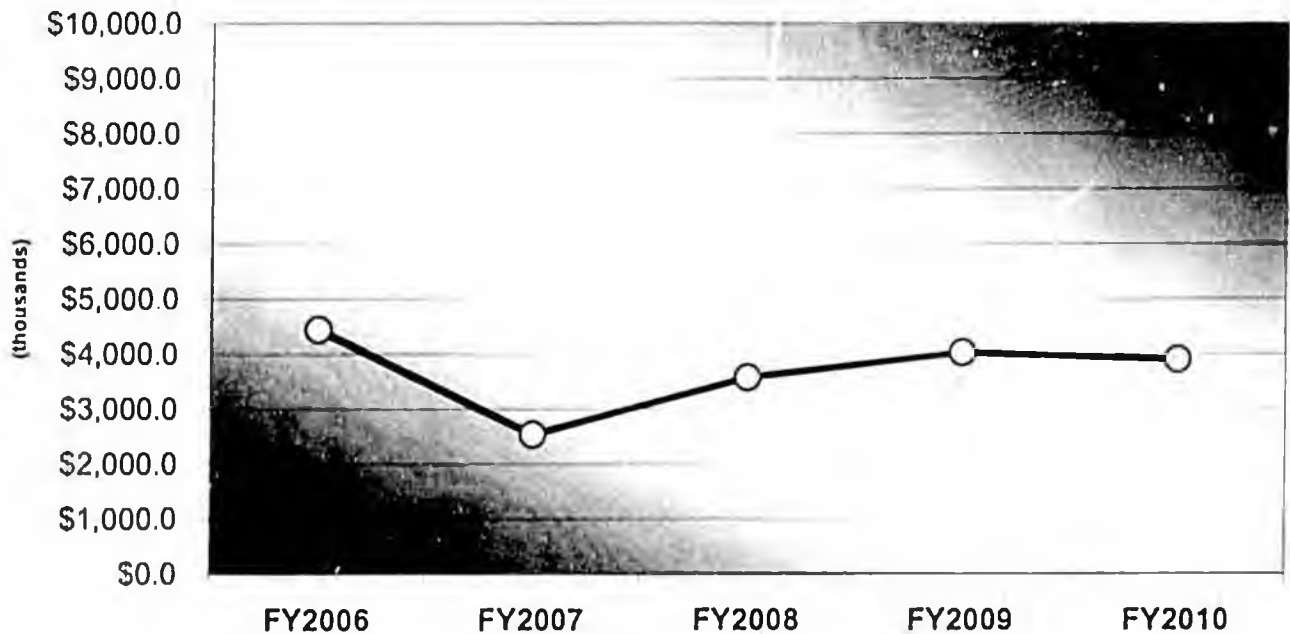
**DEPARTMENT OF ENVIRONMENTAL CONSERVATION
RESPONSE FUND - BALANCE PROJECTION**

Change Nickel Split from 2¢/3¢ to 1¢/5¢

Minimum Capital Cleanup, Known PS Cost Increases and 1.8 mil Transfer from CPVF

	FY2005 FUND BALANCE	7,782.7	FY2006	FY2007	FY2008	FY2009	FY2010
REVENUE		11,431.4	13,000.0	17,527.0	17,527.0	17,527.0	17,527.0
3 Cent Surcharge		8,396.2	8,500.0	8,600.0	8,600.0	8,600.0	8,600.0
Cost Recovery/Fines/Penalties		1,225.8	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0
Interest		1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
FY2007 Transfer 1.8 million from CPVF to RF (Language)		609.4	1,800.0				
Change Nickel Split to 1¢/5¢				6,227.0	6,227.0	6,227.0	6,227.0
Note: Revenue from change effective 7/1/2006 will be available for use until FY2008 Budgets							
TOTAL EXPENDITURES		14,767.9	14,909.9	16,491.8	17,073.7	17,655.6	17,655.6
EXPENDITURES IN EXCESS OF REVENUE		(3,336.5)	(1,909.9)	1,035.2	453.3	(128.6)	
OPERATING EXPENDITURES		14,767.9	14,909.9	15,491.8	16,073.7	16,655.6	16,655.6
DEC + Annual Salary Increases - FY2008 and Out Yrs		13,610.4	13,752.4	14,334.3	14,916.2	15,498.1	15,498.1
DMVA - Continue Annual Approp from RF		332.5	332.5	332.5	332.5	332.5	332.5
DOT - Continue Annual Approp from RF		825.0	825.0	825.0	825.0	825.0	825.0
Proposed Changes		0.0	0.0	0.0	0.0	0.0	0.0
DEC OPERATING			0.0				
DOT OPERATING			0.0				
DMVA OPERATING			0.0				
CAPITAL EXPENDITURES		0.0	0.0	1,000.0	1,000.0	1,000.0	1,000.0
ESTIMATED FUND BALANCE		4,446.2	2,536.3	3,571.5	4,024.8	3,896.2	

RESPONSE FUND BALANCE



SENATE FINANCE COMMITTEE
4/21/2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#4		
Motion	adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Wilken		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Bunde			
Senator Dyson			
Senator Hoffman			
Senator Olson			
Senator Stedman			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
MOTION	PASS		

Withdrawn

SENATE FINANCE
COMMITTEE

Amendment # #5

To Bill Number: SB 305

Sponsor: Bunde

Date 4/2/06 Logged by: Mindy

AMENDMENT

Offered in Senate Finance

by Senator Bunde

TO: SB 305 (version P)

Page 31, line 29

Delete "July 1"
Insert "April 1"

SENATE FINANCE COMMITTEE

4/21/2006

COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#5		
Motion	adpt		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Stedman			
Senator Bunde			
Senator Dyson			
Senator Hoffman			
Senator Olson			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Withdrawn		

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: CSSB 305(FIN), Draft Version "P"

Bunde

- 1 Page 9, line 21:
- 2 Delete "July 1, 2006"
- 3 Insert "April 1, 2006"
- 4
- 5 Page 9, line 28:
- 6 Delete "July 1, 2001, and before July 1, 2006"
- 7 Insert "April 1, 2001, and before April 1, 2006"
- 8
- 9 Page 9, lines 29 - 30:
- 10 Delete "July 1, 2006"
- 11 Insert "April 1, 2006"
- 12
- 13 Page 9, lines 30 - 31:
- 14 Delete "July 1, 2006"
- 15 Insert "April 1, 2006"
- 16
- 17 Page 10, line 2:
- 18 Delete "July 1, 2006"
- 19 Insert "April 1, 2006"
- 20
- 21 Page 10, line 3:
- 22 Delete "July 1, 2006"
- 23 Insert "April 1, 2006"

- 1
- 2 Page 10, line 15:
 - 3 Delete "June 30, 2013"
 - 4 Insert "March 31, 2013"
 - 5
- 6 Page 19, lines 7 - 8:
 - 7 Delete "July 1, 2006"
 - 8 Insert "April 1, 2006"
 - 9
- 10 Page 22, line 15:
 - 11 Delete "July 1, 2006"
 - 12 Insert "April 1, 2006"
 - 13
- 14 Page 23, line 27:
 - 15 Delete "July 1, 2016"
 - 16 Insert "April 1, 2016"
 - 17
- 18 Page 24, line 16:
 - 19 Delete "\$7,000,000"
 - 20 Insert "\$3,500,000"
 - 21
- 22 Page 28, line 25:
 - 23 Delete "June 30, 2016"
 - 24 Insert "March 31, 2016"
 - 25
- 26 Page 28, line 31:
 - 27 Delete "July 1, 2006"
 - 28 Insert "April 1, 2006"
 - 29
- 30 Page 29, lines 6 - 7:
 - 31 Delete "July 1, 2006"

- 1 Insert "April 1, 2006"
- 2
- 3 Page 29, line 9:
 - 4 Delete "July 1, 2006"
 - 5 Insert "April 1, 2006"
 - 6
- 7 Page 29, line 10:
 - 8 Delete "4 1/6 percent"
 - 9 Insert "2 7/9 percent"
 - 10
- 11 Page 29, line 12:
 - 12 Delete "July 1, 2006"
 - 13 Insert "April 1, 2006"
 - 14
- 15 Page 29, line 14:
 - 16 Delete "last six months"
 - 17 Insert "last nine months"
 - 18
- 19 Page 29, line 16:
 - 20 Delete "July 1, 2006"
 - 21 Insert "April 1, 2006"
 - 22
- 23 Page 29, line 18:
 - 24 Delete ""1/12""
 - 25 Insert ""1/18""
 - 26
- 27 Page 29, line 20:
 - 28 Delete "last six months"
 - 29 Insert "last nine months"
 - 30
- 31 Page 29, line 22:

1 Delete "July 1, 2006"

2 Insert "April 1, 2006"

3

4 Page 29, lines 25 - 26:

5 Delete all material.

6 Insert "the phrase "for each of the last nine months of 2006, one-ninth of the
7 producer's adjusted lease expenditures for that nine-month period.""

8

9 Page 29, line 28:

10 Delete "July 1, 2006"

11 Insert "April 1, 2006"

12

13 Page 29, line 30:

14 Delete "\$7,000,000"

15 Insert "\$10,500,000"

16

17 Page 29, line 31:

18 Delete "July 1, 2006"

19 Insert "April 1, 2006"

20

21 Page 30, line 1:

22 Delete "July 1, 2006"

23 Insert "April 1, 2006"

24

25 Page 30, line 4:

26 Delete "July 1, 2006"

27 Insert "April 1, 2006"

28

29 Page 30, line 8:

30 Delete "June 30, 2006"

31 Insert "March 31, 2006"

1

2 Page 30, line 17:

3 Delete "July 1, 2006"

4 Insert "April 1, 2006"

5

6 Page 30, line 22:

7 Delete "June 30, 2006"

8 Insert "March 31, 2006"

9

10 Page 30, lines 27 - 28:

11 Delete "June 30, 2006"

12 Insert "March 31, 2006"

13

14 Page 31, line 7:

15 Delete "July 1, 2006"

16 Insert "April 1, 2006"

17

18 Page 31, lines 22 - 29:

19 Delete all material and insert:

20 **** Sec. 41.** The uncodified law of the State of Alaska is amended by adding a new section
21 to read:

22 **RETROACTIVITY OF PROVISIONS OF ACT.** Sections 5, 7 - 10, 12, 13, 15 - 18,
23 20, 24 - 35, 37, and 38 of this Act apply retroactively to April 1, 2006, and apply to oil and
24 gas produced after March 31, 2006.

25 *** Sec. 42.** This Act takes effect immediately under AS 01.10.070(c)."

SENATE FINANCE COMMITTEE
4/21 / 2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	# 6		
Motion	adopt		
<u>Motion by</u>	Hoffman		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Dyson	✓		
Senator Hoffman	✓		
Senator Olson	✓		
Senator Stedman			✓
Senator Bunde	✓		
Co-Chair Wilken	✓		
Co-Chair Green			✓
<u>Tally</u>			
Yea	5		
Nay	2		
Absent			
<u>MOTION</u>	Passed		

SENATE FINANCE

COMMITTEE

Amendment #

#7

To Bill Number:

SB 305

Sponsor:

Green

Date: 4/27/06

Logged by: Mindy

Adopted
Amended
twice

AMENDMENT

OFFERED IN THE SENATE FINANCE
COMMITTEE

BY Senator Green

TO: CSSB 305(FIN) (24-GS2052\P Work Draft; 4/18/06; Chenoweth)

- 1 Page 5, line 24, following "month":
- 2 Insert ","
- 3
- 4 Page 5, line 26, following "lease":
- 5 Insert ","
- 6
- 7 Page 9, line 27, following "producer's":
- 8 Insert "or explorer's"
- 9
- 10 Page 9, line 28, following "producer":
- 11 Insert "or explorer"
- 12
- 13 Page 9, line 30, following "producer":
- 14 Insert "or explorer"
- 15
- 16 Page 10, line 1, following "producer":
- 17 Insert "or explorer"
- 18
- 19 Page 10, line 2, following "producer":
- 20 Insert "or explorer"
- 21

- 1 Page 10, line 4, following "producer":
- 2 Insert "or explorer"
- 3
- 4 Page 10, line 5, following "producer's":
- 5 Insert "or explorer's"
- 6
- 7 Page 10, line 7, following "producer's":
- 8 Insert "or explorer's"
- 9
- 10 Page 10, line 8, following "producer":
- 11 Insert "or explorer"
- 12
- 13 Page 10, line 10, following "producer's":
- 14 Insert "or explorer's"
- 15
- 16 Page 10, line 12, following "producer":
- 17 Insert "or explorer"
- 18
- 19 Page 10, line 13, following "producer":
- 20 Insert "or explorer"
- 21
- 22 Page 10, line 19, following "producer":
- 23 Insert "or explorer"
- 24
- 25 ~~Page 10, following line 21:~~
- 26 ~~Insert a new subsection to read:~~
- 27 ~~"(j) A producer or explorer that does not produce an amount of oil and~~
- 28 ~~gas in a taxable year under AS 43.20 that is more than 50,000 barrels of oil~~
- 29 ~~equivalent may apply against the producer's or explorer's tax due for that taxable~~
- 30 ~~year under AS 43.20 a tax credit under this section that would otherwise be~~
- 31 ~~applicable against a tax due under AS 43.55.011(e) but for the limitation set out in~~

deleted

delete

- 1 ~~(e) of this section. An amount of a tax credit may not be applied against both a~~
2 ~~tax due under AS 43.20 and a tax due under AS 43.55.011(e). For purposes of~~
3 ~~this subsection, a barrel of oil equivalent is~~
4 ~~(1) one barrel of oil, in the case of oil;~~
5 ~~(2) 6,000 cubic feet of gas, in the case of gas.~~
6
7 ~~Page 10, line 22:~~
8 ~~Delete "(j)"~~
9 ~~Insert "(k)"~~
10
11 Page 17, line 6, following "transportation;":
12 ~~Insert "and"~~
13
14 ~~Page 20, line 17, following "payments of :"~~ delete
15 ~~Insert ", or in lieu of,"~~
16
17 Page 22, line 1, following "credits":
18 ~~Insert ", other than tax credits under this chapter."~~
19
20 Page 23, line 30, following "average":
21 ~~Delete "number of barrels of oil equivalent"~~
22 ~~Insert "amount of oil and gas"~~
23
24 Page 24, line 1, following "5,000":
25 ~~Insert "barrels of oil equivalent"~~
26
27 Page 24, line 3, following "more":
28 ~~Insert "barrels of oil equivalent"~~
29
30 Page 24, line 5, following "average":
31 ~~Insert "amount of oil and gas, expressed as"~~

1 Delete "number of"

2

3 Page 24, line 5, following "equivalent":

4 Insert ", "

5

6 Page 24, line 10:

7 Delete "under AS 43.55.024(d)"

8

9 Page 24, lines 25-26, following "equivalent is":

10 Delete all material

11 Insert the following new material:

12 (1) one barrel of oil, in the case of oil;

13 (2) 6,000 cubic feet of gas, in the case of gas."

14

15 Page 24, following line 26:

delete

16 Insert a new section to read:

17 "Sec. 43.55.185. Tax credits for gas treatment facilities. (a) A producer that
18 incurs a gas treatment investment expenditure on or after July 1, 2006, may take a
19 tax credit in the amount of 35 percent of that expenditure. A credit under this
20 section may be applied against a tax due under AS 43.20 or against a tax due
21 under AS 43.55.011(e). An amount of a tax credit may not be applied against
22 both a tax due under AS 43.20 and a tax due under AS 43.55.011(e).

23 (b) For a calendar year for which the producer makes an election under
24 AS 43.55.160(f), instead of taking a tax credit at a rate authorized by (a) of this
25 section as to a gas treatment investment expenditure after it has been incurred, a
26 producer that incurs a gas treatment investment expenditure during that year and
27 wishes to apply a credit based on that expenditure against a tax due under
28 AS 43.55.011(e) shall calculate and apply every month an annualized tax credit in
29 an amount equal to 2 11/12 percent of that expenditure.

30 (c) A credit or portion of a credit under this section may not be used to
31 reduce a producer's tax liability under AS 43.20 for any taxable year below zero

delete

1 or a producer's tax liability under AS 43.55.011(e) for any month below zero.
2 Any unused credit or portion of a credit not used under this subsection may be
3 applied in a later year, under AS 43.20, or a later month, under AS 43.55.011(c).

4 (d) A tax credit under this section is not transferable.

5 (e) In this section,

6 (1) "gas treatment facility" means a facility or portion of a facility
7 in the state devoted exclusively to gas treatment;

8 (2) "gas treatment investment expenditure" means an expenditure
9 that is

10 (A) a direct, ordinary, and necessary cost of acquiring or
11 constructing a new gas treatment facility or of improving a gas treatment
12 facility;

13 (B) treated as a capitalized expenditure under 26 U.S.C.
14 (Internal Revenue Code), as amended; and

15 (C) treated as a capitalized expenditure for federal income
16 tax reporting purposes by the person incurring the expenditure;

17 (3) "ordinary and necessary" has the meaning given to "ordinary
18 and necessary" in 26 U.S.C. 162 (Internal Revenue code), as amended, and
19 regulations adopted under that section."
20

21 Page 27, line 27:

22 Delete "and"

23
24 Page 27, following line 29:

25 Insert the following material:

26 "(C) does not include gas liquefaction;"
27

SENATE FINANCE COMMITTEE
4/22/2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	# 7 <i>as amended</i>		
Motion	adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Wilken		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Olson			
Senator Stedman			
Senator Bunde			
Senator Dyson			
Senator Hoffman			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

as amended 2x

*action rescinded after amendment
as amended once was adopted
for the purpose of a second
amendment to the amendment
amendment as twice amended
was adopted*

SENATE FINANCE COMMITTEE
4 FEB 2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#7		
Motion	amend (1ST)		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	none		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Olson			
Senator Stedman			
Senator Bunde			
Senator Dyson			
Senator Hoffman			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

SENATE FINANCE COMMITTEE

4 FEB 2006

COMMITTEE ACTION

Bill Number	SB 305	
Amendment	#7	
Motion	amend (2ND)	
<u>Motion by</u>	Wilken	
<u>Objection by</u>	none	
<u>Removed</u>		
<u>Second Objection by</u>		
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u> N
Senator Stedman		
Senator Bunde		
Senator Dyson		
Senator Hoffman		
Senator Olson		
Co-Chair Wilken		
Co-Chair Green		
<u>Tally</u>		
Yea		
Nay		
Absent		
<u>MOTION</u>	Pass	



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 22 April 2006 TIME: 2:45 pm

TO: Legal

NUMBER OF PAGES, INCLUDING COVER SHEET: 5

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2137

NOTES: RUSH

This replaces Amend #7 already
faxed to you

Additional language of the amendment
has been deleted

Thx
Mindy

SENATE FINANCE ^{Amendment to the}
COMMITTEE ^{Amendment}
Amendment # #7 (First)
To Bill Number: SB 305
Sponsor: Green
Date: 4/2/06 Logged by: Lindy

AMENDMENT

OFFERED IN THE SENATE FINANCE
COMMITTEE

BY Senator Green

TO: CSSB 305(FIN) (24-GS2052P Work Draft; 4/18/06; Chenoweth)

- 1 Page 5, line 24, following "month":
- 2 Insert ","
- 3
- 4 Page 5, line 26, following "lease":
- 5 Insert ","
- 6
- 7 Page 9, line 27, following "producer's":
- 8 Insert "or explorer's"
- 9
- 10 Page 9, line 28, following "producer":
- 11 Insert "or explorer"
- 12
- 13 Page 9, line 30, following "producer":
- 14 Insert "or explorer"
- 15
- 16 Page 10, line 1, following "producer":
- 17 Insert "or explorer"
- 18
- 19 Page 10, line 2, following "producer":
- 20 Insert "or explorer"
- 21

1 Page 10, line 4, following "producer":

2 Insert "or explorer"

3

4 Page 10, line 5, following "producer's":

5 Insert "or explorer's"

6

7 Page 10, line 7, following "producer's":

8 Insert "or explorer's"

9

10 Page 10, line 8, following "producer":

11 Insert "or explorer"

12

13 Page 10, line 10, following "producer's":

14 Insert "or explorer's"

15

16 Page 10, line 12, following "producer":

17 Insert "or explorer"

18

19 Page 10, line 13, following "producer":

20 Insert "or explorer"

21

22 Page 10, line 19, following "producer":

23 Insert "or explorer"

24

25 Page 10, following line 21:

26 Insert a new subsection to read:

27 "(j) A producer or explorer that does not produce an amount of oil and
28 gas in a taxable year under AS 43.20 that is more than 50,000 barrels of oil
29 equivalent may apply against the producer's or explorer's tax due for that taxable
30 year under AS 43.20 a tax credit under this section that would otherwise be
31 applicable against a tax due under AS 43.55.011(e) but for the limitation set out in

1 (c) of this section. An amount of a tax credit may not be applied against both a
2 tax due under AS 43.20 and a tax due under AS 43.55.011(e). For purposes of
3 this subsection, a barrel of oil equivalent is

4 (1) one barrel of oil, in the case of oil;

5 (2) 6,000 cubic feet of gas, in the case of gas."

6
7 Page 10, line 22:

8 Delete "(j)"

9 Insert "(k)"

10
11 Page 17, line 6, following "transportation;":

12 Insert "and"

13
14 ~~Page 20, line 17, following "payments of":~~

15 ~~Insert "; or in lieu of:"~~

delete

16
17 Page 22, line 1, following "credits":

18 Insert ", other than tax credits under this chapter,"

19
20 Page 23, line 30, following "average":

21 Delete "number of barrels of oil equivalent"

22 Insert "amount of oil and gas"

23
24 Page 24, line 1, following "5,000":

25 Insert "barrels of oil equivalent"

26
27 Page 24, line 3, following "more":

28 Insert "barrels of oil equivalent"

29
30 Page 24, line 5, following "average":

31 Insert "amount of oil and gas, expressed as"

1 Delete "number of"

2

3 Page 24, line 5, following "equivalent":

4 Insert ";

5

6 Page 24, line 10:

7 Delete "under AS 43.55.024(d)"

8

9 Page 24, lines 25-26, following "equivalent is":

10 Delete all material

11 Insert the following new material:

12 (1) one barrel of oil, in the case of oil;

13 (2) 6,000 cubic feet of gas, in the case of gas."

14

15 Page 24, following line 26:

delete

16 Insert a new section to read:

17 ~~"Sec. 43.55.185. Tax credits for gas treatment facilities. (a) A producer that~~
18 ~~incurs a gas treatment investment expenditure on or after July 1, 2006, may take a~~
19 ~~tax credit in the amount of 35 percent of that expenditure. A credit under this~~
20 ~~section may be applied against a tax due under AS 43.20 or against a tax due~~
21 ~~under AS 43.55.011(e). An amount of a tax credit may not be applied against~~
22 ~~both a tax due under AS 43.20 and a tax due under AS 43.55.011(e).~~

23 ~~(b) For a calendar year for which the producer makes an election under~~
24 ~~AS 43.55.160(f), instead of taking a tax credit at a rate authorized by (a) of this~~
25 ~~section as to a gas treatment investment expenditure after it has been incurred, a~~
26 ~~producer that incurs a gas treatment investment expenditure during that year and~~
27 ~~wishes to apply a credit based on that expenditure against a tax due under~~
28 ~~AS 43.55.011(e) shall calculate and apply every month an annualized tax credit in~~
29 ~~an amount equal to 2 11/12 percent of that expenditure.~~

30 ~~(c) A credit or portion of a credit under this section may not be used to~~
31 ~~reduce a producer's tax liability under AS 43.20 for any taxable year below zero~~

delete

1 or a producer's tax liability under AS 43.55.011(e) for any month below zero.
2 Any unused credit or portion of a credit not used under this subsection may be
3 applied in a later year, under AS 43.20, or a later month, under AS 43.55.011(e).

4 (d) A tax credit under this section is not transferable.

5 (e) In this section,

6 (1) "gas treatment facility" means a facility or portion of a facility
7 in the state devoted exclusively to gas treatment;

8 (2) "gas treatment investment expenditure" means an expenditure
9 that is

10 (A) a direct, ordinary, and necessary cost of acquiring or
11 constructing a new gas treatment facility or of improving a gas treatment
12 facility;

13 (B) treated as a capitalized expenditure under 26 U.S.C.
14 (Internal Revenue Code), as amended; and

15 (C) treated as a capitalized expenditure for federal income
16 tax reporting purposes by the person incurring the expenditure;

17 (3) "ordinary and necessary" has the meaning given to "ordinary
18 and necessary" in 26 U.S.C. 162 (Internal Revenue code), as amended, and
19 regulations adopted under that section.

20
21 Page 27, line 27:

22 Delete "and"

23
24 Page 27, following line 29:

25 Insert the following material:

26 "(C) does not include gas liquefaction;"
27

SENATE FINANCE
COMMITTEE
Amendment # #7
To Bill Number: SB 305
Sponsor: Green
Date: 4/2/06 Logged by: Mindy

amendment
to the
amendment
(second)

AMENDMENT

BY Senator Green

OFFERED IN THE SENATE FINANCE
COMMITTEE

TO: CSSB 305(FIN) (24-GS2052\P Work Draft; 4/18/06; Chenoweth)

- 1 Page 5, line 24, following "month":
- 2 Insert ","
- 3
- 4 Page 5, line 26, following "lease":
- 5 Insert ","
- 6
- 7 Page 9, line 27, following "producer's":
- 8 Insert "or explorer's"
- 9
- 10 Page 9, line 28, following "producer":
- 11 Insert "or explorer"
- 12
- 13 Page 9, line 30, following "producer":
- 14 Insert "or explorer"
- 15
- 16 Page 10, line 1, following "producer":
- 17 Insert "or explorer"
- 18
- 19 Page 10, line 2, following "producer":
- 20 Insert "or explorer"
- 21

1 Page 10, line 4, following "producer":

2 Insert "or explorer"

3

4 Page 10, line 5, following "producer's":

5 Insert "or explorer's"

6

7 Page 10, line 7, following "producer's":

8 Insert "or explorer's"

9

10 Page 10, line 8, following "producer":

11 Insert "or explorer"

12

13 Page 10, line 10, following "producer's":

14 Insert "or explorer's"

15

16 Page 10, line 12, following "producer":

17 Insert "or explorer"

18

19 Page 10, line 13, following "producer":

20 Insert "or explorer"

21

22 Page 10, line 19, following "producer":

23 Insert "or explorer"

24

25 Page 10, following line 21:

deleted

26 Insert a new subsection to read:

27 "(j) A producer or explorer that does not produce an amount of oil and
28 gas in a taxable year under AS 43.20 that is more than 50,000 barrels of oil
29 equivalent may apply against the producer's or explorer's tax due for that taxable
30 year under AS 43.20 a tax credit under this section that would otherwise be
31 applicable against a tax due under AS 43.55.011(e) but for the limitation set out in

1 (c) of this section. An amount of a tax credit may not be applied against both a
2 tax due under AS 43.20 and a tax due under AS 43.55.011(e). For purposes of
3 this subsection, a barrel of oil equivalent is

4 (1) one barrel of oil, in the case of oil;

5 (2) 6,000 cubic feet of gas, in the case of gas."

6
7 ~~Page 10, line 23:~~

deleted

8 ~~Delete "(j)"~~

9 ~~insert "(k)"~~

10
11 Page 17, line 6, following "transportation;":

12 Insert "and"

13
14 Page 20, line 17, following "payments of":

15 Insert ", or in lieu of,"

16
17 Page 22, line 1, following "credits":

18 Insert ", other than tax credits under this chapter,"

19
20 Page 23, line 30, following "average":

21 Delete "number of barrels of oil equivalent"

22 Insert "amount of oil and gas"

23
24 Page 24, line 1, following "5,000":

25 Insert "barrels of oil equivalent"

26
27 Page 24, line 3, following "more":

28 Insert "barrels of oil equivalent"

29
30 Page 24, line 5, following "average":

31 Insert "amount of oil and gas, expressed as"

1 Delete "number of"

2
3 Page 24, line 5, following "equivalent":

4 Insert ",",

5
6 Page 24, line 10:

7 Delete "under AS 43.55.024(d)"

8
9 Page 24, lines 25-26, following "equivalent is":

10 Delete all material

11 Insert the following new material:

12 (1) one barrel of oil, in the case of oil;

13 (2) 6,000 cubic feet of gas, in the case of gas."

14
15 Page 24, following line 26:

16 Insert a new section to read:

17 "Sec. 43.55.185. Tax credits for gas treatment facilities. (a) A producer that
18 incurs a gas treatment investment expenditure on or after July 1, 2006, may take a
19 tax credit in the amount of 35 percent of that expenditure. A credit under this
20 section may be applied against a tax due under AS 43.20 or against a tax due
21 under AS 43.55.011(e). An amount of a tax credit may not be applied against
22 both a tax due under AS 43.20 and a tax due under AS 43.55.011(e).

23 (b) For a calendar year for which the producer makes an election under
24 AS 43.55.160(f), instead of taking a tax credit at a rate authorized by (a) of this
25 section as to a gas treatment investment expenditure after it has been incurred, a
26 producer that incurs a gas treatment investment expenditure during that year and
27 wishes to apply a credit based on that expenditure against a tax due under
28 AS 43.55.011(e) shall calculate and apply every month an annualized tax credit in
29 an amount equal to 2 11/12 percent of that expenditure.

30 (c) A credit or portion of a credit under this section may not be used to
31 reduce a producer's tax liability under AS 43.20 for any taxable year below zero

1 or a producer's tax liability under AS 43.55.011(e) for any month below zero.
2 Any unused credit or portion of a credit not used under this subsection may be
3 applied in a later year, under AS 43.20, or a later month, under AS 43.55.011(e).

4 (d) A tax credit under this section is not transferable.

5 (e) In this section,

6 (1) "gas treatment facility" means a facility or portion of a facility
7 in the state devoted exclusively to gas treatment;

8 (2) "gas treatment investment expenditure" means an expenditure
9 that is

10 (A) a direct, ordinary, and necessary cost of acquiring or
11 constructing a new gas treatment facility or of improving a gas treatment
12 facility;

13 (B) treated as a capitalized expenditure under 26 U.S.C.
14 (Internal Revenue Code), as amended; and

15 (C) treated as a capitalized expenditure for federal income
16 tax reporting purposes by the person incurring the expenditure;

17 (3) "ordinary and necessary" has the meaning given to "ordinary
18 and necessary" in 26 U.S.C. 162 (Internal Revenue code), as amended, and
19 regulations adopted under that section."
20

21 Page 27, line 27:

22 Delete "and"

23
24 Page 27, following line 29:

25 Insert the following material:

26 "(C) does not include gas liquefaction;"
27

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: CSSB 305(FIN), Draft Version "P"

1 Page 4, lines 7 - 21:

2 Delete all material and insert:

3 (g) In addition to the taxes levied under (e) and (f) of this section, if the
4 average ANS West Coast price per barrel of oil during a month exceeds \$50, there is
5 levied on the producer of oil a tax for oil produced during that month from each lease
6 or property in the state, less any oil the ownership or right to which is exempt from
7 taxation. The tax levied under this subsection is equal to

8
$$[((\text{ANS West Coast price} - \$50) \times .002) \times [\text{ANS wellhead price} \times (1 - \text{PPT rate})]]$$

9
$$\times (\text{total taxable barrels of oil at the point of production})$$

10 where

11 (1) "ANS wellhead price" means the prevailing value for oil produced
12 in the Alaska North Slope area; and

13 (2) the PPT, or production profit tax, rate is the tax rate described in (e)
14 of this section.

15 (h) For purposes of (g) of this section, the department may calculate the
16 average price or may, by regulation, specify the method by which the average price
17 shall be calculated with reference to one or more published sources of price
18 information. If, in the department's judgment, reliable published sources of price
19 information on Alaska North Slope crude oil cease, or appear likely to soon cease, to
20 be available, or if, in the department's judgment, the price of Alaska North Slope crude
21 oil ceases, or appears likely to soon cease, to be a reliable indicator of the general
22 price level of crude oils, the department shall, by regulation, specify a substitute
23 formula for computing the oil price index. The substitute formula specified by the

1 department under this subsection must bear, as nearly as is reasonably possible, the
2 same relationship to the general price level of crude oils as did the price of Alaska
3 North Slope crude oil."

SENATE FINANCE COMMITTEE
4 FEB/2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	# 8		
Motion	adopt		
<u>Motion by</u>	Hoffman		
<u>Objection by</u>			
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Hoffman Stedman			✓
Senator Olson	✓		
Senator Stedman Hoffman	✓		
Senator Bunde			✓
Senator Dyson	✓		
Co-Chair Wilken	✓		
Co-Chair Green			✓
<u>Tally</u>			
Yea	4		
Nay	3		
Absent			
<u>MOTION</u>	Pass		

rollcall
order
at the
direction
of
Sen. Green

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR HOFFMAN

TO: CSSB 305(FIN), Draft Version "P"

1 Page 23, lines 26 - 27:

2 Delete "that ends before July 1, 2016, and"

3

4 Page 24, line 3:

5 Delete "5,000 or more"

6 Insert "more than 5,000"

7

8 Page 24, line 8, following "AS 43.55.011(e)":

9 Insert ", and may be applied only for a period of 10 years from the date that the oil or
10 gas is first produced in paying quantities"

11

12 Page 24, lines 15 - 16:

13 Delete all material and insert:

14 "(5) may not be applied by a producer

15 (A) during the year in which the oil or gas is first produced in
16 paying quantities in an amount that would cause the total of the tax credits
17 applied by the producer under this section to exceed \$1,666,667 for each
18 month from the date that the oil or gas is first produced in paying quantities
19 until the last day of that calendar year; or

20 (B) during the last year for which a credit may be claimed
21 under this section in an amount that would cause the total of the tax credits
22 applied by the producer under this section to exceed \$140,000,000."

23

1 Page 29, lines 27 - 30:

2 Delete all material and insert:

3 "(e) For oil and gas being produced in paying quantities from a lease or unit that is in
4 effect on the effective date of sec. 26 of this Act, the oil or gas producer may apply the credit
5 authorized by AS 43.55.170, enacted by sec. 26 of this Act,

6 (1) for a period of 10 years from the effective date of sec. 26 of this Act,
7 notwithstanding the provisions of AS 43.55.170(b)(1) that limit application of the credit
8 authorized by AS 43.55.170 to a period of 10 years from the date the oil or gas is first
9 produced in paying quantities; and

10 (2) during the calendar year in which sec. 26 of this Act takes effect, in an
11 amount that would cause the total of the tax credits applied by the producer under this section
12 to exceed \$1,666,667 for each month from the effective date of sec. 26 of this Act until the
13 last day of that calendar year, notwithstanding the provisions of AS 43.55.170(b)(5)(A) that
14 limit application of the credit during the year of the initial production of the oil or gas in
15 paying quantities."

SENATE FINANCE COMMITTEE
4 / 2006 COMMITTEE ACTION

Bill Number	58 305		
Amendment	#9		
Motion	adopt		
<u>Motion by</u>			
<u>Objection by</u>			
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Bunde			
Senator Dyson			
Senator Hoffman			
Senator Olson			
Senator Stedman			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	not offered		

SENATE FINANCE
COMMITTEE
Amendment # # 10
To Bill Number: SB 305
Sponsor: Duson
Date: 4/21/06 Logged by: Mindy

24-GS2052VP.12
Chenoweth
4/21/06

AMENDMENT

OFFERED IN THE SENATE

TO: CSSB 305(FIN), Draft Version "P"

by Sen. Duson

1 Page 3, line 18, following "equal to":

2 Insert new material to read:

3 "(1) for oil that is produced in the Cook Inlet sedimentary basin, as that
4 term is defined by regulations adopted to implement AS 38.05.180(f)(4), five percent
5 of the production tax value of the taxable oil as calculated under AS 43.55.160; and

6 (2) except as to oil described in (1) of this subsection,"

7

8 Page 4, line 3, following "equal to":

9 Insert new material to read:

10 "(i) for oil that is produced in the Cook Inlet
11 sedimentary basin, as that term is defined by regulations adopted to
12 implement AS 38.05.180(f)(4), five percent of the gross value at the
13 production of the oil; and

14 (ii) for oil, except oil described in (i) of this
15 subparagraph, and gas"

16

17 Page 24, lines 1 - 6:

18 Delete all material and insert:

19 "(1) not more than 5,000, the amount of the credit

20 (A) for oil subject to tax under AS 43.55.011(e)(1) is five
21 percent of the producer's production tax value for that month under
22 AS 43.55.160(a); and

23 (B) for oil and gas subject to tax under AS 43.55.011(e)(2) is

1 22.5 percent of the producer's production tax value for that month under
2 AS 43.55.160(a); and

3 (2) more than 5,000, the amount of the credit

4 (A) for oil subject to tax under AS 43.55.011(e)(1) is five
5 percent of the producer's production tax value for that month under
6 AS 43.55.160(a) multiplied by the quotient of 5,000 divided by the average
7 number of barrels of oil equivalent produced a day during that month and
8 taxable under AS 43.55.011(e)(1); and

9 (B) for oil and gas subject to tax under AS 43.55.011(e)(2) is
10 22.5 percent of the producer's production tax value for that month under
11 AS 43.55.160(a) multiplied by the quotient of 5,000 divided by the average
12 number of barrels of oil equivalent produced a day during that month and
13 taxable under AS 43.55.011(e)(2)."

SENATE FINANCE COMMITTEE

4 FEB/2006

COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#10		
Motion	adopt		
<u>Motion by</u>	Dyson		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Stedman			✓
Senator Bunde	✓		
Senator Dyson	✓		
Senator Hoffman	✓		
Senator Olson	✓		
Co-Chair Wilken	✓		
Co-Chair Green			✓
<u>Tally</u>			
Yea	5		
Nay	2		
Absent			
<u>MOTION</u>	Pass		

SENATE FINANCE
COMMITTEE

Adopted

Amendment # #11

To Bill Number: SB 305

24-GS2052P.13

Sponsor: Wilken

Chenoweth

Date: 4/22/06 Logged by: Mindy

4/22/06

AMENDMENT

OFFERED IN THE SENATE

by Sen. Wilken

TO: CSSB 305(FIN), Draft Version "P"

1 Page 21, line 20, following "AS 43.55.011":

2 Insert ";

3 (P) the portion of costs incurred for dismantlement, removal,
4 surrender, or abandonment of a well, facility, pipeline, platform, or other
5 structure, or for the restoration of a lease, field, unit, area, body of water, or
6 right-of-way in conjunction with dismantlement, removal, surrender, or
7 abandonment, that is attributable to production of oil or gas occurring before
8 the effective date of this section; the portion is calculated as a ratio of
9 production of oil or gas associated with the well, facility, pipeline, platform, or
10 other structure, lease, field, unit, area, body of water, or right-of-way occurring
11 before the effective date of this section to all production of oil or gas
12 associated with that well, facility, pipeline, platform, or other structure, lease,
13 field, unit, area, body of water, or right-of-way through the end of the calendar
14 month before commencement of the dismantlement, removal, surrender, or
15 abandonment"

James E. Eason

Oil and Gas Operations, Management and Policy

110 Averill St. Lookout Mountain, TN 37350

Phone: (423) 821-6103 or (907) 250-9934

Email: jeeason@comcast.net

--CONFIDENTIAL—CONFIDENTIAL—CONFIDENTIAL--

February 27, 2006

Senator Gene Therriault, Chairman
Legislative Budget and Audit Committee
Alaska State Legislature
Room 119 Capitol Building
Juneau, Alaska 99811-1182

(Attention: Mr. Joe Balash)

Dear Senator Therriault:

As Joe Balash and I discussed earlier, in the absence of any certainty regarding whether it is intended under the provisions of SB 305 that abandonment expenses be deductible, I have surveyed the public record for examples of the potential magnitude for those costs. Unfortunately, public information is rather limited. For example, I was unable to find any documents related to the abandonment costs for Cook Inlet platforms, and only limited data for North Slope facilities. There are, however, published estimates for abandonment costs of Outer Continental Shelf (OCS) platforms off the coast of California. These estimates are discussed below.

The United States Minerals Management Service (MMS) conducted a study of the costs for decommissioning all of the offshore platforms located in the Pacific OCS Region.¹ Those estimates include the total estimated cost for each platform, as well as the individual and total decommissioning costs for each platform by cost category. The higher cost estimates are not directly analogous to those one would expect from the Cook Inlet platforms, but I believe the range of costs is helpful to frame the potential Cook Inlet platform abandonment costs under similar regulatory guidelines.²

¹ "Offshore Facility Decommissioning Costs". United States Department of the Interior, Minerals Management Service, Pacific OCS Region, September 17, 2004.

² The MMS cost report assumes compliance with OCS oil and gas regulations (30 CFR 250 and 256), which would include plugging of wells, removal of well conductors and platform jackets to fifteen feet

to Amendment # 11
4/22/06

BY
G. WILKEN

The MMS notes in its study that,

“Platform decommissioning costs can vary widely due to factors such as location and type (complexity) of the facility, number of structures to be removed, water depth and weight associated with the structure, the number and depth of wells and conductors, removal method, and transportation and disposal options. Although water depths and weight (size) are key variables in determining the decommissioning costs for any particular activity, other factors may have significant impact on the decommissioning cost. For example, the cost of plugging and abandoning a well with deviation greater than 60 degrees will be much greater than the costs of plugging and abandoning a well with no deviation. Similarly, the cost of decommissioning a pipeline that must be removed will be much greater than decommissioning a pipeline that is approved to be abandoned in-place.

The costs of mobilizing and demobilizing a heavy lift vessel can also vary widely depending on the origin of the derrick barge and *the number of platforms that are being decommissioned as a group*. (Emphasis added) The cost of mobilizing and demobilizing a heavy lift vessel will be very high in POCSR due to the fact that such vessels are currently stationed in the North Sea, Gulf of Mexico, or Asia. It is very unlikely that heavy lift vessels will be stationed in the POCSR unless there was a strong and prolonged market for such vessels. This situation is not considered likely to change in the foreseeable future.”

The MMS report assumes that the platforms would be permanently removed and transported to shore for disposal. To achieve the economy of scale necessary, the agency’s decommissioning scenario also assumes that a total of six decommissioning projects involving the 23 platforms will occur during the period 2010-2025, and that each decommissioning project would involve the removal of 2-6 platforms.³

The estimated costs for decommissioning the platforms ranged from a low of \$10.29 million to a high of \$129.8 million. However, the decommissioning costs for 12 of the 23 platforms were less than \$30 million. The average abandonment cost for the 23 platforms was approximately \$48.8 million. The OCS platforms with the highest abandonment costs are complex platforms, some of which have loading facilities associated with them. Generally speaking, these are also the platforms with a high number of wells, many of which are highly deviated, and would thus require more money for the subsurface abandonment requirements. A table illustrating the platform-specific abandonment estimates is provided below.

below the mudline, decommissioning and removal of platform decks, decommissioning of pipelines and power cable as appropriate; site clearance and other lease and permit requirements.

³ As noted above, the primary benefit of removing multiple platforms contemporaneously is to spread the extraordinary high costs of mobilizing and demobilizing the heavy lift vessels required.

Platform Decommissioning Costs (2004 Dollars)

Platform Name	Decommissioning Cost
Platform A	\$21,533,000.00
Platform B	\$22,579,000.00
Platform C	\$19,401,000.00
Edith	22,265,000.00
Ellen	\$33,176,000.00
Elly	\$19,946,000.00
Eureka	\$73,569,000.00
Gail	\$70,191,000.00
Gilda	\$33,906,000.00
Gina	\$10,291,000.00
Grace	27,405,000.00
Habitat	\$23,550,000.00
Harmony	\$129,842,000.00
Harvest	\$71,274,000.00
Henry	\$15,755,000.00
Heritage	\$128,654,000.00
Hermosa	\$64,827,000.00
Hidalgo	\$52,859,000.00
Hillhouse	\$20,743,000.00
Hogan	\$21,849,000.00
Hondo	\$77,051,000.00
Houchin	\$21,318,000.00
Irene	\$25,715,000.00
 Total POCSR	 \$1,007,699,000.00

With the caveat that the standards which will be required for Cook Inlet platform abandonment have not yet been established, my best guess, given the differences in the complexity of the platforms, water depths and other factors, is that most of the platforms could be abandoned for less than \$40 million each, with some being between \$20-\$30 million. A platform like the Grayling Platform with numerous wells would probably come in toward the high end of this estimate. Just as in the Pacific OCS area, availability of heavy lift vessels would be a critical factor, and optimized coordination in removing several platforms during one season would improve the economics.

Although the focus in discussions about facilities in Cook Inlet has been on offshore platforms, it is important to remember that there are a number of very costly onshore facilities related to "exploration, production and development" that must also be removed or abandoned in-place at some point in the future. Some are located on federal land.

including the Kenai Wildlife Refuge, the reclamation requirements for which are unknown.

The only publicly available data on abandonment costs for the North Slope come from information related to the Net Profit Share Accounts for two fields, Endicott and North Star, and from applications that have been filed with the Division of Oil and Gas by lessees requesting royalty reduction. According to the division's records, as of 1995, the operator of the Endicott field had estimated approximately \$110 million for abandonment of the facility, including the gravel constructed in the Beaufort Sea.

North Star field, which cost approximately \$1.0 billion to construct, has abandonment costs estimated to be approximately \$75 million. The actual field-specific estimates of abandonment costs from the royalty reduction applications are confidential, but they reportedly range from 7-20 percent of the total combined drilling and facility costs for the subject properties.

In conclusion, abandonment costs for facilities and wells can be quite high. If deductions, and perhaps credits, for abandonment expenses are contemplated under the proposed bill, they could be very costly for the state. Depending upon the timing of their deduction and/or crediting, they could have a disproportionately large impact on a declining tax revenue stream. In my opinion, it is important to determine in advance whether or not these types of deductions are intended under the language of the proposed legislation. If so, I recommend that further efforts be made to determine more precisely what their magnitude is likely to be. Obviously, the most authoritative source for the information is the producers.

If you have any questions, please do not hesitate to call.

Sincerely,

James E. Eason

SENATE FINANCE COMMITTEE
4 FEB 2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	# 11		
Motion	adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Hoffman			✓
Senator Olson	✓		
Senator Stedman	✓		
Senator Bunde	✓		
Senator Dyson	✓		
Co-Chair Wilken	✓		
Co-Chair Green			✓
<u>Tally</u>			
Yea		5	
Nay		2	
Absent			
<u>MOTION</u>	Pass		

SENATE FINANCE
COMMITTEE

Amendment # SB 305

To Bill Number: SB 305

Sponsor: Wilken

Date: 4/22/06 Logged by: Mindy

Failed

24-GS2052/P.14
Chenoweth
4/22/06

AMENDMENT

OFFERED IN THE SENATE

TO: CSSB 305(FIN), Draft Version "P"

by Sen. Wilken

- 1 Page 17, line 9, through page 18, line 5:
- 2 Delete all material.
- 3
- 4 Renumber the following bill sections accordingly.
- 5
- 6 Renumber internal references to bill sections in accordance with this amendment. Below are
- 7 all internal bill section references in this bill:
- 8 Page 2, line 13
- 9 Page 28, lines 19, 25, and 30
- 10 Page 29, lines 1, 2, 6, 8, 11, 13, 15, 17, 19, 21, 24, 27, and 29
- 11 Page 30, lines 4, 5, 12, 14, 17, 18, and 24
- 12 Page 31, lines 6, 24, 27, and 29

SENATE FINANCE COMMITTEE
4/22/2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#12		
Motion	adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Green		
Removed			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Dyson	✓		
Senator Hoffman			✓
Senator Olson			✓
Senator Stedman			✓
Senator Bunde			✓
Co-Chair Wilken	✓		
Co-Chair Green			✓
<u>Tally</u>			
Yea		2	
Nay		5	
Absent			
MOTION	Fail		

SENATE FINANCE
COMMITTEE

failed

Amendment # #13

To Bill Number: SB 305

24-GS2052P.15

Sponsor: Wilken

Chenoweth

Date 4/22/06 Logged by: Mindy

4/22/06

AMENDMENT

OFFERED IN THE SENATE

TO: CSSB 305(FIN), Draft Version "P"

by Sen. Wilken

- 1 Page 23, line 16, following "section":
- 2 Insert ", including the incorporation of the concepts of 26 U.S.C. 482 (Internal
- 3 Revenue Code), as amended, and 26 U.S.C. 6662(e) (Internal Revenue Code), as amended,
- 4 the related or accompanying regulations of each of those sections, and any ruling or guidance
- 5 issued by the United States Internal Revenue Service that relates to each of those sections"

SENATE FINANCE COMMITTEE
4 FEB 2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	#13		
Motion	adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Bunde	✓		
Senator Dyson	✓		
Senator Hoffman			✓
Senator Olson			✓
Senator Stedman			✓
Co-Chair Wilken	✓		
Co-Chair Green			✓
<u>Tally</u>			
Yea		3	
Nay		4	
Absent			
<u>MOTION</u>	Failed		

SENATE FINANCE
COMMITTEE
Amendment # # 14
To Bill Number: SB 305
Sponsor: Wilken
Date: 4/22/06 logged by: Minsky

failed

24-GS2052\P.18
Chenoweth
4/22/06

AMENDMENT

OFFERED IN THE SENATE

TO: CSSB 305(FIN), Draft Version "P"

by Sen. Wilken

- 1 Page 12, following line 21:
- 2 Insert a new subsection to read:
- 3 "(j) As a condition of receiving a tax credit under this section, a producer,
- 4 explorer, or other taxpayer that obtains the tax credit for or directly related to a
- 5 pipeline, facility, or other asset that is or becomes subject to regulation by the Federal
- 6 Energy Regulatory Commission or the Regulatory Commission of Alaska, or a
- 7 successor regulatory body, shall at all times support and in all rate proceedings file to
- 8 flow through 100 percent of the tax credits to ratepayers as a reduction in the costs of
- 9 service for the pipeline, facility, or other asset."
- 10
- 11 Reletter the following subsection accordingly.

SENATE FINANCE COMMITTEE
4/22/2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	# 14		
Motion	adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Olson			✓
Senator Stedman			✓
Senator Bunde	✓		
Senator Dyson	✓		
Senator Hoffman			✓
Co-Chair Wilken	✓		
Co-Chair Green			✓
<u>Tally</u>			
Yea		3	
Nay		4	
Absent			
<u>MOTION</u>	Failed		

SENATE FINANCE COMMITTEE
4/22/2006 COMMITTEE ACTION

Bill Number	SB 305		
Amendment	# 15		
Motion	adopt		
<u>Motion by</u>	Green		
<u>Objection by</u>	Bunde		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Hoffman			
Senator Olson			
Senator Stedman			
Senator Bunde			
Senator Dyson			
Co-Chair Wilken			
Co-Chair Green			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

Page 22 , line 1,
 following "credits":

Insert:

" , other than tax credits "