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| Subject                               | PPT  | ACES   | CS House Bill 2001 (O&G)    | CS House Bill 2001 (RES)  | CS Senate Bill 2001 (RES)   | CS Senate Bill 2001 (JUD)   |
|---------------------------------------|--|--|-----------------------------|---|-----------------------------|---|
| Intent, Savings                       |  | Sec. 1. Confirmation of DOR's interpretation of statute of limitations for retroactive tax changes.  | Deleted.                    | CS Sec. 1. ACES language plus intent that extra money received due to retroactivity of the production tax be appropriated to reduce the PERS & TRS unfunded liability and to the public education fund, and that tax savings on certain gas be passed on to consumers; also general intent for the Act. | Deleted.                    | CS Sec. 1. ACES language plus intent that extra money received due to retroactivity of the production tax will be put into constitutional budget reserve fund (CBR); also general intent for the Act. |
| Saving Surpluses                      |  |  |                             |   |                             | CS Sec. 2. Amends AS 37.10.440 (CBR). Directs Dept. of Revenue (DOR) to calculate difference between amount raised by ACES and PPT and, if more, deposit half the extra into the CBR.                 |
| Information Sharing                   |  | Sec. 2. Amends AS 38.05.035(a). Adds authority for DNR to share oil & gas info with DOR.   | CS Sec. 1. ACES language    | CS Sec. 2. ACES language  | CS Sec. 1. ACES language    | CS Sec. 3. ACES language  |
| Conforming Amendments                 |  | Secs. 3-9. Conforming technical amendments.  | CS Secs. 2-8. ACES language | CS Secs. 3-9. ACES language   | CS Secs. 2-8. ACES language | CS Secs. 4-10. ACES language  |
| Auditors                              |  | Sec. 10. Amends AS 39.25.110. Adds departments of revenue and natural resources oil and gas auditors and supervisors to the exempt service.                                    | CS Sec. 9. ACES language    | CS Sec. 10. ACES language   | CS Sec. 9. ACES language    | CS Sec. 11. Amends AS 39.25.110. Adds DOR and DNR oil and gas audit supervisors to the exempt service; limit of four auditors to DOR and two to DNR.  |
| Conforming Amendments                 |  | Sec. 11. Amends AS 11.09.010(d). Conforming technical amendments.  | CS Sec. 10. ACES language   | CS Sec. 11. ACES language   | CS Sec. 10. ACES language   | CS Sec. 12. ACES language   |
| Information Disclosure                |  | Sec. 12. Amends AS 43.05.230(a). Adds AS 43.55.890 (disclosure of tax info) as possible exception under AS 43.05.230(a) (unlawful disclosure).                                 | CS Sec. 11. ACES language   | CS Sec. 12. ACES language   | CS Sec. 11. ACES language   | CS Sec. 13. ACES language   |
| Information Sharing                   |  | Sec. 13. Amends AS 43.05.230(h). Adds authority for DOR to share production tax info with DNR.   | CS Sec. 12. ACES language   | CS Sec. 13. ACES language   | CS Sec. 12. ACES language   | CS Sec. 14. ACES language   |
| Tax Assessment Statute of Limitations |  | Sec. 14. Amends AS 43.05.260(a). Creates an exemption to allow DOR six years to conduct production tax assessments rather than three years.                                    | CS Sec. 13. ACES language   | CS Sec. 14. ACES language   | Deletes ACES language.      | CS Sec. 15. ACES language   |
| Production Tax                        | AS 43.55.011(e). Sets the production tax rate at 22.5% | Sec. 15. Repeals & reenacts AS 43.55.011(e). Sets the production tax rate generally at 25%. Additional progressivity rate under (g) and (h) is added to 25% as an annual rate. | PPT (22.5% tax rate)        | CS Sec. 15. Amends AS 43.55.011(e). 25% tax rate calculated annually.   | PPT (22.5% tax rate)        | CS Sec. 16. Repeals & reenacts AS 43.55.011(e). Generally sets tax rate at 25%. Maintains ACES annual tax levy but the tax is calculated for each month.  |

| Subject                   | PPT   | ACES   | CS House Bill 2001 (O&G)   | CS House Bill 2001 (RES)  | CS Senate Bill 2001 (RES) | CS Senate Bill 2001 (JUD)  |
|---------------------------|---|--|--|---|---------------------------|--|
| Production Tax Floor      | AS 43.55.011(f). Sets a tax floor of not less than 4% of gross value for North Slope oil and gas when the average West Coast price is \$25 per barrel with step down factors. | Sec. 16. Repeals & reenacts AS 43.55.011(f). Sets a tax floor on legacy fields of 10% of the total gross value at the point of production; tax credits cannot reduce liability below floor.        | PPT  | PPT   | PPT                       | CS Sec. 17. Amends AS 43.55.011(f). Retains PPT tax floor; exempts gas used instate from PPT floor.  |
| Progressivity Slope       | AS 43.55.011(g). Progressivity is triggered at \$40 net value with a .25% increase per dollar; 25% tax cap on progressivity rate.   | Sec. 17. Repeals & reenacts AS 43.55.011(g). Progressivity is triggered at \$30 net value on an annual basis with 0.2% increase per dollar; 50% maximum tax rate (including progressivity).        | Sec. 18. Adds new subsection AS 43.55.011(o). Replaces ACES and PPT progressivity provisions with a new progressivity provision based on gross value; repeals AS 43.55.011(g) (PPT progressivity). | CS Sec. 20. Adds new subsection AS 43.55.011(o). Replaces ACES and PPT progressivity provisions with a new progressivity provision that taxes gross value at an increasing rate as net value increases, starting at 0.2% per dollar of net value over \$30 per barrel; repeals AS 43.55.011(g). | PPT                       | CS Sec. 18. Repeals & reenacts AS 43.55.011(g). \$30 trigger on the net value on a monthly basis with 0.4% increase; 50% maximum tax rate.                             |
| Progressivity Trigger     | AS 43.55.011(h). Establishes the price index for calculating progressivity on a monthly basis.  | Sec. 18. Amends AS 43.55.011(h). Establishes price index for calculating progressivity on an annual basis.   | Repeals AS 43.55.011(h) (PPT progressivity calculation).   | Repeals AS 43.55.011(h) (PPT progressivity calculation).  | PPT                       | CS Sec. 19. Amends AS 43.55.011(h). Establishes price index for calculating progressivity on a monthly basis.  |
| Production Tax Cook Inlet | AS 43.55.011(j). Cook Inlet tax ceiling.  | Sec. 19. Amends AS 43.55.011(j). Conforming technical amendment; deletes reference to AS 43.55.011(g) (progressivity) because reference is no longer applicable.                                   | CS Sec. 14. Amends 43.55.011(j). Conforming technical amendment; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).                  | CS Sec. 16. Amends 43.55.011(j). Conforming technical amendment; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).   | PPT                       | CS Sec. 20. ACES language  |
| Production Tax Cook Inlet | AS 43.55.011(k). Cook Inlet tax ceiling.  | Sec. 20. Amends AS 43.55.011(k). Conforming technical amendment; deletes reference to AS 43.55.011(g) (progressivity) because reference is no longer applicable.                                   | CS Sec. 15. Amends AS 43.55.011(k). Conforming technical amendment; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).               | CS Sec. 17. Amends AS 43.55.011(k). Conforming technical amendment; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).  | PPT                       | CS Sec. 21. ACES language  |
| Production Tax Cook Inlet | AS 43.55.011(l). Cook Inlet tax ceiling.  | Repeals AS 43.55.011(l); conforming technical repeal.  | CS Sec. 16. Amends AS 43.55.011(l). Conforming technical amendments; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).              | CS Sec. 18. Amends AS 43.55.011(l). Conforming technical amendments; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).   | ACES                      | ACES   |
| Gas Used Instate          | AS 43.55.011(m). Cook Inlet tax credits.  | Sec. 21. Amends AS 43.55.011(m). Adds language to be consistent with sec. 55 (lease expenditures); deletes reference to AS 43.55.011(g) (progressivity) because reference is no longer applicable. | CS Sec. 17. Amends AS 43.55.011(m). Deletes language added in ACES; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).               | CS Sec. 19. Amends AS 43.55.011(m). Deletes language added in ACES; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).  | PPT                       | CS Sec. 22. Amends AS 43.44.011(m). Adds application of Cook Inlet provisions to gas used instate; retains ACES technical amendment; deletes additional ACES language. |

| Subject  | PPT  | ACES  | CS House Bill 2001 (O&G)   | CS House Bill 2001 (RES)   | CS Senate Bill 2001 (RES) | CS Senate Bill 2001 (JUD)   |
|--|--|---|--|--|---------------------------|---|
| Gas Used Instate                               | AS 43.55.011(n). Allocation of Cook Inlet tax credits.   |   |  |  |                           | CS Sec. 23. Amends AS 43.55.011(n). Adds application of Cook Inlet provisions to gas used Instate.                  |
| Gas Used Instate                               |  |   |  | CS Sec. 20. Adds new subsection AS 43.55.011(p). Extends Cook Inlet tax ceilings in .011(j)(2) to gas used Instate.  |                           | CS Sec. 24. Adds new subsection AS 43.55.011(o). Extends Cook Inlet tax ceilings in .011(j)(2) to gas used Instate. |
| Mid-Alaska                                     |  |   | Sec. 18. Adds new subsection AS 43.55.011(p). Extends Cook Inlet tax ceilings in .011(j) to mid-Alaska gas.  |  |                           |   |
| Tax Payment                                    | AS 43.55.020(a). Installment payments.   | Sec. 22. Repeals & reenacts AS 43.55.020(a). Makes installment payment calculations consistent with changes to the production tax.  | CS Sec. 19. PPT language with conforming amendments.   | CS Sec. 21. PPT language with conforming amendments.   | PPT                       | CS Sec. 25. Amends AS 43.55.020(a). PPT language with conforming amendments.  |
| Tax Payment                                    | AS 43.55.020(d). Royalty owner settlement deductions and installment payments.   | Sec. 23. Amends AS 43.55.020(d). Conforming technical amendments; deletes reference to AS 43.55.011(f) and (g) (floor & progressivity) because references are no longer applicable.   | CS Sec. 20. Amends AS 43.55.020(d). Conforming technical amendment; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity). | CS Sec. 22. Amends AS 43.55.020(d). Conforming technical amendment; deletes reference to AS 43.55.011(g) (PPT progressivity), inserts reference to 43.55.011(o) (O&G progressivity).   | PPT                       | CS Sec. 26. Amends AS 43.55.020(d). Deletes reference to AS 43.55.011(g) (progressivity).                           |
| Tax Payment                                    | AS 43.55.020(g). Interest on unpaid installment payments.  | Sec. 24. Amends AS 43.55.020(g). Conforming technical amendment.  | CS Sec. 21. ACES language  | CS Sec. 23. ACES language  | PPT                       | CS Sec. 27. ACES language   |
| Tax Payment                                    | AS 43.55.020(h). Interest on overpayment of installment payments.  | Sec. 25. Amends AS 43.55.020(h). Conforming technical amendment.  | CS Sec. 22. ACES language  | CS Sec. 24. ACES language  | PPT                       | CS Sec. 28. ACES language   |
| Tax Payment Penalty                            |  |   |  | CS Sec. 25. Amends AS 43.55.020. Adds a new subsection (i) that adds a civil penalty to the amount of a required installment payment if not paid in full by the payment due date.      |                           |   |
| Capital Expenditure (Cap Ex) Tax Credits       | AS 43.55.023(a). 20% tax credit for qualified capital expenditures and information requirements.   | Sec. 26. Amends AS 43.55.023(a). Spreads use of tax credits over two years; moves and adds to info requirements; requires submission of information that is required under AS 43.55.025(f)(2); adds that legacy field tax credits may be applied only against legacy field taxes. | PPT  | PPT  | PPT                       | PPT (does not match information requirements to AS 43.55.025 credits - see secs. 33-41).                            |
| Cap Ex Tax Credits Carried-forward Annual Loss | AS 43.55.023(b). 20% of carried-forward annual loss tax credit allowed against deductible lease expenditures when use of the deduction would cause the production tax in a month to be less than zero. | Sec. 27. Amends AS 43.55.023(b). Matches carried-forward annual loss to production tax rate of 25%; adds that carried-forward annual losses may not be based on lease expenditures accrued in legacy fields.  | PPT  | CS Sec. 26. Amends AS 43.55.023(b). Sets the tax credit for a carried-forward annual loss as the loss multiplied by the nominal tax rate in AS 43.55.011(e); defines nominal tax rate. | PPT                       | PPT   |

| Subject                                | PPT   | ACES   | CS House Bill 2001 (D&G)   | CS House Bill 2001 (RES)  | CS Senate Bill 2001 (RES)  | CS Senate Bill 2001 (JUD)  |
|--|---|--|--|---|--|--|
| Cap Ex Tax Credits Transfer of Credits | AS 43.55.023(d). Transferable tax credit certificates.  | Sec. 28. Amends AS 43.55.023(d). Adds no transfer of tax credits earned on legacy fields, option to obtain cash payment, and more time for agency approval; provides annual reporting requirements; links date for issuance of credit with information required under AS 43.55.030; spreads use of tax credits over two years. | CS Sec. 23. Amends AS 43.55.023(d). Technical amendment to PPT language; retains ACES link between date for issuance of credit with information required under AS 43.55.030; deletes other ACES changes. | CS Sec. 27. Amends AS 43.55.023(d). Retains ACES option to obtain a cash payment and link between date for issuance of credit with information required under AS 43.55.030; deletes other ACES changes. | PPT  | PPT  |
| Cap Ex Tax Credits Transfer of Credits | AS 43.55.023(e). Transfer of tax credits.   | Sec. 29. Amends AS 43.55.023(e). Conforming technical amendment.   | PPT  | PPT   | PPT  | PPT  |
| Cap Ex Tax Credits Refunds             | AS 43.55.023(f). Cash refund of up to \$25,000,000 for small producer tax credits.  | Repeals AS 43.55.023(f) (replaced with oil and gas tax credit fund, Sec. 45).  | PPT  | PPT   | PPT  | PPT  |
| Cap Ex Tax Credits Audits              | AS 43.55.023(g). Tax credit audits.   | Sec. 30. Amends AS 43.55.023(g). Adds language to reflect DOR authority to purchase tax credits granted in AS 45.55.028.   | PPT  | CS Sec. 28. ACES language   | PPT  | PPT  |
| Cap Ex Tax Credits TIE Credits         | AS 43.55.023(i). Transitional investment expenditure (TIE) tax credits for qualified capital expenditures incurred after March 31, 2001 and before April 1, 2006. | Repeals AS 43.55.023(i), PPT TIE credits.  | CS Sec. 24. Amends AS 43.55.023(i). Changes application of TIE credits to qualified capital expenditures incurred after March 31, 2003 and before April 1, 2006.   | CS Sec. 29. Amends AS 43.55.023(i). Changes definition of TIE credits to capital expenditures incurred after March 31, 2003 (rather than March 31, 2001) and before April 1, 2006.                      | CS Sec. 13. PPT language Amends AS 43.55.023(i). Limits TIE credits to taxpayers that did not have commercial production before January 1, 2008, and to 1/10 of qualified capital expenditures incurred after March 31, 2006 and before January 1, 2008. | CS Sec. 29. PPT language Amends AS 43.55.023(i). Limits TIE credits to taxpayers that did not have commercial production before January 1, 2008, and to 1/10 of qualified capital expenditures incurred after March 31, 2006 and before January 1, 2008 (same as SRES version) |
| Cap Ex Tax Credits Tax Exempt Entities |   | Sec. 31. Amends AS 43.55.023. Adds subsection (l) to make clear a tax exempt entity may not obtain a transferable tax credit.  | CS Sec. 25. ACES language  | CS Sec. 30. Amends AS 43.55.023. ACES language for subsection (l); adds subsection (m) to allow cash refunds to the Alaska Retirement Management Board (ARMB).  | Deleted.   | Deleted.   |
| Mid-Alaska Tax Credits                 | AS 43.55.024. Additional tax credit of \$6,000,000 for production from leases outside Cook Inlet and the North Slope for small producers                          | Secs. 32 - 35. Amends AS 43.55.024. Subsection(a): technical correction; (b), (c), (e), (g): conforming technical amendments   | PPT  | PPT   | PPT  | CS Secs 30 - 32 ACES language except does not include amendment to AS 43.55.024(g)   |

| Subject                              | PPT  | ACES   | CS House Bill 2001 (O&G)   | CS House Bill 2001 (RES)   | CS Senate Bill 2001 (RES)                                     | CS Senate Bill 2001 (JUD)   |
|--------------------------------------|--|--|--|--|---|---|
| Exploration Tax Credits              | AS 43.55.025. Alternative tax credits for up to 40% for oil and gas exploration.   | Secs. 36 - 44. Amends AS 43.55.025 to provide for a uniform sunset, extend eligibility to delineation wells drilled within 540 days, require exploration well to be completed or abandoned before credit is requested, exclude certain cost categories, clarify the requirement to explore a new exploration target and require DNR review, better specify the information required to be submitted to DNR, limit well data confidentiality to 24 months, require credits to be spread over at least two years, clarify public availability of basic credit information, clarify that a tax-exempt entity may not transfer a credit certificate, and authorize 5% credit for previously acquired seismic data. | PPT  | CS Secs. 31 - 40. ACES language with some changes: increases 20% tax credits to 30%; allows credits for suspended wells; gives DNR commissioner discretion to extend well data confidentiality; deletes requirement that credits be spread over at least two years; adds new subsection (m) to allow cash refunds to ARMB. | PPT   | CS Secs. 33 - 41. ACES language.  |
| Oil & Gas Tax Credit Fund            | AS 43.55.023(f). Permits the state to offer a cash refund of up to \$25,000,000 for tax credits issued to small producers. | Sec. 45. Adds AS 43.55.020. Creates an oil & gas tax credit fund funded by an appropriation of a percentage of production tax revenues and repeals AS 43.55.023(f), PPT tax credit refund.   | PPT (deletes ACES language and retains PPT refund provision)   | CS Sec. 41. ACES language with additional subsection limiting certificate purchases from a person to \$25,000,000 per year; exempts ARMB from the limit. But does not repeal existing PPT cash refund provision (AS 43.55.023(f)).   | PPT (deletes ACES language and retains PPT refund provision). | CS Sec. 42. ACES language but only for exploration incentive credits (AS 43.55.024); retains AS 43.55.023(f), PPT tax credit refund provision.                                      |
| Reporting Requirements               |  | Sec. 46. Amends AS 43.55.030(a). Makes clear every taxpayer must file an annual return; expands info requirements.   | CS Sec. 26. ACES language  | CS Sec. 42. ACES language  | CS Sec. 14. ACES language                                     | CS Sec. 43. ACES language   |
| Reporting Requirements Penalties     |  | Sec. 47. Amends AS 43.55.030(d). Adds late filing penalty of \$1000/day for information required by the DOR.   | Deleted.   | CS Sec. 43. ACES language  | CS Sec. 15. ACES language                                     | CS Sec 44. ACES language  |
| Reporting Requirements               |  | Sec. 48. Amends AS 43.55.030. Adds new subsections (e) - requires annual expenditure statement; and (f) - authorizes DOR to require monthly filing of info.  | CS Sec. 27. ACES language  | CS Sec. 44. ACES language  | CS Sec. 16. ACES language                                     | CS Sec 45. ACES language  |
| Reporting Requirements and Penalties |  | Sec. 49. Amends AS 43.55.040. Clarifies DOR has authority to require filing of reports necessary to forecast state revenue; adds additional penalties.   | CS Sec. 28. ACES language Amends AS 43.55.040. Retains ACES authority clarification; deletes additional penalty. | CS Sec. 45. ACES language with additional language specifying the rate of interest the penalty shall bear and limiting DOR's authority to compromise a penalty.  | CS Sec. 17. ACES language                                     | CS Sec 46. ACES language plus addition of requirement for a producer of more than 100,000 barrels a day to report Alaska oil and gas gross value and deductible lease expenditures. |

| Subject  | PPT | ACES  | CS House Bill 2001 (OAG)  | CS House Bill 2001 (RES)   | CS Senate Bill 2001 (RES) | CS Senate Bill 2001 (JUD)  |
|--|-----|---|---------------------------|--|---------------------------|--|
| Incorrect Returns                                    |     |   |                           |  |                           | CS Sec. 47. Amends AS 43.55.050. Adds a specific list of information DOR may consider in determining whether a tax return is correct.  |
| Incorrect Returns                                    |     |   |                           |  |                           | CS Sec. 48. Amends AS 43.55.050. Adds a new subsection (b), presumes DOR's corrected tax determination is correct and places burden of proof on taxpayer to show it is incorrect.  |
| Tax Understatement Penalty                           |     |   |                           |  |                           | CS Sec. 49. Amends AS 43.55. Adds a new section AS 43.55.055 that provides a penalty for understatements of tax in addition to other penalties prescribed by law.<br>CS Sec. 50. ACES language.  |
| Tax Assessments Statute of Limitations               |     | Sec. 50. Amends AS 43.55. Adds a new section, AS 43.55.075, that expands statute of limitations for conducting tax assessments from three years to six years.                             | CS Sec. 29. ACES language | CS Sec. 46. ACES language  | Deleted.                  |  |
| Electronic Filing Advisory Bulletins Whistle-blowers |     | Sec. 51. Amends AS 43.55.110. Adds new subsections (e) & (f) that authorize DOR to require electronic filings and payments; and (g) that gives DOR authority to issue advisory bulletins. | CS Sec. 30. ACES language | CS Sec. 47. ACES language  | CS Sec. 18. ACES language | CS Sec. 51. ACES language with addition of new subsection (h) that allows DOR to compensate whistle-blowers for info that leads to the collection of additional tax funds.   |
| Transportation Costs                                 |     |   |                           | CS Sec. 48. Amends AS 43.55.150(a). With sec. 49, provides for DOR to determine reasonable costs of transportation instead of actual costs when any one of several conditions is met (under PPT, all conditions must be met).  |                           | CS Sec. 52. Amends AS 43.55.150(a). With sec. 53, provides for DOR to determine reasonable costs of transportation instead of actual costs when any one of several conditions is met (under PPT, all conditions must be met).  |
| Transportation Costs                                 |     |   |                           | CS Sec. 49. Amends AS 43.55.150(b). With sec. 48, provides for DOR to determine reasonable costs of transportation instead of actual costs when any one of several conditions is met (under PPT, all conditions must be met); limits tariffs treated as prima facie reasonable to those adjudicated just and reasonable. |                           | CS Sec. 53. Amends AS 43.55.150(b). With sec. 52, provides for DOR to determine reasonable costs of transportation instead of actual costs when any one of several conditions is met (under PPT, all conditions must be met). Limits tariffs treated as prima facie reasonable to those adjudicated just and reasonable. |

| Subject            | PPT  | ACES  | CS House Bill 2001 (O&G)  | CS House Bill 2001 (RES)  | CS Senate Bill 2001 (RES) | CS Senate Bill 2001 (JUD)  |
|--------------------|--|---|---|---|---------------------------|--|
| Tax Determination  | AS 43.55.160(a). Determination of production tax value of oil and gas annually and monthly.  | Sec. 52. Repeals and reenacts AS 43.55.160(a). Retains PPT principle that the taxable value is the gross value at the point of production minus lease expenditures; the changes are necessary to implement different tax treatment; removes monthly value calculation because no longer needed. | CS Sec. 31. PPT language Amends AS 43.55.160(a). Retains PPT language with conforming amendments. | CS Sec. 50. Amends AS 43.55.160(a) to provide for separate calculation of taxable value for gas used in state and to conform to changes in the progressively tax.   | PPT                       | CS Sec. 54. Amends AS 43.55.160(a). Deletes calculation of annual value of oil and gas; retains PPT calculation of monthly values and adds separate calculation for gas used in state; also has conforming amendments Changes reflect CS changes to AS 43.55.011.  |
| Tax Determination  | AS 43.55.160(b). Production tax value may not be less than zero.   | Sec. 53. Amends AS 43.55.160(b). Conforming technical amendment.  | PPT   | PPT   | PPT                       | PPT  |
| Tax Determination  | AS 43.55.160(c). Calculation of production tax value   |   |   |   |                           | CS Sec. 55. Amends AS 43.55.160(c). Conforming technical amendment.  |
| Tax Determination  | AS 43.55.160(e). Carried forward annual losses established when production tax value is less than zero.  | Sec. 54. Repeals & reenacts AS 43.55.160(e). Provides explicit rules for calculating production tax values for oil and gas subject to different statutory provisions.   | PPT   | PPT   | PPT                       | CS Sec. 56. PPT language with conforming amendment.  |
| Tax Determination  |  | Sec. 55. Amends AS 43.55.160. Adds four new subsections, (f)-(i), related to allocations and calculations of adjusted lease expenditures.   | Deleted.  | Deleted.  | Deleted.                  | Deleted.   |
| Lease Expenditures | AS 43.55.165(a). Describes deductible lease expenditures for purposes of determining the net taxable amount; provides standards DOR shall consider for determining lease expenditures.   | Sec. 56. Repeals & reenacts AS 43.55.165(a). Retains but rewords deductible lease expenditures description; adds requirement that deductible lease expenditures be affirmatively allowed through regulation; allows overhead expenses (moved from 165(b)); deletes standards (moved to 165(b)). | CS Sec. 32. Amends AS 43.55.165(a). Retains PPT language with conforming amendments.              | CS Sec. 51. Amends AS 43.55.165(a). Retains PPT language with conforming amendment.   | CS Sec. 19. ACES language | CS Sec. 57. ACES language except adds that costs must be incurred in the state.  |
| Lease Expenditures | AS 43.55.165(b). Lists direct costs that may be considered deductible lease expenditures; allows overhead expenses; and specifies allowed costs need not be physically located on lease. | Sec. 57. Amends AS 43.55.165(b). Re-arranges PPT language; adds the standards DOR shall consider for determining lease expenditures (moved from 165(a) and (c)); deletes overhead expenses (moved to 165(a)).   | PPT   | CS Sec. 52. Amends AS 43.55.165(b). Retains PPT language except adds requirement that an activity must be physically located in the state for the cost to be a deductible lease expenditure Adds CS Sec. 53, amends CS Sec. 52 so that an activity must be physically located on the premises of the lease or property to be a deductible lease expenditure (comes into effect if there is final judgment nullifying the effect of AS 43.55.165(b) as amended by Sec. 52. see CS Sec 67). | CS Sec. 20. ACES language | CS Sec. 58. Amends AS 43.44.165(b). Retains ACES changes; adds to list of specific costs that are direct costs; restricts certain categories of costs; deletes language specifying allowed costs need not be for activities physically located on a lease; removes requirement that DOR consider certain industry practices and DNR net profit lease regulations, but allows DOR to consider them. |

| Subject                       | PPT  | ACES   | CS House Bill 2001 (O&G)   | CS House Bill 2001 (RES)  | CS Senate Bill 2001 (RES)  | CS Senate Bill 2001 (JUD)   |
|-------------------------------|--|--|--|---|--|---|
| Lease Expenditures            | AS 43.55.165(c) and (d). Allows DOR to substitute costs that are billable or actually billed through unit operating agreements in place of the general lease expenditures standards. | Repeals AS 43.55.165(c) and (d).   | ACES   | ACES  | ACES   | ACES  |
| Lease Expenditures            |  | Sec. 58. Amends AS 43.55.165(e). Adds to the list of non-deductible lease expenditures, including costs incurred for violations of law and for repair, replacement or deferred maintenance in specified circumstances; costs to construct, acquire or operate a refinery or topping plant. | CS Sec. 33. ACES language  | CS Sec. 54. Amends AS 43.55.165(e). Changes from ACES: adds exclusion of costs arising from criminal negligence and violations of the Clean Water Act; lobbying, pub'c relations, advertising, or public advocacy; out-of-state office costs; deletes provision regarding repair, replacement and deferred maintenance. | CS Sec. 21. ACES language  | CS Sec. 59. Expands on ACES list of non-deductible lease expenditures: lobbying, public relations, advertising; indirect costs; out-of-state office costs; and for internal transactions, taxpayer must show any costs do not exceed market value; broadens the provision on repair, replacement, deferred maintenance. |
| Lease Expenditures            | AS 43.55.165(h). Allocation of costs between oil and gas.  | Sec. 59. Amends AS 43.55.165(h). Conforming amendment to be consistent with new AS 43.55.160 (production tax determination).   | PPT  | CS Sec. 55. Amends AS 43.55.165(h) to conform to tax provisions for gas used in state.  | PPT  | CS Sec. 60. Amends AS 43.55.165(h). Conforming amendments.  |
| Lease Expenditure Adjustments |  | Sec. 60. Amends AS 43.55.170(a) Conforming amendment necessitated by repeal of AS 43.55.165(c) and (d) (determination of lease expenditures).  | CS Sec. 34. ACES language  | CS Sec. 56. ACES language   | CS Sec. 22. ACES language  | CS Sec. 61. ACES language   |
| Lease Expenditure Adjustments |  |  |  |   |  | CS Sec. 62. Amends AS 43.55.170(b). Conforming technical amendment.   |
| Information Publication       |  | Sec. 61. Amends AS 43.55. Adds new section AS 43.55.890; makes clear DOR may publish production tax info that is aggregated among at least three taxpayers.  | CS Sec. 35. ACES language  | CS Sec. 57. ACES language   | CS Sec. 23. ACES language  | CS Sec. 63. ACES language with addition of publication of Alaska gross value and expenses as required to be reported under Sec. 46  |
| Definitions                   |  | Sec. 62. Amends AS 43.55.900. Adds new definitions for "nonutilized reservoir," "pool," "producer," and "unit."  | CS Sec. 36. Amends AS 43.55.900. Retains ACES definitions for "producer" and "unit;" deletes "nonutilized reservoir" and "pool." | CS Sec. 58. Amends AS 43.55.900. Retains ACES definitions for "producer" and "unit;" deletes "nonutilized reservoir" and "pool;" adds definition for "used in the state."   | CS Sec. 24. Amends AS 43.55.900. Retains ACES definitions for "producer" and "unit;" deletes "nonutilized reservoir" and "pool." | CS Sec. 64. Amends AS 43.55.900. Retains ACES definitions for "producer" and "unit;" deletes "nonutilized reservoir" and "pool."  |
| Repeals                       | AS 43.55.023(f) provides a cash refund of up to \$25,000,000 for small producers' tax credits.   | Sec. 63. Repeals   | PPT  | PPT   | PPT  | PPT   |
| Repeals                       | AS 43.55.165(c) and (d) allows DOR to substitute costs that are billable or actually billed through unit operating agreements in place of the general lease expenditures standards.  | Sec. 64. Repeals AS 43.55.165(c) and (d); determination of deductible lease expenditures using unit operating agreements.  | CS Sec. 37. Retains ACES repeal of AS 43.55.165(c) and (d).  | CS Sec. 59. Retains ACES repeal of AS 43.55.165(c) and (d).   | CS Sec. 25. Retains ACES repeal of AS 43.55.165(c) and (d).  | CS Sec. 65. Retains ACES repeal of AS 43.55.165(c) and (d).   |

| Subject                         | PPT  | ACES  | CS House BM 2001 (O&G)  | CS House BM 2001 (RES)   | CS Senate BM 2001 (RES)  | CS Senate BM 2001 (JUD)  |
|---------------------------------|--|---|---|--|--|--|
| Repeals                         | AS 43.55.011(f): order for applying the Cook Inlet tax ceiling; AS 43.55.023(l): transitional investment expenditures tax credits; AS 43.55.160(c): determining the tax value under the progressivity provision AS 43.55.011(g). | Sec. 65. Repeals AS 43.55.011(f), order for applying Cook Inlet tax ceiling, AS 42.55.023(i), transitional investment expenditures; and AS 43.55.160(c), determining tax value under AS 43.55.011(g) (progressivity). | CS Sec. 38. Adds repeal of AS 43.55.011(g) and (h), PPT progressivity provisions; retains / CES repeal of AS 43.55.160(c), determining tax value under progressivity; deletes ACES repeal of AS 43.55.011(f) (retains PPT order of applying Cook Inlet tax ceiling) and AS 43.55.023(l) (retains PPT TIE credits with changes). | CS Sec. 60. Adds repeal of AS 43.55.011(g) and (h), PPT progressivity provisions; retains ACES repeal of AS 43.55.160(c), determining tax value under progressivity; deletes ACES repeal of AS 43.55.011(l) (retains PPT order of applying Cook Inlet tax ceiling) and AS 43.55.023(l) (retains PPT TIE credits with changes). | CS Sec. 26. Retains ACES repeal of AS 43.55.011(f), order of applying Cook Inlet tax ceiling; deletes repeal of AS 43.55.023(l) (retains PPT TIE credits with changes) and AS 43.55.160(c) (retains PPT determination of the tax value under progressivity). | CS Sec. 66. Retains ACES repeal of AS 43.55.011(f); deletes other repeals.   |
| Applicability                   |  | Sec. 66. Applicability of specified sections.   | CS Sec. 39. ACES language No change to applicability of retained ACES sections.   | CS Sec. 61. Applies most changes in the production tax to oil and gas produced after Dec. 31, 2006, rather than Dec. 31, 2007; applies additional provisions to oil and gas produced after March 31, 2006.   | CS Sec. 27. ACES language. No change to applicability of retained ACES sections.   | CS Sec. 67. Applies most changes in the production tax to oil and gas produced after Dec. 31, 2006, rather than Dec. 31, 2007.             |
| Transition Auditors             |  | Sec. 67. Allows current oil and gas auditors to opt to remain in classified service.  | CS Sec. 40. ACES language   | CS Sec. 62. ACES language  | CS Sec. 28. ACES language  | CS Sec. 68. Deletes ACES language. Provides legislative intent that the maximum number of exempt auditors is four for DOR and two for DNR. |
| Transition Payment of Tax       |  |   |   |  |  | CS Sec. 69. Establishes due date of March 31, 2008 for additional retroactive taxes for 2007.  |
| Transition Regulations          |  | Sec. 68. Allows regulations adopted by DOR and DNR to be applied retroactively to the applicability date of the statutory provisions being implemented.   | CS Sec. 41. ACES language (with changed section numbers)  | CS Sec. 63. Similar to ACES but conformed to changes in applicability and retroactivity provisions of CS.  | CS Sec. 29. ACES language (with changed section numbers).  | CS Sec. 70. ACES language (with changed section numbers).  |
| Transition Pending Applications |  | Sec. 69. Provides for the treatment of pending applications for transferable credits and the refund of credits under AS 43.55.023.  | Deleted.  | CS Sec. 64. Retains ACES subsection (b), treating outstanding application for cash refund of credit under PPT as an application under new AS 43.55.028.  | Deleted.   | Deleted.   |
| Transition Regulations          |  | Sec. 70. Authorizes DNR and DOR to proceed with adopting regulations.   | CS Sec. 42. ACES language   | CS Sec. 65. ACES language  | CS Sec. 30. ACES language  | CS Sec. 71. ACES language  |
| Retroactivity                   |  | Sec. 71. Provides for the retroactivity of certain provisions.  | CS Sec. 43. ACES language No change to retroactivity of retained ACES sections.   | CS Sec. 66. Expands retroactivity: most tax changes that are prospective under ACES are made retroactive to Jan. 1, 2007; makes additional provisions retroactive to April 1, 2006.  | CS Sec. 31. ACES language. No change to retroactivity of retained ACES sections.   | CS Sec. 72. Expands retroactivity: most tax changes that are prospective under ACES are made retroactive to Jan. 1, 2007.                  |

| Subject           | PPT | ACES  | CS House Bill 2001 (O&G)  | CS House Bill 2001 (RES)  | CS Senate Bill 2001 (RES)  | CS Senate Bill 2001 (JUD)                 |
|-------------------|-----|---|---|---|--|---|
| Contingent Effect |     |   |   | CS Sec. 67. CS Sec. 53 (physical location of a deductible lease expenditure) takes effect only if a court enters a final judgment that nullifies the effect of AS 43.55.165(b), as amended by CS Sec. 52. CS Sec. 68. If CS Sec. 53 takes effect, it takes effect after the last day the final judgment is no longer subject to appeal. |  |   |
| Effective Dates   |     | Sec. 72. Provides that certain sections take effect January 1, 2008 (including most changes to the production tax). | CS Sec. 44. ACES language No change to effective dates of retained ACES sections. |   | CS Sec. 32. ACES language. No change to effective dates of retained ACES sections. | CS Sec. 73. Act takes effect immediately. |
| Effective Dates   |     | Sec. 73. Provides that certain sections take effect immediately.  | CS Sec. 45. ACES language No change to effective dates of retained ACES sections. | CS Sec. 69. Except for CS Sec. 68, this Act takes effect immediately.   | CS Sec. 33. ACES language. No change to effective dates of retained ACES sections. |   |

SENATE FINANCE COMMITTEE REPORT

*Today's Calendar*

DATE: 11/12/07

FURTHER:

DATE TURNED IN TO OFFICE: 11/15/07

Finance Committee considered CS FOR HOUSE BILL NO. 2001(FIN) am

HB 2001 OIL & GAS TAX AMENDMENTS

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; providing a limit on the amount of tax that may be levied on the production of certain gas that is produced outside of the Cook Inlet sedimentary basin; relating to the sharing between agencies of certain information relating to the production tax and to oil and gas or gas only leases; expanding the period in which the Department of Revenue may assess the amount of oil and gas production tax and conservation surcharges; prohibiting a producer or explorer from receiving tax credits if certain judgments are not satisfied and requiring, as a condition of receiving the tax credits, the deposit of the amount of certain unpaid judgments and certain interest on those judgments in the court during an appeal and relating to that interest; relating to state oil and gas audit masters; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with  SCS or  CS CS HB 2001 ( FIN )
- adopt previous  SCS or  CS \_\_\_\_\_ ( \_\_\_\_\_ )
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

|                                     |                               |
|-------------------------------------|-------------------------------|
| <b>SENATE BILL:</b>                 |                               |
| <input type="checkbox"/>            | Same Title                    |
| <input type="checkbox"/>            | New Title                     |
| <hr/>                               |                               |
| <b>HOUSE BILL:</b>                  |                               |
| <input type="checkbox"/>            | Same Title                    |
| <input type="checkbox"/>            | Technical Title Change        |
| <input checked="" type="checkbox"/> | New Title w/ SCR # <u>201</u> |

NEW FISCAL NOTE(S):

| Department | Date     | Fiscal  | Indet. | Zero | FN# |
|------------|----------|---------|--------|------|-----|
| REV/TAX    | 11/14/07 | 1.9 MIL |        |      | 9   |
| REV/TAX    | 11/14/07 | ✓       |        |      | 10  |
| DNR/O&G    | 11/15/07 | ✓       |        |      | 11  |
|            |          |         |        |      |     |

PREVIOUS FISCAL NOTE(S):

| Department | Date     | Fiscal | Indet. | Zero | FN# |
|------------|----------|--------|--------|------|-----|
| ADMIN      | 10/12/07 |        |        | ✓    | #1  |
|            |          |        |        |      |     |
|            |          |        |        |      |     |

| SIGNATURES AND RECOMMENDATIONS: | PRINTED LAST NAME | DO PASS | DO NOT PASS | NO REC | AMEND |
|---------------------------------|-------------------|---------|-------------|--------|-------|
|                                 | Elton Thomas      | ✓       |             |        |       |
|                                 | Thomas Dysal      | ✓       |             |        | ✓     |
|                                 | Huggins           |         |             |        | ✓     |
|                                 | Olson             |         |             | ✓      |       |
| CO-CHAIR:                       | Hoffman           |         |             | ✓      |       |
| CO-CHAIR:                       | Stedman           |         |             | ✓      |       |

# FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: HB 2001  
(H) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOA-DAS-10-17-07 Dept. Affected: Administration  
Title: An Act relating to the production tax on oil and gas... RDU: Centralized Admin. Services  
Component: Office of the Commissioner  
Sponsor: Governor Component Number: 45  
Requester: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

|                               | Appropriation<br>Required | Information |            |            |            |            |            |            |
|-------------------------------|---------------------------|-------------|------------|------------|------------|------------|------------|------------|
|                               |                           | FY 2009     | FY 2009    | FY 2010    | FY 2011    | FY 2012    | FY 2013    | FY 2014    |
| <b>OPERATING EXPENDITURES</b> |                           |             |            |            |            |            |            |            |
| Personal Services             |                           |             |            |            |            |            |            |            |
| Travel                        |                           |             |            |            |            |            |            |            |
| Contractual                   |                           |             |            |            |            |            |            |            |
| Supplies                      |                           |             |            |            |            |            |            |            |
| Equipment                     |                           |             |            |            |            |            |            |            |
| Land & Structures             |                           |             |            |            |            |            |            |            |
| Grants & Claims               |                           |             |            |            |            |            |            |            |
| Miscellaneous                 |                           |             |            |            |            |            |            |            |
| <b>TOTAL OPERATING</b>        | <b>0.0</b>                | <b>0.0</b>  | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

|                             |            |            |            |            |            |            |            |            |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>CAPITAL EXPENDITURES</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|

|                               |  |  |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|--|--|
| <b>CHANGE IN REVENUES ( )</b> |  |  |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|--|--|

**FUND SOURCE** (Thousands of Dollars)

|                            |            |            |            |            |            |            |            |            |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts      |            |            |            |            |            |            |            |            |
| 1003 GF Match              |            |            |            |            |            |            |            |            |
| 1004 GF                    |            |            |            |            |            |            |            |            |
| 1005 GF/Program Receipts   |            |            |            |            |            |            |            |            |
| 1037 GF/Mental Health      |            |            |            |            |            |            |            |            |
| Other Interagency Receipts |            |            |            |            |            |            |            |            |
| <b>TOTAL</b>               | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

Estimate of any current year (FY2008) cost: \_\_\_\_\_

**POSITIONS**

|           |  |  |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |  |  |

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

This legislation has no fiscal impact on the Department of Administration.

Prepared by: Eric Swanson Phone 465-5655  
Division: Administrative Services Date/Time: \_\_\_\_\_  
Approved by: Annette Kreitzer Date Oct. 12, 2007  
Commissioner

# FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

Fiscal Note Number: 9  
Bill Version: SCS CSHB 2001(FIN)  
(S) Publish Date: 11/15/07

Identifier (file name): SCSCSHB2001(FIN)-DOR-TAX-11-14-07 Dept. Affected: Revenue 04  
Title: An Act relating to the production tax on oil and gas.. RDU: Taxation and Treas.  
Component: Tax Division  
Sponsor: Governor  
Requester: Senate Finance Component Number: 2476

## Expenditures/Revenues (Thousands of Dollars)

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

|                              | Appropriation Required | Information |                |                |                |              |              |         |
|------------------------------|------------------------|-------------|----------------|----------------|----------------|--------------|--------------|---------|
|                              |                        | FY 2009     | FY 2009        | FY 2010        | FY 2011        | FY 2012      | FY 2013      | FY 2014 |
| <b>OPERATING EXPENDITURE</b> |                        |             |                |                |                |              |              |         |
| Personal Services            | 915.7                  |             | 915.7          | 915.7          | 915.7          | 915.7        | 915.7        | 915.7   |
| Travel                       |                        |             |                |                |                |              |              |         |
| Contractual                  | 1,018.4                |             | 1,018.4        | 1,018.4        | 511.8          | 5.2          | 5.2          |         |
| Supplies                     |                        |             |                |                |                |              |              |         |
| Equipment                    |                        |             |                |                |                |              |              |         |
| Land & Structures            |                        |             |                |                |                |              |              |         |
| Grants & Claims              |                        |             |                |                |                |              |              |         |
| Miscellaneous                |                        |             |                |                |                |              |              |         |
| <b>TOTAL OPERATING</b>       | <b>1,934.1</b>         |             | <b>1,934.1</b> | <b>1,934.1</b> | <b>1,427.5</b> | <b>920.9</b> | <b>920.9</b> |         |

|                             |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|

|                             |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|
| <b>CHANGE IN REVENUES (</b> |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|

## FUND SOURCE (Thousands of Dollars)

|                            |                |  |                |                |                |              |              |  |
|----------------------------|----------------|--|----------------|----------------|----------------|--------------|--------------|--|
| 1002 Federal Receipts      |                |  |                |                |                |              |              |  |
| 1003 GF Match              |                |  |                |                |                |              |              |  |
| 1004 GF                    | 1,934.1        |  | 1,934.1        | 1,934.1        | 1,427.5        | 920.9        | 920.9        |  |
| 1005 GF/Program Receipts   |                |  |                |                |                |              |              |  |
| 1037 GF/Mental Health      |                |  |                |                |                |              |              |  |
| Other Interagency Receipts |                |  |                |                |                |              |              |  |
| <b>TOTAL</b>               | <b>1,934.1</b> |  | <b>1,934.1</b> | <b>1,934.1</b> | <b>1,427.5</b> | <b>920.9</b> | <b>920.9</b> |  |

Estimate of any current year (FY2008) cost: 3,409.2

### POSITIONS

|           |   |   |   |   |   |   |   |
|-----------|---|---|---|---|---|---|---|
| Full-time | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Part-time |   |   |   |   |   |   |   |
| Temporary |   |   |   |   |   |   |   |

**ANALYSIS:** *(Attach a separate page if necessary)*  
This bill makes economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources.  
  
This fiscal note shows operating and capital expenses related to the change in reporting and administering the tax.

Prepared by: Johanna Bales, Roger Marks, Cherie Nienhuis  
Division: Tax Division  
Approved by: Jerry Burnett  
Department of Revenue

Phone: 465-2312  
Date/Time: 11/14/07 11:00 AM  
Date: 11/14/2007

FISCAL NOTE #9

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. SCS CSHB 2001(FIN)

ANALYSIS CONTINUATION

Administrative changes to the current tax system include the following: requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas audit masters.

**Personal Services:** The department will create 4 senior level auditor master positions in the exempt service with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The department estimates the new exempt positions will cost the state approximately \$800,000 annually. The bill also requires the Department of Administration to create a new class and pay system for Oil and Gas revenue auditors. We have no basis on which to estimate additional costs arising under this pay plan and these costs will be presented to the legislature in a future budget. In addition to the costs for auditors, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually.

**Contractual:** Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

**Current FY2008 costs:** The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

Revenue changes will be shown in another fiscal note.

# FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

Fiscal Note Number: 10  
Bill Version: SCS CSHB 2001(FIN)  
(S) Publish Date: 11/15/07

Identifier (file name): SCSCSHB2001(FIN)-DOR-REV-11-14-07 Dept. Affected: Revenue 04  
Title: An Act relating to the production tax on oil and gas.. RDU: Taxation and Treasury  
Sponsor: Governor Component: Tax Division  
Requester: Senate Finance Component Number: 2476

## Expenditures/Revenues (Thousands of Dollars)

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

|                               | Appropriation<br>Required | Information    |                |                |                |                |                |         |
|-------------------------------|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|---------|
|                               |                           | FY 2009        | FY 2009        | FY 2010        | FY 2011        | FY 2012        | FY 2013        | FY 2014 |
| <b>OPERATING EXPENDITURES</b> |                           |                |                |                |                |                |                |         |
| Personal Services             |                           |                |                |                |                |                |                |         |
| Travel                        |                           |                |                |                |                |                |                |         |
| Contractual                   |                           |                |                |                |                |                |                |         |
| Supplies                      |                           |                |                |                |                |                |                |         |
| Equipment                     |                           |                |                |                |                |                |                |         |
| Land & Structures             |                           |                |                |                |                |                |                |         |
| Grants & Claims               |                           |                |                |                |                |                |                |         |
| Miscellaneous                 |                           |                |                |                |                |                |                |         |
| <b>TOTAL OPERATING</b>        |                           |                |                |                |                |                |                |         |
| <b>CAPITAL EXPENDITURES</b>   |                           |                |                |                |                |                |                |         |
| <b>CHANGE IN REVENUES (</b>   |                           | <b>942,000</b> | <b>745,000</b> | <b>740,000</b> | <b>769,000</b> | <b>778,000</b> | <b>586,000</b> |         |

## FUND SOURCE (Thousands of Dollars)

|                            |            |            |            |            |            |            |            |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts      |            |            |            |            |            |            |            |
| 1003 GF Match              |            |            |            |            |            |            |            |
| 1004 GF                    |            |            |            |            |            |            |            |
| 1005 GF/Program Receipts   |            |            |            |            |            |            |            |
| 1037 GF/Mental Health      |            |            |            |            |            |            |            |
| Other Interagency Receipts |            |            |            |            |            |            |            |
| <b>TOTAL</b>               | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

Estimate of any current year (FY2008) cost: \_\_\_\_\_

### POSITIONS

|           |  |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |  |

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

This fiscal note shows changes in revenues resulting from this legislation; operating and capital costs pertaining to the Department of Revenue for the implementation of this legislation are shown on a separate fiscal note.

This bill makes several economic changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill raises the base tax rate to 25%; the progressivity surcharge is increased to 0.4 times the difference between the per barrel net revenue and \$30 (changing to 0.1% when the difference is \$90); the costs for transportation are set at the lower of actual or reasonable costs; the transition investment expenditure credit is eliminated, except to the extent that transition credits earned from April 1, 2006 to the bill's effective date can be carried forward to offset a future tax liability, and qualified capital credits are spread over two years. The effective date of the bill is July 1, 2007.

Prepared by: Johanna Balos, Cherie Nienhuis, Roger Marks  
Division: Tax Division  
Approved by: Jerry Burnett  
Department of Revenue

Phone 465-2312  
Date/Time 11/14/07 9:30 PM  
Date 11/14/2007

FISCAL NOTE #10

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. SCS CSHB 2001(FIN)

**ANALYSIS CONTINUATION**

Other changes to the current tax system include the following: 50% of qualified capital credits may be used in the year earned and the balance used in the following year; excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; and authorizes a short-term audit program.

Certain provisions related to lease expenditures are effective April 1, 2006.

See page 3 for projected revenue estimates.

FISCAL NOTE #10

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. SCS CSHB 2001(FIN)

ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT and ACES,  
at Various Prices (in \$millions nominal)**

*Fall 2007 DOR Official Forecast Prices*

| Fiscal Year | ANS WC \$<br>per barrel (in<br>REAL dollars) | ANS WC \$<br>per barrel (in<br>NOMINAL<br>dollars) | Status Quo -<br>PPT | ACES  | SCSCS<br>HB2001<br>(FIN) | Increase or<br>(Decrease)<br>from PPT | Increase or<br>(Decrease)<br>from ACES |
|-------------|--|--|---------------------|-------|--------------------------|---------------------------------------|--|
| 2008        | 71.65  | 71.65  | 1,947               | 2,368 | 3,556                    | 1,609                                 | 1,188                                  |
| 2009        | 64.55  | 66.30  | 1,430               | 1,985 | 2,372                    | 942                                   | 387                                    |
| 2010        | 60.05  | 63.40  | 1,217               | 1,767 | 1,962                    | 745                                   | 195                                    |
| 2011        | 59.70  | 64.75  | 1,250               | 1,766 | 1,990                    | 740                                   | 224                                    |
| 2012        | 59.55  | 66.35  | 1,174               | 1,701 | 1,943                    | 769                                   | 242                                    |
| 2013        | 58.50  | 67.45  | 1,151               | 1,685 | 1,929                    | 778                                   | 244                                    |
| 2014        | 58.25  | 68.55  | 1,217               | 1,558 | 1,803                    | 586                                   | 245                                    |

DOR Forecast nominal prices rounded to the nearest \$0.05

*\$60 per barrel in REAL dollars*

| Fiscal Year | ANS WC \$<br>per barrel (in<br>REAL dollars) | ANS WC \$<br>per barrel (in<br>NOMINAL<br>dollars) | Status Quo -<br>PPT | ACES  | SCSCS<br>HB2001<br>(FIN) | Increase or<br>(Decrease)<br>from PPT | Increase or<br>(Decrease)<br>from ACES |
|-------------|--|--|---------------------|-------|--------------------------|---------------------------------------|--|
| 2008        | 60.00  | 60.00  | 1,073               | 1,452 | 2,221                    | 1,148                                 | 769                                    |
| 2009        | 60.00  | 61.65  | 1,197               | 1,698 | 1,994                    | 797                                   | 296                                    |
| 2010        | 60.00  | 63.35  | 1,247               | 1,802 | 2,003                    | 756                                   | 201                                    |
| 2011        | 60.00  | 65.09  | 1,272               | 1,795 | 2,026                    | 754                                   | 231                                    |
| 2012        | 60.00  | 66.88  | 1,204               | 1,737 | 1,988                    | 784                                   | 251                                    |
| 2013        | 60.00  | 68.72  | 1,225               | 1,772 | 2,042                    | 817                                   | 270                                    |
| 2014        | 60.00  | 70.61  | 1,334               | 1,696 | 1,983                    | 649                                   | 287                                    |

*\$80 per barrel in REAL dollars*

| Fiscal Year | ANS WC \$<br>per barrel (in<br>REAL dollars) | ANS WC \$<br>per barrel (in<br>NOMINAL<br>dollars) | Status Quo -<br>PPT | ACES  | SCSCS<br>HB2001<br>(FIN) | Increase or<br>(Decrease)<br>from PPT | Increase or<br>(Decrease)<br>from ACES |
|-------------|--|--|---------------------|-------|--------------------------|---------------------------------------|--|
| 2008        | 80.00  | 80.00  | 2,693               | 3,137 | 4,662                    | 1,969                                 | 1,525                                  |
| 2009        | 80.00  | 82.20  | 2,640               | 3,294 | 4,187                    | 1,547                                 | 893                                    |
| 2010        | 80.00  | 84.46  | 2,751               | 3,431 | 4,235                    | 1,484                                 | 804                                    |
| 2011        | 80.00  | 86.78  | 2,782               | 3,431 | 4,277                    | 1,495                                 | 846                                    |
| 2012        | 80.00  | 89.17  | 2,698               | 3,360 | 4,229                    | 1,531                                 | 869                                    |
| 2013        | 80.00  | 91.62  | 2,783               | 3,451 | 4,376                    | 1,593                                 | 925                                    |
| 2014        | 80.00  | 94.14  | 2,950               | 3,407 | 4,366                    | 1,416                                 | 959                                    |

# FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

Fiscal Note Number: 11  
Bill Version: SCS CSHB 2001(FIN)  
(S) Publish Date: 11/15/07

Identifier (file name): HB2001SCSCS(FIN)-DNR-O&G-11-15-07 Dept. Affected: Natural Resources  
Title: Oil and Gas Tax Amendments RDU: Resource Development  
Component: Oil and Gas Development  
Sponsor: Rules Committee  
Requester: Senate Finance Component Number: 439

### Expenditures/Revenues (Thousands of Dollars)

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

|                               | Appropriation<br>Required | Information |              |              |              |              |              |              |
|-------------------------------|---------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                               |                           | FY 2009     | FY 2009      | FY 2010      | FY 2011      | FY 2012      | FY 2013      | FY 2014      |
| <b>OPERATING EXPENDITURES</b> |                           |             |              |              |              |              |              |              |
| Personal Services             | 450.0                     |             | 450.0        | 450.0        | 450.0        | 450.0        | 450.0        | 450.0        |
| Travel                        |                           |             |              |              |              |              |              |              |
| Contractual                   | 10.4                      |             | 10.4         | 10.4         | 10.4         | 10.4         | 10.4         | 10.4         |
| Supplies                      | 4.0                       |             | 4.0          | 4.0          | 4.0          | 4.0          | 4.0          | 4.0          |
| Equipment                     |                           |             |              |              |              |              |              |              |
| Land & Structures             |                           |             |              |              |              |              |              |              |
| Grants & Claims               |                           |             |              |              |              |              |              |              |
| Miscellaneous                 |                           |             |              |              |              |              |              |              |
| <b>TOTAL OPERATING</b>        | <b>464.4</b>              | <b>0.0</b>  | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> |

|                             |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|

|                               |                                     |  |  |  |  |  |  |
|-------------------------------|-------------------------------------|--|--|--|--|--|--|
| <b>CHANGE IN REVENUES ( )</b> | <b>** INDETERMINATE POSITIVE **</b> |  |  |  |  |  |  |
|-------------------------------|-------------------------------------|--|--|--|--|--|--|

### FUND SOURCE (Thousands of Dollars)

|                            |              |            |              |              |              |              |              |              |
|----------------------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1002 Federal Receipts      |              |            |              |              |              |              |              |              |
| 1003 GF Match              |              |            |              |              |              |              |              |              |
| 1004 GF                    | 464.4        |            | 464.4        | 464.4        | 464.4        | 464.4        | 464.4        | 464.4        |
| 1005 GF/Program Receipts   |              |            |              |              |              |              |              |              |
| 1037 GF/Mental Health      |              |            |              |              |              |              |              |              |
| Other Interagency Receipts |              |            |              |              |              |              |              |              |
| <b>TOTAL</b>               | <b>464.4</b> | <b>0.0</b> | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> | <b>464.4</b> |

Estimate of any current year (FY2008) cost: 172.4

### POSITIONS

|           |   |   |   |   |   |   |   |
|-----------|---|---|---|---|---|---|---|
| Full-time | 2 | 0 | 2 | 2 | 2 | 2 | 2 |
| Part-time |   |   |   |   |   |   |   |
| Temporary |   |   |   |   |   |   |   |

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

This bill would amend the oil and gas production tax under AS 43.55 to increase the base tax rate from 22.5% to 25% of net income with no retroactivity. The bill has a progressivity surcharge increasing at 0.4% per dollar between \$30 and \$90, and 0.1% above \$90, to a maximum possible surcharge of 50%. Some EICs are increased from 20% to 30%.

Administrative changes to the current tax system include changes in the administration of EICs under AS 43.55.025 relating to the kind of information that EIC applicants must provide to the state and time that this information may be kept confidential.

Prepared by: Kevin Banks, Acting Director  
Division: Oil and Gas  
Approved by: Tom Irwin, Commissioner  
Natural Resources

Phone: 269-8800  
Date/Time: 11/15/2007  
Date: 11/15/2007

FISCAL NOTE #11

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. SCS CSHB 2001(FIN)

**ANALYSIS CONTINUATION**

The bill would eliminate the transition investment expenditure credit for all but producers that did not have commercial production before April 2006. The bill also increases the net loss carry-forward credit to 25%, and defers the ability to take half of this credit and the qualified expenditure capital credit for a year.

\*\*Indeterminate Positive: The royalty revenue impact to the State of ACES is indeterminate positive. The improvements of EICs will bring favorable economics to exploration projects. Increasing the tax rate, and the reduction of TIE credits available to lessees, will alter project specific economics. Furthermore, the progressivity element that has an impact only when oil prices or margins are high, will also alter project specific economics.

**Personal Services:** This bill would create two new oil and gas revenue audit master positions in the Division of Oil and Gas. These two positions would be the senior level auditors and are expected to have extensive oil and gas auditing experience. They will be the division's most senior auditor positions and will have salaries that are consistent with market comparables and will be above the current salary levels allowed under the existing Oil and Gas Revenue Auditor pay classification system. The division shares the experience with the Department of Revenue in failing to successfully recruit auditors with the required industry experience. These two positions will direct and provide training to existing staff. Salary and benefits for these positions plus other salary adjustments within the audit staff will be \$450.0 per year. Any contractual, supplies, and equipment line items listed on page 1 support these two new positions.

# SB 2001 - Oil & Gas Tax Amendments

## Senate Finance Committee

### Index

CSHB2001(FIN)am & Fiscal Notes

SB 2001

CS SB 2001(RES)

CS SB 2001(JUD)

Fiscal Notes

Presentations (Agency and Consultants)

- Department of Revenue Share Presentation
- Summary Comparison between Various Approaches to Production Tax – Dan Dickinson
- EconOne Charts
- Legislative Finance Division – Production Tax
- Presentation on Government Take  
Cambridge Energy Research – David Dobbs  
Nov 10, 2007
- Government & Petroleum Tax Take  
Gaffney, Cline & Associates  
Nov 9, 2007
- Presentation on Alaska's Petroleum Fiscal Structure "Fair Share"  
Gaffney, Cline & Associates  
Nov 9, 2007
- Tax Rates and Progressivity  
Econ One Research  
Nov 8, 2007
- North Slope Crude Oil & Natural Gas Liquids Production Forecast  
Department of Revenue Fall 2007  
Nov 7, 2007
- Production Cost Increases  
Econ One Research  
Nov 7, 2007
- Understanding Alaska's Current Production Tax - How and where does the cash flow  
Nov 6, 2007
- Government Take (Amended to include ACES)  
Nov 6, 2007
- Government Take  
Patrick Galvin, Department of Revenue  
Bob George, Gaffney, Cline & Associates  
Nov 5, 2007

#### Industry Testimony

- BP
- ConocoPhillips
- Exxon Mobile
- Alaska Oil & Gas Association

#### Other Documents

- Transmittal Letter
- Senate Resources and Senate Judiciary Committee Reports
- Report on Production Cost Increases from Econ One Research

Amendments  
Public Testimony

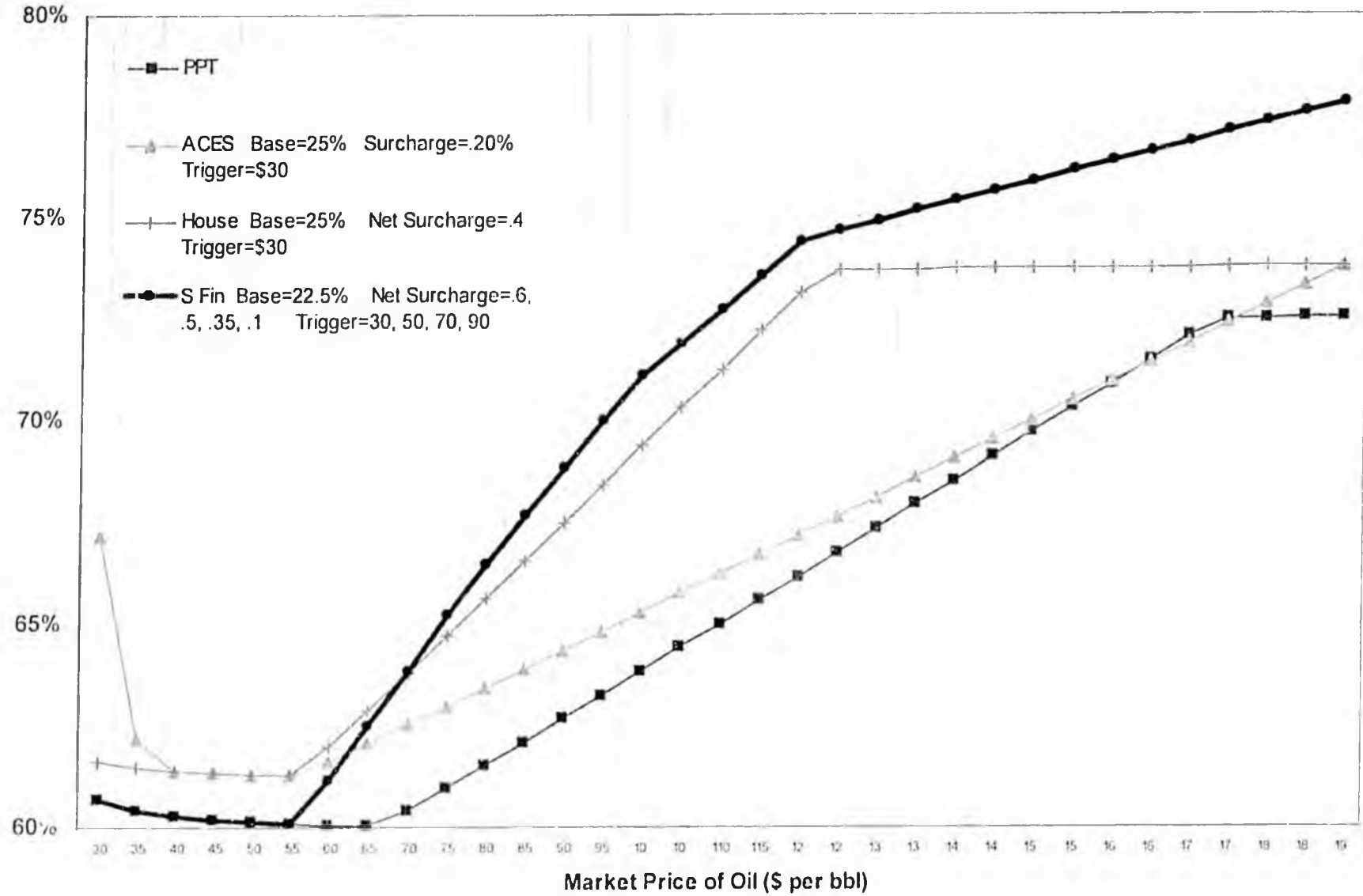
# HB 2001 Revised Analysis\*

November 13, 2007

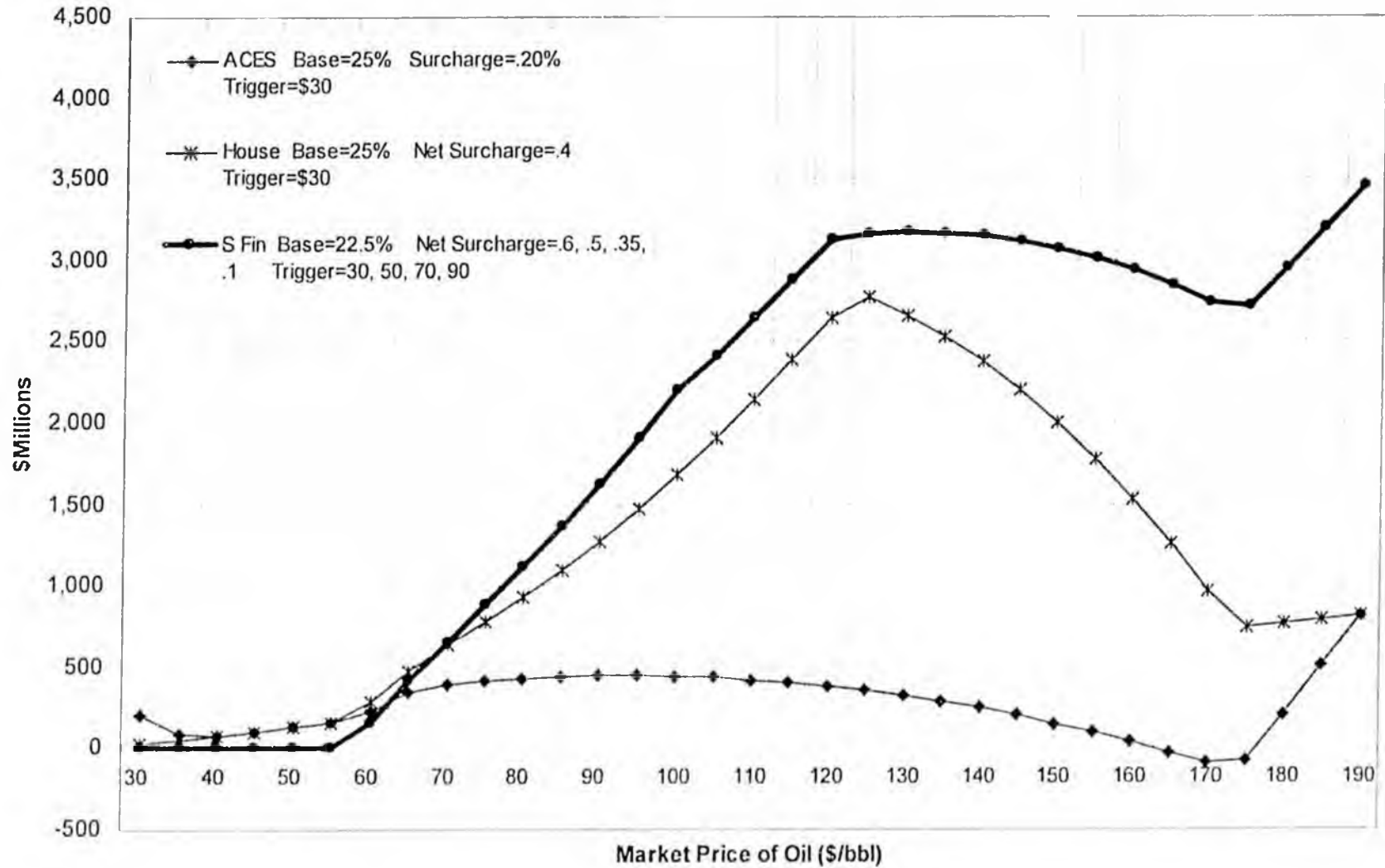
David Teal

*\* Analysis now excludes the impacts of "reasonable rate" transportation clause*

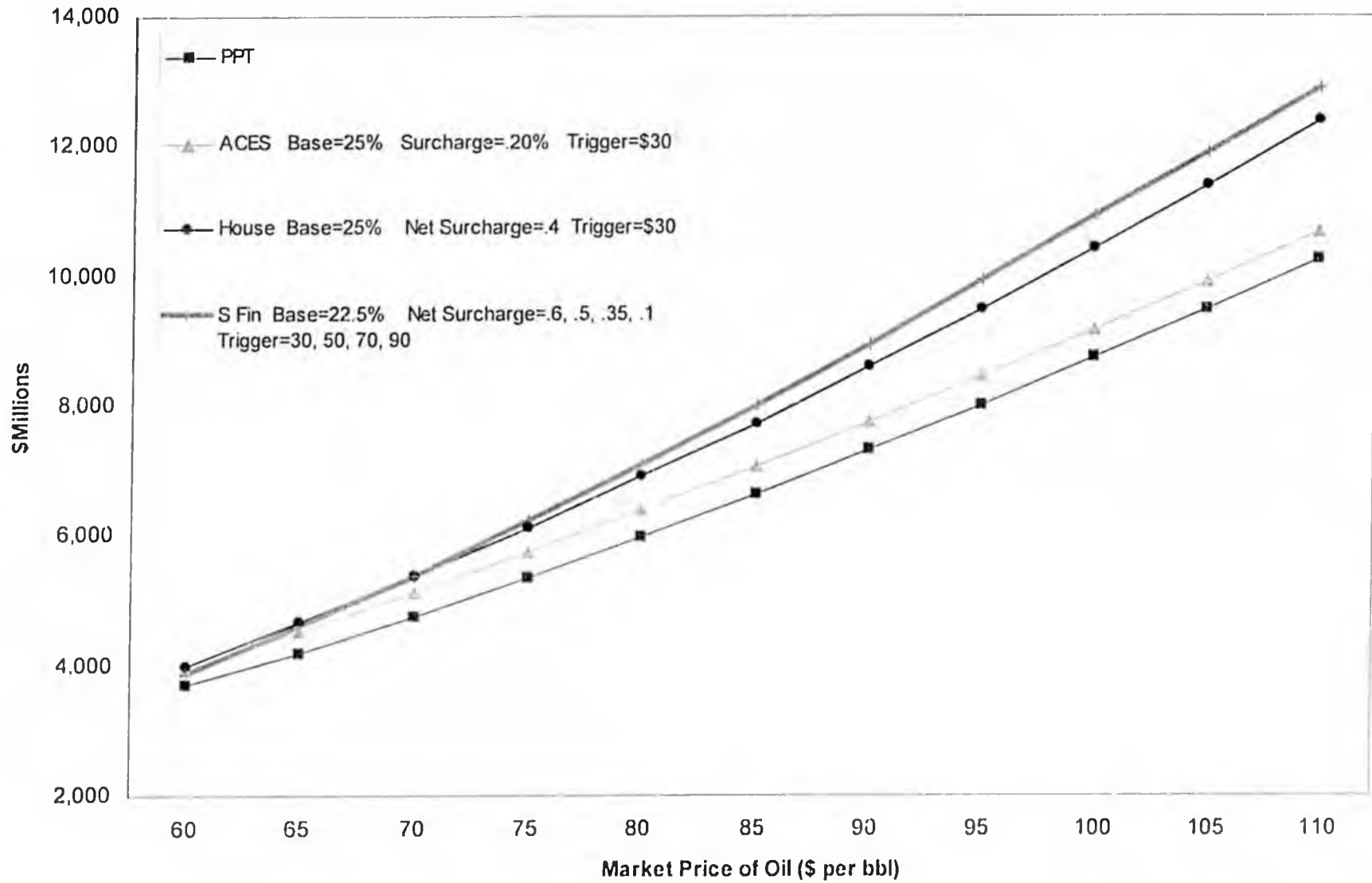
## Government Share of Revenue Under Various Scenarios



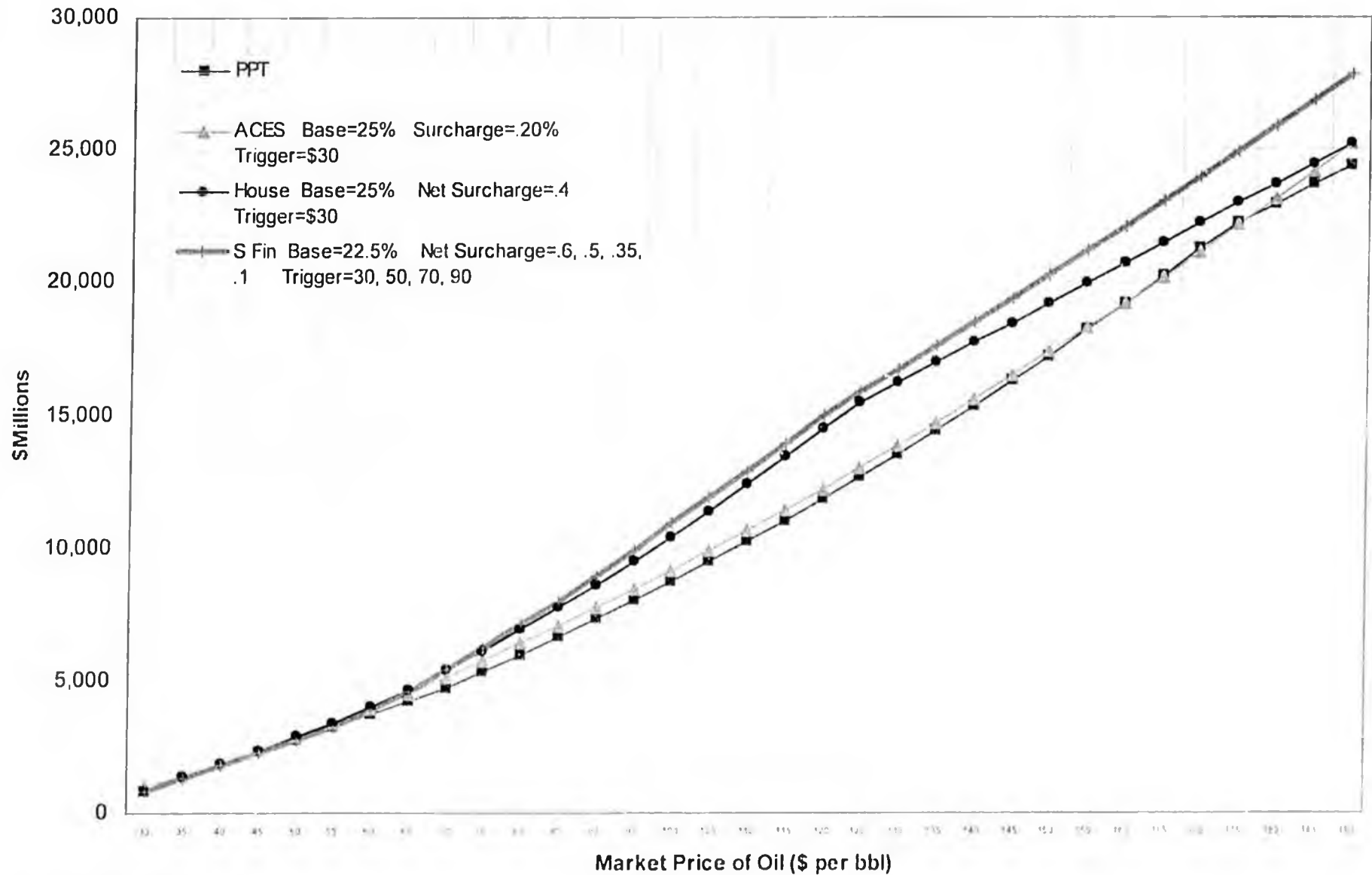
### Increases in Total State Revenue Under Various Production Tax Systems



### Total State Revenue Under Various Scenarios



### Total State Revenue Under Various Scenarios

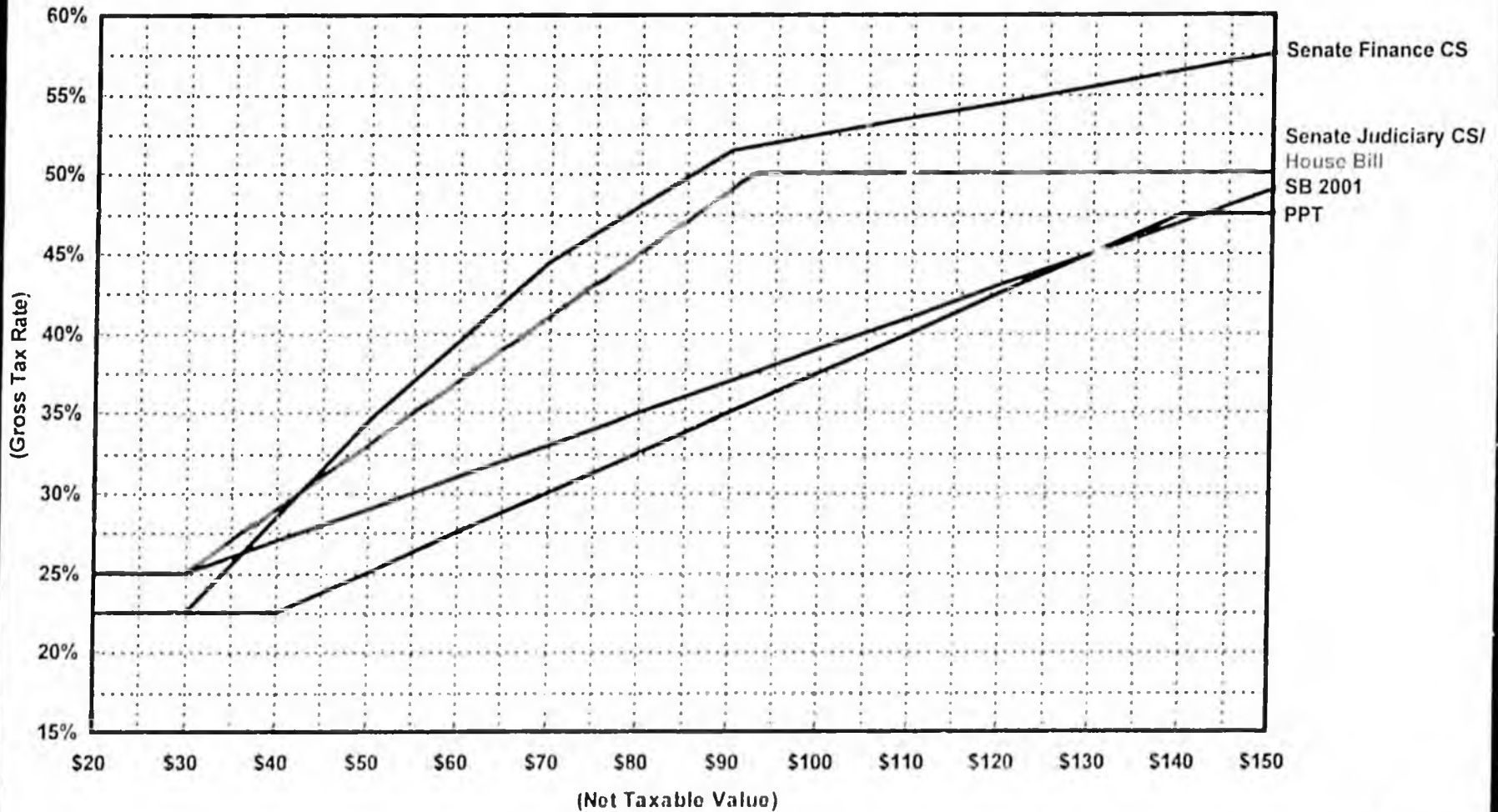


# Tax Rates vs. Net Taxable Value Under Alternative Tax Plans

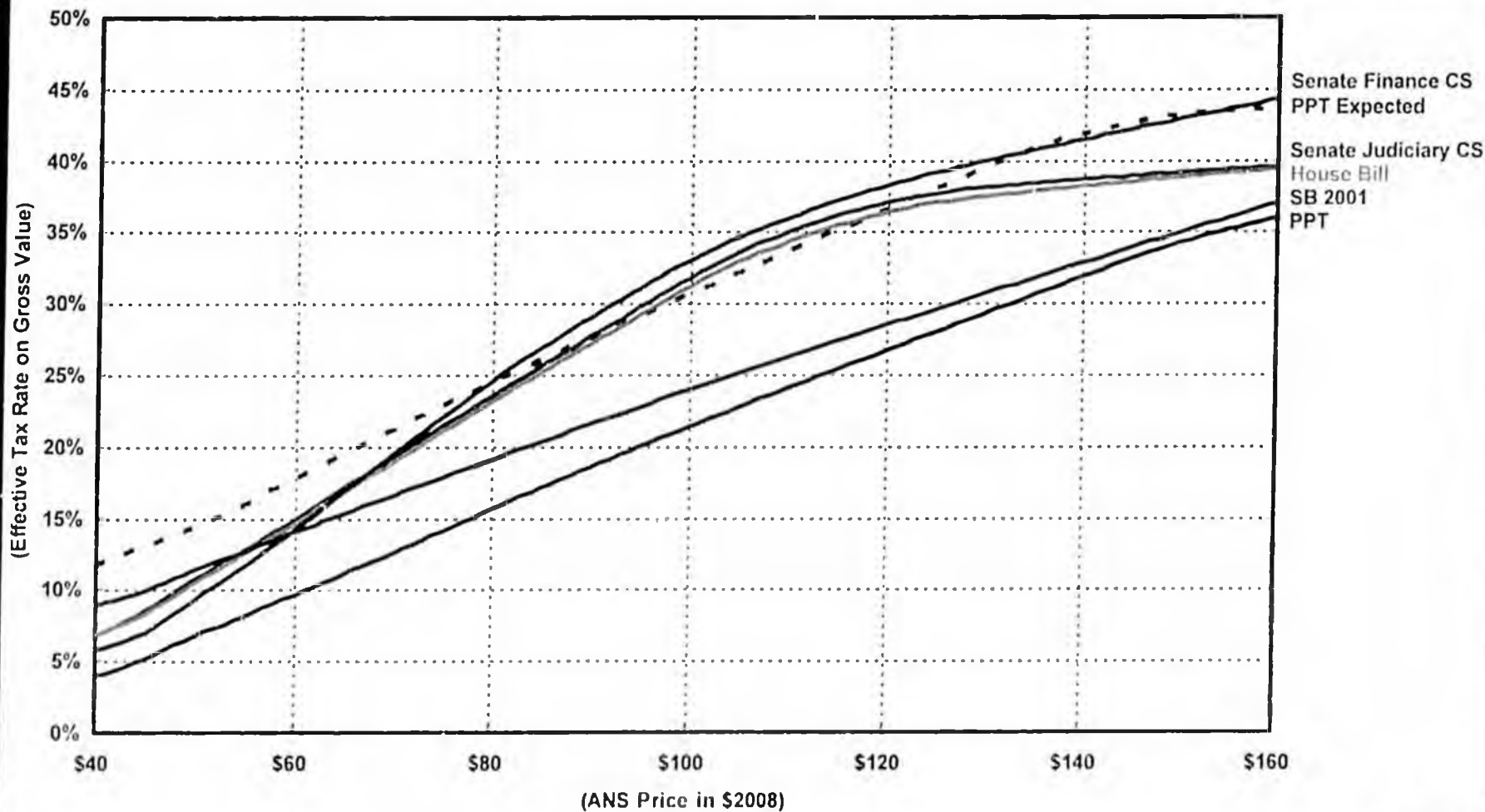
| Net Taxable Value               | PPT             | SB 2001         | Senate Judiciary CS | Senate Finance CS  | House Bill      |
|---------------------------------|-----------------|-----------------|---------------------|--|-----------------|
| \$20                            | 22.50%          | 25.00%          | 25.00%              | 22.50%   | 25.00%          |
| \$30                            | 22.50%          | 25.00%          | 25.00%              | 22.50%   | 25.00%          |
| \$40                            | 22.50%          | 27.00%          | 29.00%              | 28.50%   | 29.00%          |
| \$50                            | 25.00%          | 29.00%          | 33.00%              | 34.50%   | 33.00%          |
| \$60                            | 27.50%          | 31.00%          | 37.00%              | 39.50%   | 37.00%          |
| \$70                            | 30.00%          | 33.00%          | 41.00%              | 44.50%   | 41.00%          |
| \$80                            | 32.50%          | 35.00%          | 45.00%              | 48.00%   | 45.00%          |
| \$90                            | 35.00%          | 37.00%          | 49.00%              | 51.50%   | 49.00%          |
| \$100                           | 37.50%          | 39.00%          | 50.00%              | 52.50%   | 50.00%          |
| \$110                           | 40.00%          | 41.00%          | 50.00%              | 53.50%   | 50.00%          |
| \$120                           | 42.50%          | 43.00%          | 50.00%              | 54.50%   | 50.00%          |
| \$130                           | 45.00%          | 45.00%          | 50.00%              | 55.50%   | 50.00%          |
| \$140                           | 47.50%          | 47.00%          | 50.00%              | 56.50%   | 50.00%          |
| \$150                           | 47.50%          | 49.00%          | 50.00%              | 57.50%   | 50.00%          |
| \$160                           | 47.50%          | 50.00%          | 50.00%              | 58.50%   | 50.00%          |
| \$170                           | 47.50%          | 50.00%          | 50.00%              | 59.50%   | 50.00%          |
| \$180                           | 47.50%          | 50.00%          | 50.00%              | 60.50%   | 50.00%          |
| \$190                           | 47.50%          | 50.00%          | 50.00%              | 61.50%   | 50.00%          |
| \$200                           | 47.50%          | 50.00%          | 50.00%              | 62.50%   | 50.00%          |
| <hr/>                           |                 |                 |                     |  |                 |
| Base Tax Rate                   | 22.50%          | 25.00%          | 25.00%              | 22.50%   | 25.00%          |
| <hr/>                           |                 |                 |                     |  |                 |
| Net Trigger and Per-Dollar Rate | 0.25% over \$40 | 0.20% over \$30 | 0.40% over \$30     | 0.60% \$30-\$50<br>0.50% \$50-\$70<br>0.35% \$70-\$90<br>0.10% over \$90 | 0.40% over \$30 |
| <hr/>                           |                 |                 |                     |  |                 |
| Cap                             | 47.50%          | 50.00%          | 50.00%              | 75.00%   | 50.00%          |



# Tax Rates vs. Net Taxable Value Under Alternative Tax Plans



# Estimated Average Effective Tax Rate on Gross Taxable Value at Various West Coast ANS Price Levels (FY 2008-2014)



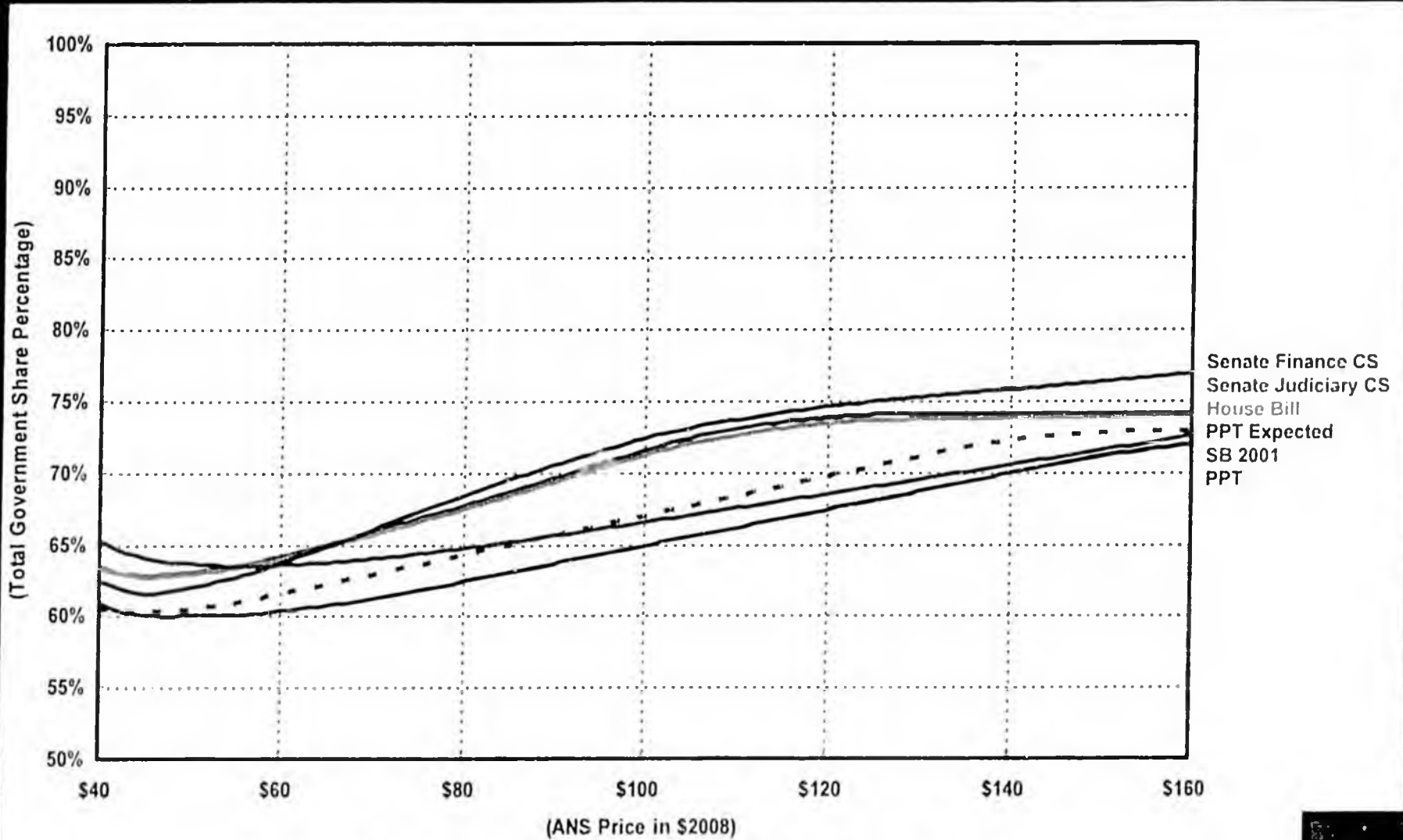
Note: Volumes per current Fall 2007 DOR Forecasts.

Senate Finance: SB2001 using 22.0% base rate; progressivity of 0.4% \$30-\$40, 0.6% \$40-\$75, 0.30% \$75-\$90, 0.11% above \$90, 70% overall cap, TRC credit 2008-2007 for new producers.  
 PPT Expected: Current Law using same parameters as SB2001.  
 Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TRC credit 2008-2007 for new producers, does not include TAPS adjustment.  
 House Bill: SB2001 using 0.6% progressivity rate, 50% overall cap, TRC credit 2008-2007 for new producers, Ops indexed to 2006 figures, does not include TAPS adjustment.

11/13/07



# Estimated Total Government Share at Various West Coast ANS Price Levels (FY 2008-2014)

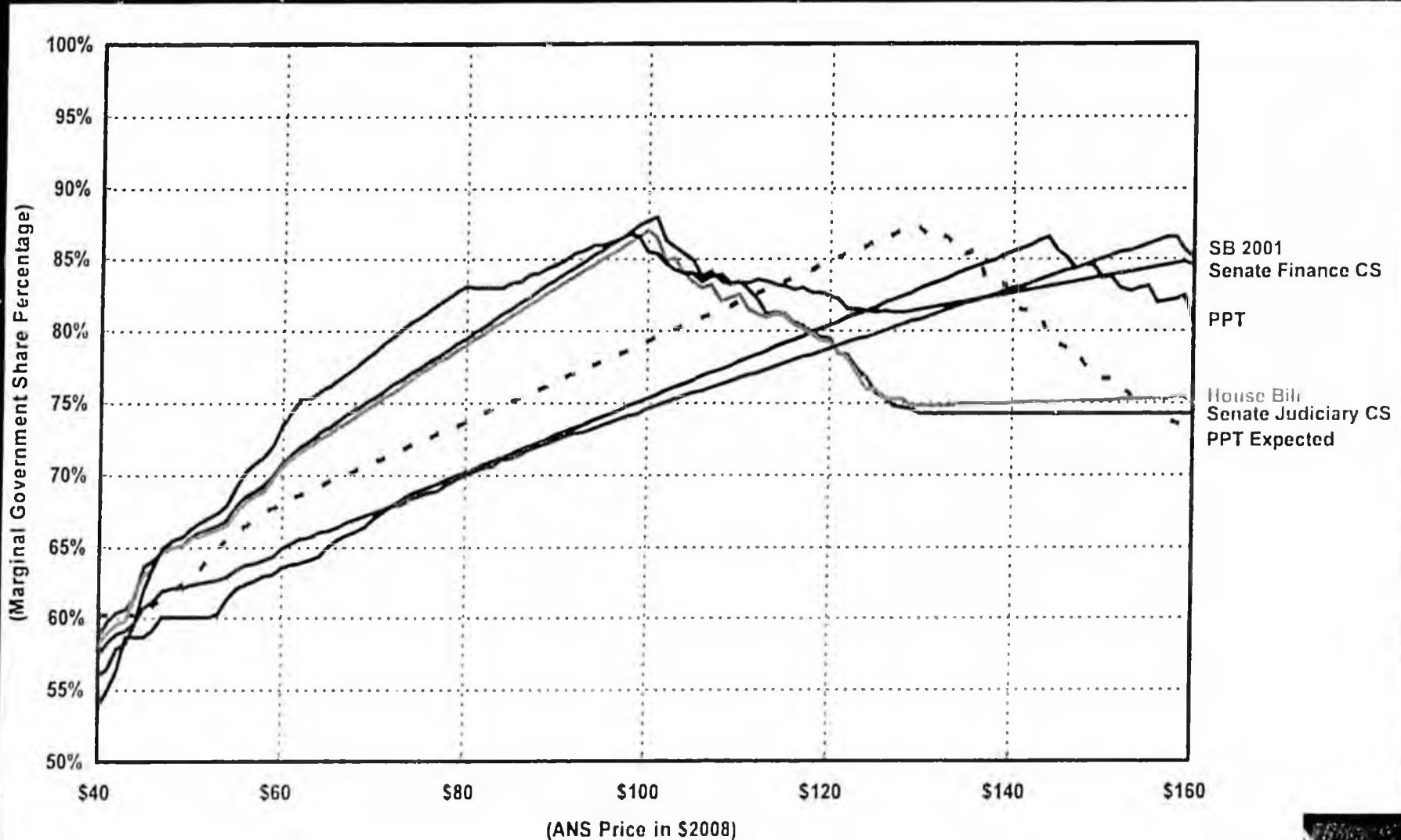


Note: Volumes per current Fall 2007 DOR Forecasts.

Senate Finance: SB2001 using 22.5% base rate; progressivity of 0.6% \$30-\$50, 0.8% \$50-\$75, 0.35% \$70-\$90, 0.1% above \$90, 75% overall cap, TIE credit 2Q06-2007 for new producers.  
 PPT Expected: Current Law using costs per fiscal note to HB3001.  
 Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2Q06-2007 for new producers, does not include TAPS adjustment.  
 House Bill: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2Q06-2007 for new producers, Opax indexed to 2008 figures, does not include TAPS adjustment.



# Estimated Marginal Government Share at Various West Coast ANS Price Levels (FY 2008-2014)



Note: Volumes per current Fall 2007 DOR Forecasts.

Senate Finance: SB2001 using 22.8% base rate; progressivity of 0.8% \$30-\$50, 2.8% \$50-\$75, 0.35% \$70-\$80, 0.1% above \$80, 78% overall cap, TIE credit 2004-2007 for new producers.  
 PPT Expected: Current Law using costs per fiscal note is MB1041.  
 Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2004-2007 for new producers, does not include TAPS adjustment.  
 House Bill: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2004-2007 for new producers, Open Indexed to 2006 figures, does not include TAPS adjustment.

# Estimated Average Effective Tax Rate, Government Shares and Revenue Impacts at Various West Coast ANS Price Levels (FY 2008-2014)

| Average ANS West Coast Price in Real 2008 Dollars                    | \$40.00 | \$60.00 | State Forecast | \$80.00 | \$100.00 | \$120.00 | \$140.00 | \$160.00 |
|--|---------|---------|----------------|---------|----------|----------|----------|----------|
| <b>Effective Tax Rate on Gross Taxable Value (Percent)</b>           |         |         |                |         |          |          |          |          |
| PPT  | 4.0%    | 9.6%    | 10.1%          | 15.6%   | 21.3%    | 26.7%    | 31.8%    | 36.0%    |
| PPT Expected   | 11.6%   | 17.7%   | 18.3%          | 24.4%   | 30.6%    | 36.5%    | 41.8%    | 43.6%    |
| SB 2001  | 8.9%    | 14.0%   | 14.5%          | 19.1%   | 23.9%    | 28.5%    | 32.8%    | 37.0%    |
| Senate Judiciary CS  | 6.8%    | 14.9%   | 15.7%          | 23.6%   | 31.8%    | 37.1%    | 38.7%    | 39.6%    |
| House Bill   | 6.8%    | 14.6%   | 15.3%          | 23.1%   | 31.2%    | 36.4%    | 38.3%    | 39.4%    |
| Senate Finance CS  | 5.8%    | 14.2%   | 15.0%          | 24.6%   | 33.0%    | 38.3%    | 41.4%    | 44.3%    |
| <b>Total Government Share of Net Cash (Percent)</b>                  |         |         |                |         |          |          |          |          |
| PPT  | 60.9%   | 60.3%   | 60.5%          | 62.4%   | 64.9%    | 67.4%    | 69.9%    | 71.9%    |
| PPT Expected   | 60.4%   | 61.5%   | 61.7%          | 64.2%   | 66.9%    | 69.7%    | 72.2%    | 72.9%    |
| SB 2001  | 65.3%   | 63.5%   | 63.6%          | 64.7%   | 66.5%    | 68.5%    | 70.5%    | 72.6%    |
| Senate Judiciary CS  | 63.4%   | 64.1%   | 64.4%          | 67.7%   | 71.5%    | 73.9%    | 74.1%    | 74.1%    |
| House Bill   | 63.4%   | 64.0%   | 64.1%          | 67.5%   | 71.2%    | 73.4%    | 73.8%    | 74.0%    |
| Senate Finance CS  | 62.5%   | 63.6%   | 63.9%          | 68.4%   | 72.4%    | 74.6%    | 75.8%    | 76.9%    |
| <b>Marginal Government Share of Net Cash (Percent)</b>               |         |         |                |         |          |          |          |          |
| PPT  | 53.8%   | 63.4%   | 64.1%          | 70.1%   | 75.2%    | 80.4%    | 85.5%    | 80.6%    |
| PPT Expected   | 60.2%   | 68.0%   | 68.4%          | 73.5%   | 79.1%    | 84.7%    | 81.9%    | 73.0%    |
| SB 2001  | 57.4%   | 64.8%   | 65.4%          | 70.0%   | 74.5%    | 78.8%    | 83.0%    | 85.0%    |
| Senate Judiciary CS  | 58.7%   | 70.7%   | 71.4%          | 79.5%   | 87.7%    | 79.4%    | 74.1%    | 74.1%    |
| House Bill   | 58.7%   | 70.5%   | 71.3%          | 79.0%   | 87.0%    | 79.2%    | 75.0%    | 74.9%    |
| Senate Finance CS  | 55.9%   | 73.4%   | 74.0%          | 83.1%   | 85.5%    | 82.4%    | 82.7%    | 84.5%    |
| <b>Annual Average Tax Difference Above/(Below) PPT (Nominal \$M)</b> |         |         |                |         |          |          |          |          |
| PPT Expected   | \$622   | \$1,036 | \$1,081        | \$1,545 | \$2,062  | \$2,651  | \$3,153  | \$2,776  |
| SB 2001  | \$402   | \$566   | \$577          | \$611   | \$578    | \$484    | \$309    | \$372    |
| Senate Judiciary CS  | \$230   | \$673   | \$732          | \$1,394 | \$2,320  | \$2,796  | \$2,158  | \$1,305  |
| House Bill   | \$229   | \$644   | \$674          | \$1,329 | \$2,204  | \$2,614  | \$2,006  | \$1,238  |
| Senate Finance CS  | \$145   | \$585   | \$629          | \$1,582 | \$2,613  | \$3,125  | \$3,041  | \$3,012  |

Note: Volumes per current Fall 2007 DOR Forecasts.

Senate Finance: SB2001 using 22.5% base rate; progressivity of 0.8% \$30-\$50, 0.8% \$50-\$75, 0.3% \$75-\$90, 0.1% above \$90, 75% overall cap, TIE credit 2008-2007 for new producers.  
 PPT Expected: Current Law using costs per fiscal note to HB3001.  
 Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2008-2007 for new producers, does not include TAPS adjustment.  
 House Bill: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2008-2007 for new producers, Opex indexed to 2008 figures, does not include TAPS adjustment.

CS HB 2001 (FIN) AM

*Adopted  
11/14/07*

25-GH0014\W-AR

Bullock  
11/13/07

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

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - SECOND SPECIAL SESSION

BY THE HOUSE SENATE FINANCE COMMITTEE

Amended: 11/11/07

Offered: 11/11/07

Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR  
A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the production tax on oil and gas and to conservation surcharges on  
2 oil; ~~providing a limit on the amount of tax that may be levied on the production of~~  
3 ~~certain gas that is produced outside of the Cook Inlet sedimentary basin; relating to the~~  
4 issuance of advisory bulletins and the disclosure of certain information relating to the  
5 production tax and the sharing between agencies of certain information relating to the  
6 production tax and to oil and gas or gas only leases; expandingamending the  
7 periodState Personnel Act to create in which the Department of Revenue may assess the  
8 ~~amount of oil and gas production tax and conservation surcharges; prohibiting a~~  
9 ~~producer or explorer from receiving tax credits if certain judgments are not satisfied~~  
10 ~~and requiring, as a condition of receiving the tax credits, the deposit of the amount of~~  
11 ~~certain unpaid judgments and certain interest on those judgments in the court during~~  
12 ~~an appeal and relating to that interest; relating to~~ exempt service state oil and gas audit

1 masters; relating to oil and gas auditors and certain oil and gas auditor supervisors;  
 2 providing for civil penalties relating to the oil and gas production tax; providing for  
 3 retroactive application of certain statutory and regulatory provisions relating to the  
 4 production tax on oil and gas; making conforming amendments; and providing for an  
 5 effective date."

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

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

9 LEGISLATIVE INTENT. (a) It is the intent of the legislature that the provisions of  
 10 this Act will

11 (1) ~~ensure a fair and equitable means of assessing and taxing Alaska's oil and~~  
 12 ~~gas resources; and~~

13 (2) ~~encourage the availability to Alaska's citizens of affordable gas produced,~~  
 14 ~~transported, and consumed within the state;~~

15 (b) ~~It is the intent of the legislature that AS 43.55.075(b), enacted by sec. 41-13 of this~~  
 16 ~~Act, confirm by clarification the long-standing interpretation of AS 43.05.260 by the~~  
 17 ~~Department of Revenue relating to the limitation of assessments for the production tax on oil~~  
 18 ~~and gas and conservation surcharges on oil, confirms by clarification the long-standing~~  
 19 ~~interpretation of AS 43.05.260 by the Department of Revenue.~~

20 (b) ~~It is the intent of the legislature that the amount of money received by the state as~~  
 21 ~~a result of the retroactivity of certain provisions under sec. 65 of this Act that exceeds the~~  
 22 ~~amount of money the state would have received if those provisions had not taken effect until~~  
 23 ~~January 1, 2008, will be appropriated to the public education fund (AS 14.17.300).~~

24 (c) ~~It is the intent of the legislature that costs disallowed in accordance with~~  
 25 ~~AS 43.55.165(e)(6), as amended by sec. 48 of this Act, include costs, subsequent to the~~  
 26 ~~effective date the legislature will responsibly invest the amounts received after December 31,~~  
 27 ~~2007, as the result of the enactment of this Act that exceed the amounts that would have been~~  
 28 ~~received under AS 43.55.011 - 43.55.165(e)(6), incurred as a result of monitoring and~~  
 29 ~~management decisions that fail to properly consider risks posed~~ 180, as those provisions read

1 on June 30, 2007, as if those provisions had been applied after December 31, 2007, by  
2 changing operating conditions and result in failure to take necessary actions to prevent a  
3 pipeline spill, interruption of service, or shutdown, making appropriations to the following:

4 (1) the public education fund (AS 14.17.300);

5 (2) the budget reserve fund (art. IX, sec. 17, Constitution of the State of  
6 Alaska);

7 (3) to extinguish the amount of the employers' unfunded liability in the  
8 teachers' defined benefit retirement plan and the public employees' defined benefit retirement  
9 plan; and

10 (4) the development and implementation of a long-range fiscal plan for the  
11 state.

12 \* Sec. 2, AS 38.05.035(a) is amended to read:

13 (a) The director shall

14 (1) have general charge and supervision of the division and may  
15 exercise the powers specifically delegated to the director; the director may employ  
16 and fix the compensation of assistants and employees necessary for the operations of  
17 the division; the director [AND] is the certifying officer of the division, with the  
18 consent of the commissioner, and may approve vouchers for disbursements of money  
19 appropriated to the division;

20 (2) manage, inspect, and control state land and improvements on it  
21 belonging to the state and under the jurisdiction of the division;

22 (3) execute laws, rules, regulations, and orders adopted by the  
23 commissioner;

24 (4) prescribe application procedures and practices for the sale, lease,  
25 or other disposition of available land, resources, property, or interest in them;

26 (5) prescribe fees or service charges, with the consent of the  
27 commissioner, for any public service rendered;

28 (6) under the conditions and limitations imposed by law and the  
29 commissioner, issue deeds, leases, or other conveyances disposing of available land,  
30 resources, property, or any interests in them;

31 (7) have jurisdiction over state land, except that land acquired by the

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Alaska World War II Veterans Board and the Agricultural Loan Board or the departments or agencies succeeding to their respective functions through foreclosure or default; to this end, the director possesses the powers and, with the approval of the commissioner, shall perform the duties necessary to protect the state's rights and interest in state land, including the taking of all necessary action to protect and enforce the state's contractual or other property rights:

(8) [REPEALED]

(9) maintain the [SUCH] records [AS] the commissioner considers necessary, administer oaths, and do all things incidental to the authority imposed; the following records and files shall be kept confidential upon request of the person supplying the information:

(A) the name of the person nominating or applying for the sale, lease, or other disposal of land by competitive bidding;

(B) before the announced time of opening, the names of the bidders and the amounts of the bids;

(C) all geological, geophysical, and engineering data supplied, whether or not concerned with the extraction or development of natural resources;

(D) except as provided in AS 38.05.036, cost data and financial information submitted in support of applications, bonds, leases, and similar items;

(E) applications for rights-of-way or easements;

(F) requests for information or applications by public agencies for land that [WHICH] is being considered for use for a public purpose;

(9) [(10)] account for the fees, licenses, taxes, or other money received in the administration of this chapter including the sale or leasing of land, identify their source, and promptly transmit them to the proper fiscal department after crediting them to the proper fund; receipts from land application filing fees and charges for copies of maps and records shall be deposited immediately in the general fund of the state by the director;

(10) [(11)] select and employ or obtain at reasonable compensation

1 cadastral, appraisal, or other professional personnel the director considers necessary  
2 for the proper operation of the division;

3 (11) [(12)] be the certifying agent of the state to select, accept, and  
4 secure by whatever action is necessary in the name of the state, by deed, sale, gift,  
5 devise, judgment, operation of law, or other means any land, of whatever nature or  
6 interest, available to the state; and be the certifying agent of the state, to select,  
7 accept, or secure by whatever action is necessary in the name of the state any land, or  
8 title or interest to land available, granted, or subject to being transferred to the state  
9 for any purpose:

10 (12) on request, furnish records, files, and other information  
11 related to the administration of AS 38.05.180 to the Department of Revenue for  
12 use in forecasting state revenue under or administering AS 43.55, whether or not  
13 those records, files, and other information are required to be kept confidential  
14 under (8) of this subsection; in the case of records, files, or other information  
15 required to be kept confidential under (8) of this subsection, the Department of  
16 Revenue shall maintain the confidentiality that the Department of Natural  
17 Resources is required to extend to records, files, and other information under (8)  
18 of this subsection

19 [(13) REPEALED]

20 [(14) REPEALED].

21 \* Sec. 3. AS 38.05.036(b) is amended to read:

22 (b) The Department of Revenue may obtain from the department information  
23 relating to royalty and net profits payments and to exploration incentive credits under  
24 this chapter or under AS 41.09, whether or not that information is confidential. The  
25 Department of Revenue may use the information in carrying out its functions and  
26 responsibilities under AS 43, and shall hold that information confidential to the extent  
27 required by an agreement with the department or by AS 38.05.035(a)(8)  
28 [AS 38.05.035(a)(9)], AS 41.09.010(d), or AS 43.05.230.

29 \* Sec. 4. AS 38.05.036(f) is amended to read:

30 (f) Except as otherwise provided in this section or in connection with official  
31 investigations or proceedings of the department, it is unlawful for a current or former

1 officer, employee, or agent of the state to divulge information obtained by the  
2 department as a result of an audit under this section that is required by an agreement  
3 with the department or by AS 38.05.035(a)(8) [AS 38.05.035(a)(9)] or  
4 AS 41.09.010(d) to be kept confidential.

5 \* Sec. 5. AS 38.05.036(g) is amended to read:

6 (g) Nothing in this section prohibits the publication of statistics in a manner  
7 that maintains the confidentiality of information to the extent required by an  
8 agreement with the department or by AS 38.05.035(a)(8) [AS 38.05.035(a)(9)] or  
9 AS 41.09.010(d).

10 \* Sec. 6. AS 38.05.123(f) is amended to read:

11 (f) As part of the timber sale negotiations authorized by this section, the  
12 commissioner may require a prospective purchaser negotiating a timber sale contract  
13 to submit financial and technical data that demonstrates that the requirements of this  
14 section have been or will be met. Upon the prospective purchaser's request, the  
15 commissioner shall keep data provided by the purchaser confidential in accordance  
16 with the requirements of AS 38.05.035(a)(8) [AS 38.05.035(a)(9)].

17 \* Sec. 7. AS 38.05.133(e) is amended to read:

18 (e) The commissioner may make a written request to a prospective licensee  
19 for additional information on the prospective licensee's proposal. The commissioner  
20 shall keep confidential information described in AS 38.05.035(a)(8)  
21 [AS 38.05.035(a)(9)] that is voluntarily provided if the prospective licensee has made  
22 a written request that the information remain confidential.

23 \* Sec. 8. AS 38.05.180(j) is amended to read:

24 (j) The commissioner

25 (1) may provide for modification of royalty on individual leases,  
26 leases unitized as described in (p) of this section, leases subject to an agreement  
27 described in (s) or (t) of this section, or interests unitized under AS 31.05

28 (A) to allow for production from an oil or gas field or pool if

29 (i) the oil or gas field or pool has been sufficiently  
30 delineated to the satisfaction of the commissioner;

31 (ii) the field or pool has not previously produced oil or

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gas for sale; and

(iii) oil or gas production from the field or pool would not otherwise be economically feasible;

(B) to prolong the economic life of an oil or gas field or pool as per barrel or barrel equivalent costs increase or as the price of oil or gas decreases, and the increase or decrease is sufficient to make future production no longer economically feasible; or

(C) to reestablish production of shut-in oil or gas that would not otherwise be economically feasible;

(2) may not grant a royalty modification unless the lessee or lessees requesting the change make a clear and convincing showing that a modification of royalty meets the requirements of this subsection and is in the best interests of the state;

(3) shall provide for an increase or decrease or other modification of the state's royalty share by a sliding scale royalty or other mechanism that shall be based on a change in the price of oil or gas and may also be based on other relevant factors such as a change in production rate, projected ultimate recovery, development costs, and operating costs;

(4) may not grant a royalty reduction for a field or pool

(A) under (1)(A) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than five percent in amount or value of the production removed or sold from a lease or leases covering the field or pool;

(B) under (1)(B) or (1)(C) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than three percent in amount or value of the production removed or sold from a lease or leases covering the field or pool;

(5) may not grant a royalty reduction under this subsection without including an explicit condition that the royalty reduction is not assignable without the prior written approval, which may not be unreasonably withheld, by the commissioner; the commissioner shall, in the preliminary and final findings and

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determinations, set out the conditions under which the royalty reduction may be assigned;

(6) shall require the lessee or lessees to submit, with the application for the royalty reduction, financial and technical data that demonstrate that the requirements of this subsection are met; the commissioner

(A) may require disclosure of only the financial and technical data related to development, production, and transportation of oil and gas or gas only from the field or pool that are reasonably available to the applicant; and

(B) shall keep the data confidential under AS 38.05.035(a)(8) [AS 38.05.035(a)(9)] at the request of the lessee or lessees making application for the royalty reduction; the confidential data may be disclosed by the commissioner to legislators and to the legislative auditor and as directed by the chair or vice-chair of the Legislative Budget and Audit Committee to the director of the division of legislative finance, the permanent employees of their respective divisions who are responsible for evaluating a royalty reduction, and to agents or contractors of the legislative auditor or the legislative finance director who are engaged under contract to evaluate the royalty reduction, if they sign an appropriate confidentiality agreement;

(7) may

(A) require the lessee or lessees making application for the royalty reduction under (1)(A) of this subsection to pay for the services of an independent contractor, selected by the lessee or lessees from a list of qualified consultants compiled by the commissioner, to evaluate hydrocarbon development, production, transportation, and economics and to assist the commissioner in evaluating the application and financial and technical data; if, under this subparagraph, the commissioner requires payment for the services of an independent contractor, the total cost of the services to be paid for by the lessee or lessees may not exceed \$150,000 for each application, and the commissioner shall determine the relevant scope of the work to be performed by the contractor; selection of an independent contractor under this

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subparagraph is not subject to AS 36.30;

(B) with the mutual consent of the lessee or lessees making application for the royalty reduction under (1)(B) or (1)(C) of this subsection, request payment for the services of an independent contractor, selected from a list of qualified consultants to evaluate hydrocarbon development, production, transportation, and economics by the commissioner to assist the commissioner in evaluating the application and financial and technical data; if, under this subparagraph, the commissioner requires payment for the services of an independent contractor, the total cost of the services that may be paid for by the lessee or lessees may not exceed \$150,000 for each application, and the commissioner shall determine the relevant scope of the work to be performed by the contractor; selection of an independent contractor under this subparagraph is not subject to AS 36.30;

(8) shall make and publish a preliminary findings and determination on the royalty reduction application, give reasonable public notice of the preliminary findings and determination, and invite public comment on the preliminary findings and determination during a 30-day period for receipt of public comment;

(9) shall offer to appear before the Legislative Budget and Audit Committee, on a day that is not earlier than 10 days and not later than 20 days after giving public notice under (8) of this subsection, to provide the committee a review of the commissioner's preliminary findings and determination on the royalty reduction application and administrative process; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to all members of the legislature;

(10) shall make copies of the preliminary findings and determination available to

- (A) the presiding officer of each house of the legislature;
- (B) the chairs of the legislature's standing committees on resources; and
- (C) the chairs of the legislature's special committees on oil and gas, if any;

1 (11) shall, within 30 days after the close of the public comment period  
2 under (8) of this subsection.

3 (A) prepare a summary of the public response to the  
4 commissioner's preliminary findings and determination;

5 (B) make a final findings and determination; the  
6 commissioner's final findings and determination prepared under this  
7 subparagraph regarding a royalty reduction is final and not appealable to the  
8 court;

9 (C) transmit a copy of the final findings and determination to  
10 the lessee;

11 (D) with the applicant's consent, amend the applicant's lease or  
12 unitization agreement consistent with the commissioner's final decision; and

13 (E) make copies of the final findings and determination  
14 available to each person who submitted comment under (8) of this subsection  
15 and who has filed a request for the copies;

16 (12) is not limited by the provisions of AS 38.05.134(3) or (4) of this  
17 section in the commissioner's determination under this subsection.

18 \* Sec. 9. AS 38.05.275(c) is amended to read:

19 (c) Subsection (b) of this section may not be construed to limit the director in  
20 the exercise of authority granted by AS 38.05.035(a)(11) [AS 38.05.035(a)(12)].

21 \* Sec. 10. AS 39.25.110 is amended by adding a new paragraph to read:

22 (42) oil and gas auditor masters employed in a professional capacity  
23 by the Department of Revenue and the Department of Natural Resources to collect oil  
24 and gas revenue by developing policy, ~~conducting~~ conducting studies, drafting  
25 proposed regulations, enforcing regulations, and directing audits by oil and gas  
26 revenue auditors.

27 \* Sec. 11. AS 41.09.010(d) is amended to read:

28 (d) Data derived from drilling a stratigraphic test well or exploratory well that  
29 is provided to the commissioner under (c)(3) of this section shall be kept confidential  
30 for 24 months after receipt by the commissioner unless the owner of the well gives  
31 written permission to the state to release the well data at an earlier date, and,



1                   (2) in connection with official investigations or proceedings of the  
2 child support enforcement agency, whether judicial or administrative, involving child  
3 support obligations imposed or imposable under AS 25 or AS 47;

4                   (3) as provided in AS 38.05.036 pertaining to audit functions of the  
5 Department of Natural Resources;

6                   (4) as provided in AS 43.05.405 - 43.05.499; and

7                   (5) as otherwise provided in this section or AS 43.55.890.

8 \* **Sec. 13.** AS 43.05.230(h) is amended to read:

9                   (h) The commissioner shall, upon request, furnish to the Department of  
10 Natural Resources copies of tax returns, reports, and other documents filed under  
11 AS 43.55 or AS 43.65, and the Department of Revenue's determinations and  
12 workpapers under those chapters. The Department of Natural Resources shall  
13 maintain the confidentiality that the Department of Revenue is required to extend to  
14 the returns, reports, documents, determinations, and workpapers furnished to the  
15 Department of Natural Resources under this subsection.

16 \* **Sec. 14.** AS 43.05.260(a) is amended to read:

17                   (a) Except as provided in (c) of this section, [AND] AS 43.20.200(b), and  
18 AS 43.55.075, the amount of a tax imposed by this title must be assessed within three  
19 years after the return was filed, whether or not a return was filed on or after the date  
20 prescribed by law. If the tax is not assessed before the expiration of the applicable  
21 [THREE-YEAR] period, proceedings may not be instituted in court for the collection  
22 of the tax.

23 \* **Sec. 15.** AS 43.55.011(e) is repealed and reenacted to read:

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

29                   (1) the production tax value of the taxable oil and gas as calculated  
30 under AS 43.55.160 multiplied by 25 percent; and

31                   (2) the sum, over all months of the calendar year, of the tax amounts

1 calculated rate determined under (g) of this section.

2 \* Sec. 16. AS 43.55.011(f) is amended to read:

3 (f) The levy of tax under this section for [ON A PRODUCER OF] oil and gas  
4 produced from leases or properties that include land north of 68 degrees North  
5 latitude, other than oil and gas production subject to (i) of this section and gas  
6 subject to (o) of this section, may not be less than

7 (1) four percent of the gross value at the point of production when the  
8 average price per barrel for Alaska North Slope crude oil for sale on the United States  
9 West Coast during the calendar year for which the tax is due is more than \$25;

10 (2) three percent of the gross value at the point of production when the  
11 average price per barrel for Alaska North Slope crude oil for sale on the United States  
12 West Coast during the calendar year for which the tax is due is over \$20 but not over  
13 \$25;

14 (3) two percent of the gross value at the point of production when the  
15 average price per barrel for Alaska North Slope crude oil for sale on the United States  
16 West Coast during the calendar year for which the tax is due is over \$17.50 but not  
17 over \$20;

18 (4) one percent of the gross value at the point of production when the  
19 average price per barrel for Alaska North Slope crude oil for sale on the United States  
20 West Coast during the calendar year for which the tax is due is over \$15 but not over  
21 \$17.50; or

22 (5) zero percent of the gross value at the point of production when the  
23 average price per barrel for Alaska North Slope crude oil for sale on the United States  
24 West Coast during the calendar year for which the tax is due is \$15 or less.

25 \* Sec. 17. AS 43.55.011(g) is repealed and reenacted to read:

26 (g) ~~For each month for which the price index determined under (d) of this~~  
27 ~~section is greater than zero, the amount of tax for purposes of (e)(2) of this section is~~  
28 ~~calculated as follows: (1) for oil and gas produced from each lease or property, the~~  
29 ~~monthly production tax value is calculated in the manner described in~~  
30 ~~AS 43.55.160(a) and (b), except that the gross value at the point of production for the~~  
31 ~~month is substituted for the gross value at the point of production for the calendar~~

1 year and 1/2 of the applicable adjusted lease expenditures for the calendar year is  
 2 substituted for the applicable adjusted lease expenditures for the calendar year; (2) the  
 3 monthly production tax value determined under (1) of this subsection is multiplied by  
 4 the progressivity tax rate for the month. The progressivity tax rate for a month is the  
 5 product of 0.4 percent multiplied by the price index for the month determined under  
 6 (h) of this section, except that the progressivity tax rate for a month may not exceed  
 7 25 percent. Notwithstanding any contrary provision of AS 43.55.150, for purposes of  
 8 calculating a monthly production tax value under this subsection, the gross value at  
 9 the point of production of the oil and gas is calculated under regulations adopted by  
 10 the department that provide for using an appropriate monthly share of the producer's  
 11 costs of transportation for the calendar year.

12 ~~\* Sec. 18. AS 43.55.011(h) is repealed and reenacted to read:~~

13 (h) ~~For purposes of (g) of this section, the price index for a month is~~  
 14 ~~calculated by subtracting 30 from the number that is equal to the total of the monthly~~  
 15 ~~production tax values, as calculated under (g) of this section, of the taxable oil and~~  
 16 ~~gas produced by the producer from all leases and properties in the state during that~~  
 17 ~~month, divided by the total amount of taxable oil and gas produced by the producer~~  
 18 ~~from all leases and properties in the state during that month, in BBL equivalent~~  
 19 ~~barrels. However, a price index calculated under this subsection may not be less than~~  
 20 ~~zero.~~

21 ~~\* Sec. 19. (g) The tax rate applied to the monthly production tax value of~~  
 22 ~~oil and gas under (e) of this section for each month of the calendar year in which the~~  
 23 ~~tax is levied is 22.5 percent plus, for each month for which the monthly average~~  
 24 ~~production tax value for each BBL equivalent barrel is more than~~

25 (1) \$30 but not more than \$50, 0.6 percent multiplied by the number  
 26 that represents the difference between the average production tax value for each BBL  
 27 equivalent barrel of the taxable oil and gas for that month and \$30;

28 (2) \$50 but not more than \$70, the sum of 12 percent and the product  
 29 of 0.5 percent multiplied by the number that represents the difference between the  
 30 average production tax value for each BBL equivalent barrel of the taxable oil and  
 31 gas for that month and \$50;

1                   (3) \$70 but not more than \$90, the sum of 22 percent and the product  
2 of 0.35 percent multiplied by the number that represents the difference between the  
3 average production tax value for each BTU equivalent barrel of the taxable oil and  
4 gas for that month and \$70;

5                   (4) \$90, the sum of 29 percent and the product of 0.1 percent  
6 multiplied by the number that represents the difference between the average  
7 production tax value for each BTU equivalent barrel of the taxable oil and gas for that  
8 month and \$90, except that the sum determined under this paragraph may not exceed  
9 50 percent, and the total tax rate under this subsection may not exceed 75 percent.

10 \* Sec. 18, AS 43.55.011(j) is amended to read:

11                   (j) For a calendar year before 2022, the [TOTAL.] tax levied by (e) [AND (g)]  
12 of this section for [ON] gas produced from a lease or property in the Cook Inlet  
13 sedimentary basin may not exceed

14                   (1) for a lease or property that first commenced commercial  
15 production of gas before April 1, 2006, the product obtained by multiplying (A) the  
16 amount of taxable gas produced during the calendar year from the lease or property,  
17 times (B) the average rate of tax that was imposed under this chapter for [ON]  
18 taxable gas produced from the lease or property for the 12-month period ending on  
19 March 31, 2006, times (C) the quotient obtained by dividing the total gross value at  
20 the point of production of the taxable gas produced from the lease or property during  
21 the 12-month period ending on March 31, 2006, by the total amount of that gas;

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

30 \* Sec. 20.19, AS 43.55.011(k) is amended to read:

31                   (k) For a calendar year before 2022, the [TOTAL.] tax levied by (c) [AND

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(g) of this section for [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 taxable oil produced during the calendar year from the lease or property, times (B) the average rate of tax that was imposed under this chapter for [ON] taxable oil produced from the lease or property for the 12-month period ending on March 31, 2006, times (C) the quotient obtained by dividing the total gross value at the point of production of the taxable oil produced from the lease or property during the 12-month period ending on March 31, 2006, by the total amount of that oil;

(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 taxable oil produced during the calendar year from the lease or property, times (B) the average rate of tax that was imposed under this chapter for [ON] taxable 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 produced and delivered in the Cook Inlet area for the 12-month period ending on March 31, 2006, as determined by the department under AS 43.55.020(f).

\* Sec. 2420, AS 43.55.011(m) is amended to read:repealed and reenacted:

~~(m) — Notwithstanding any contrary provision of AS 38.05.180(i), AS 41.09.010, AS 43.20.043, AS 43.55.024, or 43.55.025, tax credits under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, AS 43.55.024, and 43.55.025 that are allocated to 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 for [ON] gas produced from leases or properties in the Cook Inlet sedimentary basin during a calendar year may be applied only against the tax levied by (e) of this section for [ON] that gas. The amount by which the amount of tax credits that are allocated to gas produced from leases or properties in the Cook Inlet sedimentary basin and that the producer would otherwise be allowed to use for a later calendar year or transfer to another person exceeds the amount of tax credits whose application would reduce the tax levied by (e) of this section for [ON] that gas to zero, if any, is considered the~~

1 amount of excess tax credits, and the excess tax credits are subject to the following:

2 (1) for each lease or property for which a limitation under (j) or (k) of  
3 this section on the tax levied by (e) [AND (g)] of this section has the effect of  
4 reducing the producer's tax below the amount of tax that would be levied in the  
5 absence of that limitation, the producer shall calculate the amount of that reduction:

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

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

10 (4) any amount of excess tax credits remaining after reduction under (3) of  
11 (m) Notwithstanding any contrary provision of AS 38.05.180(i), AS 41.09.010,  
12 AS 43.55.024, or 43.55.025, the department shall provide by regulation a method to  
13 ensure that for a calendar year for which a producer's tax liability is limited by  
14 AS 43.55.011(j) or (k), tax credits otherwise available under AS 38.05.180(i),  
15 AS 41.09.010, AS 43.55.024, or 43.55.025 and allocated to oil or gas subject to the  
16 limitations in AS 43.55.011(j) and (k) are accounted for as though the credits had  
17 been applied first against a tax liability calculated without regard to the limitations  
18 under AS 43.55.011(j) and (k) so as to reduce the tax liability to the maximum  
19 amount provided for under AS 43.55.011(j) for the production of gas or  
20 AS 43.55.011(k) for the production of oil. The regulation must provide for a  
21 reasonable method to allocate tax credits to oil or gas subject to AS 43.55.011(j) and  
22 (k). Only the amount of a tax credit remaining after the accounting provided for under  
23 this subsection may be used for a later calendar year, transferred to another person, or  
24 applied against a tax levied for [O/S] oil or gas produced from a lease or property  
25 located anywhere in the state on the production of oil or gas not subject to  
26 AS 43.55.011(j) or (k) to the extent otherwise allowed under applicable law  
27 governing the tax credits.

28 \* **Sec. 22.** AS 43.55.011 is amended by adding a new subsection to read:

29 (o) Notwithstanding other provisions of this section, for a calendar year  
30 before 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas  
31 or gas produced from a lease or property outside the Cook Inlet sedimentary basin

1 and used in the state may not exceed the amount of tax for each 1,000 cubic feet of  
2 gas that is determined under (j)(2) of this section;

3 \* ~~Sec. 2321.~~ AS 43.55.020(a) is repealed and reenacted to read:

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

6 (1) an installment payment of the estimated tax levied by  
7 AS 43.55.011(e) ~~-(g) and (i)~~, net of any tax credits applied as allowed by law, is due  
8 for each month of the calendar year on the last day of the following month; except as  
9 otherwise provided under (2) of this subsection, the amount of the installment  
10 payment is the sum of the following amounts, less 1/12 of the tax credits that are  
11 allowed by law to be applied against the tax levied by AS 43.55.011(e) ~~-(g) and (i)~~ for  
12 the calendar year, but the amount of the installment payment may not be less than  
13 zero:

14 (A) for oil and gas produced from leases or properties in the  
15 state outside the Cook Inlet sedimentary basin ~~or not subject to~~  
16 ~~AS 43.55.011(g)~~, other than leases or properties subject to AS 43.55.011(f),  
17 the greater of

18 (i) zero; or

19 (ii) the sum of 22.5 percent and the progressivity tax  
20 rate calculated under ~~AS 43.55.011(g)~~ multiplied by ~~of~~ the remainder  
21 obtained by subtracting 1/12 of the producer's adjusted lease  
22 expenditures for the calendar year of production under AS 43.55.165  
23 and 43.55.170 that are deductible for the leases or properties under  
24 AS 43.55.160 from the gross value at the point of production of the oil  
25 and gas produced from the leases or properties during the month for  
26 which the installment payment is calculated;

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

29 (i) zero;

30 (ii) zero percent, one percent, two percent, three  
31 percent, or four percent, as applicable, of the gross value at the point of

1 production of the oil and gas produced from those leases or  
2 properties during the month for which the installment payment is  
3 calculated; or

4 (iii) ~~the sum of 22.5 percent and the progressivity tax~~  
5 ~~rate calculated under AS 43.55.011(g) multiplied by~~ of the remainder  
6 obtained by subtracting 1/12 of the producer's adjusted lease  
7 expenditures for the calendar year of production under AS 43.55.165  
8 and 43.55.170 that are deductible for those leases or properties under  
9 AS 43.55.160 from the gross value at the point of production of the oil  
10 and gas produced from those leases or properties during the month for  
11 which the installment payment is calculated:

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

14 (i) zero; or

15 (ii) ~~the sum of 22.5 percent and the progressivity tax~~  
16 ~~rate calculated under AS 43.55.011(g) multiplied by~~ of the remainder  
17 obtained by subtracting 1/12 of the producer's adjusted lease  
18 expenditures for the calendar year of production under AS 43.55.165  
19 and 43.55.170 that are deductible under AS 43.55.160 for oil or gas,  
20 respectively, produced from the lease or property from the gross value  
21 at the point of production of the oil or gas, respectively, produced from  
22 the lease or property during the month for which the installment  
23 payment is calculated:

24 (2) an amount calculated under (1)(C) of this subsection for oil or gas  
25 produced from a lease or property subject to AS 43.55.011(j), ~~or~~, ~~or~~ (o) may not  
26 exceed the product obtained by carrying out the calculation set out in  
27 AS 43.55.011(j)(1) or (2) ~~or~~ 43.55.011(o), as applicable, for gas or set out in  
28 AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in  
29 AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable  
30 gas produced during the month for the amount of taxable gas produced during the  
31 calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the

1 amount of taxable oil produced during the month for the amount of taxable oil  
2 produced during the calendar year:

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

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

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

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

19 \* Sec. 24.22, AS 43.55.020(g) is amended to read:

20 (g) Notwithstanding any contrary provision of AS 43.05.225, an unpaid  
21 amount of an installment payment required under (a)(1) - (3) [(a)(1) - (4)] of this  
22 section that is not paid when due bears interest (1) at the rate provided for an  
23 underpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended,  
24 compounded daily, from the date the installment payment is due until [THE]  
25 March 31 following the calendar year of production [DESCRIBED IN  
26 AS 43.55.030(a)], and (2) as provided for a delinquent tax under AS 43.05.225 after  
27 that March 31. Interest accrued under (1) of this subsection that remains unpaid after  
28 that March 31 is treated as an addition to tax that bears interest under (2) of this  
29 subsection. An unpaid amount of tax due under (a)(4) [(a)(5)] of this section that is  
30 not paid when due bears interest as provided for a delinquent tax under AS 43.05.225.

31 \* Sec. 25.23, AS 43.55.020(h) is amended to read:

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(h) Notwithstanding any contrary provision of AS 43.05.280,

(1) an overpayment of an installment payment required under (a)(1) - (3) [(a)(1) - (4)] of this section bears interest at the rate provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the later of the date the installment payment is due or the date the overpayment is made, until the earlier of

(A) the date it is refunded or is applied to an underpayment; [.]

or

(B) [THE] March 31 following the calendar year of production [DESCRIBED IN AS 43.55.030(a)];

(2) except as provided under (1) of this subsection, interest with respect to an overpayment is allowed only on any net overpayment of the payments required under (a) of this section that remains after the later of [THE] March 31 following the calendar year of production [DESCRIBED IN AS 43.55.030(a)] or the date that the statement required under AS 43.55.030(a) is filed;

(3) interest is allowed under (2) of this subsection only from a date that is 90 days after the later of [THE] March 31 following the calendar year of production [DESCRIBED IN AS 43.55.030(a)] or the date that the statement required under AS 43.55.030(a) is filed; interest is not allowed if the overpayment was refunded within the 90-day period;

(4) interest under (2) and (3) of this subsection is paid at the rate and in the manner provided in AS 43.05.225(1).

\* Sec. 2624, AS 43.55.023(a) is amended to read:

(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 producer or explorer that incurs a qualified capital expenditure may also elect to apply [TAK] a tax credit against a tax levied by [DELETED UNDER] AS 43.55.011(c) in the amount of

1 20 percent of that expenditure; however, not more than half of the tax credit may  
2 be applied for a single calendar year:

3 (2) a producer or explorer may take a credit for a qualified capital  
4 expenditure incurred in connection with geological or geophysical exploration or in  
5 connection with an exploration well only if the producer or explorer [PROVIDES TO  
6 THE DEPARTMENT, AS PART OF THE STATEMENT REQUIRED UNDER  
7 AS 43.55.030(a) FOR THE CALENDAR YEAR FOR WHICH THE CREDIT IS  
8 SOUGHT TO BE TAKEN, THE PRODUCER'S OR EXPLORER'S WRITTEN  
9 AGREEMENT]

10 (A) agrees, in writing, to the applicable provisions of  
11 AS 43.55.025(f)(2) [TO NOTIFY THE DEPARTMENT OF NATURAL  
12 RESOURCES, BEFORE THE LATER OF 30 DAYS AFTER  
13 COMPLETION OF THE GEOLOGICAL OR GEOPHYSICAL DATA  
14 PROCESSING OR COMPLETION OF THE WELL, OR 30 DAYS AFTER  
15 THE STATEMENT IS FILED, OF THE DATE OF COMPLETION AND TO  
16 SUBMIT A REPORT TO THAT DEPARTMENT DESCRIBING THE  
17 PROCESSING SEQUENCE AND PROVIDE A LIST OF DATA SETS  
18 AVAILABLE];

19 (B) submits [TO PROVIDE] to the Department of Natural  
20 Resources all data that would be required to be submitted under  
21 AS 43.55.025(f)(2) [, WITHIN 30 DAYS AFTER THE DATE OF A  
22 REQUEST, SPECIFIC DATA SETS, ANCILLARY DATA, AND  
23 REPORTS IDENTIFIED IN (A) OF THIS PARAGRAPH];

24 (3) a tax credit for a qualified capital expenditure to explore for,  
25 develop, or produce oil or gas deposits subject to AS 43.55.011(f) may not be  
26 applied against a tax for oil or gas produced from a lease or property not subject  
27 to AS 43.55.011(f)

28 (C) THAT, NOTWITHSTANDING ANY PROVISION OF  
29 AS 38, THE DEPARTMENT OF NATURAL RESOURCES SHALL HOLD  
30 CONFIDENTIAL THE INFORMATION PROVIDED TO THAT  
31 DEPARTMENT UNDER THIS PARAGRAPH FOR 10 YEARS

1 FOLLOWING THE COMPLETION DATE, AFTER WHICH THE  
2 DEPARTMENT SHALL PUBLICLY RELEASE THE INFORMATION  
3 AFTER 30 DAYS' PUBLIC NOTICE].

4 \* Sec. 25. AS 43.55.023(b) is amended to read:

5 (b) A producer or explorer may elect to take a tax credit in the amount of  
6 2522.5 [20] percent of a carried-forward annual loss. A credit under this subsection  
7 may be applied against a tax levied by [DUE UNDER] AS 43.55.011(e). For  
8 purposes of this subsection, a carried-forward annual loss is the amount of a  
9 producer's or explorer's adjusted lease expenditures under AS 43.55.165 and  
10 43.55.170 for a previous calendar year that was not deductible in calculating  
11 production tax values for that calendar year under AS 43.55.160 [AS 43.55.160(b)  
12 AND (e)].

13 \* Sec. 26. AS 43.55.023(d) is amended to read:

14 (d) Except as limited by (i) of this section, a person that is entitled to take a  
15 tax credit under this section, other than a tax credit described in (a)(3) of this  
16 section, and that wishes to transfer the unused credit to another person or obtain a  
17 cash payment may apply to the department for [A] transferable tax credit certificates  
18 [CERTIFICATE]. An application under this subsection must be in a form prescribed  
19 by the department and must include supporting information and documentation that  
20 the department reasonably requires. The department shall grant or deny an  
21 application, or grant an application as to a lesser amount than that claimed and deny it  
22 as to the excess, not later than 120 [60] days after the latest of (1) March 31 of the  
23 year following the calendar year in which the qualified capital expenditure or carried-  
24 forward annual loss for which the credit is claimed was incurred; (2) [1] THE  
25 APPLICANT IS REQUIRED UNDER AS 43.55.030(a) TO FILE A STATEMENT  
26 ON OR BEFORE MARCH 31 OF THE YEAR FOLLOWING THE CALENDAR  
27 YEAR IN WHICH THE QUALIFIED CAPITAL EXPENDITURES OR CARRIED-  
28 FORWARD ANNUAL LOSS FOR WHICH THE CREDIT IS CLAIMED WAS  
29 INCURRED.] the date the statement required under AS 43.55.030(a) or (c) was  
30 filed for the calendar year in which the qualified capital expenditure or carried-  
31 forward annual loss for which the credit is claimed was incurred; or (3) the date

1 the application was received by the department. If, based on the information then  
 2 available to it, the department is reasonably satisfied that the applicant is entitled to a  
 3 credit, the department shall issue the applicant two [A] transferable tax credit  
 4 certificates, each [CERTIFICATE] for half of the amount of the credit. The credit  
 5 shown on one of the two certificates is available for immediate use. The credit  
 6 shown on the second of the two certificates may not be applied against a tax for a  
 7 calendar year earlier than the calendar year following the calendar year in  
 8 which the certificate is issued, and the certificate must contain a conspicuous  
 9 statement to that effect. A certificate issued under this subsection does not expire.

10 \* Sec. 27, AS 43.55.023(e) is amended to read:

11 (e) A person to which a transferable tax credit certificate is issued under (d)  
 12 of this section may transfer the certificate to another person, and a transferee may  
 13 further transfer the certificate. Subject to the limitations set out in (a) - (d) [(a) - (c)]  
 14 of this section, and notwithstanding any action the department may take with respect  
 15 to the applicant under (e) of this section, the owner of a certificate may apply the  
 16 credit or a portion of the credit shown on the certificate only against a tax levied by  
 17 [DUE UNDER] AS 43.55.011(e). However, a credit shown on a transferable tax  
 18 credit certificate may not be applied to reduce a transferee's total tax liability [DUE]  
 19 under AS 43.55.011(e) for [ON] oil and gas produced during a calendar year to less  
 20 than 80 percent of the tax that would otherwise be due without applying that credit.  
 21 Any portion of a credit not used under this subsection may be applied in a later  
 22 period.

23 \* Sec. 28, AS 43.55.023(i) is amended to read:

24 (i) For the purposes of this section,  
 25 (1) a producer's or explorer's transitional investment expenditures are  
 26 the sum of the expenditures the producer or explorer incurred after March 31, 2001,  
 27 and before April 1, 2006, that would be qualified capital expenditures if they were  
 28 incurred after March 31, 2006, less the sum of the payments or credits the producer or  
 29 explorer received before April 1, 2006, for the sale or other transfer of assets,  
 30 including geological, geophysical, or well data or interpretations, acquired by the  
 31 producer or explorer as a result of expenditures the producer or explorer incurred

1 before April 1, 2006, that would be qualified capital expenditures, if they were  
2 incurred after March 31, 2006;

3 (2) a producer or explorer that did not have commercial production  
4 of oil or gas from a lease or property in the state before January 1,  
5 20082006, may elect to take a tax credit against a tax levied by [DUE UNDER]  
6 AS 43.55.011(e) in the amount of 20 percent of the producer's or explorer's  
7 transitional investment expenditures, but only to the extent that the amount does not  
8 exceed 1/10 of the producer's or explorer's qualified capital expenditures that wereare  
9 incurred after March 31, 2006, and before January 1, 2008 ~~ARE INCURRED~~  
10 ~~DURING THE CALENDAR YEAR FOR WHICH THE CREDIT IS TAKEN~~ during  
11 the calendar year for which the credit is taken;

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

14 (A) for any calendar year after [THE LATER OF

15 (i) 2013; [OR

16 (ii) THE SIXTH CALENDAR YEAR AFTER THE  
17 CALENDAR YEAR FOR WHICH THE PRODUCER FIRST  
18 APPLIES A CREDIT UNDER THIS SUBSECTION AGAINST A  
19 TAX DUE UNDER AS 43.55.011(e), IF THE PRODUCER DID NOT  
20 HAVE COMMERCIAL PRODUCTION OF OIL OR GAS FROM A  
21 LEASE OR PROPERTY IN THE STATE BEFORE APRIL 1, 2006;]

22 (B) more than once; or

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

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

28 \* Sec. 2829, AS 43.55.023 is amended by adding a new subsection to read:

29 (f) ~~Notwithstanding the limitation on the use of a transferable tax credit by a~~  
30 ~~transferee under (e) of this section and subject to appropriations made by law, if and~~  
31 ~~to the extent that purchase of transferable tax credits by the Alaska Retirement~~

1 Management Board is authorized by law, the department shall issue a cash refund to  
2 the Alaska Retirement Management Board for a transferable tax credit originally  
3 issued to a person under (d) of this section and purchased by the Alaska Retirement  
4 Management Board. An entity that is exempt from taxation under this chapter may  
5 not apply for a transferable tax credit certificate.

6 \* Sec. 2930, AS 43.55.025(a) is amended to read.

7 (a) Subject to the terms and conditions of this section, a credit against the  
8 production tax levied by [DUE UNDER] AS 43.55.011(c) or [OR (f)] is allowed for  
9 exploration expenditures that qualify under (b) of this section in an amount equal to  
10 one of the following:

11 (1) 30 [20] percent of the total exploration expenditures that qualify  
12 only under (b) and (c) of this section;

13 (2) 30 [20] PERCENT percent of the total exploration expenditures  
14 [FOR WORK PERFORMED BEFORE JULY 1, 2007, AND] that qualify only under  
15 (b) and (d) of this section;

16 (3) 40 percent of the total exploration expenditures that qualify under  
17 (b), (c), and (d) of this section; or

18 (4) 40 percent of the total exploration expenditures that qualify only  
19 under (b) and (c) of this section.

20 \* Sec. 30,31, AS 43.55.025(b) is amended to read:

21 (b) To qualify for the production tax credit under (a) of this section, an  
22 exploration expenditure must be incurred for work performed [ON OR] after  
23 December 31, 2006 [2007] [JULY 1, 2003], and before July 1, 2016. [EXCEPT THAT  
24 AN EXPLORATION EXPENDITURE FOR A COOK INLET PROSPECT MUST  
25 BE INCURRED FOR WORK PERFORMED ON OR AFTER JULY 1, 2005.] and

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

28 (2) if for an exploration well,

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

31 (B) may be for either a [AN OIL OR GAS DISCOVERY]

1 well that encounters an oil or gas deposit or a dry hole; [AND]

2 (C) must be for a well that has been completed, suspended,  
 3 or abandoned under AS 31.05.030 at the time the explorer claims the tax  
 4 credit under (f) of this section; and

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

10 (3) may not be for [TESTING, STIMULATION, OR COMPLETION  
 11 COSTS:] administration, supervision, engineering, or lease operating costs;  
 12 geological or management costs; community relations or environmental costs;  
 13 bonuses, taxes, or other payments to governments related to the well; costs including  
 14 repairs and replacements arising from or associated with fraud, willful  
 15 misconduct, gross negligence, criminal negligence, or violation of law, including  
 16 a violation of 33 U.S.C. 1319(e)(1) health, safety, or environmental statutes or  
 17 1321(b)(3) (Clean Water Act) regulations; or other costs that are generally  
 18 recognized as indirect costs or financing costs; and

19 (4) may not be incurred for an exploration well or seismic exploration  
 20 that is included in a plan of exploration or a plan of development for any unit  
 21 on before May 14, 2003 [ON MAY 13, 2003].

22 \* Sec. 31,32, AS 43.55.025(c) is repealed and reenacted to read:

23 (c) To be eligible for the ~~30~~20 percent production tax credit authorized by  
 24 (a)(1) of this section or the 40 percent production tax credit authorized by (a)(3) of  
 25 this section, exploration expenditures must

26 (1) qualify under (b) of this section; and

27 (2) be for an exploration well, subject to the following:

28 (A) before spudding the well,

29 (i) the explorer shall submit to the commissioner of  
 30 natural resources the information necessary to determine whether the  
 31 geological objective of the well is a potential oil or gas trap that is

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distinctly separate from any trap that has been tested by a preexisting well; and

~~(ii) at the time of the request for a determination under (i), the commissioner of natural resources may request from the explorer that specific data sets, ancillary data, and reports including all results, and copies of data collected and data analyses for the well be provided to the Department of Natural Resources upon completion of the well; in this subparagraph, well data includes all analyses conducted on physical material, and well logs collected from the well and sample analyses; testing geophysical and velocity data including vertical seismic profiles and check shot surveys; testing data and analyses; age data; geochemical analyses; and access to tangible material; and~~

~~(iii) the commissioner of natural resources must make an affirmative determination on whether the geological objective of the well is a potential oil or gas trap that is distinctly separate from any trap that has been tested by a preexisting well and what information under (ii) must be submitted after completion, abandonment, or suspension under AS 31.05.030~~ question; the commissioner of natural resources shall decide whether to make that determination within 60 days after receiving all the necessary information from the explorer and based on the information received and on other information the commissioner of natural resources may consider relevant;

(B) for an exploration well other than a well to explore a Cook Inlet prospect, the well must be located and drilled in such a manner that the bottom hole is located not less than three miles away from the bottom hole of a preexisting well drilled for oil or gas, irrespective of whether the preexisting well has been completed, suspended, or abandoned;

(C) after completion, ~~suspension, or abandonment, or suspension under AS 31.05.030~~ of the exploration well, the commissioner of natural resources must determine that the well was consistent with

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~~achieving~~adequately achieved the explorer's stated geological objective.

\* ~~Sec. 32,33.~~ 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, except for a credit under (f) of this section, 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: in addition, the explorer shall submit information necessary for the commissioner of natural resources to evaluate the validity of the explorer's compliance with the requirements of 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 drilling, 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

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30 days after the date of a request, unless a longer period is provided by the Department of Natural Resources, specific data sets, ancillary data, and reports identified in (A) of this paragraph: in this subparagraph,

(i) a seismic or geophysical data set includes the data for an entire seismic survey, irrespective of whether the survey area covers nonstate land in addition to state land or land in a unit in addition to land outside a unit;

(ii) well data include all derivative products, results, and copies of data collected and data analyses for the well; well logs; sample analyses; geophysical and velocity data including vertical seismic profiles and check shot surveys; and tangible material including, for each whole core collected, a lengthwise cut slab that is at least 1/3 of the whole core volume, and representative samples, as specified by the Department of Natural Resources, of other gaseous, liquid, or solid material collected from drilling or testing the well;

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

(i) in the case of well data, until the expiration of the 24-month period of confidentiality described in AS 31.05.035(c) -), without extension, after which the Department of Natural Resources [FOR 10 YEARS FOLLOWING THE COMPLETION DATE], at which time the Department of Natural Resources [ AT WHICH TIME THAT DEPARTMENT] will release the information after 30 days' public notice unless, in the discretion of the commissioner of natural resources, it is necessary to protectwithhold the well data in order to avoid disclosing information relating to the valuation of unleased acreage in the same vicinity, or unless the well is on private land and the owner, including the lessor but not the lessee, of the oil and gas resources

1 ~~has not given permission to release the well data;~~

2 ~~(ii) in the case of seismic or other geophysical data,~~  
3 ~~other than seismic data acquired by seismic exploration subject to~~  
4 ~~(l) of this section, for 10 years following the completion date, at~~  
5 ~~which time the Department of Natural Resources will release the~~  
6 ~~information after 30 days' public notice, except as to seismic or~~  
7 ~~other geophysical data acquired from private land, unless the~~  
8 ~~owner, including a lessor but not a lessee, of the oil and gas~~  
9 ~~resources in the private land gives permission to release the~~  
10 ~~seismic or other geophysical data associated with the private land;~~

11 ~~(iii) in the case of seismic data obtained by seismic~~  
12 ~~exploration subject to (l) of this section, only until the expiration of~~  
13 ~~30 days' public notice issued on or after the date the production~~  
14 ~~tax credit certificate is issued under (5) of this subsection;~~

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

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

21 (5) if the department is satisfied that the explorer's claimed  
22 expenditures are qualified under this section and that all data required to be  
23 submitted under this section have been submitted, the department shall issue to the  
24 explorer a production tax credit certificate for the amount of credit to be allowed  
25 against production taxes levied by AS 43.55.011(e) or (f); the credit is available for  
26 immediate use; notwithstanding any contrary provision of AS 38, AS 40.25.100,  
27 or AS 43.05.230, the following information is not confidential:

28 (A) the explorer's name;

29 (B) the date of the application;

30 (C) the location of the well or seismic exploration;

31 (D) the date of the department's issuance of the certificate;

1 and

2 (E) the date on which the information required to be  
3 submitted under this section will be released [DUE UNDER  
4 AS 43.55.011(e) OR (f)].

5 \* Sec. 33.34. AS 43.55.025(g) is amended to read:

6 (g) An explorer, other than an entity that is exempt from taxation under  
7 this chapter, may transfer, convey, or sell its production tax credit certificate to any  
8 person, and any person who receives a production tax credit certificate may also  
9 transfer, convey, or sell the certificate.

10 \* Sec. 35. AS 43.55.025(h) is amended to read:

11 (h) A producer that purchases a production tax credit certificate may apply  
12 the credits against its production tax levied by [LIABILITY UNDER]  
13 AS 43.55.011(e) [OR (f)]. Regardless of the price the producer paid for the  
14 certificate, the producer may receive a credit against its production tax liability for the  
15 full amount of the credit, but for not more than the amount for which the certificate is  
16 issued. A production tax credit allowed under this section may not be applied more  
17 than once.

18 \* Sec. 36. AS 43.55.025(i) is repealed and reenacted to read:

19 (i) For a production tax credit under this section,  
20 (1) a credit may not be applied to reduce a taxpayer's tax liability  
21 under AS 43.55.011(e) or (f) below zero for a calendar year; and  
22 (2) an amount of the production tax credit in excess of the amount that  
23 may be applied for a calendar year under this subsection may be carried forward and  
24 applied against the taxpayer's tax liability under AS 43.55.011(e) or (f) in one or more  
25 later calendar years.

26 \* Sec. 34.37. AS 43.55.025(k) is amended by adding a new paragraph to read:

27 (4) "preexisting well" means a well that was spudded more than 540  
28 days but less than 35 years before the date on which the exploration well to which it  
29 is compared is spudded.

30 \* Sec. 35.38. AS 43.55.025 is amended by adding a new subsections subsection to read:

31 (l) Subject to the terms and conditions of this section, if a claim is filed under

1 (f)(1) of this section before January 1, 2016, a credit against the production tax levied  
2 by AS 43.55.011(e) or (f) is allowed in an amount equal to five percent of an eligible  
3 expenditure under this subsection incurred for seismic exploration performed before  
4 July 1, 2003. To be eligible under this subsection, an expenditure must

5 (1) have been for seismic exploration that

6 (A) obtained data that the commissioner of natural resources  
7 considers to be in the best interest of the state to acquire for public  
8 distribution; and

9 (B) was conducted outside the boundaries of a production unit;  
10 however, the amount of the expenditure that is otherwise eligible under this  
11 section is reduced proportionately by the portion of the seismic exploration  
12 activity that crossed into a production unit; and

13 (2) qualify under (b)(3) of this section.

14 ~~(m) Subject to appropriations made by law, if and to the extent that purchase~~  
15 ~~of transferable tax credits by the Alaska Retirement Management Board is authorized~~  
16 ~~by law, the department shall issue a cash refund to the Alaska Retirement~~  
17 ~~Management Board for a transferable tax credit originally issued to an explorer under~~  
18 ~~(f) of this section and purchased by the Alaska Retirement Management Board.~~

19 \* Sec. 36.39, AS 43.55.030(a) is amended to read:

20 (a) A producer that produces oil or gas from a lease or property in the  
21 state during a calendar year, whether or not any tax payment is due under  
22 AS 43.55.020(a) for that oil or gas, [THE PERSON PAYING THE TAX] shall file  
23 with the department on March 31 of the following year [FOLLOWING THE  
24 CALENDAR YEAR FOR WHICH THE TAX WAS LEVIED] a statement, under  
25 oath, in a form prescribed by the department, giving, with other information required,  
26 the following:

27 (1) a description of each lease or property from which [THE] oil or  
28 [AND] gas was [WERE] produced, by name, legal description, lease number, or  
29 accounting codes assigned by the department;

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

1 (3) the gross amount of oil and the gross amount of gas produced from  
2 each lease or property, and the percentage of the gross amount of oil and gas owned  
3 by the [EACH] producer [FOR WHOM THE TAX IS PAID];

4 (4) the gross value at the point of production of the oil and of the gas  
5 produced from each lease or property owned by the [EACH] producer and the costs  
6 of transportation of the oil and gas [FOR WHOM THE TAX IS PAID];

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

10 (6) the producer's qualified capital expenditures, as defined in  
11 AS 43.55.023, other lease expenditures [AND ADJUSTMENTS AS  
12 CALCULATED] under AS 43.55.165, and adjustments or other payments or  
13 credits under AS 43.55.170;

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

16 (8) any claims for tax credits to be applied; and

17 (9) calculations showing the amounts, if any, that were or are due  
18 under AS 43.55.020(a) and interest on any underpayment or overpayment  
19 [AS 43.55.160 - 43.55.170].

20 \* Sec. 37.40, AS 43.55.030(d) is amended to read:

21 (d) Reports required under this section [BY OR ON BEHALF OF THE  
22 PRODUCER] are delinquent the first day following the day the report is due. The  
23 person required to file the report is liable for a penalty, as determined by the  
24 department under standards adopted in regulation by the department, of not  
25 more than \$1,000 for each day the person fails to file the report at the time  
26 required. The penalty is in addition to the penalties in AS 43.05.220 and  
27 43.05.290 and is assessed, collected, and paid in the same manner as a tax  
28 deficiency under this title. In this subsection, "report" includes a statement.

29 \* Sec. 38.41, AS 43.55.030 is amended by adding new subsections to read:

30 (e) An explorer or producer that incurs a lease expenditure under  
31 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar

1 year but does not produce oil or gas from a lease or property in the state during the  
2 calendar year shall file with the department on March 31 of the following year a  
3 statement, under oath, in a form prescribed by the department, giving, with other  
4 information required, the following:

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

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

11 (f) The department may require a producer, an explorer, or an operator of a  
12 lease or property to file monthly reports, as applicable, of

13 (1) the amounts and gross value at the point of production of oil and  
14 gas produced;

15 (2) transportation costs of the oil and gas;

16 (3) any unscheduled interruption of, or reduction in the rate of, oil or  
17 gas production;

18 (4) lease expenditures and adjustments under AS 43.55.165 and  
19 43.55.170;

20 (5) joint interest billings;

21 (6) contracts for the sale or transportation of oil or gas;

22 (7) information and calculations used in determining monthly  
23 installment payments of estimated tax under AS 43.55.020(a); and

24 (8) other records and information the department considers necessary  
25 for the administration of this chapter.

26 \* Sec. 39.42, AS 43.55.040 is amended to read:

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

29 (1) require a person engaged in production and the agent or employee  
30 of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil  
31 or gas to furnish, whether by the filing of regular statements or reports or otherwise,

1 additional information that is considered by the department as necessary to compute  
2 the amount of the tax; notwithstanding any contrary provision of law, the disclosure  
3 of additional information under this paragraph to the producer obligated to pay the tax  
4 does not violate AS 40.25.100(a) or AS 43.05.230(a); before disclosing information  
5 under this paragraph that is otherwise required to be held confidential under  
6 AS 40.25.100(a) or AS 43.05.230(a), the department shall

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

10 (B) impose appropriate conditions limiting

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

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

16 (2) examine the books, records, and files of the [SUCH A] person;

17 (3) conduct hearings and compel the attendance of witnesses and the  
18 production of books, records, and papers of any person; [AND]

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

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

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

24 (5) require a producer, an explorer, or an operator of a lease or  
25 property to file reports and copies of records that the department considers  
26 necessary to forecast state revenue under this chapter; in the case of reports and  
27 copies of records relating to proposed, expected, or approved unit expenditures  
28 for a unit for which one or more working interest owners other than the  
29 operator have authority to approve unit expenditures, the required reports and  
30 copies of records are limited to those reports or copies of records that constitute  
31 or disclose communications between the operator and the working interest

1 owners relating to unit budget matters; and

2 (6) require a producer that has an average total production in the  
3 state of more than 100,000 barrels a day for a calendar year to report the gross  
4 value at the point of production of the producer's taxable oil and gas in the state  
5 for a calendar year and the total amount of lease expenditures in the state for  
6 that calendar year; and

7 (7) assess against a person required under this section to file a  
8 report, statement, or other document a penalty, as determined by the  
9 department under standards adopted in regulation by the department, of not  
10 more than \$1,000 for each day the person fails to file the report, statement, or  
11 other document after notice by the department; the penalty is in addition to any  
12 penalties under AS 43.05.220 and 43.05.290 and is assessed, collected, and paid  
13 in the same manner as a tax deficiency under this title; the penalty shall bear  
14 interest at the rate specified under AS 43.05.225(1).

15 \* Sec. 40.43. AS 43.55 is amended by adding a new section to read:

16 ~~Sec. 43.55.055. Penalty for understatement of tax. (a) In addition to other~~  
17 ~~penalties prescribed by law, if there is a substantial understatement of tax required to~~  
18 ~~be shown on a statement required under AS 43.55.030(a), there shall be added to the~~  
19 ~~tax an amount equal to 40 percent of the substantial understatement of tax.~~

20 ~~(b) In addition to other penalties prescribed by law, if there is a gross~~  
21 ~~understatement of tax required to be shown on a statement required under~~  
22 ~~AS 43.55.030(m), there shall be added to the tax an amount equal to 20 percent of the~~  
23 ~~gross understatement of tax.~~

24 ~~(c) In addition to the penalties imposed under (a) or (b) of this section, a~~  
25 ~~person who has made a substantial or gross understatement of tax is liable to the state~~  
26 ~~for the reasonable costs of the state's enforcement action, including auditing costs.~~

27 ~~(d) For purposes of this section,~~

28 ~~(1) a substantial understatement of tax for any calendar year exists if~~  
29 ~~the amount of the understatement for the calendar year exceeds the lesser of 40~~  
30 ~~percent of the tax required to be shown on the statement for the calendar year or~~  
31 ~~\$10,000,000;~~

1                   ~~(2) a gross understatement of tax for any calendar year exists if the~~  
2                   ~~amount of the understatement for the calendar year exceeds the lesser of 20 percent of~~  
3                   ~~the tax required to be shown on the statement for the calendar year or \$20,000,000;~~

4                   ~~(3) "understatement" means the amount by which the tax required to~~  
5                   ~~be shown on the statement for the calendar year exceeds the amount of the tax~~  
6                   ~~reported as due by the taxpayer as shown on the statement.~~

7                   ~~\* Sec. 41. AS 43.55 is amended by adding new sections to read:~~

8                   **Sec. 43.55.075. Limitation on assessment and amended returns.** (a) Except  
9                   as provided in AS 43.05.260(c), the amount of a tax imposed by this chapter must be  
10                  assessed within ~~six~~four years after the latest return was filed.

11                  (b) A decision of a regulatory agency, court, or other body with authority to  
12                  resolve disputes that results in a retroactive change to a lease expenditure, to an  
13                  adjustment to a lease expenditure, to costs of transportation, to sale price, to  
14                  prevailing value, or to consideration of quality differentials relating to the  
15                  commingling of oils has a corresponding effect, either an increase or decrease, as  
16                  applicable, on the production tax value of oil or gas or the amount or availability of a  
17                  tax credit as determined under this chapter. For purposes of this section, a change to a  
18                  lease expenditure includes a change in the categorization of a lease expenditure as a  
19                  qualified capital expenditure or as not a qualified capital expenditure. The producer  
20                  shall

21                         (1) within 60 days after the change, notify the department in writing;  
22                  and

23                         (2) within 120 days after the change, file amended returns covering all  
24                  periods affected by the change, unless the department agrees otherwise or a stay is in  
25                  place that affects the filing or payment, regardless of the pendency of appeals of the  
26                  decision.

27                  (c) If an alteration in or modification of a producer's federal income tax return  
28                  or a recomputation of the producer's federal income tax or determination of  
29                  deficiency occurs that affects the amount of a tax imposed on the producer under this  
30                  chapter, the producer shall

31                         (1) within 60 days after the final determination of the alteration.

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modification, recomputation, or deficiency, notify the department in writing; and

(2) within 120 days after the final determination of the alteration, modification, recomputation, or deficiency, file amended returns covering all affected periods.

(d) In this section,

(1) "qualified capital expenditure" has the meaning given in AS 43.55.023;

(2) "return" includes a report, a statement, and an amended return, report, or statement.

~~\* Sec. 43.55.078. Exceptions to tax credits. (a) For a calendar year after 2007, a producer or explorer may not take a tax credit under AS 43.55.023, 43.55.024, or 43.55.025 against a tax levied under this chapter if a state court or administrative agency or federal court that has subject matter jurisdiction has entered a judgment in favor of the state or a political subdivision of the state in an amount greater than \$100,000 against the producer or explorer, the producer or explorer has not satisfied the judgment, and the judgment concerns a matter having connections with this state that are sufficient to satisfy constitutional jurisdictional requirements.~~

~~(b) Notwithstanding (a) of this section, the producer or explorer may receive a tax credit described in (a) of this section if~~

~~(1) the judgment is appealed but the appeal has not been decided; and~~

~~(2) the producer or explorer deposits in the court where the judgment was entered or the appeal is pending, in the form of cash, bond, or other security,~~

~~(A) the full amount of the judgment; and~~

~~(B) post-judgment interest on the judgment amount described in (A) of this paragraph; notwithstanding another provision of law, the post-judgment interest rate compounded quarterly on a judgment the amount of which is deposited under (a) of this paragraph is equal to the greater of~~

~~(i) the applicable statutory rate; or~~

~~(ii) the rate of return on the producer's or explorer's equity as shown on the producer's or explorer's most recent quarterly earnings report as of the date of the notice of appeal.~~

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~~(c) In this section:~~

~~(1) "judgment" means any final administrative determination or judgment in favor of the state or a political subdivision of the state;~~

~~(2) "producer or explorer" includes an affiliate of a producer or explorer.~~

\*~~Sec. 42.44.~~ AS 43.55.110 is amended by adding new subsections to read:

(e) The department may require that returns, statements, reports, notifications, and applications filed under this chapter be filed electronically in a form and manner approved or prescribed by the department.

(f) The department may require that payments required under this chapter be made electronically in a form and manner approved or prescribed by the department.

(g) Notwithstanding AS 44.62, the department may issue, for the information and guidance of producers, explorers, and other interested persons, advisory bulletins stating the department's interpretation of provisions of this chapter and of regulations adopted under this chapter. Unless otherwise provided by the department by regulation, interpretations stated in the advisory bulletins are not binding on the department or others.

(h) Subject to legislative appropriation, the department may compensate a person who provides information to the department about noncompliance with the provisions of this chapter by an explorer or a producer of oil or gas if that information leads to the collection of additional taxes, penalties, or interest from the producer. The amount of compensation under this subsection may not exceed the lesser of \$1,000,500,000 or 10 percent of the additional tax, penalty, or interest collected as a result of the information. A state employee or an agent of the state is not eligible for compensation under this subsection.

~~(i) A person who, under (h) of this section, provides, in bad faith, to the department erroneous information about noncompliance with the provisions of this chapter by an explorer or producer of oil or gas shall pay to the~~

~~(f) department all expenses related to the department's investigation of the alleged noncompliance; and~~

1                   ~~(2) explorer or producer about whom the noncompliance was alleged~~  
2                   ~~all expenses that are incurred by the explorer or producer relating to the department's~~  
3                   ~~investigation of the alleged noncompliance.~~

4                   \* ~~Sec. 43.45~~, AS 43.55.150 is amended to read:

5                   **Sec. 43.55.150. Determination of gross value at the point of production.**

6                   (a) For the purposes of AS 43.55.011 - 43.55.180, the gross value at the point of  
7                   production is calculated using the actual [REASONABLE] costs of transportation of  
8                   the oil or gas [. THE REASONABLE COSTS OF TRANSPORTATION ARE THE  
9                   ACTUAL COSTS], except when the

10                   (1) shipper [PARTIES TO THE TRANSPORTATION] of oil or gas  
11                   is [ARE] affiliated with the transportation carrier or with a person that owns an  
12                   interest in the transportation facility;

13                   (2) contract for the transportation of oil or gas is not an arm's length  
14                   transaction [OR IS NOT REPRESENTATIVE OF THE MARKET VALUE OF  
15                   THAT TRANSPORTATION]; or [AND]

16                   (3) method or terms of transportation of oil or gas are [IS] not  
17                   reasonable in view of existing alternative [METHODS OF] transportation options.

18                   (b) If the department finds that a condition [THE CONDITIONS] in (a)(1),  
19                   (2), or [AND] (3) of this section is [ARE] present, the gross value at the point of  
20                   production is calculated using the actual costs of transportation, or the  
21                   reasonable costs of transportation as determined under this subsection,  
22                   whichever is lower. The [THE] department shall determine the reasonable costs of  
23                   transportation, using the fair market value of like transportation, the fair market value  
24                   of equally efficient and available alternative modes of transportation, or other  
25                   reasonable methods. Transportation costs fixed by tariff rates that have been  
26                   adjudicated as just and reasonable by [PROPERLY ON FILE WITH] the  
27                   Regulatory Commission of Alaska or another [OTHER] regulatory agency and  
28                   transportation costs in an arm's length transaction paid by parties not affiliated  
29                   with an owner of the method of transportation shall be considered prima facie  
30                   reasonable.

31                   (c) In determining the gross value of oil under [(a) Of] this section, the

1 department may not allow as reasonable costs of transportation

2 (1) the amount of loss of or damage to, or of expense incurred due to  
3 the loss of or damage to, a vessel used to transport oil if the loss, damage, or expense  
4 is incurred in connection with a catastrophic oil discharge from the vessel into the  
5 marine or inland waters of the state;

6 (2) the incremental costs of transportation of the oil that are  
7 attributable to temporary use of or chartered or substituted service provided by  
8 another vessel due to the loss of or damage to a vessel regularly used to transport oil  
9 and that are incurred in connection with a catastrophic oil discharge into the marine or  
10 inland waters of the state; and

11 (3) the costs incurred to charter, contract, or hire vessels and  
12 equipment used to contain or clean up a catastrophic oil discharge.

13 \* ~~Sec. 44.46.~~ AS 43.55.160(a) is amended to read:

14 (a) Except as provided in (b) of this section, for the purposes of

15 [(1)] AS 43.55.011(e), the ~~[ANNUAL]~~ annual production tax value of  
16 the taxable

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

25 (2) [(B)] oil and gas produced during a calendar year from leases or  
26 properties in the state outside the Cook Inlet sedimentary basin, no part of which is  
27 north of 68 degrees North latitude, is the gross value at the point of production of the  
28 oil and gas taxable under AS 43.55.011(e) and produced by the producer from those  
29 leases or properties, less the producer's lease expenditures under AS 43.55.165 for the  
30 calendar year applicable to the oil and gas produced by the producer from those leases  
31 or properties, as adjusted under AS 43.55.170; ~~this subparagraph does not apply to~~

1 gas subject to AS 43.55.011(o):

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

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

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

21 [(2) AS 43.55.011(g), THE MONTHLY PRODUCTION TAX  
22 VALUE OF THE TAXABLE

23 (A) OIL AND GAS PRODUCED DURING A MONTH  
24 FROM LEASES OR PROPERTIES IN THE STATE THAT INCLUDE  
25 LAND NORTH OF 68 DEGREES NORTH LATITUDE IS THE GROSS  
26 VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS  
27 TAXABLE UNDER AS 43.55.011(g) AND PRODUCED BY THE  
28 PRODUCER FROM THOSE LEASES OR PROPERTIES, LESS 1/12 OF  
29 THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR  
30 THE CALENDAR YEAR APPLICABLE TO THE OIL AND GAS  
31 PRODUCED BY THE PRODUCER FROM THOSE LEASES OR

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PROPERTIES, AS ADJUSTED UNDER AS 43.55.170;

(B) OIL AND GAS PRODUCED DURING A MONTH FROM LEASES OR PROPERTIES IN THE STATE OUTSIDE THE COOK INLET SEDIMENTARY BASIN, NO PART OF WHICH IS NORTH OF 68 DEGREES NORTH LATITUDE, IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS TAXABLE UNDER AS 43.55.011(g) AND PRODUCED BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES, LESS 1/12 OF THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR APPLICABLE TO THE OIL AND GAS PRODUCED BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES, AS ADJUSTED UNDER AS 43.55.170;

(C) OIL PRODUCED DURING A MONTH FROM A LEASE OR PROPERTY IN THE COOK INLET SEDIMENTARY BASIN IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL TAXABLE UNDER AS 43.55.011(g) AND PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR APPLICABLE TO THE OIL PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170;

(D) GAS PRODUCED DURING A MONTH FROM A LEASE OR PROPERTY IN THE COOK INLET SEDIMENTARY BASIN IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS TAXABLE UNDER AS 43.55.011(g) AND PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170].

\* Sec. 45.47, AS 43.55.160(b) is amended to read:

1           (b) A production tax value calculated under [(a) OF] this section may not be  
2           less than zero.

3           \* Sec. 48. AS 43.55.160(e) is amended to read:

4           (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
5           would otherwise be deductible by a producer in a calendar year but whose deduction  
6           would cause a a [AN ANNUAL.] production tax value calculated under (a) [(a)(1)] of  
7           this section of taxable oil or gas produced during the calendar year to be less than  
8           zero may be used to establish a carried-forward annual loss under AS 43.55.023(b).  
9           However, the department shall provide by regulation a method to ensure that,  
10           for a period for which a producer's tax liability is limited by AS 43.55.011(j) or  
11           (k), any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
12           would otherwise be deductible by a producer for that period but whose  
13           deduction would cause a production tax value calculated under (a)(3) or (4) of  
14           this section to be less than zero are accounted for as though the adjusted lease  
15           expenditures had first been used as deductions in calculating the production tax  
16           values of oil or gas subject to any of the limitations under AS 43.55.011(j) or (k)  
17           that have positive production tax values so as to reduce the tax liability  
18           calculated without regard to the limitation to the maximum amount provided for  
19           under the applicable provision of AS 43.55.011(j) or (k). Only the amount of  
20           those adjusted lease expenditures remaining after the accounting provided for  
21           under this subsection may be used to establish a carried-forward annual loss  
22           under AS 43.55.023(b). In this subsection, "producer" includes "explorer."

23           \* Sec. 46,49. AS 43.55.165(a) is repealed and reenacted to read:

24           (a) Except as provided in (k) and (l) of this section for purposes of this  
25           chapter, a producer's lease expenditures for a calendar year are

26           (1) costs, other than items listed in (e) of this section, that are

27           (A) incurred in the state by the producer during the calendar  
28           year after March 31, 2006, to explore for, develop, or produce oil or gas  
29           deposits located within the producer's leases or properties in the state or, in the  
30           case of land in which the producer does not own an operating right, operating  
31           interest, or working interest, to explore for oil or gas deposits within other

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land in the state; and

(B) allowed by the department by regulation, based on the department's determination that the costs satisfy the following three requirements:

(i) the costs must be incurred upstream of the point of production of oil and gas;

(ii) the costs must be ordinary and necessary costs of exploring for, developing, or producing, as applicable, oil or gas deposits; and

(iii) the costs must be direct costs of exploring for, developing, or producing, as applicable, oil or gas deposits; and

(2) a reasonable allowance for that calendar year, as determined under regulations adopted by the department, for overhead expenses that are directly related to exploring for, developing, or producing, as applicable, the oil or gas deposits.

\* Sec. 47.50, AS 43.55.165(b) is amended to read:

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

(1) 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;]~~

(2) 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

1 be a cost upstream of the point of production of the oil or gas;

2 (3) in determining whether costs are lease expenditures, the  
3 department may shall consider, among other factors, the

4 (A) typical industry practices and standards in the state  
5 that determine the costs, other than items listed in (e) of this section, that  
6 an operator is allowed to bill a producer that is not the operator, under  
7 unit operating agreements or similar operating agreements that were in  
8 effect before December 2, 2005, and were subject to negotiation with at  
9 least one producer with substantial bargaining power, other than the  
10 operator; and

11 (B) standards adopted by the Department of Natural  
12 Resources that determine the costs, other than items listed in (e) of this  
13 section, that a lessee is allowed to deduct from revenue in calculating net  
14 profits under a lease issued under AS 38.05.180(f)(3)(B), (D), or (E).

15 \* Sec. 48.51, AS 43.55.165(c) is repealed and reenacted to read:

16 (c) Subject to (g) and (h) of this section, if the department finds that the  
17 pertinent provisions of a unit operating agreement or similar operating agreement are  
18 substantially consistent with the department's determinations and standards under (a)  
19 and (b) of this section concerning whether costs are lease expenditures and, in  
20 addition, finds that at least one working interest owner party to the agreement, other  
21 than the operator, with substantial incentive and ability to effectively audit billings  
22 under the agreement, in fact is effectively auditing billings under the agreement, the  
23 department may authorize or require a producer, subject to conditions prescribed  
24 under regulations adopted by the department, to treat as that portion of its lease  
25 expenditures for a calendar year applicable to oil and gas produced from a lease or  
26 property in the state only

27 (1) the costs, other than items listed in (e) of this section, that are  
28 incurred by the operator during the calendar year and that

29 (A) are billed to the producer by the operator under the  
30 agreement to which that lease or property is subject and are either not disputed  
31 by a working interest owner party to the agreement or are finally determined

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to be properly billable as a result of dispute resolution; or

(B) for a producer that is the operator, would be billable to the producer by the operator in accordance with the terms of the agreement to which that lease or property is subject if the producer were not the operator; and

(2) a reasonable percentage, as determined under regulations adopted by the department, of the costs that are billed under (1) of this subsection as an allowance for overhead expenses directly related to exploring for, developing, and producing oil or gas deposits located within the lease or property.

\* Sec. 52, AS 43.55.165(e) is amended to read:

(e) For purposes 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, except that a producer's lease expenditures applicable to oil and gas produced from a lease issued under AS 38.05.180(D)(3)(B), (D), or (E) include the share of net profit paid to the state under that lease;

(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, including repairs and replacements, arising from or associated with fraud, willful misconduct, [OR] gross negligence, eriminal negligence, or violation of law, including or failure to comply with an obligation under a violation of 33 U.S.C. 1319(c)(1) lease, permit, or license issued by the state or 1321(b)(3) (Clean Water Act) federal government;

(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) costs incurred in organizing a partnership, joint venture, or other

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business entity or arrangement:

(10) 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;

(11) surcharges levied under AS 43.55.201 or 43.55.300;

(12) ~~an expenditure incurred~~ for a transaction that is an internal transfer or is otherwise not an arm's length transaction, ~~unless the producer establishes to the satisfaction of the department expenditures incurred that the expenditure is not~~ ~~[EXPENDITURES INCURRED THAT ARE]~~ are in excess of fair market value;

(13) 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;

(14) a tax levied under AS 43.55.011;

(15) [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, tract of land, 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, IN BARRELS OF OIL EQUIVALENT, ASSOCIATED WITH THE FACILITY, PIPELINE, WELL PAD, PLATFORM, 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, IN BARRELS OF OIL EQUIVALENT, ASSOCIATED WITH THAT FACILITY, PIPELINE, WELL PAD, PLATFORM, 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]; a cost is not excluded under

1 this paragraph if the dismantlement, removal, surrender, or abandonment for which  
2 the cost is incurred is undertaken for the purpose of replacing, renovating, or  
3 improving the facility, pipeline, well pad, platform, or other structure; [FOR THE  
4 PURPOSES OF THIS PARAGRAPH, "BARREL OF OIL EQUIVALENT" MEANS

5 (A) IN THE CASE OF OIL, ONE BARREL;

6 (B) IN THE CASE OF GAS, 6,000 CUBIC FEET;]

7 (16) costs incurred for containment, control, cleanup, or removal in  
8 connection with any unpermitted release of oil or a hazardous substance and any  
9 liability for damages imposed on the producer or explorer for that unpermitted  
10 release; this paragraph does not apply to the cost of developing and maintaining an oil  
11 discharge prevention and contingency plan under AS 46.04.030;

12 (17) costs incurred to satisfy a work commitment under an exploration  
13 license under AS 38.05.132;

14 (18) that portion of expenditures, that would otherwise be qualified  
15 capital expenditures, as defined in AS 43.55.023 [AS 43.55.023(k)], incurred during a  
16 calendar year that are less than the product of \$0.30 multiplied by the total taxable  
17 production from each lease or property, in BTU equivalent barrels, during that  
18 calendar year, except that, when a portion of a calendar year is subject to this  
19 provision, the expenditures and volumes shall be prorated within that calendar year;

20 (19) costs incurred for repair, replacement, or deferred  
21 maintenance of a facility, a pipeline, a structure, or equipment, other than a well,  
22 that results in or is undertaken in response to a failure, problem, or event that  
23 results in an unscheduled interruption of, or reduction in the rate of, oil or gas  
24 production; or costs incurred for repair, replacement, or deferred maintenance  
25 of a facility, a pipeline, a structure, or equipment, other than a well, that is  
26 undertaken in response to, or is otherwise associated with, an unpermitted  
27 release of a hazardous substance or of gas; however, costs under this paragraph  
28 that would otherwise constitute lease expenditures under (a) and (b) of this  
29 section may be treated as lease expenditures if the department determines that  
30 the repair or replacement is solely necessitated by an act of war, by an  
31 unanticipated grave natural disaster or other natural phenomenon of an

1 exceptional, inevitable, and irresistible character, the effects of which could not  
2 have been prevented or avoided by the exercise of due care or foresight, or by an  
3 intentional or negligent act or omission of a third party, other than a party or its  
4 agents in privity of contract with, or employed by, the producer or an operator  
5 acting for the producer, but only if the producer or operator, as applicable,  
6 exercised due care in operating and maintaining the facility, pipeline, structure,  
7 or equipment, and took reasonable precautions against the act or omission of the  
8 third party and against the consequences of the act or omission: in this  
9 paragraph,

10 (A) "costs incurred for repair, replacement, or deferred  
11 maintenance of a facility, a pipeline, a structure, or equipment" includes  
12 costs to dismantle and remove the facility, pipeline, structure, or  
13 equipment that is being replaced;

14 (B) "hazardous substance" has the meaning given in  
15 AS 46.03.826;

16 (C) "replacement" includes renovation or improvement;

17 (20) costs incurred to construct, acquire, or operate a refinery or  
18 crude oil topping plant, regardless of whether the products of the refinery or  
19 topping plant are used in oil or gas exploration, development, or production  
20 operations; however, if a producer owns a refinery or crude oil topping plant  
21 that is located on or near the premises of the producer's lease or property in the  
22 state and that processes the producer's oil produced from that lease or property  
23 into a product that the producer uses in the operation of the lease or property in  
24 drilling for or producing oil or gas, the producer's lease expenditures include the  
25 amount calculated by subtracting from the fair market value of the product used  
26 the prevailing value, as determined under AS 43.55.020(f), of the oil that is  
27 processed;

28 (2021) costs of lobbying, public relations, public relations  
29 advertising, or policy advocacy.

30 \* Sec. 49.53, AS 43.55.165(h) is amended to read:

31 (h) The department shall adopt regulations that provide for reasonable

1 methods of allocating costs between oil and gas, ~~between gas subject to~~  
2 ~~AS 43.55.011(o) and other gas,~~ and between leases or properties in those  
3 circumstances where an allocation of costs is required to determine [THE  
4 DETERMINATION OF THE] lease expenditures that are costs of exploring for,  
5 developing, or producing oil deposits or costs of exploring for, developing, or  
6 producing gas deposits [APPLICABLE TO OIL OR TO GAS], or that are costs of  
7 exploring for, developing, or producing oil or gas deposits located within  
8 [APPLICABLE TO OIL AND GAS PRODUCED FROM] different leases or  
9 properties ], REQUIRES AN ALLOCATION OF COSTS].

10 \* ~~Sec. 50, 54.~~ AS 43.55.165~~170(a)~~ is amended by adding new subsections to read:

11 (k) ~~For purposes of AS 43.55.160, for a calendar year after 2006, a producer's,~~  
12 ~~total lease expenditures, before adjustment under AS 43.55.170, that are applicable to~~  
13 ~~oil and gas produced by the producer from all leases or properties within a unit from~~  
14 ~~which 1,000,000,000 BTU equivalent barrels of oil or gas have been cumulatively~~  
15 ~~produced by the close of the most recent calendar year and from which the average~~  
16 ~~daily oil and gas production during the most recent calendar year exceeded 100,000~~  
17 ~~BTU equivalent barrels are determined under this subsection and (l) of this section.~~  
18 ~~Except as otherwise provided(a), Unless the payment or credit has already been~~  
19 ~~subtracted in calculating billable or billed costs under (l) of this section, the~~  
20 ~~producer's total lease expenditures, other than qualified capital expenditures, (1) for~~  
21 ~~calendar year 2007, are equal to the product of 1.37 multiplied by the total lease~~  
22 ~~expenditures for calendar year 2006, other than qualified capital expenditures, that are~~  
23 ~~applicable to oil and gas produced by the producer from all leases or properties within~~  
24 ~~the unit, as reported on the producer's statement under AS 43.55.030(a) for calendar~~  
25 ~~year 2006, and (2) for a calendar year after 2007, are equal to the product of 1.03~~  
26 ~~multiplied by the total lease expenditures, other than qualified capital expenditures,~~  
27 ~~determined for the previous calendar year under this subsection. The producer's total~~  
28 ~~lease expenditures for a calendar year after 2006 that are applicable to oil and gas~~  
29 ~~produced by the producer from all leases or properties within a unit subject to this~~  
30 ~~subsection are the sum of the producer's qualified capital expenditures incurred~~  
31 ~~during the calendar year that are applicable to that oil and gas plus the lease~~

1 expenditures, other than qualified capital expenditures, that are applicable to that oil  
2 and gas as determined under this subsection and (f) of this section. If a producer  
3 whose lease expenditures for 2006 are used to determine lease expenditures for a later  
4 calendar year under this subsection transfers an interest in an affected lease or  
5 property to a different producer, the transferee's lease expenditures applicable to oil  
6 and gas produced by the transferee from the lease or property continue to be  
7 determined under this subsection using those 2006 lease expenditures. In this  
8 subsection, "qualified capital expenditures" has the meaning given in AS 43.55.023.

9 (f) If, after audit by the department of a producer's statement or amended  
10 statement under AS 43.55.030(a) for calendar year 2006, the department finally  
11 determines that the reported amount of total lease expenditures, other than qualified  
12 capital expenditures, for calendar year 2006 applicable to oil and gas produced by the  
13 producer from all leases or properties within a unit subject to (k) of this section  
14 exceeds by more than 10 percent the actual amount of those lease expenditures, other  
15 than qualified capital expenditures, the producer or transferee, as applicable, shall (1)  
16 substitute the actual amount of those lease expenditures, other than qualified capital  
17 expenditures, for purposes of the calculations set out in (k) of this section, and (2) file  
18 amended statements for affected past tax periods within 60 days after the final  
19 determination.

20 ~~§~~ Sec. 51. AS 43.55.170(a) is amended to read:

21 (a) ~~A~~ UNLESS THE PAYMENT OR CREDIT HAS ALREADY BEEN  
22 SUBTRACTED IN CALCULATING BILLABLE OR BILLED COSTS UNDER  
23 AS 43.55.165(c) [OR (d)-(f)], a producer's lease expenditures under AS 43.55.165  
24 must be adjusted by subtracting payments or credits, other than tax credits, received  
25 by the producer or by an operator acting for the producer for

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

30 (2) a reimbursement or similar payment that offsets the producer's  
31 lease expenditures, including an insurance recovery from a third-party insurer and a

1 payment from the state or federal government for reimbursement of the producer's  
2 upstream costs, including costs for gathering, separating, cleaning, dehydration,  
3 compressing, or other field handling associated with the production of oil or gas  
4 upstream of the point of production;

5 (3) the sale or other transfer of

6 (A) an asset, including geological, geophysical, or well data or  
7 interpretations, acquired by the producer as a result of a lease expenditure or  
8 an expenditure that would be a lease expenditure if it were incurred after  
9 March 31, 2006; for purposes of this subparagraph,

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

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

18 (B) oil or gas

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

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

23 \* Sec. 52.55, AS 43.55 is amended by adding a new section to article 4 to read:

24 **Sec. 43.55.890. Disclosure of tax information.** Notwithstanding any contrary  
25 provision of AS 40.25.100, and regardless of whether the information is considered  
26 under AS 43.05.230(e) to constitute statistics classified to prevent the identification of  
27 particular returns or reports, the department may publish the following information  
28 under this chapter, if aggregated among three or more producers or explorers,  
29 showing by month or calendar year and by lease or property, unit, or area of the state:

30 (1) the amount of oil or gas production;

31 (2) the amount of taxes levied under this chapter or paid under this

1 chapter:

- 2 (3) the effective tax rates under this chapter;
- 3 (4) the gross value of oil or gas at the point of production;
- 4 (5) the transportation costs for oil or gas;
- 5 (6) qualified capital expenditures, as defined in AS 43.55.023;
- 6 (7) exploration expenditures under AS 43.55.025;
- 7 (8) production tax values of oil or gas under AS 43.55.160;
- 8 (9) lease expenditures under AS 43.55.165;
- 9 (10) adjustments to lease expenditures under AS 43.55.170;
- 10 (11) tax credits applicable or potentially applicable against taxes
- 11 levied by this chapter.

12 \* Sec. 53.56. AS 43.55.900 is amended by adding new paragraphs to read:

13 (22) "producer" means an owner of an operating right, operating

14 interest, or working interest in a mineral interest in oil or gas;

15 (23) ~~"progressivity tax rate" means that part of the tax rate in~~

16 ~~AS 43.55.011(g) that exceed 25 percent;~~

17 (24) "unit" means a group of tracts of land that is

18 (A) subject to a cooperative or a unit plan of development or

19 operation that has been certified by the commissioner of natural resources

20 under AS 38.05.180(p);

21 (B) subject to a cooperative or a unit plan of development or

22 operation that has been certified by the United States Secretary of the Interior

23 under 30 U.S.C. 226(m);

24 (C) subject to an agreement of the owners of interests in the

25 tracts of land to validly integrate their interests to provide for the unitized

26 management, development, and operation of the tracts of land as a unit, within

27 the meaning of AS 31.05.110(a); or

28 (D) within the unit area of a unit created by order of the

29 Alaska Oil and Gas Conservation Commission under AS 31.05.110(b);.

30 (25) ~~"used in the state" means delivered for consumption as fuel in the~~

31 ~~state, including as fuel consumed to generate electricity;~~

1 ~~\* Sec. 54. AS 43.55.160(e), 43.55.165(c), 43.55.165(d), and 43.55.180 are repealed.~~

2 ~~\* Sec. 55. The uncodified law of the State of Alaska is amended by adding a new section to~~  
3 ~~read:~~

4 ~~APPLICABILITY. (a) Sections 15, 36, 38, 41, 51, and 54 of this Act apply to oil~~  
5 ~~and gas produced after December 31, 2007.~~

6 ~~(b) Sections 36 and 38 of this Act apply to statements and reports under~~  
7 ~~AS 43.55.03 (a), as amended by sec. 36 of this Act, and AS 43.55.030(e) and (f), as added~~  
8 ~~by sec. 38 of this Act, required to be filed after December 31, 2007.~~

9 ~~(c) Sections 29, 32, and 34 of this Act apply to exploration expenditures incurred for~~  
10 ~~work performed after December 31, 2006, that are the basis of tax credits that may be~~  
11 ~~claimed against taxes levied for oil and gas produced after December 31, 2007.~~

12 ~~(d) AS 43.55.055, enacted by sec. 40 of this Act, applies to understatements made~~  
13 ~~after the effective date of sec. 40 of this Act.~~

14 ~~(e) AS 43.55.075(a), enacted by sec. 41 of this Act, applies to any tax liability under~~  
15 ~~AS 43.55 with respect to which the period of limitations on assessment under AS 43.05.260~~  
16 ~~had not expired before the effective date of secs. 14 and 41 of this Act.~~

17 ~~(f) The penalty in AS 43.55.030(d), enacted by the amendment to AS 43.55.030(d) in~~  
18 ~~sec. 37 of this Act, applies to any report required to be filed after the effective date of sec. 37~~  
19 ~~of this Act that is not filed timely.~~

20 ~~(g) The penalty in AS 43.55.040(v), enacted by the amendment to AS 43.55.040 in~~  
21 ~~sec. 39 of this Act, applies to any report, statement, or other document required to be filed~~  
22 ~~after the effective date of sec. 39 of this Act.~~

23 ~~\* Sec. 56. The uncodified law of the State of Alaska is amended by adding new sections to~~  
24 ~~read:~~

25 ~~OIL AND GAS REVENUE AUDIT MASTER POSITIONS; LEGISLATIVE~~  
26 ~~INTENT. It is the intent of the legislature that the commissioner of administration shall~~  
27 ~~cause not more than four oil and gas revenue audit master positions to be created in the~~  
28 ~~Department of Revenue and not more than two oil and gas revenue audit master positions to~~  
29 ~~be created in the Department of Natural Resources. Oil and gas revenue audit masters shall~~  
30 ~~be employed in a professional capacity to collect oil and gas revenue by developing policy,~~  
31 ~~conducting studies, drafting proposed regulations, enforcing regulations, and directing audits~~

1 by oil and gas auditors:

2 ~~OIL AND GAS AUDITORS: CLASSIFICATION AND PAY PLANS.~~

3 Notwithstanding AS 39.25.150(2), the Department of Administration shall develop and  
4 implement a distinct position classification plan and a distinct pay plan for oil and gas  
5 auditors and their immediate supervisors that perform

6 (1) production tax audits in the Department of Revenue;

7 (2) royalty audits, including net profit share audits, in the Department of  
8 Natural Resources.

9 ~~\* Sec. 57. The uncodified law of the State of Alaska is amended by adding a new section to  
10 read:~~

11 ~~TRANSITION: DEPARTMENT OF NATURAL RESOURCES REGULATIONS.~~

12 Notwithstanding any contrary provision of AS 41.62.240, a regulation adopted by the  
13 Department of Natural Resources to implement, interpret, make specific, or otherwise carry  
14 out statutory provisions for the administration of oil and gas leases issued under  
15 AS 38.05.180(f)(3)(B), (D), or (E), to the extent the regulation deals with the treatment of oil  
16 and gas production taxes in determining net profits under those leases, may apply  
17 retroactively to April 1, 2006, if the Department of Natural Resources expressly designates in  
18 the regulation that the regulation applies retroactively to that date. ~~\* Sec. 57,~~  
19 ~~AS 43.55.011(d), 43.55.011(f), 43.55.011(n), 43.55.160(c), and 43.55.165(d) are repealed.~~

20 \* Sec. 58. The uncodified law of the State of Alaska is amended by adding a new section to  
21 read:

22 APPLICABILITY. (a) Sections 15 - 27, 29 - 38, and 45 - 57 of this Act apply to oil  
23 and gas produced after June 30, 2007.

24 (b) Sections 39 and 41 of this Act apply to statements and reports under  
25 AS 43.55.030(a), as amended by sec. 39 of this Act, and AS 43.55.030(e) and (f), as added  
26 by sec. 41 of this Act, required to be filed after the effective date of secs. 39 and 41 of this  
27 Act.

28 (c) Sections 30 - 33, 35, and 37 of this Act apply to exploration expenditures incurred  
29 for work performed after December 31, 2007, that are the basis of tax credits that may be  
30 claimed against taxes levied for oil and gas produced after December 31, 2007.

31 (d) AS 43.55.075(a), enacted by sec. 43 of this Act, applies to any tax liability under

1 AS 43.55 with respect to which the period of limitations on assessment under AS 43.05.260  
2 had not expired before the effective date of sees. 14 and 43 of this Act.

3 (e) The penalty in AS 43.55.030(d), enacted by the amendment to AS 43.55.030(d)  
4 in sec. 40 of this Act, applies to any report required to be filed after the effective date of sec.  
5 40 of this Act that is not filed timely.

6 (f) The penalty in AS 43.55.040(7), enacted by the amendment to AS 43.55.040 in  
7 sec. 42 of this Act, applies to any report, statement, or other document required to be filed  
8 after the effective date of sec. 42 of this Act.

9 \* Sec. 59. The uncodified law of the State of Alaska is amended by adding a new section to  
10 read:

11 OIL AND GAS REVENUE AUDIT MASTER POSITIONS; LEGISLATIVE  
12 INTENT. It is the intent of the legislature that the commissioner of administration shall cause  
13 not more than four oil and gas revenue audit master positions to be created in the Department  
14 of Revenue and not more than two oil and gas revenue audit master positions to be created in  
15 the Department of natural Resources. Oil and gas revenue audit masters shall be employed in  
16 a professional capacity to collect oil and gas revenue by developing policy, conducting  
17 studies, drafting proposed regulations, enforcing regulations, and directing audits by oil and  
18 gas auditors.

19 \* Sec. 60. The uncodified law of the State of Alaska is amended by adding a new section to  
20 read:

21 OIL AND GAS AUDITORS; CLASSIFICATION AND PAY PLANS.  
22 Notwithstanding AS 39.25.150(2), the Department of Administration shall develop and  
23 implement a distinct position classification plan and a distinct pay plan for oil and gas  
24 auditors and their immediate supervisors, other than revenue audit masters, that perform

25 (1) oil and gas tax audits in the Department of Revenue under the direction of  
26 an oil and gas revenue audit master;

27 (2) royalty audits, including net profit share audits, in the Department of  
28 Natural Resources under the direction of an oil and gas revenue audit master.

29 \* Sec. 61. The uncodified law of the State of Alaska is amended by adding a new section to  
30 read:

31 TRANSITION: PAYMENT OF TAX. A person subject to tax under AS 43.55 that is

1 required to make one or more installment payments of estimated tax or other payment of tax  
2 under AS 43.55.020(a), as amended by sec. 21 of this Act, for the production of oil or gas  
3 during a month after June 30, 2007, and before the effective date of sec. 21 of this Act but  
4 that failed to pay the full amount of the installment payments or other payment of tax  
5 required under AS 43.55.020(a) because of the retroactive application of secs. 15 - 27, 29 -  
6 38, and 45 - 57 of this Act under sec. 64 of this Act, shall pay before April 1, 2008, the  
7 balance of any tax due under AS 43.55 for the period after June 30, 2007, and before the  
8 effective date of this section.

9 \* Sec. 62. The uncodified law of the State of Alaska is amended by adding a new section to  
10 read:

11 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any  
12 contrary provision of AS 44.62.240,

13 (1) if the Department of Revenue expressly designates in the regulation that  
14 the regulation applies retroactively to that date, a regulation adopted by the Department of  
15 Revenue to implement, interpret, make specific, or otherwise carry out secs. 15 - 27, 29 - 38,  
16 and 45 - 57 of this Act may apply retroactively to July 1, 2007;

17 (2) a regulation adopted by the Department of Natural Resources to  
18 implement, interpret, make specific, or otherwise carry out statutory provisions for the  
19 administration of oil and gas leases issued under AS 38.05.180(D)(3)(B), (D), or (E), to the  
20 extent the regulation deals with the treatment of oil and gas production taxes in determining  
21 net profits under those leases, may apply retroactively to April 1, 2006, if the Department of  
22 Natural Resources expressly designates in the regulation that the regulation applies  
23 retroactively to that date.

24 \* Sec. 63. The uncodified law of the State of Alaska is amended by adding a new section to  
25 read:

26 TRANSITION: REGULATIONS. The Department of Natural Resources and the  
27 Department of Revenue may proceed to adopt regulations to implement this Act. The  
28 regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the  
29 effective date of the law implemented by the regulation.

30 \* Sec. 59.64. The uncodified law of the State of Alaska is amended by adding a new  
31 section to read:

1 REVISOR'S INSTRUCTION. In the following statute sections, the revisor of statutes  
2 shall substitute the spanned reference

3 (1) ~~AS 43.55.011—43.55.170~~ for the spanned reference "AS 43.55.011—  
4 43.55.180"; ~~AS 43.55.020(e), 43.55.080, 43.55.135, 43.55.150(a), 43.55.201(e), and~~  
5 ~~43.55.300(e);~~

6 (2) ~~"AS 43.55.017—43.55.170"~~ for the spanned reference "AS 43.55.017—  
7 43.55.180"; ~~AS 43.55.023(g);~~

8 ~~\* Sec. 60. RETROACTIVITY OF CERTAIN PROVISIONS OF THIS ACT. (a)~~  
9 ~~Sections 29 and 34 of this Act are retroactive to July 1, 2003.~~

10 (b) ~~Sections 15 - 36; 27, 29 - 38, 44 - 54, and 54-15 - 57 of this Act take~~are retroactive  
11 ~~to July 1, 2007.~~

12 ~~\* Sec. 65. Section 28 of this Act takes effect January 1, 2008.~~

13 ~~\* Sec. 64.66. Except as provided in sec. 60-65 of this Act, this Act takes effect immediately~~  
14 ~~under AS 01.10.070(c).~~

*Adopted*

*11/14/07*

25-GH0014/R  
Bullock  
11/13/07

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

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - SECOND SPECIAL SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:  
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the production tax on oil and gas and to conservation surcharges on  
 2 oil; relating to the issuance of advisory bulletins and the disclosure of certain  
 3 information relating to the production tax and the sharing between agencies of certain  
 4 information relating to the production tax and to oil and gas or gas only leases;  
 5 amending the State Personnel Act to create in the exempt service state oil and gas audit  
 6 masters; relating to oil and gas auditors and certain oil and gas auditor supervisors;  
 7 providing for civil penalties relating to the oil and gas production tax; providing for  
 8 retroactive application of certain statutory and regulatory provisions relating to the  
 9 production tax on oil and gas; making conforming amendments; and providing for an  
 10 effective date."

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

12 \* Section 1. The uncodified law of the State of Alaska is amended by adding a new section

1 to read:

2 LEGISLATIVE INTENT. (a) It is the intent of the legislature that AS 43.55.075(b),  
3 enacted by sec. 43 of this Act, confirm by clarification the long-standing interpretation of  
4 AS 43.05.260 by the Department of Revenue relating to limitation of assessments for the  
5 production tax on oil and gas and conservation surcharges on oil.

6 (b) It is the intent of the legislature that the amount of money received by the state as  
7 a result of the retroactivity of certain provisions under sec. 65 of this Act that exceeds the  
8 amount of money the state would have received if those provisions had not taken effect until  
9 January 1, 2008, will be appropriated to the public education fund (AS 14.17.300).

10 (c) It is the intent of the legislature that the legislature will responsibly invest the  
11 amounts received after December 31, 2007, as the result of the enactment of this Act that  
12 exceed the amounts that would have been received under AS 43.55.011 - 43.55.180, as those  
13 provisions read on June 30, 2007, as if those provisions had been applied after December 31,  
14 2007, by making appropriations to the following:

15 (1) the public education fund (AS 14.17.300);

16 (2) the budget reserve fund (art. IX, sec. 17, Constitution of the State of  
17 Alaska);

18 (3) to extinguish the amount of the employers' unfunded liability in the  
19 teachers' defined benefit retirement plan and the public employees' defined benefit retirement  
20 plan; and

21 (4) the development and implementation of a long-range fiscal plan for the  
22 state.

23 \* Sec. 2. AS 38.05.035(a) is amended to read:

24 (a) The director shall

25 (1) have general charge and supervision of the division and may  
26 exercise the powers specifically delegated to the director; the director may employ  
27 and fix the compensation of assistants and employees necessary for the operations of  
28 the division; the director [AND] is the certifying officer of the division, with the  
29 consent of the commissioner, and may approve vouchers for disbursements of money  
30 appropriated to the division;

31 (2) manage, inspect, and control state land and improvements on it

1 belonging to the state and under the jurisdiction of the division;

2 (3) execute laws, rules, regulations, and orders adopted by the  
3 commissioner;

4 (4) prescribe application procedures and practices for the sale, lease,  
5 or other disposition of available land, resources, property, or interest in them;

6 (5) prescribe fees or service charges, with the consent of the  
7 commissioner, for any public service rendered;

8 (6) under the conditions and limitations imposed by law and the  
9 commissioner, issue deeds, leases, or other conveyances disposing of available land,  
10 resources, property, or any interests in them;

11 (7) have jurisdiction over state land, except that land acquired by the  
12 Alaska World War II Veterans Board and the Agricultural Loan Board or the  
13 departments or agencies succeeding to their respective functions through foreclosure  
14 or default; to this end, the director possesses the powers and, with the approval of the  
15 commissioner, shall perform the duties necessary to protect the state's rights and  
16 interest in state land, including the taking of all necessary action to protect and  
17 enforce the state's contractual or other property rights;

18 (8) [REPEALED

19 (9)] maintain the [SUCH] records [AS] the commissioner considers  
20 necessary, administer oaths, and do all things incidental to the authority imposed; the  
21 following records and files shall be kept confidential upon request of the person  
22 supplying the information:

23 (A) the name of the person nominating or applying for the  
24 sale, lease, or other disposal of land by competitive bidding;

25 (B) before the announced time of opening, the names of the  
26 bidders and the amounts of the bids;

27 (C) all geological, geophysical, and engineering data supplied,  
28 whether or not concerned with the extraction or development of natural  
29 resources;

30 (D) except as provided in AS 38.05.036, cost data and  
31 financial information submitted in support of applications, bonds, leases, and

1 similar items;

2 (E) applications for rights-of-way or easements;

3 (F) requests for information or applications by public agencies  
4 for land that [WHICH] is being considered for use for a public purpose;

5 (9) [(10)] account for the fees, licenses, taxes, or other money  
6 received in the administration of this chapter including the sale or leasing of land,  
7 identify their source, and promptly transmit them to the proper fiscal department after  
8 crediting them to the proper fund; receipts from land application filing fees and  
9 charges for copies of maps and records shall be deposited immediately in the general  
10 fund of the state by the director;

11 (10) [(11)] select and employ or obtain at reasonable compensation  
12 cadastral, appraisal, or other professional personnel the director considers necessary  
13 for the proper operation of the division;

14 (11) [(12)] be the certifying agent of the state to select, accept, and  
15 secure by whatever action is necessary in the name of the state, by deed, sale, gift,  
16 devise, judgment, operation of law, or other means any land, of whatever nature or  
17 interest, available to the state; and be the certifying agent of the state, to select,  
18 accept, or secure by whatever action is necessary in the name of the state any land, or  
19 title or interest to land available, granted, or subject to being transferred to the state  
20 for any purpose;

21 (12) on request, furnish records, files, and other information  
22 related to the administration of AS 38.05.180 to the Department of Revenue for  
23 use in forecasting state revenue under or administering AS 43.55, whether or not  
24 those records, files, and other information are required to be kept confidential  
25 under (8) of this subsection; in the case of records, files, or other information  
26 required to be kept confidential under (8) of this subsection, the Department of  
27 Revenue shall maintain the confidentiality that the Department of Natural  
28 Resources is required to extend to records, files, and other information under (8)  
29 of this subsection

30 [(13) REPEALED]

31 [(14) REPEALED].

1 \* Sec. 3. AS 38.05.036(b) is amended to read:

2 (b) The Department of Revenue may obtain from the department information  
3 relating to royalty and net profits payments and to exploration incentive credits under  
4 this chapter or under AS 41.09, whether or not that information is confidential. The  
5 Department of Revenue may use the information in carrying out its functions and  
6 responsibilities under AS 43, and shall hold that information confidential to the extent  
7 required by an agreement with the department or by AS 38.05.035(a)(8)  
8 [AS 38.05.035(a)(9)], AS 41.09.010(d), or AS 43.05.230.

9 \* Sec. 4. AS 38.05.036(f) is amended to read:

10 (f) Except as otherwise provided in this section or in connection with official  
11 investigations or proceedings of the department, it is unlawful for a current or former  
12 officer, employee, or agent of the state to divulge information obtained by the  
13 department as a result of an audit under this section that is required by an agreement  
14 with the department or by AS 38.05.035(a)(8) [AS 38.05.035(a)(9)] or  
15 AS 41.09.010(d) to be kept confidential.

16 \* Sec. 5. AS 38.05.036(g) is amended to read:

17 (g) Nothing in this section prohibits the publication of statistics in a manner  
18 that maintains the confidentiality of information to the extent required by an  
19 agreement with the department or by AS 38.05.035(a)(8) [AS 38.05.035(a)(9)] or  
20 AS 41.09.010(d).

21 \* Sec. 6. AS 38.05.123(f) is amended to read:

22 (f) As part of the timber sale negotiations authorized by this section, the  
23 commissioner may require a prospective purchaser negotiating a timber sale contract  
24 to submit financial and technical data that demonstrates that the requirements of this  
25 section have been or will be met. Upon the prospective purchaser's request, the  
26 commissioner shall keep data provided by the purchaser confidential in accordance  
27 with the requirements of AS 38.05.035(a)(8) [AS 38.05.035(a)(9)].

28 \* Sec. 7. AS 38.05.133(e) is amended to read:

29 (e) The commissioner may make a written request to a prospective licensee  
30 for additional information on the prospective licensee's proposal. The commissioner  
31 shall keep confidential information described in AS 38.05.035(a)(8)

1 [AS 38.05.035(a)(9)] that is voluntarily provided if the prospective licensee has made  
2 a written request that the information remain confidential.

3 \* Sec. 8. AS 38.05.180(j) is amended to read:

4 (j) The commissioner

5 (1) may provide for modification of royalty on individual leases,  
6 leases unitized as described in (p) of this section, leases subject to an agreement  
7 described in (s) or (t) of this section, or interests unitized under AS 31.05

8 (A) to allow for production from an oil or gas field or pool if

9 (i) the oil or gas field or pool has been sufficiently  
10 delineated to the satisfaction of the commissioner;

11 (ii) the field or pool has not previously produced oil or  
12 gas for sale; and

13 (iii) oil or gas production from the field or pool would  
14 not otherwise be economically feasible;

15 (B) to prolong the economic life of an oil or gas field or pool  
16 as per barrel or barrel equivalent costs increase or as the price of oil or gas  
17 decreases, and the increase or decrease is sufficient to make future production  
18 no longer economically feasible; or

19 (C) to reestablish production of shut-in oil or gas that would  
20 not otherwise be economically feasible;

21 (2) may not grant a royalty modification unless the lessee or lessees  
22 requesting the change make a clear and convincing showing that a modification of  
23 royalty meets the requirements of this subsection and is in the best interests of the  
24 state;

25 (3) shall provide for an increase or decrease or other modification of  
26 the state's royalty share by a sliding scale royalty or other mechanism that shall be  
27 based on a change in the price of oil or gas and may also be based on other relevant  
28 factors such as a change in production rate, projected ultimate recovery, development  
29 costs, and operating costs;

30 (4) may not grant a royalty reduction for a field or pool

31 (A) under (1)(A) of this subsection if the royalty modification

1 for the field or pool would establish a royalty rate of less than five percent in  
2 amount or value of the production removed or sold from a lease or leases  
3 covering the field or pool;

4 (B) under (1)(B) or (1)(C) of this subsection if the royalty  
5 modification for the field or pool would establish a royalty rate of less than  
6 three percent in amount or value of the production removed or sold from a  
7 lease or leases covering the field or pool;

8 (5) may not grant a royalty reduction under this subsection without  
9 including an explicit condition that the royalty reduction is not assignable without the  
10 prior written approval, which may not be unreasonably withheld, by the  
11 commissioner; the commissioner shall, in the preliminary and final findings and  
12 determinations, set out the conditions under which the royalty reduction may be  
13 assigned;

14 (6) shall require the lessee or lessees to submit, with the application  
15 for the royalty reduction, financial and technical data that demonstrate that the  
16 requirements of this subsection are met; the commissioner

17 (A) may require disclosure of only the financial and technical  
18 data related to development, production, and transportation of oil and gas or  
19 gas only from the field or pool that are reasonably available to the applicant;  
20 and

21 (B) shall keep the data confidential under AS 38.05.035(a)(8)  
22 [AS 38.05.035(a)(9)] at the request of the lessee or lessees making application  
23 for the royalty reduction; the confidential data may be disclosed by the  
24 commissioner to legislators and to the legislative auditor and as directed by  
25 the chair or vice-chair of the Legislative Budget and Audit Committee to the  
26 director of the division of legislative finance, the permanent employees of  
27 their respective divisions who are responsible for evaluating a royalty  
28 reduction, and to agents or contractors of the legislative auditor or the  
29 legislative finance director who are engaged under contract to evaluate the  
30 royalty reduction, if they sign an appropriate confidentiality agreement;

31 (7) may

1 (A) require the lessee or lessees making application for the  
2 royalty reduction under (1)(A) of this subsection to pay for the services of an  
3 independent contractor, selected by the lessee or lessees from a list of  
4 qualified consultants compiled by the commissioner, to evaluate hydrocarbon  
5 development, production, transportation, and economics and to assist the  
6 commissioner in evaluating the application and financial and technical data;  
7 if, under this subparagraph, the commissioner requires payment for the  
8 services of an independent contractor, the total cost of the services to be paid  
9 for by the lessee or lessees may not exceed \$150,000 for each application, and  
10 the commissioner shall determine the relevant scope of the work to be  
11 performed by the contractor; selection of an independent contractor under this  
12 subparagraph is not subject to AS 36.30;

13 (B) with the mutual consent of the lessee or lessees making  
14 application for the royalty reduction under (1)(B) or (1)(C) of this subsection,  
15 request payment for the services of an independent contractor, selected from a  
16 list of qualified consultants to evaluate hydrocarbon development, production,  
17 transportation, and economics by the commissioner to assist the commissioner  
18 in evaluating the application and financial and technical data; if, under this  
19 subparagraph, the commissioner requires payment for the services of an  
20 independent contractor, the total cost of the services that may be paid for by  
21 the lessee or lessees may not exceed \$150,000 for each application, and the  
22 commissioner shall determine the relevant scope of the work to be performed  
23 by the contractor; selection of an independent contractor under this  
24 subparagraph is not subject to AS 36.30;

25 (8) shall make and publish a preliminary findings and determination  
26 on the royalty reduction application, give reasonable public notice of the preliminary  
27 findings and determination, and invite public comment on the preliminary findings  
28 and determination during a 30-day period for receipt of public comment;

29 (9) shall offer to appear before the Legislative Budget and Audit  
30 Committee, on a day that is not earlier than 10 days and not later than 20 days after  
31 giving public notice under (8) of this subsection, to provide the committee a review of

1 the commissioner's preliminary findings and determination on the royalty reduction  
2 application and administrative process; if the Legislative Budget and Audit  
3 Committee accepts the commissioner's offer, the committee shall give notice of the  
4 committee's meeting to all members of the legislature;

5 (10) shall make copies of the preliminary findings and determination  
6 available to

7 (A) the presiding officer of each house of the legislature;

8 (B) the chairs of the legislature's standing committees on  
9 resources; and

10 (C) the chairs of the legislature's special committees on oil and  
11 gas, if any;

12 (11) shall, within 30 days after the close of the public comment period  
13 under (8) of this subsection,

14 (A) prepare a summary of the public response to the  
15 commissioner's preliminary findings and determination;

16 (B) make a final findings and determination; the  
17 commissioner's final findings and determination prepared under this  
18 subparagraph regarding a royalty reduction is final and not appealable to the  
19 court;

20 (C) transmit a copy of the final findings and determination to  
21 the lessee;

22 (D) with the applicant's consent, amend the applicant's lease or  
23 unitization agreement consistent with the commissioner's final decision; and

24 (E) make copies of the final findings and determination  
25 available to each person who submitted comment under (8) of this subsection  
26 and who has filed a request for the copies;

27 (12) is not limited by the provisions of AS 38.05.134(3) or (f) of this  
28 section in the commissioner's determination under this subsection.

29 \* Sec. 9. AS 38.05.275(c) is amended to read:

30 (c) Subsection (b) of this section may not be construed to limit the director in  
31 the exercise of authority granted by AS 38.05.035(a)(11) [AS 38.05.035(a)(12)].

1 \* Sec. 10. AS 39.25.110 is amended by adding a new paragraph to read:

2 (42) oil and gas audit masters employed in a professional capacity by  
3 the Department of Revenue and the Department of Natural Resources to collect oil  
4 and gas revenue by developing policy, conducting studies, drafting proposed  
5 regulations, enforcing regulations, and directing audits by oil and gas revenue  
6 auditors.

7 \* Sec. 11. AS 41.09.010(d) is amended to read:

8 (d) Data derived from drilling a stratigraphic test well or exploratory well that  
9 is provided to the commissioner under (c)(3) of this section shall be kept confidential  
10 for 24 months after receipt by the commissioner unless the owner of the well gives  
11 written permission to the state to release the well data at an earlier date, and,  
12 notwithstanding AS 31.05.035(c), confidentiality may not be extended beyond 24  
13 months. The provisions of AS 38.05.035(a)(8)(C) [AS 38.05.035(a)(9)(C)] apply to  
14 other data provided to the commissioner under (c)(3) of this section, except that the  
15 commissioner, under appropriate confidentiality provisions and without preference or  
16 discrimination, may display to all interested third parties, but may not distribute or  
17 transfer in hard copy or electronic form, those data with respect to all land if the  
18 commissioner determines that the limited disclosure is necessary to further the  
19 interest of the state in evaluating or developing its land.

20 \* Sec. 12. AS 43.05.230(a) is amended to read:

21 (a) It is unlawful for a current or former officer, employee, or agent of the  
22 state to divulge the amount of income or the particulars set out or disclosed in a report  
23 or return made under this title, except

24 (1) in connection with official investigations or proceedings of the  
25 department, whether judicial or administrative, involving taxes due under this title;

26 (2) in connection with official investigations or proceedings of the  
27 child support enforcement agency, whether judicial or administrative, involving child  
28 support obligations imposed or imposable under AS 25 or AS 47;

29 (3) as provided in AS 38.05.036 pertaining to audit functions of the  
30 Department of Natural Resources;

31 (4) as provided in AS 43.05.405 - 43.05.499; and

1 (5) as otherwise provided in this section or AS 43.55.890.

2 \* Sec. 13. AS 43.05.230(h) is amended to read:

3 (h) The commissioner shall, upon request, furnish to the Department of  
4 Natural Resources copies of tax returns, reports, and other documents filed under  
5 AS 43.55 or AS 43.65, and the Department of Revenue's determinations and  
6 workpapers under those chapters. The Department of Natural Resources shall  
7 maintain the confidentiality that the Department of Revenue is required to extend to  
8 the returns, reports, documents, determinations, and workpapers furnished to the  
9 Department of Natural Resources under this subsection.

10 \* Sec. 14. AS 43.05.260(a) is amended to read:

11 (a) Except as provided in (c) of this section, [AND] AS 43.20.200(b), and  
12 AS 43.55.075, the amount of a tax imposed by this title must be assessed within three  
13 years after the return was filed, whether or not a return was filed on or after the date  
14 prescribed by law. If the tax is not assessed before the expiration of the applicable  
15 [THREE-YEAR] period, proceedings may not be instituted in court for the collection  
16 of the tax.

17 \* Sec. 15. AS 43.55.011(c) is repealed and reenacted to read:

18 (c) There is levied on the producer of oil or gas a tax for all oil and gas  
19 produced each calendar year from each lease or property in the state, less any oil and  
20 gas the ownership or right to which is exempt from taxation or constitutes a  
21 landowner's royalty interest. Except as otherwise provided under (f), (j), and (k) of  
22 this section, the tax is equal to the production tax value of the taxable oil and gas as  
23 calculated under AS 43.55.160 multiplied by the tax rate determined under (g) of this  
24 section.

25 \* Sec. 16. AS 43.55.011(f) is amended to read:

26 (f) The levy of tax under this section for [ON A PRODUCER OF] oil and gas  
27 produced north of 68 degrees North latitude, other than oil and gas production  
28 subject to (i) of this section, may not be less than

29 (1) four percent of the gross value at the point of production when the  
30 average price per barrel for Alaska North Slope crude oil for sale on the United States  
31 West Coast during the calendar year for which the tax is due is more than \$25;

1 (2) three percent of the gross value at the point of production when the  
2 average price per barrel for Alaska North Slope crude oil for sale on the United States  
3 West Coast during the calendar year for which the tax is due is over \$20 but not over  
4 \$25;

5 (3) two percent of the gross value at the point of production when the  
6 average price per barrel for Alaska North Slope crude oil for sale on the United States  
7 West Coast during the calendar year for which the tax is due is over \$17.50 but not  
8 over \$20;

9 (4) one percent of the gross value at the point of production when the  
10 average price per barrel for Alaska North Slope crude oil for sale on the United States  
11 West Coast during the calendar year for which the tax is due is over \$15 but not over  
12 \$17.50; or

13 (5) zero percent of the gross value at the point of production when the  
14 average price per barrel for Alaska North Slope crude oil for sale on the United States  
15 West Coast during the calendar year for which the tax is due is \$15 or less.

16 \* Sec. 17. AS 43.55.011(g) is repealed and reenacted to read:

17 (g) The tax rate applied to the monthly production tax value of oil and gas  
18 under (e) of this section for each month of the calendar year in which the tax is levied  
19 is 22.5 percent plus, for each month for which the monthly average production tax  
20 value for each BTU equivalent barrel is more than

21 (1) \$30 but not more than \$50, 0.6 percent multiplied by the number  
22 that represents the difference between the average production tax value for each BTU  
23 equivalent barrel of the taxable oil and gas for that month and \$30;

24 (2) \$50 but not more than \$70, the sum of 12 percent and the product  
25 of 0.5 percent multiplied by the number that represents the difference between the  
26 average production tax value for each BTU equivalent barrel of the taxable oil and  
27 gas for that month and \$50;

28 (3) \$70 but not more than \$90, the sum of 22 percent and the product  
29 of 0.35 percent multiplied by the number that represents the difference between the  
30 average production tax value for each BTU equivalent barrel of the taxable oil and  
31 gas for that month and \$70;

1 (4) \$90, the sum of 29 percent and the product of 0.1 percent  
2 multiplied by the number that represents the difference between the average  
3 production tax value for each BTU equivalent barrel of the taxable oil and gas for that  
4 month and \$90, except that the sum determined under this paragraph may not exceed  
5 50 percent, and the total tax rate under this subsection may not exceed 75 percent.

6 \* Sec. 18. AS 43.55.011(j) is amended to read:

7 (j) For a calendar year before 2022, the [TOTAL] tax levied by (e) [AND (g)]  
8 of this section for [ON] gas produced from a lease or property in the Cook Inlet  
9 sedimentary basin may not exceed

10 (1) for a lease or property that first commenced commercial  
11 production of gas before April 1, 2006, the product obtained by multiplying (A) the  
12 amount of taxable gas produced during the calendar year from the lease or property,  
13 times (B) the average rate of tax that was imposed under this chapter for [ON]  
14 taxable gas produced from the lease or property for the 12-month period ending on  
15 March 31, 2006, times (C) the quotient obtained by dividing the total gross value at  
16 the point of production of the taxable gas produced from the lease or property during  
17 the 12-month period ending on March 31, 2006, by the total amount of that gas;

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

26 \* Sec. 19. AS 43.55.011(k) is amended to read:

27 (k) For a calendar year before 2022, the [TOTAL] tax levied by (e) [AND  
28 (g)] of this section for [ON] oil produced from a lease or property in the Cook Inlet  
29 sedimentary basin may not exceed

30 (1) for a lease or property that first commenced commercial  
31 production of oil before April 1, 2006, the product obtained by multiplying (A) the

1 amount of taxable oil produced during the calendar year from the lease or property,  
2 times (B) the average rate of tax that was imposed under this chapter for [ON]  
3 taxable oil produced from the lease or property for the 12-month period ending on  
4 March 31, 2006, times (C) the quotient obtained by dividing the total gross value at  
5 the point of production of the taxable oil produced from the lease or property during  
6 the 12-month period ending on March 31, 2006, by the total amount of that oil;

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

15 \* **Sec. 20.** AS 43.55.011(m) is repealed and reenacted:

16 (m) Notwithstanding any contrary provision of AS 38.05.180(i),  
17 AS 41.09.010, AS 43.55.024, or 43.55.025, the department shall provide by  
18 regulation a method to ensure that for a calendar year for which a producer's tax  
19 liability is limited by AS 43.55.011(j) or (k), tax credits otherwise available under  
20 AS 38.05.180(i), AS 41.09.010, AS 43.55.024, or 43.55.025 and allocated to oil or  
21 gas subject to the limitations in AS 43.55.011(j) and (k) are accounted for as though  
22 the credits had been applied first against a tax liability calculated without regard to  
23 the limitations under AS 43.55.011(j) and (k) so as to reduce the tax liability to the  
24 maximum amount provided for under AS 43.55.011(j) for the production of gas or  
25 AS 43.55.011(k) for the production of oil. The regulation must provide for a  
26 reasonable method to allocate tax credits to oil or gas subject to AS 43.55.011(j) and  
27 (k). Only the amount of a tax credit remaining after the accounting provided for under  
28 this subsection may be used for a later calendar year, transferred to another person, or  
29 applied against a tax levied on the production of oil or gas not subject to  
30 AS 43.55.011(j) or (k) to the extent otherwise allowed.

31 \* **Sec. 21.** AS 43.55.020(a) is repealed and reenacted to read:

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

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

10 (A) for oil and gas produced from leases or properties in the  
11 state outside the Cook Inlet sedimentary basin, other than leases or properties  
12 subject to AS 43.55.011(f), the greater of

13 (i) zero; or

14 (ii) 22.5 percent of the remainder obtained by  
15 subtracting 1/12 of the producer's adjusted lease expenditures for the  
16 calendar year of production under AS 43.55.165 and 43.55.170 that are  
17 deductible for the leases or properties under AS 43.55.160 from the  
18 gross value at the point of production of the oil and gas produced from  
19 the leases or properties during the month for which the installment  
20 payment is calculated;

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

23 (i) zero;

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

28 (iii) 22.5 percent of the remainder obtained by  
29 subtracting 1/12 of the producer's adjusted lease expenditures for the  
30 calendar year of production under AS 43.55.165 and 43.55.170 that are  
31 deductible for those leases or properties under AS 43.55.160 from the

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

4 (C) for oil and gas produced from each lease or property  
5 subject to AS 43.55.011(j) or (k), the greater of

6 (i) zero; or

7 (ii) 22.5 percent of the remainder obtained by  
8 subtracting 1/12 of the producer's adjusted lease expenditures for the  
9 calendar year of production under AS 43.55.165 and 43.55.170 that are  
10 deductible under AS 43.55.160 for oil or gas, respectively, produced  
11 from the lease or property from the gross value at the point of  
12 production of the oil or gas, respectively, produced from the lease or  
13 property during the month for which the installment payment is  
14 calculated;

15 (2) an amount calculated under (1)(C) of this subsection for oil or gas  
16 produced from a lease or property subject to AS 43.55.011(j) or (k) may not exceed  
17 the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or  
18 (2), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for  
19 oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A), as applicable, the amount of  
20 taxable gas produced during the month for the amount of taxable gas produced during  
21 the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable,  
22 the amount of taxable oil produced during the month for the amount of taxable oil  
23 produced during the calendar year;

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

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

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

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

9 \* Sec. 22. AS 43.55.020(g) is amended to read:

10 (g) Notwithstanding any contrary provision of AS 43.05.225, an unpaid  
11 amount of an installment payment required under (a)(1) - (3) [(a)(1) - (4)] of this  
12 section that is not paid when due bears interest (1) at the rate provided for an  
13 underpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended,  
14 compounded daily, from the date the installment payment is due until [THE]  
15 March 31 following the calendar year of production [DESCRIBED IN  
16 AS 43.55.030(a)], and (2) as provided for a delinquent tax under AS 43.05.225 after  
17 that March 31. Interest accrued under (1) of this subsection that remains unpaid after  
18 that March 31 is treated as an addition to tax that bears interest under (2) of this  
19 subsection. An unpaid amount of tax due under (a)(4) [(a)(5)] of this section that is  
20 not paid when due bears interest as provided for a delinquent tax under AS 43.05.225.

21 \* Sec. 23. AS 43.55.020(h) is amended to read:

22 (h) Notwithstanding any contrary provision of AS 43.05.280,

23 (1) an overpayment of an installment payment required under (a)(1) -  
24 (3) [(a)(1) - (4)] of this section bears interest at the rate provided for an overpayment  
25 under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from  
26 the later of the date the installment payment is due or the date the overpayment is  
27 made, until the earlier of

28 (A) the date it is refunded or is applied to an underpayment; [,]

29 or

30 (B) [THE] March 31 following the calendar year of  
31 production [DESCRIBED IN AS 43.55.030(a)];

1 (2) except as provided under (1) of this subsection, interest with  
2 respect to an overpayment is allowed only on any net overpayment of the payments  
3 required under (a) of this section that remains after the later of [THE] March 31  
4 following the calendar year of production [DESCRIBED IN AS 43.55.030(a)] or  
5 the date that the statement required under AS 43.55.030(a) is filed;

6 (3) interest is allowed under (2) of this subsection only from a date  
7 that is 90 days after the later of [THE] March 31 following the calendar year of  
8 production [DESCRIBED IN AS 43.55.030(a)] or the date that the statement  
9 required under AS 43.55.030(a) is filed; interest is not allowed if the overpayment  
10 was refunded within the 90-day period;

11 (4) interest under (2) and (3) of this subsection is paid at the rate and  
12 in the manner provided in AS 43.05.225(1).

13 \* Sec. 24. AS 43.55.023(a) is amended to read:

14 (a) A producer or explorer may take a tax credit for a qualified capital  
15 expenditure as follows:

16 (1) notwithstanding that a qualified capital expenditure may be a  
17 deductible lease expenditure for purposes of calculating the production tax value of  
18 oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under  
19 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or  
20 explorer that incurs a qualified capital expenditure may also elect to apply [TAKE] a  
21 tax credit against a tax levied by [DUE UNDER] AS 43.55.011(c) in the amount of  
22 20 percent of that expenditure; however, not more than half of the tax credit may  
23 be applied for a single calendar year;

24 (2) a producer or explorer may take a credit for a qualified capital  
25 expenditure incurred in connection with geological or geophysical exploration or in  
26 connection with an exploration well only if the producer or explorer [PROVIDES TO  
27 THE DEPARTMENT, AS PART OF THE STATEMENT REQUIRED UNDER  
28 AS 43.55.030(a) FOR THE CALENDAR YEAR FOR WHICH THE CREDIT IS  
29 SOUGHT TO BE TAKEN, THE PRODUCER'S OR EXPLORER'S WRITTEN  
30 AGREEMENT]

31 (A) agrees, in writing, to the applicable provisions of

1           AS 43.55.025(f)(2) [TO NOTIFY THE DEPARTMENT OF NATURAL  
2 RESOURCES, BEFORE THE LATER OF 30 DAYS AFTER  
3 COMPLETION OF THE GEOLOGICAL OR GEOPHYSICAL DATA  
4 PROCESSING OR COMPLETION OF THE WELL, OR 30 DAYS AFTER  
5 THE STATEMENT IS FILED, OF THE DATE OF COMPLETION AND TO  
6 SUBMIT A REPORT TO THAT DEPARTMENT DESCRIBING THE  
7 PROCESSING SEQUENCE AND PROVIDE A LIST OF DATA SETS  
8 AVAILABLE];

9                   (B) submits [TO PROVIDE] to the Department of Natural  
10 Resources all data that would be required to be submitted under  
11 AS 43.55.025(f)(2) [, WITHIN 30 DAYS AFTER THE DATE OF A  
12 REQUEST, SPECIFIC DATA SETS, ANCILLARY DATA, AND  
13 REPORTS IDENTIFIED IN (A) OF THIS PARAGRAPH];

14                   (3) a tax credit for a qualified capital expenditure to explore for,  
15 develop, or produce oil or gas deposits subject to AS 43.55.011(f) may not be  
16 applied against a tax for oil or gas produced from a lease or property not subject  
17 to AS 43.55.011(f)

18                   [(C) THAT, NOTWITHSTANDING ANY PROVISION OF  
19 AS 38, THE DEPARTMENT OF NATURAL RESOURCES SHALL HOLD  
20 CONFIDENTIAL THE INFORMATION PROVIDED TO THAT  
21 DEPARTMENT UNDER THIS PARAGRAPH FOR 10 YEARS  
22 FOLLOWING THE COMPLETION DATE, AFTER WHICH THE  
23 DEPARTMENT SHALL PUBLICLY RELEASE THE INFORMATION  
24 AFTER 30 DAYS' PUBLIC NOTICE].

25 \* Sec. 25. AS 43.55.023(b) is amended to read:

26                   (b) A producer or explorer may elect to take a tax credit in the amount of 22.5  
27 [20] percent of a carried-forward annual loss. A credit under this subsection may be  
28 applied against a tax levied by [DUE UNDER] AS 43.55.011(e). For purposes of this  
29 subsection, a carried-forward annual loss is the amount of a producer's or explorer's  
30 adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a previous  
31 calendar year that was not deductible in calculating production tax values for that

1 calendar year under AS 43.55.160 [AS 43.55.160(b) AND (c)].

2 \* Sec. 26. AS 43.55.023(d) is amended to read:

3 (d) Except as limited by (i) of this section, a person that is entitled to take a  
4 tax credit under this section, other than a tax credit described in (a)(3) of this  
5 section, and that wishes to transfer the unused credit to another person or obtain a  
6 cash payment may apply to the department for [A] transferable tax credit certificates  
7 [CERTIFICATE]. An application under this subsection must be in a form prescribed  
8 by the department and must include supporting information and documentation that  
9 the department reasonably requires. The department shall grant or deny an  
10 application, or grant an application as to a lesser amount than that claimed and deny it  
11 as to the excess, not later than 120 [60] days after the latest of (1) March 31 of the  
12 year following the calendar year in which the qualified capital expenditure or carried-  
13 forward annual loss for which the credit is claimed was incurred; (2) [IF THE  
14 APPLICANT IS REQUIRED UNDER AS 43.55.030(a) TO FILE A STATEMENT  
15 ON OR BEFORE MARCH 31 OF THE YEAR FOLLOWING THE CALENDAR  
16 YEAR IN WHICH THE QUALIFIED CAPITAL EXPENDITURES OR CARRIED-  
17 FORWARD ANNUAL LOSS FOR WHICH THE CREDIT IS CLAIMED WAS  
18 INCURRED,] the date the statement required under AS 43.55.030(a) or (c) was  
19 filed for the calendar year in which the qualified capital expenditure or carried-  
20 forward annual loss for which the credit is claimed was incurred; or (3) the date  
21 the application was received by the department. If, based on the information then  
22 available to it, the department is reasonably satisfied that the applicant is entitled to a  
23 credit, the department shall issue the applicant two [A] transferable tax credit  
24 certificates, each [CERTIFICATE] for half of the amount of the credit. The credit  
25 shown on one of the two certificates is available for immediate use. The credit  
26 shown on the second of the two certificates may not be applied against a tax for a  
27 calendar year earlier than the calendar year following the calendar year in  
28 which the certificate is issued, and the certificate must contain a conspicuous  
29 statement to that effect. A certificate issued under this subsection does not expire.

30 \* Sec. 27. AS 43.55.023(e) is amended to read:

31 (e) A person to which a transferable tax credit certificate is issued under (d)

1 of this section may transfer the certificate to another person, and a transferee may  
2 further transfer the certificate. Subject to the limitations set out in (a) - (d) [(a) - (c)]  
3 of this section, and notwithstanding any action the department may take with respect  
4 to the applicant under (g) of this section, the owner of a certificate may apply the  
5 credit or a portion of the credit shown on the certificate only against a tax levied by  
6 [DUE UNDER] AS 43.55.011(e). However, a credit shown on a transferable tax  
7 credit certificate may not be applied to reduce a transferee's total tax liability [DUE]  
8 under AS 43.55.011(e) for [ON] oil and gas produced during a calendar year to less  
9 than 80 percent of the tax that would otherwise be due without applying that credit.  
10 Any portion of a credit not used under this subsection may be applied in a later  
11 period.

12 \* Sec. 28. AS 43.55.023(j) is amended to read:

13 (i) For the purposes of this section,

14 (1) a producer's or explorer's transitional investment expenditures are  
15 the sum of the expenditures the producer or explorer incurred after March 31, 2001,  
16 and before April 1, 2006, that would be qualified capital expenditures if they were  
17 incurred after March 31, 2006, less the sum of the payments or credits the producer or  
18 explorer received before April 1, 2006, for the sale or other transfer of assets,  
19 including geological, geophysical, or well data or interpretations, acquired by the  
20 producer or explorer as a result of expenditures the producer or explorer incurred  
21 before April 1, 2006, that would be qualified capital expenditures, if they were  
22 incurred after March 31, 2006;

23 (2) a producer or explorer that did not have commercial production  
24 of oil or gas from a lease or property in the state before April 1, 2006, may elect  
25 to take a tax credit against a tax levied by [DUE UNDER] AS 43.55.011(e) in the  
26 amount of 20 percent of the producer's or explorer's transitional investment  
27 expenditures, but only to the extent that the amount does not exceed 1/10 of the  
28 producer's or explorer's qualified capital expenditures that are incurred during the  
29 calendar year for which the credit is taken;

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

1 (A) for any calendar year after [THE LATER OF

2 (i)] 2013; [OR

3 (ii) THE SIXTH CALENDAR YEAR AFTER THE  
4 CALENDAR YEAR FOR WHICH THE PRODUCER FIRST  
5 APPLIES A CREDIT UNDER THIS SUBSECTION AGAINST A  
6 TAX DUE UNDER AS 43.55.011(e), IF THE PRODUCER DID NOT  
7 HAVE COMMERCIAL PRODUCTION OF OIL OR GAS FROM A  
8 LEASE OR PROPERTY IN THE STATE BEFORE APRIL 1, 2006;]

9 (B) more than once; or

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

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

15 \* Sec. 29. AS 43.55.023 is amended by adding a new subsection to read:

16 (f) An entity that is exempt from taxation under this chapter may not apply  
17 for a transferable tax credit certificate.

18 \* Sec. 30. AS 43.55.025(a) is amended to read:

19 (a) Subject to the terms and conditions of this section, a credit against the  
20 production tax levied by [DUE UNDER] AS 43.55.011(e) [OR (f)] is allowed for  
21 exploration expenditures that qualify under (b) of this section in an amount equal to  
22 one of the following:

23 (1) 20 percent of the total exploration expenditures that qualify only  
24 under (b) and (c) of this section;

25 (2) 20 percent of the total exploration expenditures [FOR WORK  
26 PERFORMED BEFORE JULY 1, 2007, AND] that qualify only under (b) and (d) of  
27 this section;

28 (3) 40 percent of the total exploration expenditures that qualify under  
29 (b), (c), and (d) of this section; or

30 (4) 40 percent of the total exploration expenditures that qualify only  
31 under (b) and (e) of this section.

1 \* Sec. 31. AS 43.55.025(b) is amended to read:

2 (b) To qualify for the production tax credit under (a) of this section, an  
3 exploration expenditure must be incurred for work performed [ON OR] after  
4 December 31, 2007 [JULY 1, 2003], and before July 1, 2016, [EXCEPT THAT AN  
5 EXPLORATION EXPENDITURE FOR A COOK INLET PROSPECT MUST BE  
6 INCURRED FOR WORK PERFORMED ON OR AFTER JULY 1, 2005,] and

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

9 (2) if for an exploration well,

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

12 (B) may be for either a [AN OIL OR GAS DISCOVERY]  
13 well that encounters an oil or gas deposit or a dry hole; [AND]

14 (C) must be for a well that has been completed, suspended,  
15 or abandoned at the time the explorer claims the tax credit under (f) of  
16 this section; and

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

22 (3) may not be for [TESTING, STIMULATION, OR COMPLETION  
23 COSTS;] administration, supervision, engineering, or lease operating costs;  
24 geological or management costs; community relations or environmental costs;  
25 bonuses, taxes, or other payments to governments related to the well; costs arising  
26 from gross negligence or violation of health, safety, or environmental statutes or  
27 regulations; or other costs that are generally recognized as indirect costs or financing  
28 costs; and

29 (4) may not be incurred for an exploration well or seismic exploration  
30 that is included in a plan of exploration or a plan of development for any unit before  
31 May 14, 2005 [ON MAY 13, 2003].

1 \* Sec. 32. AS 43.55.025(c) is repealed and reenacted to read:

2 (c) To be eligible for the 20 percent production tax credit authorized by (a)(1)  
3 of this section or the 40 percent production tax credit authorized by (a)(3) of this  
4 section, exploration expenditures must

5 (1) qualify under (b) of this section; and

6 (2) be for an exploration well, subject to the following:

7 (A) before spudding the well,

8 (i) the explorer shall submit to the commissioner of  
9 natural resources the information necessary to determine whether the  
10 geological objective of the well is a potential oil or gas trap that is  
11 distinctly separate from any trap that has been tested by a preexisting  
12 well; and

13 (ii) the commissioner of natural resources must make  
14 an affirmative determination on that question; the commissioner of  
15 natural resources shall decide whether to make that determination  
16 within 60 days after receiving all the necessary information from the  
17 explorer and based on the information received and on other  
18 information the commissioner of natural resources may consider  
19 relevant;

20 (B) for an exploration well other than a well to explore a Cook  
21 Inlet prospect, the well must be located and drilled in such a manner that the  
22 bottom hole is located not less than three miles away from the bottom hole of  
23 a preexisting well drilled for oil or gas, irrespective of whether the preexisting  
24 well has been completed, suspended, or abandoned;

25 (C) after completion, suspension, or abandonment of the  
26 exploration well, the commissioner of natural resources must determine that  
27 the well adequately achieved the explorer's stated geological objective.

28 \* Sec. 33. AS 43.55.025(f) is amended to read:

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

30 (1) an explorer shall, in a form prescribed by the department and,  
31 except for a credit under (f) of this section, within six months of the completion of

1 the exploration activity, claim the credit and submit information sufficient to  
2 demonstrate to the department's satisfaction that the claimed exploration expenditures  
3 qualify under this section;

4 (2) an explorer shall agree, in writing,

5 (A) to notify the Department of Natural Resources, within 30  
6 days after completion of seismic or geophysical data processing, completion  
7 of [A] well drilling, or filing of a claim for credit, whichever is the latest, for  
8 which exploration costs are claimed, of the date of completion and submit a  
9 report to that department describing the processing sequence and providing a  
10 list of data sets available; [IF, UNDER (c)(2)(B) OF THIS SECTION, AN  
11 EXPLORER SUBMITS A CLAIM FOR A CREDIT FOR EXPENDITURES  
12 FOR AN EXPLORATION WELL THAT IS LOCATED WITHIN THREE  
13 MILES OF A WELL ALREADY DRILLED FOR OIL AND GAS, IN  
14 ADDITION TO THE SUBMISSIONS REQUIRED UNDER (1) OF THIS  
15 SUBSECTION, THE EXPLORER SHALL SUBMIT THE INFORMATION  
16 NECESSARY FOR THE COMMISSIONER OF NATURAL RESOURCES  
17 TO EVALUATE THE VALIDITY OF THE EXPLORER'S CLAIM THAT  
18 THE WELL IS DIRECTED AT A DISTINCTLY SEPARATE  
19 EXPLORATION TARGET, AND THE COMMISSIONER OF NATURAL  
20 RESOURCES SHALL, UPON RECEIPT OF ALL EVIDENCE  
21 SUFFICIENT FOR THE COMMISSIONER TO EVALUATE THE  
22 EXPLORER'S CLAIM, MAKE THAT DETERMINATION WITHIN 60  
23 DAYS;]

24 (B) to provide to the Department of Natural Resources, within  
25 30 days after the date of a request, unless a longer period is provided by the  
26 Department of Natural Resources, specific data sets, ancillary data, and  
27 reports identified in (A) of this paragraph; in this subparagraph,

28 (i) a seismic or geophysical data set includes the  
29 data for an entire seismic survey, irrespective of whether the  
30 survey area covers nonstate land in addition to state land or land  
31 in a unit in addition to land outside a unit;



1 exploration, each explorer may claim an amount of credit that is proportional to the  
2 explorer's cost incurred;

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

6 (5) if the department is satisfied that the explorer's claimed  
7 expenditures are qualified under this section and that all data required to be  
8 submitted under this section have been submitted, the department shall issue to the  
9 explorer a production tax credit certificate for the amount of credit to be allowed  
10 against production taxes levied by AS 43.55.011(e); notwithstanding any contrary  
11 provision of AS 38, AS 40.25.100, or AS 43.05.230, the following information is  
12 not confidential:

13 (A) the explorer's name;

14 (B) the date of the application;

15 (C) the location of the well or seismic exploration;

16 (D) the date of the department's issuance of the certificate;

17 and

18 (E) the date on which the information required to be  
19 submitted under this section will be released [DUE UNDER  
20 AS 43.55.011(e) OR (f)].

21 \* Sec. 34. AS 43.55.025(g) is amended to read:

22 (g) An explorer, other than an entity that is exempt from taxation under  
23 this chapter, may transfer, convey, or sell its production tax credit certificate to any  
24 person, and any person who receives a production tax credit certificate may also  
25 transfer, convey, or sell the certificate.

26 \* Sec. 35. AS 43.55.025(h) is amended to read:

27 (h) A producer that purchases a production tax credit certificate may apply  
28 the credits against its production tax levied by [LIABILITY UNDER]  
29 AS 43.55.011(e) [OR (f)]. Regardless of the price the producer paid for the  
30 certificate, the producer may receive a credit against its production tax liability for the  
31 full amount of the credit, but for not more than the amount for which the certificate is

1 issued. A production tax credit allowed under this section may not be applied more  
2 than once.

3 \* Sec. 36. AS 43.55.025(i) is repealed and reenacted to read:

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

5 (1) a credit may not be applied to reduce a taxpayer's tax liability  
6 under AS 43.55.011(e) below zero for a calendar year; and

7 (2) an amount of the production tax credit in excess of the amount that  
8 may be applied for a calendar year under this subsection may be carried forward and  
9 applied against the taxpayer's tax liability under AS 43.55.011(e) in one or more later  
10 calendar years.

11 \* Sec. 37. AS 43.55.025(k) is amended by adding a new paragraph to read:

12 (4) "preexisting well" means a well that was spudded more than 540  
13 days but less than 35 years before the date on which the exploration well to which it  
14 is compared is spudded.

15 \* Sec. 38. AS 43.55.025 is amended by adding a new subsection to read:

16 (l) Subject to the terms and conditions of this section, if a claim is filed under  
17 (f)(1) of this section before January 1, 2016, a credit against the production tax levied  
18 by AS 43.55.011(e) is allowed in an amount equal to five percent of an eligible  
19 expenditure under this subsection incurred for seismic exploration performed before  
20 July 1, 2003. To be eligible under this subsection, an expenditure must

21 (1) have been for seismic exploration that

22 (A) obtained data that the commissioner of natural resources  
23 considers to be in the best interest of the state to acquire for public  
24 distribution; and

25 (B) was conducted outside the boundaries of a production unit;  
26 however, the amount of the expenditure that is otherwise eligible under this  
27 section is reduced proportionately by the portion of the seismic exploration  
28 activity that crossed into a production unit; and

29 (2) qualify under (b)(3) of this section.

30 \* Sec. 39. AS 43.55.030(a) is amended to read:

31 (a) A producer that produces oil or gas from a lease or property in the

1 state during a calendar year, whether or not any tax payment is due under  
2 AS 43.55.020(a) for that oil or gas, [THE PERSON PAYING THE TAX] shall file  
3 with the department on March 31 of the following year [FOLLOWING THE  
4 CALENDAR YEAR FOR WHICH THE TAX WAS LEVIED] a statement, under  
5 oath, in a form prescribed by the department, giving, with other information required,  
6 the following:

7 (1) a description of each lease or property from which [THE] oil or  
8 [AND] gas was [WERE] produced, by name, legal description, lease number, or  
9 accounting codes assigned by the department;

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

12 (3) the gross amount of oil and the gross amount of gas produced from  
13 each lease or property, and the percentage of the gross amount of oil and gas owned  
14 by the [EACH] producer [FOR WHOM THE TAX IS PAID];

15 (4) the gross value at the point of production of the oil and of the gas  
16 produced from each lease or property owned by the [EACH] producer and the costs  
17 of transportation of the oil and gas [FOR WHOM THE TAX IS PAID];

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

21 (6) the producer's qualified capital expenditures, as defined in  
22 AS 43.55.023, other lease expenditures [AND ADJUSTMENTS AS  
23 CALCULATED] under AS 43.55.165, and adjustments or other payments or  
24 credits under AS 43.55.170;

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

27 (8) any claims for tax credits to be applied; and

28 (9) calculations showing the amounts, if any, that were or are due  
29 under AS 43.55.020(a) and interest on any underpayment or overpayment  
30 [AS 43.55.160 - 43.55.170].

31 \* Sec. 40. AS 43.55.030(d) is amended to read:

1 (d) Reports required under this section [BY OR ON BEHALF OF THE  
2 PRODUCER] are delinquent the first day following the day the report is due. The  
3 person required to file the report is liable for a penalty, as determined by the  
4 department under standards adopted in regulation by the department, of not  
5 more than \$1,000 for each day the person fails to file the report at the time  
6 required. The penalty is in addition to the penalties in AS 43.05.220 and  
7 43.05.290 and is assessed, collected, and paid in the same manner as a tax  
8 deficiency under this title. In this subsection, "report" includes a statement.

9 \* Sec. 41. AS 43.55.030 is amended by adding new subsections to read:

10 (e) An explorer or producer that incurs a lease expenditure under  
11 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar  
12 year but does not produce oil or gas from a lease or property in the state during the  
13 calendar year shall file with the department on March 31 of the following year a  
14 statement, under oath, in a form prescribed by the department, giving, with other  
15 information required, the following:

16 (1) the producer's qualified capital expenditures, as defined in  
17 AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other  
18 payments or credits under AS 43.55.170; and

19 (2) if the explorer or producer receives a payment or credit under  
20 AS 43.55.170, calculations showing whether the explorer or producer is liable for a  
21 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount.

22 (f) The department may require a producer, an explorer, or an operator of a  
23 lease or property to file monthly reports, as applicable, of

24 (1) the amounts and gross value at the point of production of oil and  
25 gas produced;

26 (2) transportation costs of the oil and gas;

27 (3) any unscheduled interruption of, or reduction in the rate of, oil or  
28 gas production;

29 (4) lease expenditures and adjustments under AS 43.55.165 and  
30 43.55.170;

31 (5) joint interest billings;

- 1 (6) contracts for the sale or transportation of oil or gas;  
2 (7) information and calculations used in determining monthly  
3 installment payments of estimated tax under AS 43.55.020(a); and  
4 (8) other records and information the department considers necessary  
5 for the administration of this chapter.

6 \* Sec. 42. AS 43.55.040 is amended to read:

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

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

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

21 (B) impose appropriate conditions limiting

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

26 (ii) the use of the information to use for that purpose:

- 27 (2) examine the books, records, and files of the [SUCH A] person;  
28 (3) conduct hearings and compel the attendance of witnesses and the  
29 production of books, records, and papers of any person; [AND]  
30 (4) make an investigation or hold an inquiry that is considered  
31 necessary to a disclosure of the facts as to

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

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

4 (5) require a producer, an explorer, or an operator of a lease or  
5 property to file reports and copies of records that the department considers  
6 necessary to forecast state revenue under this chapter; in the case of reports and  
7 copies of records relating to proposed, expected, or approved unit expenditures  
8 for a unit for which one or more working interest owners other than the  
9 operator have authority to approve unit expenditures, the required reports and  
10 copies of records are limited to those reports or copies of records that constitute  
11 or disclose communications between the operator and the working interest  
12 owners relating to unit budget matters;

13 (6) require a producer that has an average total production in the  
14 state of more than 100,000 barrels a day for a calendar year to report the gross  
15 value at the point of production of the producer's taxable oil and gas in the state  
16 for a calendar year and the total amount of lease expenditures in the state for  
17 that calendar year; and

18 (7) assess against a person required under this section to file a  
19 report, statement, or other document a penalty, as determined by the  
20 department under standards adopted in regulation by the department, of not  
21 more than \$1,000 for each day the person fails to file the report, statement, or  
22 other document after notice by the department; the penalty is in addition to any  
23 penalties under AS 43.05.220 and 43.05.290 and is assessed, collected, and paid  
24 in the same manner as a tax deficiency under this title; the penalty shall bear  
25 interest at the rate specified under AS 43.05.225(1).

26 \* Sec. 43. AS 43.55 is amended by adding a new section to read:

27 **Sec. 43.55.075. Limitation on assessment and amended returns.** (a) Except  
28 as provided in AS 43.05.260(c), the amount of a tax imposed by this chapter must be  
29 assessed within four years after the latest return was filed.

30 (b) A decision of a regulatory agency, court, or other body with authority to  
31 resolve disputes that results in a retroactive change to a lease expenditure, to an

1 adjustment to a lease expenditure, to costs of transportation, to sale price, to  
2 prevailing value, or to consideration of quality differentials relating to the  
3 commingling of oils has a corresponding effect, either an increase or decrease, as  
4 applicable, on the production tax value of oil or gas or the amount or availability of a  
5 tax credit as determined under this chapter. For purposes of this section, a change to a  
6 lease expenditure includes a change in the categorization of a lease expenditure as a  
7 qualified capital expenditure or as not a qualified capital expenditure. The producer  
8 shall

9 (1) within 60 days after the change, notify the department in writing;

10 and

11 (2) within 120 days after the change, file amended returns covering all  
12 periods affected by the change, unless the department agrees otherwise or a stay is in  
13 place that affects the filing or payment, regardless of the pendency of appeals of the  
14 decision.

15 (c) If an alteration in or modification of a producer's federal income tax return  
16 or a recomputation of the producer's federal income tax or determination of  
17 deficiency occurs that affects the amount of a tax imposed on the producer under this  
18 chapter, the producer shall

19 (1) within 60 days after the final determination of the alteration,  
20 modification, recomputation, or deficiency, notify the department in writing; and

21 (2) within 120 days after the final determination of the alteration,  
22 modification, recomputation, or deficiency, file amended returns covering all affected  
23 periods.

24 (d) In this section,

25 (1) "qualified capital expenditure" has the meaning given in  
26 AS 43.55.023;

27 (2) "return" includes a report, a statement, and an amended return,  
28 report, or statement.

29 \* Sec. 44. AS 43.55.110 is amended by adding new subsections to read:

30 (e) The department may require that returns, statements, reports, notifications,  
31 and applications filed under this chapter be filed electronically in a form and manner

1 approved or prescribed by the department.

2 (f) The department may require that payments required under this chapter be  
3 made electronically in a form and manner approved or prescribed by the department.

4 (g) Notwithstanding AS 44.62, the department may issue, for the information  
5 and guidance of producers, explorers, and other interested persons, advisory bulletins  
6 stating the department's interpretation of provisions of this chapter and of regulations  
7 adopted under this chapter. Unless otherwise provided by the department by  
8 regulation, interpretations stated in the advisory bulletins are not binding on the  
9 department or others.

10 (h) Subject to legislative appropriation, the department may compensate a  
11 person who provides information to the department about noncompliance with the  
12 provisions of this chapter by an explorer or a producer of oil or gas if that information  
13 leads to the collection of additional taxes, penalties, or interest from the producer. The  
14 amount of compensation under this subsection may not exceed the lesser of \$500,000  
15 or 10 percent of the additional tax, penalty, or interest collected as a result of the  
16 information. A state employee or an agent of the state is not eligible for compensation  
17 under this subsection.

18 \* Sec. 45. AS 43.55.150 is amended to read:

19 **Sec. 43.55.150. Determination of gross value at the point of production.**

20 (a) For the purposes of AS 43.55.011 - 43.55.180, the gross value at the point of  
21 production is calculated using the actual [REASONABLE] costs of transportation of  
22 the oil or gas [. THE REASONABLE COSTS OF TRANSPORTATION ARE THE  
23 ACTUAL COSTS], except when the

24 (1) shipper [PARTIES TO THE TRANSPORTATION] of oil or gas  
25 is [ARE] affiliated with the transportation carrier or with a person that owns an  
26 interest in the transportation facility;

27 (2) contract for the transportation of oil or gas is not an arm's length  
28 transaction [OR IS NOT REPRESENTATIVE OF THE MARKET VALUE OF  
29 THAT TRANSPORTATION]; or [AND]

30 (3) method or terms of transportation of oil or gas are [IS] not  
31 reasonable in view of existing alternative [METHODS OF] transportation options.

1 (b) If the department finds that a condition [THE CONDITIONS] in (a)(1),  
2 (2), or [AND] (3) of this section is [ARE] present, the gross value at the point of  
3 production is calculated using the actual costs of transportation, or the  
4 reasonable costs of transportation as determined under this subsection,  
5 whichever is lower. The [THE] department shall determine the reasonable costs of  
6 transportation, using the fair market value of like transportation, the fair market value  
7 of equally efficient and available alternative modes of transportation, or other  
8 reasonable methods. Transportation costs fixed by tariff rates that have been  
9 adjudicated as just and reasonable by [PROPERLY ON FILE WITH] the  
10 Regulatory Commission of Alaska or another [OTHER] regulatory agency and  
11 transportation costs in an arm's length transaction paid by parties not affiliated  
12 with an owner of the method of transportation shall be considered prima facie  
13 reasonable.

14 (c) In determining the gross value of oil under [(a) OF] this section, the  
15 department may not allow as reasonable costs of transportation

16 (1) the amount of loss of or damage to, or of expense incurred due to  
17 the loss of or damage to, a vessel used to transport oil if the loss, damage, or expense  
18 is incurred in connection with a catastrophic oil discharge from the vessel into the  
19 marine or inland waters of the state;

20 (2) the incremental costs of transportation of the oil that are  
21 attributable to temporary use of or chartered or substituted service provided by  
22 another vessel due to the loss of or damage to a vessel regularly used to transport oil  
23 and that are incurred in connection with a catastrophic oil discharge into the marine or  
24 inland waters of the state; and

25 (3) the costs incurred to charter, contract, or hire vessels and  
26 equipment used to contain or clean up a catastrophic oil discharge.

27 \* Sec. 46. AS 43.55.160(a) is amended to read:

28 (a) Except as provided in (b) of this section, for the purposes of  
29 [(1)] AS 43.55.011(c), the annual production tax value of the taxable  
30 (1) [(A)] oil and gas produced during a calendar year from leases or  
31 properties in the state that include land north of 68 degrees North latitude is the gross

1 value at the point of production of the oil and gas taxable under AS 43.55.011(e) and  
2 produced by the producer from those leases or properties, less the producer's lease  
3 expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas  
4 produced by the producer from those leases or properties, as adjusted under  
5 AS 43.55.170;

6 (2) [(B)] oil and gas produced during a calendar year from leases or  
7 properties in the state outside the Cook Inlet sedimentary basin, no part of which is  
8 north of 68 degrees North latitude, is the gross value at the point of production of the  
9 oil and gas taxable under AS 43.55.011(e) and produced by the producer from those  
10 leases or properties, less the producer's lease expenditures under AS 43.55.165 for the  
11 calendar year applicable to the oil and gas produced by the producer from those leases  
12 or properties, as adjusted under AS 43.55.170;

13 (3) [(C)] oil produced during a calendar year from a lease or property  
14 in the Cook Inlet sedimentary basin is the gross value at the point of production of the  
15 oil taxable under AS 43.55.011(e) and produced by the producer from that lease or  
16 property, less the producer's lease expenditures under AS 43.55.165 for the calendar  
17 year applicable to the oil produced by the producer from that lease or property, as  
18 adjusted under AS 43.55.170;

19 (4) [(D)] gas produced during a calendar year from a lease or property  
20 in the Cook Inlet sedimentary basin is the gross value at the point of production of the  
21 gas taxable under AS 43.55.011(e) and produced by the producer from that lease or  
22 property, less the producer's lease expenditures under AS 43.55.165 for the calendar  
23 year applicable to the gas produced by the producer from that lease or property, as  
24 adjusted under AS 43.55.170 [;

25 (2) AS 43.55.011(g). THE MONTHLY PRODUCTION TAX  
26 VALUE OF THE TAXABLE

27 (A) OIL AND GAS PRODUCED DURING A MONTH  
28 FROM LEASES OR PROPERTIES IN THE STATE THAT INCLUDE  
29 LAND NORTH OF 68 DEGREES NORTH LATITUDE IS THE GROSS  
30 VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS  
31 TAXABLE UNDER AS 43.55.011(g) AND PRODUCED BY THE

1 PRODUCER FROM THOSE LEASES OR PROPERTIES, LESS 1/12 OF  
2 THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR  
3 THE CALENDAR YEAR APPLICABLE TO THE OIL AND GAS  
4 PRODUCED BY THE PRODUCER FROM THOSE LEASES OR  
5 PROPERTIES, AS ADJUSTED UNDER AS 43.55.170;

6 (B) OIL AND GAS PRODUCED DURING A MONTH  
7 FROM LEASES OR PROPERTIES IN THE STATE OUTSIDE THE COOK  
8 INLET SEDIMENTARY BASIN, NO PART OF WHICH IS NORTH OF 68  
9 DEGREES NORTH LATITUDE, IS THE GROSS VALUE AT THE POINT  
10 OF PRODUCTION OF THE OIL AND GAS TAXABLE UNDER  
11 AS 43.55.011(g) AND PRODUCED BY THE PRODUCER FROM THOSE  
12 LEASES OR PROPERTIES. LESS 1/12 OF THE PRODUCER'S LEASE  
13 EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR  
14 APPLICABLE TO THE OIL AND GAS PRODUCED BY THE PRODUCER  
15 FROM THOSE LEASES OR PROPERTIES, AS ADJUSTED UNDER  
16 AS 43.55.170;

17 (C) OIL PRODUCED DURING A MONTH FROM A  
18 LEASE OR PROPERTY IN THE COOK INLET SEDIMENTARY BASIN  
19 IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL  
20 TAXABLE UNDER AS 43.55.011(g) AND PRODUCED BY THE  
21 PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE  
22 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE  
23 CALENDAR YEAR APPLICABLE TO THE OIL PRODUCED BY THE  
24 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED  
25 UNDER AS 43.55.170;

26 (D) GAS PRODUCED DURING A MONTH FROM A  
27 LEASE OR PROPERTY IN THE COOK INLET SEDIMENTARY BASIN  
28 IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS  
29 TAXABLE UNDER AS 43.55.011(g) AND PRODUCED BY THE  
30 PRODUCER FROM THAT LEASE OR PROPERTY, LESS 1/12 OF THE  
31 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE

1 CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE  
2 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED  
3 UNDER AS 43.55.170].

4 \* Sec. 47. AS 43.55.160(b) is amended to read:

5 (b) A production tax value calculated under [(a) OF] this section may not be  
6 less than zero.

7 \* Sec. 48. AS 43.55.160(c) is amended to read:

8 (c) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
9 would otherwise be deductible by a producer in a calendar year but whose deduction  
10 would cause a a [AN ANNUAL] production tax value calculated under (a) [(a)(1)] of  
11 this section of taxable oil or gas produced during the calendar year to be less than  
12 zero may be used to establish a carried-forward annual loss under AS 43.55.023(b).

13 However, the department shall provide by regulation a method to ensure that,  
14 for a period for which a producer's tax liability is limited by AS 43.55.011(j) or  
15 (k), any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
16 would otherwise be deductible by a producer for that period but whose  
17 deduction would cause a production tax value calculated under (a)(3) or (4) of  
18 this section to be less than zero are accounted for as though the adjusted lease  
19 expenditures had first been used as deductions in calculating the production tax  
20 values of oil or gas subject to any of the limitations under AS 43.55.011(j) or (k)  
21 that have positive production tax values so as to reduce the tax liability  
22 calculated without regard to the limitation to the maximum amount provided for  
23 under the applicable provision of AS 43.55.011(j) or (k). Only the amount of  
24 those adjusted lease expenditures remaining after the accounting provided for  
25 under this subsection may be used to establish a carried-forward annual loss  
26 under AS 43.55.023(b). In this subsection, "producer" includes "explorer."

27 \* Sec. 49. AS 43.55.165(a) is repealed and reenacted to read:

28 (a) For purposes of this chapter, a producer's lease expenditures for a calendar  
29 year are

30 (1) costs, other than items listed in (c) of this section, that are

31 (A) incurred by the producer during the calendar year after

1 March 31, 2006, to explore for, develop, or produce oil or gas deposits located  
2 within the producer's leases or properties in the state or, in the case of land in  
3 which the producer does not own an operating right, operating interest, or  
4 working interest, to explore for oil or gas deposits within other land in the  
5 state; and

6 (B) allowed by the department by regulation, based on the  
7 department's determination that the costs satisfy the following three  
8 requirements:

9 (i) the costs must be incurred upstream of the point of  
10 production of oil and gas;

11 (ii) the costs must be ordinary and necessary costs of  
12 exploring for, developing, or producing, as applicable, oil or gas  
13 deposits; and

14 (iii) the costs must be direct costs of exploring for,  
15 developing, or producing, as applicable, oil or gas deposits; and

16 (2) a reasonable allowance for that calendar year, as determined under  
17 regulations adopted by the department, for overhead expenses that are directly related  
18 to exploring for, developing, or producing, as applicable, the oil or gas deposits.

19 \* Sec. 50. AS 43.55.165(b) is amended to read:

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

21 (1) direct costs include

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

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

28 [(C) A REASONABLE ALLOWANCE, AS DETERMINED  
29 UNDER REGULATIONS ADOPTED BY THE DEPARTMENT, FOR  
30 OVERHEAD EXPENSES DIRECTLY RELATED TO EXPLORING FOR,  
31 DEVELOPING, AND PRODUCING OIL OR GAS DEPOSITS LOCATED

1           WITHIN LEASES OR PROPERTIES OR OTHER LAND IN THE STATE;]

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

6           (3) in determining whether costs are lease expenditures, the  
7           department shall consider, among other factors, the

8                     (A) typical industry practices and standards in the state  
9                     that determine the costs, other than items listed in (e) of this section, that  
10                    an operator is allowed to bill a producer that is not the operator, under  
11                    unit operating agreements or similar operating agreements that were in  
12                    effect before December 2, 2005, and were subject to negotiation with at  
13                    least one producer with substantial bargaining power, other than the  
14                    operator; and

15                    (B) standards adopted by the Department of Natural  
16                    Resources that determine the costs, other than items listed in (e) of this  
17                    section, that a lessee is allowed to deduct from revenue in calculating net  
18                    profits under a lease issued under AS 38.05.180(F)(3)(B), (D), or (E).

19       \* Sec. 51. AS 43.55.165(c) is repealed and reenacted to read:

20           (c) Subject to (g) and (h) of this section, if the department finds that the  
21           pertinent provisions of a unit operating agreement or similar operating agreement are  
22           substantially consistent with the department's determinations and standards under (a)  
23           and (b) of this section concerning whether costs are lease expenditures and, in  
24           addition, finds that at least one working interest owner party to the agreement, other  
25           than the operator, with substantial incentive and ability to effectively audit billings  
26           under the agreement, in fact is effectively auditing billings under the agreement, the  
27           department may authorize or require a producer, subject to conditions prescribed  
28           under regulations adopted by the department, to treat as that portion of its lease  
29           expenditures for a calendar year applicable to oil and gas produced from a lease or  
30           property in the state only

31           (1) the costs, other than items listed in (e) of this section, that are

1 incurred by the operator during the calendar year and that

2 (A) are billed to the producer by the operator under the  
3 agreement to which that lease or property is subject and are either not disputed  
4 by a working interest owner party to the agreement or are finally determined  
5 to be properly billable as a result of dispute resolution; or

6 (B) for a producer that is the operator, would be billable to the  
7 producer by the operator in accordance with the terms of the agreement to  
8 which that lease or property is subject if the producer were not the operator;  
9 and

10 (2) a reasonable percentage, as determined under regulations adopted  
11 by the department, of the costs that are billed under (1) of this subsection as an  
12 allowance for overhead expenses directly related to exploring for, developing, and  
13 producing oil or gas deposits located within the lease or property.

14 \* Sec. 52. AS 43.55.165(e) is amended to read:

15 (e) For purposes of this section, lease expenditures do not include

16 (1) depreciation, depletion, or amortization;

17 (2) oil or gas royalty payments, production payments, lease profit  
18 shares, or other payments or distributions of a share of oil or gas production, profit, or  
19 revenue, except that a producer's lease expenditures applicable to oil and gas  
20 produced from a lease issued under AS 38.05.180(F)(3)(B), (D), or (E) include the  
21 share of net profit paid to the state under that lease;

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

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

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

26 (6) costs arising from fraud, wilful misconduct, [OR] gross  
27 negligence, violation of law, or failure to comply with an obligation under a lease,  
28 permit, or license issued by the state or federal government;

29 (7) fines or penalties imposed by law;

30 (8) costs of arbitration, litigation, or other dispute resolution activities  
31 that involve the state or concern the rights or obligations among owners of interests

1 in, or rights to production from, one or more leases or properties or a unit;

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

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

7 (11) surcharges levied under AS 43.55.201 or 43.55.300;

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

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

14 (14) a tax levied under AS 43.55.011;

15 (15) [THE PORTION OF] costs incurred for dismantlement, removal,  
16 surrender, or abandonment of a facility, pipeline, well pad, platform, or other  
17 structure, or for the restoration of a lease, field, unit, area, tract of land, body of  
18 water, or right-of-way in conjunction with dismantlement, removal, surrender, or  
19 abandonment [, THAT IS ATTRIBUTABLE TO PRODUCTION OF OIL OR GAS  
20 OCCURRING BEFORE APRIL 1, 2006; THE PORTION IS CALCULATED AS A  
21 RATIO OF THE AMOUNT OF OIL AND GAS PRODUCTION, IN BARRELS OF  
22 OIL EQUIVALENT, ASSOCIATED WITH THE FACILITY, PIPELINE, WELL  
23 PAD, PLATFORM, OTHER STRUCTURE, LEASE, FIELD, UNIT, AREA, BODY  
24 OF WATER, OR RIGHT-OF-WAY OCCURRING BEFORE APRIL 1, 2006, TO  
25 THE TOTAL AMOUNT OF OIL AND GAS PRODUCTION, IN BARRELS OF  
26 OIL EQUIVALENT, ASSOCIATED WITH THAT FACILITY, PIPELINE, WELL  
27 PAD, PLATFORM, OTHER STRUCTURE, LEASE, FIELD, UNIT, AREA, BODY  
28 OF WATER, OR RIGHT-OF-WAY THROUGH THE END OF THE CALENDAR  
29 MONTH BEFORE COMMENCEMENT OF THE DISMANTLEMENT,  
30 REMOVAL, SURRENDER, OR ABANDONMENT]; a cost is not excluded under  
31 this paragraph if the dismantlement, removal, surrender, or abandonment for which

1 the cost is incurred is undertaken for the purpose of replacing, renovating, or  
2 improving the facility, pipeline, well pad, platform, or other structure; [FOR THE  
3 PURPOSES OF THIS PARAGRAPH, "BARREL OF OIL EQUIVALENT" MEANS

4 (A) IN THE CASE OF OIL, ONE BARREL;

5 (B) IN THE CASE OF GAS, 6,000 CUBIC FEET;]

6 (16) costs incurred for containment, control, cleanup, or removal in  
7 connection with any unpermitted release of oil or a hazardous substance and any  
8 liability for damages imposed on the producer or explorer for that unpermitted  
9 release; this paragraph does not apply to the cost of developing and maintaining an oil  
10 discharge prevention and contingency plan under AS 46.04.030;

11 (17) costs incurred to satisfy a work commitment under an exploration  
12 license under AS 38.05.132;

13 (18) that portion of expenditures, that would otherwise be qualified  
14 capital expenditures, as defined in AS 43.55.023 [AS 43.55.023(k)], incurred during a  
15 calendar year that are less than the product of \$0.3, multiplied by the total taxable  
16 production from each lease or property, in BTU equivalent barrels, during that  
17 calendar year, except that, when a portion of a calendar year is subject to this  
18 provision, the expenditures and volumes shall be prorated within that calendar year;

19 (19) costs incurred for repair, replacement, or deferred  
20 maintenance of a facility, a pipeline, a structure, or equipment, other than a well,  
21 that results in or is undertaken in response to a failure, problem, or event that  
22 results in an unscheduled interruption of, or reduction in the rate of, oil or gas  
23 production; or costs incurred for repair, replacement, or deferred maintenance  
24 of a facility, a pipeline, a structure, or equipment, other than a well, that is  
25 undertaken in response to, or is otherwise associated with, an unpermitted  
26 release of a hazardous substance or of gas; however, costs under this paragraph  
27 that would otherwise constitute lease expenditures under (a) and (b) of this  
28 section may be treated as lease expenditures if the department determines that  
29 the repair or replacement is solely necessitated by an act of war, by an  
30 unanticipated grave natural disaster or other natural phenomenon of an  
31 exceptional, inevitable, and irresistible character, the effects of which could not

1 have been prevented or avoided by the exercise of due care or foresight, or by an  
2 intentional or negligent act or omission of a third party, other than a party or its  
3 agents in privity of contract with, or employed by, the producer or an operator  
4 acting for the producer, but only if the producer or operator, as applicable,  
5 exercised due care in operating and maintaining the facility, pipeline, structure,  
6 or equipment, and took reasonable precautions against the act or omission of the  
7 third party and against the consequences of the act or omission: in this  
8 paragraph,

9 (A) "costs incurred for repair, replacement, or deferred  
10 maintenance of a facility, a pipeline, a structure, or equipment" includes  
11 costs to dismantle and remove the facility, pipeline, structure, or  
12 equipment that is being replaced;

13 (B) "hazardous substance" has the meaning given in  
14 AS 46.03.826;

15 (C) "replacement" includes renovation or improvement;

16 (20) costs incurred to construct, acquire, or operate a refinery or  
17 crude oil topping plant, regardless of whether the products of the refinery or  
18 topping plant are used in oil or gas exploration, development, or production  
19 operations; however, if a producer owns a refinery or crude oil topping plant  
20 that is located on or near the premises of the producer's lease or property in the  
21 state and that processes the producer's oil produced from that lease or property  
22 into a product that the producer uses in the operation of the lease or property in  
23 drilling for or producing oil or gas, the producer's lease expenditures include the  
24 amount calculated by subtracting from the fair market value of the product used  
25 the prevailing value, as determined under AS 43.55.020(f), of the oil that is  
26 processed;

27 (21) costs of lobbying, public relations, public relations  
28 advertising, or policy advocacy.

29 \* Sec. 53. AS 43.55.165(h) is amended to read:

30 (h) The department shall adopt regulations that provide for reasonable  
31 methods of allocating costs between oil and gas and between leases or properties in

1 those circumstances where an allocation of costs is required to determine [THE  
2 DETERMINATION OF THE] lease expenditures that are costs of exploring for,  
3 developing, or producing oil deposits or costs of exploring for, developing, or  
4 producing gas deposits [APPLICABLE TO OIL OR TO GAS], or that are costs of  
5 exploring for, developing, or producing oil or gas deposits located within  
6 [APPLICABLE TO OIL AND GAS PRODUCED FROM] different leases or  
7 properties [, REQUIRES AN ALLOCATION OF COSTS].

8 \* Sec. 54. AS 43.55.170(a) is amended to read:

9 (a) Unless the payment or credit has already been subtracted in calculating  
10 billable or billed costs under AS 43.55.165(c) [OR (d)], a producer's lease  
11 expenditures under AS 43.55.165 must be adjusted by subtracting payments or  
12 credits, other than tax credits, received by the producer or by an operator acting for  
13 the producer for

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

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

24 (3) the sale or other transfer of

25 (A) an asset, including geological, geophysical, or well data or  
26 interpretations, acquired by the producer as a result of a lease expenditure or  
27 an expenditure that would be a lease expenditure if it were incurred after  
28 March 31, 2006; for purposes of this subparagraph,

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

1 producer for sale or transfer of the asset;

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

6 (B) oil or gas

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

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

11 \* Sec. 55. AS 43.55 is amended by adding a new section to article 4 to read:

12 **Sec. 43.55.890. Disclosure of tax information.** Notwithstanding any contrary  
13 provision of AS 40.25.100, and regardless of whether the information is considered  
14 under AS 43.05.230(e) to constitute statistics classified to prevent the identification of  
15 particular returns or reports, the department may publish the following information  
16 under this chapter, if aggregated among three or more producers or explorers,  
17 showing by month or calendar year and by lease or property, unit, or area of the state:

18 (1) the amount of oil or gas production;

19 (2) the amount of taxes levied under this chapter or paid under this  
20 chapter;

21 (3) the effective tax rates under this chapter;

22 (4) the gross value of oil or gas at the point of production;

23 (5) the transportation costs for oil or gas;

24 (6) qualified capital expenditures, as defined in AS 43.55.023;

25 (7) exploration expenditures under AS 43.55.025;

26 (8) production tax values of oil or gas under AS 43.55.160;

27 (9) lease expenditures under AS 43.55.165;

28 (10) adjustments to lease expenditures under AS 43.55.170;

29 (11) tax credits applicable or potentially applicable against taxes  
30 levied by this chapter.

31 \* Sec. 56. AS 43.55.900 is amended by adding new paragraphs to read:

1 (22) "producer" means an owner of an operating right, operating  
2 interest, or working interest in a mineral interest in oil or gas;

3 (23) "unit" means a group of tracts of land that is

4 (A) subject to a cooperative or a unit plan of development or  
5 operation that has been certified by the commissioner of natural resources  
6 under AS 38.05.180(p);

7 (B) subject to a cooperative or a unit plan of development or  
8 operation that has been certified by the United States Secretary of the Interior  
9 under 30 U.S.C. 226(m);

10 (C) subject to an agreement of the owners of interests in the  
11 tracts of land to validly integrate their interests to provide for the unitized  
12 management, development, and operation of the tracts of land as a unit, within  
13 the meaning of AS 31.05.110(a); or

14 (D) within the unit area of a unit created by order of the  
15 Alaska Oil and Gas Conservation Commission under AS 31.05.110(b).

16 \* Sec. 57. AS 43.55.011(h), 43.55.011(l), 43.55.011(n), 43.55.160(c), and 43.55.165(d) are  
17 repealed.

18 \* Sec. 58. The uncodified law of the State of Alaska is amended by adding a new section to  
19 read:

20 APPLICABILITY. (a) Sections 15 - 27, 29 - 38, and 45 - 57 of this Act apply to oil  
21 and gas produced after June 30, 2007.

22 (b) Sections 39 and 41 of this Act apply to statements and reports under  
23 AS 43.55.030(a), as amended by sec. 39 of this Act, and AS 43.55.030(e) and (f), as added  
24 by sec. 41 of this Act, required to be filed after the effective date of secs. 39 and 41 of this  
25 Act.

26 (c) Sections 30 - 33, 35, and 37 of this Act apply to exploration expenditures incurred  
27 for work performed after December 31, 2007, that are the basis of tax credits that may be  
28 claimed against taxes levied for oil and gas produced after December 31, 2007.

29 (d) AS 43.55.075(a), enacted by sec. 43 of this Act, applies to any tax liability under  
30 AS 43.55 with respect to which the period of limitations on assessment under AS 43.05.260  
31 had not expired before the effective date of secs. 14 and 43 of this Act.

1 (e) The penalty in AS 43.55.030(d), enacted by the amendment to AS 43.55.030(d)  
2 in sec. 40 of this Act, applies to any report required to be filed after the effective date of sec.  
3 40 of this Act that is not filed timely.

4 (f) The penalty in AS 43.55.040(7), enacted by the amendment to AS 43.55.040 in  
5 sec. 42 of this Act, applies to any report, statement, or other document required to be filed  
6 after the effective date of sec. 42 of this Act.

7 \* Sec. 59. The uncodified law of the State of Alaska is amended by adding a new section to  
8 read:

9 OIL AND GAS REVENUE AUDIT MASTER POSITIONS; LEGISLATIVE  
10 INTENT. It is the intent of the legislature that the commissioner of administration shall cause  
11 not more than four oil and gas revenue audit master positions to be created in the Department  
12 of Revenue and not more than two oil and gas revenue audit master positions to be created in  
13 the Department of natural Resources. Oil and gas revenue audit masters shall be employed in  
14 a professional capacity to collect oil and gas revenue by developing policy, conducting  
15 studies, drafting proposed regulations, enforcing regulations, and directing audits by oil and  
16 gas auditors.

17 \* Sec. 60. The uncodified law of the State of Alaska is amended by adding a new section to  
18 read:

19 OIL AND GAS AUDITORS; CLASSIFICATION AND PAY PLANS.  
20 Notwithstanding AS 39.25.150(2), the Department of Administration shall develop and  
21 implement a distinct position classification plan and a distinct pay plan for oil and gas  
22 auditors and their immediate supervisors, other than revenue audit masters, that perform

23 (1) oil and gas tax audits in the Department of Revenue under the direction of  
24 an oil and gas revenue audit master;

25 (2) royalty audits, including net 1/1 share audits, in the Department of  
26 Natural Resources under the direction of an oil and gas revenue audit master.

27 \* Sec. 61. The uncodified law of the State of Alaska is amended by adding a new section to  
28 read:

29 TRANSITION: PAYMENT OF TAX. A person subject to tax under AS 43.55 that is  
30 required to make one or more installment payments of estimated tax or other payment of tax  
31 under AS 43.55.020(a), as amended by sec. 21 of this Act, for the production of oil or gas

1 during a month after June 30, 2007, and before the effective date of sec. 21 of this Act but  
2 that failed to pay the full amount of the installment payments or other payment of tax  
3 required under AS 43.55.020(a) because of the retroactive application of secs. 15 - 27, 29 -  
4 38, and 45 - 57 of this Act under sec. 64 of this Act, shall pay before April 1, 2008, the  
5 balance of any tax due under AS 43.55 for the period after June 30, 2007, and before the  
6 effective date of this section.

7 \* Sec. 62. The uncodified law of the State of Alaska is amended by adding a new section to  
8 read:

9 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any  
10 contrary provision of AS 44.62.240,

11 (1) if the Department of Revenue expressly designates in the regulation that  
12 the regulation applies retroactively to that date, a regulation adopted by the Department of  
13 Revenue to implement, interpret, make specific, or otherwise carry out secs. 15 - 27, 29 - 38,  
14 and 45 - 57 of this Act may apply retroactively to July 1, 2007;

15 (2) a regulation adopted by the Department of Natural Resources to  
16 implement, interpret, make specific, or otherwise carry out statutory provisions for the  
17 administration of oil and gas leases issued under AS 38.05.180(f)(3)(B), (D), or (E), to the  
18 extent the regulation deals with the treatment of oil and gas production taxes in determining  
19 net profits under those leases, may apply retroactively to April 1, 2006, if the Department of  
20 Natural Resources expressly designates in the regulation that the regulation applies  
21 retroactively to that date.

22 \* Sec. 63. The uncodified law of the State of Alaska is amended by adding a new section to  
23 read:

24 TRANSITION: REGULATIONS. The Department of Natural Resources and the  
25 Department of Revenue may proceed to adopt regulations to implement this Act. The  
26 regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the  
27 effective date of the law implemented by the regulation.

28 \* Sec. 64. The uncodified law of the State of Alaska is amended by adding a new section to  
29 read:

30 RETROACTIVITY OF CERTAIN PROVISIONS OF THIS ACT. (a) Sections 29  
31 and 34 of this Act are retroactive to July 1, 2003.

1 (b) Sections 15 - 27, 29 - 38, and 45 - 57 of this Act are retroactive to July 1, 2007.

2 \* Sec. 65. Section 28 of this Act takes effect January 1, 2008.

3 \* Sec. 66. Except as provided in sec. 65 of this Act, this Act takes effect immediately under

4 AS 01.10.070(c).