

HB

337

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Governor Sean Parnell
STATE OF ALASKA

February 9, 2010

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault,

Under the authority of Art. III, Sec. 18 of the Alaska Constitution, I am transmitting a bill that proposes four discrete changes to Alaska's oil and gas production tax. The bill will provide incentives for explorers and producers to continue to invest in Alaska. The proposed changes will encourage investment and employment within the state, and ultimately, increase production of the state's oil and gas resources.

I remain committed to considering all proposals and ideas that will result in increased exploration and drilling that produce more oil and jobs for Alaskans.

First, the bill will encourage investment by creating a new 30 percent alternative tax credit for qualified costs closely related to well drilling and work over operations designed to enhance current well operations. The taxpayer will have to claim the 30 percent credit within six months of completing the qualifying activity, and will have to submit enough information for the Department of Revenue to determine that the expenditures qualify for the credit.

Second, the bill will allow qualified applicants, regardless of their future spending levels, to receive cash refunds for tax credits that the applicants received for qualified capital expenditures. Under current law, an applicant cannot qualify for a cash refund unless, within 24 months of receiving the tax credit certificate, the applicant incurred a qualified capital expenditure or successfully bid on a lease on State land. If the applicant is unable to meet either requirement, the applicant cannot receive payment for the qualified capital expenditures the applicant invested in the state. To solve this problem, the bill will eliminate the requirement that the applicant make additional capital expenditures or be the successful bidder for a lease on State land.

Third, the bill will allow producers and explorers who qualify for the 20 percent tax credit under AS 43.55.023 for capital expenditures to use the credit in the year that the credit is earned. Currently, producers and explorers are required to spread the benefit over two years. Allowing producers and explorers the full value of their credits in one year would increase the amount available for further exploration activities and for work on currently producing wells.

HOUSE BILL NO. 337

The Honorable Mike Chenault
February 9, 2010
Page 2

Finally, the bill will allow the Department of Revenue to waive interest for certain underpayments of taxes due before the effective date of certain regulations implementing the production tax. This provision will apply only if regulations to implement the production tax are not yet in effect at the time the annual tax payments are due, and only if the underpayment results from the producer's good faith estimation of the tax due. Should it be determined that the taxpayer overpaid the amount of tax due under the regulations in effect at the time of payment and that a refund is due, no interest will be due on a refund made within the time period specified in the bill.

With these changes, we will continue to responsibly maximize and invest in Alaska's oil and gas resources. I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Parnell", written over a circular stamp or mark.

Sean Parnell
Governor

Enclosure

HOUSE BILL NO. 337

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 337
 (H) Publish Date: 2/10/10

Identifier (file name): 1057-DOA-AOGCC-01-27-10 Dept. Affected: Admin
 Title Relating to interest on certain underpayments...for Oil and Gas RDU AOGCC
production tax... Component AOGCC
 Sponsor Rules Committee
 Requester Governor Component Number 2010

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Interagency Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

Any additional activity that industry would undertake in areas the Alaska Oil and Gas Conservation Commission regulates because of this bill would be part of ongoing agency responsibilities and any additional workload would be managed by existing staff. The agency therefore submits a zero fiscal note.

Prepared by: Jody J. Colombie, Special Assistant I
 Division: Alaska Oil and Gas Conservation Commission
 Approved by: Rachael Petro, Deputy Commissioner
Department of Administration

Phone (907) 793-1221
 Date/Time 1/27/10 4:00 PM
 Date 1/27/2010

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: HB 337
 (H) Publish Date: 2/10/10

Identifier (file name): LL1057-DNR-OG-02-08-2010 Dept. Affected: Natural Resources
 Title: Oil and Gas Tax Amendments RDU: Resource Development
 Component: Oil and Gas Development
 Sponsor: Rules Committee
 Requester: Governor Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

The bill will, first, change the current provision under AS 43.55.023(b) that only half the various tax credits could be taken in any one year. This limitation spreads the benefits of the credit out over a couple of years, thereby diluting the incentive that the credit provides to the extent that a producer/investor must wait before receiving the full benefit of the credit. This bill would also accelerate most investor's receipt of the full value of the credit. Second, the bill would extend the current 30% credit provided under 43.55.025 to include development drilling (this credit is available now only for exploration wells drilled beyond three-miles of another well. This credit will reduce the taxpayer's tax liability and, other things being equal, contribute to improved economics for development drilling. Finally, the bill allows a small producer to monetize the credit more easily by eliminating the requirement that the producer spend additional money before receiving the credit monies.

The effect on royalty revenue is an indeterminant positive.

Prepared by: Kevin Banks, Director Phone 269-8800
 Division: Oil and Gas Date/Time 2/8/10 3:00 PM
 Approved by: Tom Irwin, Commissioner Date 2/8/2010
Natural Resources

FISCAL NOTE #2

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. HB 337

ANALYSIS CONTINUATION

In these three ways, the bill will encourage additional investment in oil and gas development in Alaska, leading to an expected increase in the amount of oil and gas produced from State lands. This should increase the amount of royalty revenue collected, the exact amount of this increase is indeterminate. This bill also requires that the producer submit to the DNR within 30 days of the request for a credit under AS 43.55.025 data on development well activity under Section 9. While the DNR currently reviews seismic and exploration well information, the requirement to look at development wells as well may take additional staff time. However, we think we will be able to undertake this review with current staff.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 3 ****CORRECTED****
 Bill Version: HB 337
 (H) Publish Date: 3/9/10

Identifier (file name): HB337-REV-TAX-02-12-10 Dept. Affected: Revenue
 Title Oil and Gas Tax Adjustments RDU Taxation and Treasury
 Component Tax Division
 Sponsor Rules
 Requester Request of the Governor Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES								
CHANGE IN REVENUES ()		***	***	***	***	***	***	***

*** See Analysis Section for Additional Information ***

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF		0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: ***

POSITIONS

Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

See Attached.

Prepared by: Cherie Nienhuis and Dan Stickel, Petroleum Economists
 Division: Tax Division
 Approved by: Ginger Blaisdell, Director
Administrative Services Division

Phone 907-269-1019
 Date/Time 2/08/10; 12:13pm
 Date 2/12/10; 12:26pm

STATE OF ALASKA
2010 LEGISLATIVE SESSIONBILL NO. HB 337**ANALYSIS CONTINUATION****Bill Language:**

This bill makes four refinements to Alaska's oil and gas production tax. The refinements and the revenue impact of each are discussed below:

1. Increased credits for well related expenditures: This bill would modify AS 43.55.025 to allow a 30 percent credit against production tax for exploratory well expenditures and most development well expenditures. For wells more than 25 miles outside of existing units (or more than 10 miles outside of Cook Inlet units) the credit is 40 percent of exploratory well expenditures. These credits would also be an increase in credits for well related expenditures. Currently, companies are allowed a 20 percent credit for well related qualified capital expenditures under the provisions of AS 43.55.023. There are no current provisions for credits against operating expenditures and this bill would extend the 30% credit to well related operating expenditures as well as capital expenditures. This provision would take effect July 1, 2010.

Under current projected spending and production levels, revenues would be estimated to be reduced by \$325 million in FY 2011, \$335 million in FY 2012, and \$350 million in FY 2013-2016. However, the Department of Revenue provides an indeterminant fiscal impact to revenues because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

2. Removing reinvestment requirement for state purchase of capital credits: For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate. This provision would take effect July 1, 2010.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against a tax liability.

3. Capital credits no longer required to be spread over two years: Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entire 20 percent credit could be applied in the year it is earned. This is retroactive to January 1, 2010.

There is a revenue reduction for FY 2010 of \$120 million because of the immediate effective date of the changes to spreading of capital credits. For FY 2011-FY 2013, the revenue reduction from changes to the spreading of capital credits will be about \$50 million per year. For FY 2014 and beyond, the revenue impacts will be negligible.

4. Interest waived for changes in tax liability as a result of retroactive regulations changes: Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

*** We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are include in our revenue estimates for this fiscal note.

Expenditures:

The Department will be able to implement the provisions of this bill using existing resources.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSHB337 (RES)
() Publish Date: _____

Identifier (file name): CSHB337(RES)-REV-TAX-04-08-10
Title: Oil and Gas Tax Adjustments
Sponsor: Rules by Request of the Governor
Requester: House Finance Committee
Dept. Affected: Revenue
RDU: Taxation and Treasury
Component: Tax Division
Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual	100.0							
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES								
CHANGE IN REVENUES ()	***	***	***	***	***	***	***	***

*** See Analysis Section for Additional Information ***

FUND SOURCE (Thousands of Dollars)

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
1002 Federal Receipts							
1003 GF Match							
1004 GF	100.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	100.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Full-time	0.0	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

*** We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are included in our revenue estimates for this fiscal note.

See Attached for additional analysis.

Prepared by: Cherie Nienhuis and Dan Stickel, Petroleum Economists
Division: Tax Division
Approved by: Ginger Blaisdell, Director
Administrative Services Division, Department of Revenue

Phone: 907-269-1019
Date/Time: 04-08-10; 1:06pm
Date: 04-08-10; 1:44pm

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. CSHB337 (RES)

ANALYSIS CONTINUATION

Bill Language:

This bill makes three changes to the credit provisions of Alaska's oil and gas production tax and two changes to interest as applied to tax payments. These changes and the potential revenue impact of each are discussed below:

1. Increased credits for well related expenditures: This bill would modify AS 43.55.023 to allow a 30 percent credit against production tax for the amount of well-related expenditures that represent an increase in well-related expenditures over an average of well-related expenditures in calendar years 2008 and 2009. Currently, companies are allowed a 20 percent credit for well related qualified capital expenditures under the provisions of AS 43.55.023. There are no current provisions for credits against operating expenditures and this bill would extend the 30% credit to the increase in well-related operating expenditures from 2008 and 2009 as well as capital expenditures. This provision would take effect July 1, 2010.

Our ability to place a reasonable estimate on this provision is limited by our lack of data specific to these types of expenditures. Our best estimate of this provision under current projected spending and production levels, is that revenues would be reduced by \$50 to \$100 million dollars per year through our current projections of FY 2013. However, the Department of Revenue provides an indeterminant fiscal impact to revenues because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

2. Removing reinvestment requirement for state purchase of capital credits: For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate. This provision would take effect July 1, 2010.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against a tax liability.

3. Capital credits no longer required to be spread over two years: Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure, 25% of a loss carryforward, and up to 40% of an exploration expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entirety of credits could be applied in the year they are earned. This provision is retroactive to January 1, 2010.

The calculation of the revenue impact for this provision is difficult for two reasons: (1) the timing of the revenue impact will depend upon when the bill is signed into law; and (2) the amount the state may potentially be expected to pay to purchase credits is conditioned in part on removing the reinvestment requirement discussed in #2 above, and the timing of the payment will depend on whether companies will immediately seek reimbursement for their credits.

We assume for this provision a worse-case scenario where all credits held by companies with production tax liabilities are used in FY 2010 or FY 2011. This would cost the state approximately \$225 million in reduced taxes between the two years.

For companies that are holding credit certificates and are not expected to incur a tax liability in FY 2010 or FY 2011, we estimate an additional liability of up to \$150 million over previous expectations for the two fiscal years. These impacts could spill into FY 2012, should companies delay seeking reimbursement.

Beyond FY 2012, revenue impacts are expected to be negligible.

4. Interest waived for changes in tax liability as a result of retroactive regulations changes: Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

(continued on next page)

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. CSHB337 (RES)

ANALYSIS CONTINUATION

5. Change the rates for calculating interest for most tax types. This bill would change the way interest is calculated for most tax types administered by the Department of Revenue, including the production tax. Under current law, the interest rate is the greater of 11 percent or 5 percentage points above the discount rate at the 12th Federal Reserve Bank. Under this bill, the interest rate would be 5 percentage points above the discount rate. If this provision were in place today, the interest rate on taxes would fall from 11 percent to 5.75 percent.

The revenue reduction from this provision is indeterminate because the Department does not have a management information system capable of tracking interest for all taxes. Producing a revenue estimate would require manually compiling information from hundreds of tax returns. Since oil and gas settlements go to the Constitutional Budget Reserve Fund (CBRF), this provision would reduce revenue to both the general fund and the CBRF. This provision would require additional costs for the Department which are described below.

This provision is effective July 1, 2010.

Expenditures:

The changes in interest rates and other provisions of this bill would result in one-time costs of \$100,000 in FY 2011 for changes to the accounting and tax examination system.

AMENDMENT

OFFERED IN THE HOUSE RESOURCES
COMMITTEE
TO: HB 337

BY _____

1 Page 1, following line 7

2 Insert new bill sections to read:

3 ****Sec. 1.** AS.05.15.095(c) is amended to read:

4 (c) A delinquent fee bears interest at the rate set by AS 43.05.225(2) [AS
5 43.05.225].

6 **Sec. 2.** AS 34.45.470(a) is amended to read:

7 (a) A person who fails to pay or deliver property within the time prescribed by
8 this chapter may be required to pay to the department interest at the annual
9 rate calculated under AS 43.05.225(2) [AS 43.05.225] on the property or the
10 value of it from the date the property should have been paid or delivered.

11 **Sec. 3.** AS 43.05.225 (1) is amended to read:

12 **Sec. 43.05.225. Interest.** Unless otherwise provided,

13 (1) When a tax levied in this title becomes delinquent, it bears interest in a
14 calendar quarter at the rate of five percentage points above the annual rate
15 charged member banks for advances by the 12th Federal Reserve District as of
16 the first day of that calendar quarter, [OR AT THE ANNUAL RATE OF 11
17 PERCENT, WHICHEVER IS GREATER,] compounded quarterly as of the
18 1st day of that quarter;

19 **Sec. 4.** AS 43.50.570 is amended to read:

20 **Sec. 43.50.570. Interest.** A licensee who fails to pay an amount due for the
21 purchase of stamps within the time required

1 (1) is considered to have failed to pay the cigarette taxes due under this chapter;
2 and

3 (2) shall pay interest at the rate established under AS 43.55.225(1) [AS
4 43.05.225] from the date on which the amount became due until the date of
5 payment.

6 **Sec. 5.** AS 43.55.020(g) is amended to read:

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

18 Page 2, lines 5-10:

19 Delete language and insert the following:

20 “effective, if

21 (A) the department determines that the producer’s underpayment resulted
22 because the regulation was not in effect when the payment was due; and

23 (B) the producer demonstrates that it made a good faith estimate of its tax
24 obligation in light of the regulations then in effect when the payment was
25 dues and paid the estimate tax;”

26 Page 3, line 7:

27 Delete “AS 43.55.025(f) [AS 43.55.025(f)(2)]”

28 Insert “AS 43.55.025(f)(2)”
29
30
31

1 Page 3, line 9-10:

2 Delete "AS 43.55.025(f) [AS 43.55.025(f)(2)]"

3 Insert "AS 43.55.025(f)(2)"

4

5 Page 4, lines 5 – 31

6 Page 5, lines 1-31

7 Page 6 lines 1-31

8 Page 7, lines 1-31

9 Page 8, lines 1-31

10 Page 9, lines 1-25

11 Delete all material and insert new sections:

12 **Sec. 9.** AS 43.55.023(g) is amended to read:

13 (g) The issuance of a transferable tax credit certificate under (d) of this section
14 or the purchase of a certificate under AS 43.55.028 does not limit the department's ability
15 to later audit a tax credit claim to which the certificate relates or to adjust the claim if the
16 department determines, as a result of the audit, that the applicant was not entitled to the
17 amount of the credit for which the certificate was issued. The tax liability of the
18 applicant under AS 43.55.011(e) and 43.55.017- 43.55.180 is increased by the amount of
19 the credit that exceeds that to which the applicant was entitled, or the applicant's
20 available valid outstanding credits applicable against the tax levied by AS 43.55.011(e)
21 are reduced by that amount. If the applicant's tax liability is increased under this
22 subsection, the increase bears interest under AS 43.55.225(1) [AS 43.05.225] from the
23 date the transferable tax credit certificate was issued. For purposes of this subsection, an
24 applicant that is an explorer is considered a producer subject to the tax levied by AS
25 4355.011(e).

26

27 **Sec. 10.** AS 43.55.023 is amended by adding a new subsection to read:

28 (m) A producer or explorer may take a tax credit for a well-related expenditure
29 incurred after June 30, 2010 and before July 1, 2016, as follows:

30 (1) notwithstanding that a well-related expenditure may be a deductible
31 lease expenditure under AS 43.55.165 for purposes of calculating the production tax

1 value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken
2 under (a) of this section, AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025,
3 a producer or explorer that incurs a well-related expenditure may also elect to apply a
4 credit against a tax levied by AS 43.55.011(e) in the amount of 30 percent of that
5 expenditure;

6 (2) a producer or explorer may take a credit for a well-related expenditure
7 incurred in connection with geological or geophysical exploration or in connection with
8 an exploration well only if the producer or explorer

9 (A) agrees, in writing, to the applicable provisions of AS
10 43.55.025(f)(2); and

11 (B) submits to the Department of Natural Resources all data that
12 would be required to be submitted under AS 43.55.025(f)(2) for a credit under AS
13 43.55.025;

14 (3) in this subsection, "well-related expenditure" means a lease
15 expenditure

16 (A) directly related to an exploration well, a stratigraphic test well,
17 a producing well, or an injection well other than a disposal well, if the expenditure is a
18 qualified capital expenditure and an intangible drilling and development cost under 26
19 U.S.C. 263(c), as amended, and 26 C.F.R 1.612-4, regardless of the elections made under
20 26 U.S.C. 263(c); in this subparagraph, an expenditure directly related to a well includes
21 an expenditure for well drilling, well sidetracking, well deepening, well testing, well
22 stimulation, well completion or recompletion, or well workover, regardless as to whether
23 the well is or has been a producing well; or

24 (B) for seismic work conducted within the boundaries of a
25 production or exploration unit.

1 Page 9, following line 26:

2 Insert new bill sections to read:

3 **Sec. 12.** AS 43.77.020(d) is amended to read:

4 (d) A person subject to the tax under this chapter shall make quarterly payments
5 of the tax estimated to be due for the year, as required under regulations adopted by the
6 department. A taxpayer will be subject to an estimated tax penalty, determined by
7 applying the interest rate specified in AS 43.05.225(1) [AS 43.55.225] to the
8 underpayment for each quarter, unless the taxpayer makes estimated tax payment in equal
9 installments that total either

10 (1) at least 90 percent of the taxpayer's tax liability under this chapter for
11 the tax year; or

12 (2) at least 100 percent of the taxpayer's tax liability under this chapter for
13 the prior tax year.

14
15 **Sec. 13.** AS 43.90.430 is amended to read:

16 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter
17 becomes delinquent, the payment bears interest at the rate applicable to a delinquent tax
18 under AS 43.05.225(1) [AS 43.05.225].

19
20 Page 9, line 29:

21 Delete both occurrences of "1" and insert "6"

22
23 Page 10, line 2-6:

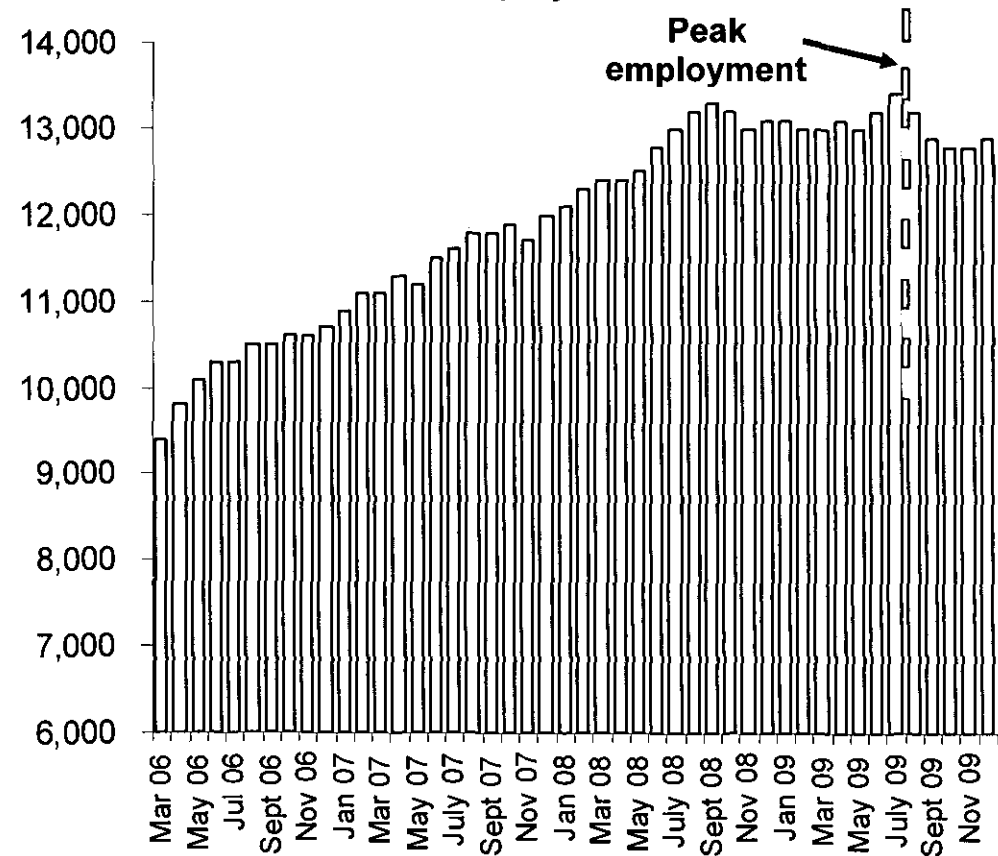
24 Delete all material.
25
26
27
28
29
30
31

- 1 Page 10, lines 9-10:
2 Delete all material
3 Insert the following:
4 "RETROACTIVITY OF SECS. 6-8 OF THIS ACT. (a) Section 6 of this Act is
5 retroactive to February 28, 2007.
6 (b) Section 7 and 8 of this Act are retroactive to January 1, 2010.
7
8 Page 10, line 17:
9 Delete "1, 2, or 3"
10 Insert "6, 7, or 8"
11
12 Page 10, line 19:
13 Delete "Sections 4 - 12"
14 Insert "Sections 1 - 5, and 9 - 13"
15
16 Renumber the bill sections accordingly.

Oil & Gas Employment

- Data since July-09 indicate downward trend in oil and gas jobs
- Employment levels driven primarily by maintenance and inspection activity
- Alaska state unemployment rising in oil and gas support sector
- Leading indicators: Kuparuk camp usage down 20%

State of Alaska Oil & Gas Employment

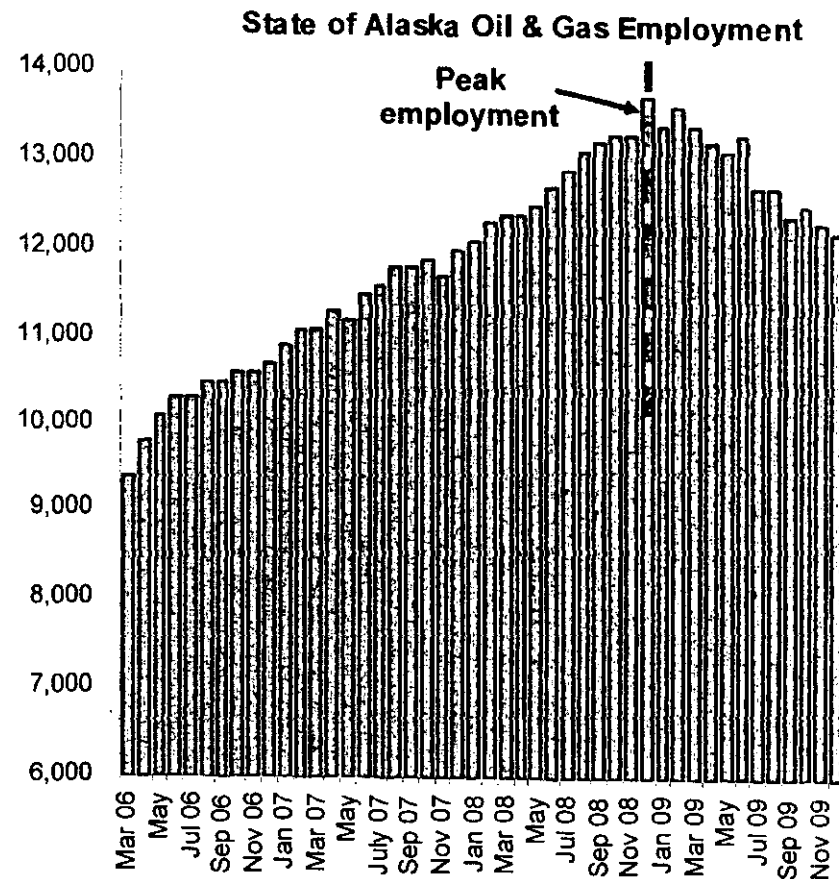


Rise in employment began in 2006

Oil & Gas Employment

Attachment #10

- Data since Dec-08 indicate downward trend in oil and gas jobs
- Employment levels driven primarily by maintenance and inspection activity
- Alaska state unemployment rising in oil and gas support sector
- Leading indicators: Kuparuk camp usage down 20%



Rise in employment began in 2006

Source: Alaska Dept of Labor employment data, March 12, 2010

ConocoPhillips

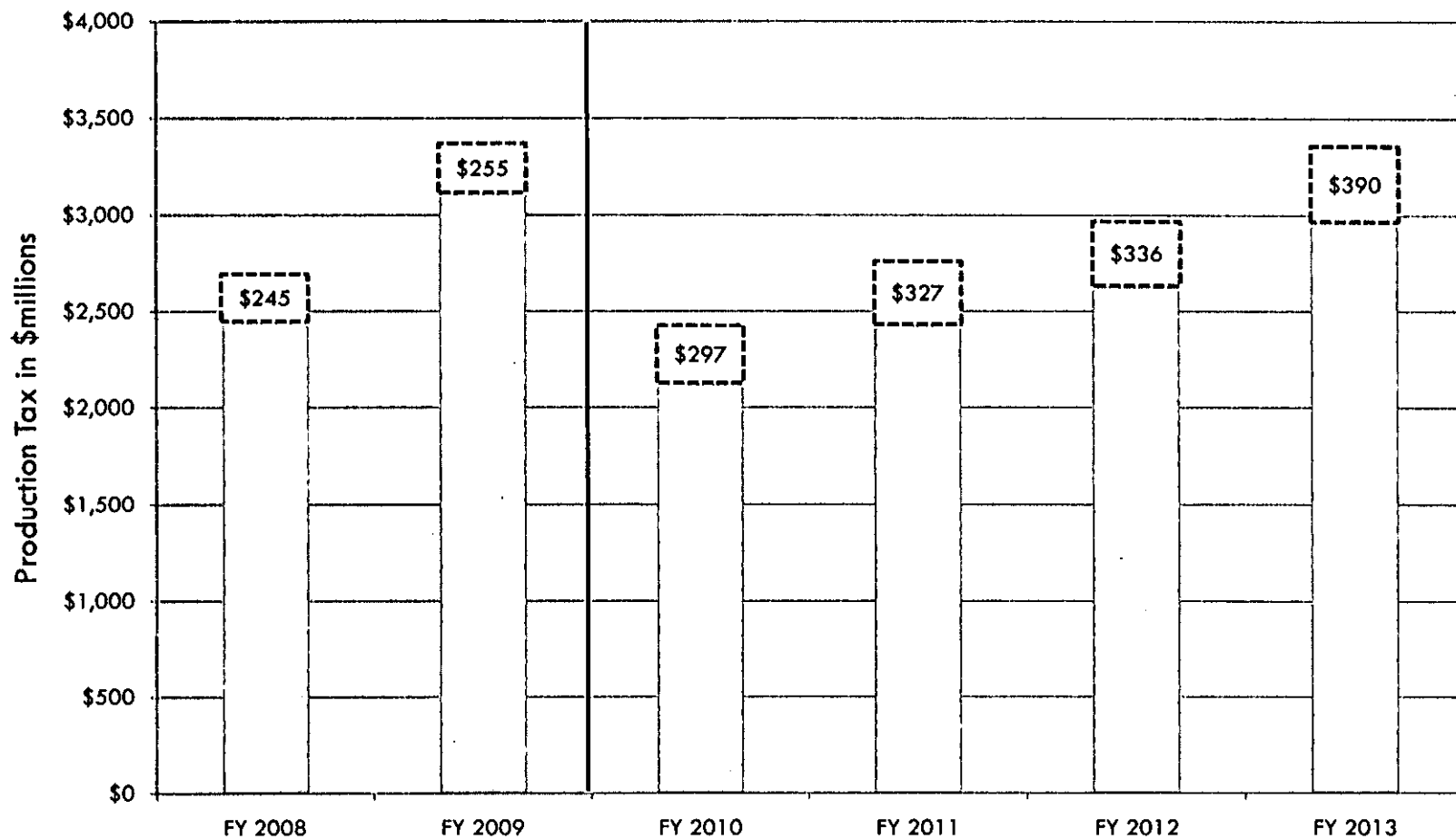
HOUSE RESOURCES

HB 337

March 29, 2010

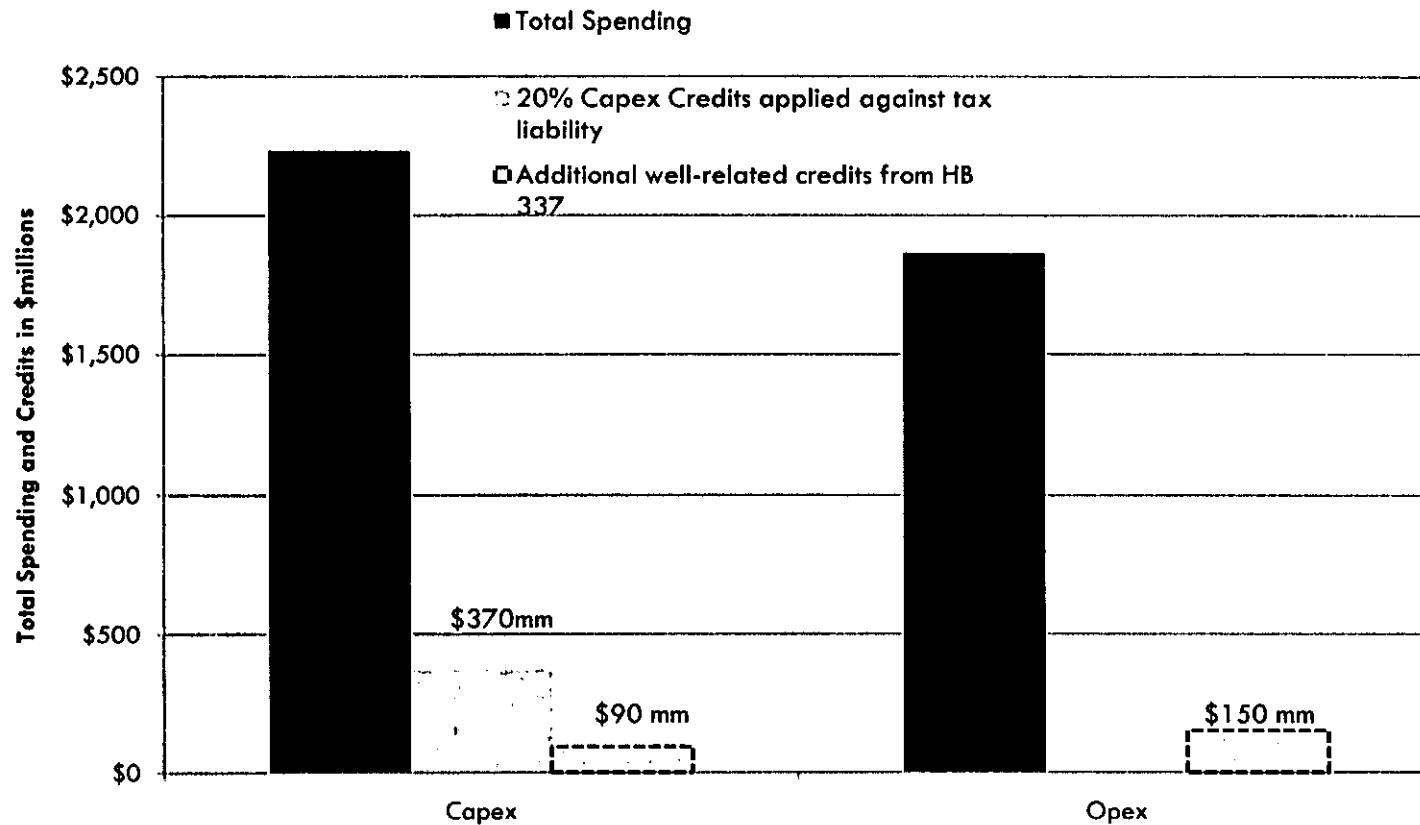
Production Tax Revenue with Additional Well-Related Credit Under HB 337

2



Estimated Capex Credits and Additional Credits from HB 337 (CY2009)

3



Interest Paid on Production Taxes Since 2007

4

Calendar Year	Interest
2007	\$16,441,320
2008	\$5,417,859
2009	\$75,731,451
2010	\$73,365
Total	\$97,663,995

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

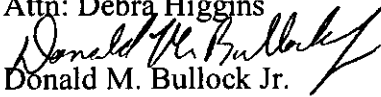
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 28, 2010

SUBJECT: Single subject issue (CSHB 337();
Work Order No. 26-GH2057\R)

TO: Representative Craig Johnson
Attn: Debra Higgins

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

Enclosed is a draft version of CSHB 337(). Please read this draft carefully to ensure that it is consistent with your intent. Also, please verify the effective date sections, secs. 19 and 20, with the Department of Revenue to ensure that they are consistent with their advice to you.

Included in this draft are provisions that relate to the purchase of tax credit certificates by the Alaska Retirement Management Board (ARMB). These provisions are in sec. 3, 10, and 12 of the draft. Although the ARMB provisions relate to the purchase of tax credits authorized under the oil and gas production tax, the provisions relate to the powers of the board. Inclusion of these provisions may expose the enactment of the bill to a challenge under art. II, sec. 13, Constitution of the State of Alaska, which requires that bills be confined to one subject.

DMB:lmb
10-013.lmb

Enclosure

26-GH2057R
Bullock
3/29/10

CS FOR HOUSE BILL NO. 337()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to credits against the oil and gas production tax; relating to the interest**
2 **rates applicable on certain amounts due related to various taxes, penalties, payments,**
3 **and the Alaska Gasline Inducement Act; relating to the use of the oil and gas tax credit**
4 **fund to purchase certain tax credit certificates; authorizing the board of trustees of the**
5 **Alaska Retirement Management Board to purchase and sell transferable tax credit**
6 **certificates issued in conjunction with the production tax on oil and gas; and providing**
7 **for an effective date."**

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

9 *** Section 1. AS 05.15.095(c) is amended to read:**

10 (c) A delinquent fee bears interest at the rate set by AS 43.05.225(2)
11 [AS 43.05.225].

12 *** Sec. 2. AS 34.45.470(a) is amended to read:**

13 (a) A person who fails to pay or deliver property within the time prescribed by

1 this chapter may be required to pay to the department interest at the annual rate
 2 calculated under AS 43.05.225(2) [AS 43.05.225] on the property or the value of it
 3 from the date the property should have been paid or delivered.

4 * Sec. 3. AS 37.10.220(b) is amended to read:

5 (b) The board may

6 (1) employ outside investment advisors to review investment policies;

7 (2) enter into an agreement with the fiduciary of another state fund in
 8 order to assume the management and investment of those assets;

9 (3) contract for other services necessary to execute the board's powers
 10 and duties;

11 (4) enter into confidentiality agreements that would exempt records
 12 from AS 40.25.110 and 40.25.120 if the records contain information that could affect
 13 the value of investment by the board or that could impair the ability of the board to
 14 acquire, maintain, or dispose of investments;

15 (5) purchase transferable tax credit certificates issued under
 16 AS 43.55.023 and 43.55.025 for 92 percent of the face value of a certificate, and
 17 sell transferable tax credit certificates to the Department of Revenue under
 18 AS 43.55.023(n) and 43.55.025(m) for a cash refund of the full face value of the
 19 certificate; under this paragraph, the board

20 (A) may

21 (i) engage in the purchase and sale of transferable
 22 tax credits; and

23 (ii) sell a transferable tax credit certificate only if the
 24 commissioner of revenue determines that economic conditions are
 25 acceptable for the state to purchase and pay for the credit; and

26 (B) shall apply the proceeds from a sale made under this
 27 paragraph to defray the unfunded pension liabilities of the systems for
 28 which the board has responsibility.

29 * Sec. 4. AS 43.05.225 is amended to read:

30 Sec. 43.05.225. Interest. Unless otherwise provided,

31 (1) when a tax levied in this title becomes delinquent, it bears interest

Conceptua Amendment #6

WORK DRAFT

WORK DRAFT

change 3 to 5

26-GH2057R

"Five"

1 in a calendar quarter at the rate of ~~three~~ [FIVE] percentage points above the annual
2 rate charged member banks for advances by the 12th Federal Reserve District as of the
3 first day of that calendar quarter, [OR AT THE ANNUAL RATE OF 11 PERCENT,
4 WHICHEVER IS GREATER,] compounded quarterly as of the last day of that
5 quarter;

6 (2) the interest rate is 12 percent a year for

7 (A) delinquent fees payable under AS 05.15.095(c); and

8 (B) [REPEALED

9 (C)] unclaimed property that is not timely paid or delivered, as

10 allowed by AS 34.45.470(a).

11 * Sec. 5. AS 43.50.570 is amended to read:

12 Sec. 43.50.570. Interest. A licensee who fails to pay an amount due for the
13 purchase of stamps within the time required

14 (1) is considered to have failed to pay the cigarette taxes due under this
15 chapter; and

16 (2) shall pay interest at the rate established under AS 43.05.225(1)
17 [AS 43.05.225] from the date on which the amount became due until the date of
18 payment.

19 * Sec. 6. 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) of this section that is not
22 paid when due bears interest (1) at the rate provided for an underpayment under 26
23 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the date
24 the installment payment is due until March 31 following the calendar year of
25 production, and (2) as provided for a delinquent tax under AS 43.05.225(1)
26 [AS 43.05.225] after that March 31. Interest accrued under (1) of this subsection that
27 remains unpaid after that March 31 is treated as an addition to tax that bears interest
28 under (2) of this subsection. An unpaid amount of tax due under (a)(4) of this section
29 that is not paid when due bears interest as provided for a delinquent tax under
30 AS 43.05.225(1) [AS 43.05.225].

31 * Sec. 7. AS 43.55.020 is amended by adding a new subsection to read:

1 (i) Notwithstanding any contrary provision of AS 43.05.225 or (g) or (h) of
2 this section, if the amount of a tax payment, including an installment payment, due
3 under (a)(1) - (4) of this section is affected by the retroactive application of a
4 regulation adopted under this chapter, the department shall determine whether the
5 retroactive application of the regulation caused an underpayment or an overpayment of
6 the amount due and adjust the interest due on the affected payment as follows:

7 (1) if an underpayment of the amount due occurred, the department
8 shall waive interest that would otherwise accrue for the underpayment before the first
9 day of the second month following the month in which the regulation became
10 effective, if

11 (A) the department determines that the producer's
12 underpayment resulted because the regulation was not in effect when the
13 payment was due; and

14 (B) the producer demonstrates that it made a good faith
15 estimate of its tax obligation in light of the regulations then in effect when the
16 payment was due and paid the estimated tax;

17 (2) if an overpayment of the amount due occurred and the department
18 determines that the producer's overpayment resulted because the regulation was not in
19 effect when the payment was due, the obligation for a refund for the overpayment does
20 not begin to accrue interest earlier than the following, as applicable:

21 (A) except as otherwise provided under (B) of this paragraph,
22 the first day of the second month following the month in which the regulation
23 became effective;

24 (B) 90 days after an amended statement under AS 43.55.030(a)
25 and an application to request a refund of production tax paid is filed, if the
26 overpayment was for a period for which an amended statement under
27 AS 43.55.030(a) was required to be filed before the regulation became
28 effective.

29 * Sec. 8. AS 43.55.023(a) is amended to read:

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

1 (1) notwithstanding that a qualified capital expenditure may be a
2 deductible lease expenditure for purposes of calculating the production tax value of oil
3 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
4 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or
5 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit
6 against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that
7 expenditure; [HOWEVER, NOT MORE THAN HALF OF THE TAX CREDIT MAY
8 BE APPLIED FOR A SINGLE CALENDAR YEAR;]

9 (2) a producer or explorer may take a credit for a qualified capital
10 expenditure incurred in connection with geological or geophysical exploration or in
11 connection with an exploration well only if the producer or explorer

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

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

16 * Sec. 9. AS 43.55.023(d) is amended to read:

17 (d) Except as limited by (i) of this section, a person that is entitled to take a tax
18 credit under this section that wishes to transfer the unused credit to another person or
19 obtain a cash payment under AS 43.55.028 may apply to the department for a
20 transferable tax credit certificate [CERTIFICATES]. An application under this
21 subsection must be in a form prescribed by the department and must include
22 supporting information and documentation that the department reasonably requires.
23 The department shall grant or deny an application, or grant an application as to a lesser
24 amount than that claimed and deny it as to the excess, not later than 120 days after the
25 latest of (1) March 31 of the year following the calendar year in which the qualified
26 capital expenditure or carried-forward annual loss for which the credit is claimed was
27 incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for
28 the calendar year in which the qualified capital expenditure or carried-forward annual
29 loss for which the credit is claimed was incurred; or (3) the date the application was
30 received by the department. If, based on the information then available to it, the
31 department is reasonably satisfied that the applicant is entitled to a credit, the

1 department shall issue the applicant a [TWO TRANSFERABLE] tax credit certificate
 2 [CERTIFICATES, EACH FOR HALF OF THE AMOUNT OF THE CREDIT]. The
 3 credit shown on [ONE OF] the certificate [TWO CERTIFICATES] is available for
 4 immediate use. [THE CREDIT SHOWN ON THE SECOND OF THE TWO
 5 CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR
 6 YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE
 7 CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE
 8 CERTIFICATE MUST CONTAIN A CONSPICUOUS STATEMENT TO THAT
 9 EFFECT.] A certificate issued under this subsection does not expire.

10 * Sec. 10. AS 43.55.023(g) is amended to read:

11 (g) The issuance of a transferable tax credit certificate under (d) of this section
 12 or the purchase of a certificate under AS 43.55.028 does not limit the department's
 13 ability to later audit a tax credit claim to which the certificate relates or to adjust the
 14 claim if the department determines, as a result of the audit, that the applicant was not
 15 entitled to the amount of the credit for which the certificate was issued. The tax
 16 liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased
 17 by the amount of the credit that exceeds that to which the applicant was entitled, or the
 18 applicant's available valid outstanding credits applicable against the tax levied by
 19 AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased
 20 under this subsection, the increase bears interest under AS 43.05.225(1)
 21 [AS 43.05.225] from the date the transferable tax credit certificate was issued. For
 22 purposes of this subsection, an applicant that is an explorer is considered a producer
 23 subject to the tax levied by AS 43.55.011(e).

24 * Sec. 11. AS 43.55.023 is amended by adding new subsections to read:

25 (m) A producer or explorer may take a tax credit for a well-related
 26 expenditure after June 30, 2010, and before July 1, 2016, as follows:

27 *Conceptual Amendment # 7*
Insert "Incurred" (1) notwithstanding that a well-related expenditure may be a
 28 deductible lease expenditure under AS 43.55.165 for purposes of calculating the
 29 production tax value of oil and gas under AS 43.55.160(a), unless a credit for that
 30 expenditure is taken under (a) of this section, AS 38.05.180(i), AS 41.09.010,
 31 AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well-related

1 expenditure may also elect to apply a credit against a tax levied by AS 43.55.011(e) in
2 the amount of 30 percent of that expenditure;

3 (2) a producer or explorer may take a credit for a well-related
4 expenditure incurred in connection with geological or geophysical exploration or in
5 connection with an exploration well only if the producer or explorer

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

8 (B) submits to the Department of Natural Resources all data
9 that would be required to be submitted under AS 43.55.025(f)(2) for a credit
10 under AS 43.55.025;

11 (3) in this subsection, "well-related expenditure" means a lease
12 expenditure

13 (A) directly related to an exploration well, a stratigraphic test
14 well, a producing well, or an injection well other than a disposal well, if the
15 expenditure is a qualified capital expenditure and an intangible drilling and
16 development cost under 26 U.S.C. 263(c), as amended, and 26 C.F.R. 1.612-4,
17 regardless of the elections made under 26 U.S.C. 263(c); in this subparagraph,
18 an expenditure directly related to a well includes an expenditure for well
19 drilling, well sidetracking, well deepening, well testing, well stimulation, well
20 completion or recompletion, or well workover, regardless as to whether the
21 well is or has been a producing well; or

22 (B) for seismic work conducted within the boundaries of a
23 production or exploration unit.

24 (n) Notwithstanding the limitation on the use of a transferable tax credit by a
25 transferee in (e) of this section and subject to appropriations made by law, the
26 department shall issue a cash refund to the Alaska Retirement Management Board for
27 a transferable tax credit originally issued to a person under (d) of this section and
28 purchased by the Alaska Retirement Management Board under AS 37.10.220(b).

29 * Sec. 12. AS 43.55.025 is amended by adding a new subsection to read:

30 (m) Subject to appropriations made by law, the department shall issue a cash
31 refund to the Alaska Retirement Management Board for a transferable tax credit

1 originally issued to an explorer under (f) of this section and purchased by the Alaska
2 Retirement Management Board under AS 37.10.220(b).

3 * Sec. 13. AS 43.77.020(d) is amended to read:

4 (d) A person subject to the tax under this chapter shall make quarterly
5 payments of the tax estimated to be due for the year, as required under regulations
6 adopted by the department. A taxpayer will be subject to an estimated tax penalty,
7 determined by applying the interest rate specified in AS 43.05.225(1) [AS 43.05.225]
8 to the underpayment for each quarter, unless the taxpayer makes estimated tax
9 payments in equal installments that total either

10 (1) at least 90 percent of the taxpayer's tax liability under this chapter
11 for the tax year; or

12 (2) at least 100 percent of the taxpayer's tax liability under this chapter
13 for the prior tax year.

14 * Sec. 14. AS 43.90.430 is amended to read:

15 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter
16 becomes delinquent, the payment bears interest at the rate applicable to a delinquent
17 tax under AS 43.05.225(1) [AS 43.05.225].

18 * Sec. 15. AS 43.55.028(e)(2) and 43.55.028(e)(3) are repealed.

19 * Sec. 16. The uncodified law of the State of Alaska is amended by adding a new section to
20 read:

21 **TRANSITION: APPLICABILITY OF SEC. 7 OF THIS ACT.** Section 7 of this Act
22 applies to taxes, including installment payments of estimated tax, due on or after February 27,
23 2007.

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

26 **RETROACTIVITY OF REGULATIONS.** Notwithstanding any contrary provision of
27 AS 44.62.240, if the Department of Revenue expressly designates in a regulation to
28 implement, interpret, make specific or otherwise carry out secs. 7, 8, or 9 of this Act, or
29 AS 43.55.023(m) as enacted by sec. 11 of this Act that the regulation applies retroactively to a
30 specific date, the regulation applies retroactively to that date.

31 * Sec. 18. The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 RETROACTIVITY OF SECS. 7 - 9 OF THIS ACT. (a) Section 7 of this Act is
3 retroactive to February 28, 2007.

4 (b) Sections 8 and 9 of this Act are retroactive to January 1, 2010.

5 * Sec. 19. Sections 1, 2, 4 - 6, 10, and 13 of this Act and AS 43.55.023(m), enacted by sec.
6 11 of this Act take effect July 1, 2010.

7 * Sec. 20. Except as provided in sec. 19 of this Act, this Act takes effect immediately under
8 AS 01.10.070(c).

Sectional Analysis of proposed CS for HB 337 (Version R)

Sec. 1. Housekeeping measure that refines the reference for interest rates.

Sec. 2. Housekeeping measure that refines the reference for interest rates.

Sec. 3. Authorizes the ARM board to purchase credits

Sec 4. Changes the interest rate for delinquent taxes by removing the 11 floor in current statute, leaving the federal funds rate + 5%.

Sec. 5. Housekeeping measure that refines the reference for interest rates.

Sec. 6. Housekeeping measure that refines the reference for interest rates.

Sec. 7. Directs DOR to waive interest on most tax liabilities that arise from retroactive regulations coming into force, for the period between when the payment would normally be due and the time the regulation was adopted.

Sec. 8. Removes the requirement that the application of certain capital investment credits be spread out over 2 years.

Sec. 9. Removes the requirement that the application of certain other credits be spread out over 2 years.

Sec. 10. Housekeeping measure that refines the reference for interest rates.

Sec. 11. (m) Creates a new 30% credit for all well related expenditures.

(n) Authorizes department to issue cash refunds to the ARM for AS 43.55.023 credits it has purchased

Sec. 12. Authorizes department to issue cash refunds to the ARM for AS 43.55.025 credits it has purchased

Sec 13. Housekeeping measure that refines the reference for interest rates.

Sec. 14. Housekeeping measure that refines the reference for interest rates.

Sec. 15. Repeals that portion of current law that required those producers selling credits to the state to spend an equal amount in lease sales or in capital investments within two years.

Housekeeping measure that refines the reference for interest rates.

Sec. 16. Indicates that the changes to interest on liabilities that arise from retroactive

regulations goes all the way back to taxes due in 2007.

Sec. 17. Authorizes the DOR, to write retroactive regulations in implementing the retroactive portions of the bill.

Sec. 18. Contains the required clarification that the changes to interest on liabilities that arise from retroactive regulations is retroactive to 2007 and the provisions related to taking credits in a single year is retroactive to January 1 , 2010.

Sec. 19. Makes all but the ARM provisions, the retroactive provisions and one of the housekeeping interest provisions effective July 1, 2010.

Sec. 20 Makes the rest of the bill effective immediately.

26-GH2057AE
Bullock
3/29/10

CS FOR HOUSE BILL NO. 337()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

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

A BILL
FOR AN ACT ENTITLED

1 **"An Act relating to credits against the oil and gas production tax; relating to the interest**
2 **rates applicable on certain amounts due related to various taxes, penalties, payments,**
3 **and the Alaska Gasline Inducement Act; relating to the use of the oil and gas tax credit**
4 **fund to purchase certain tax credit certificates; and providing for an effective date."**

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

6 *** Section 1.** AS 05.15.095(c) is amended to read:

7 (c) A delinquent fee bears interest at the rate set by AS 43.05.225(2)
8 [AS 43.05.225].

9 *** Sec. 2.** AS 34.45.470(a) is amended to read:

10 (a) A person who fails to pay or deliver property within the time prescribed by
11 this chapter may be required to pay to the department interest at the annual rate
12 calculated under AS 43.05.225(2) [AS 43.05.225] on the property or the value of it
13 from the date the property should have been paid or delivered.

14 *** Sec. 3.** AS 43.05.225 is amended to read:

1 **Sec. 43.05.225. Interest.** Unless otherwise provided,

2 (1) when a tax levied in this title becomes delinquent, it bears interest
3 in a calendar quarter at the rate of three [FIVE] percentage points above the annual
4 rate charged member banks for advances by the 12th Federal Reserve District as of the
5 first day of that calendar quarter, [OR AT THE ANNUAL RATE OF 11 PERCENT,
6 WHICHEVER IS GREATER,] compounded quarterly as of the last day of that
7 quarter;

8 (2) the interest rate is 12 percent a year for

9 (A) delinquent fees payable under AS 05.15.095(c); and

10 (B) [REPEALED AND

11 (C)] unclaimed property that is not timely paid or delivered, as
12 allowed by AS 34.45.470(a).

13 * **Sec. 4.** AS 43.50.570 is amended to read:

14 **Sec. 43.50.570. Interest.** A licensee who fails to pay an amount due for the
15 purchase of stamps within the time required

16 (1) is considered to have failed to pay the cigarette taxes due under this
17 chapter; and

18 (2) shall pay interest at the rate established under AS 43.05.225(1)
19 [AS 43.05.225] from the date on which the amount became due until the date of
20 payment.

21 * **Sec. 5.** AS 43.55.020(g) is amended to read:

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

1 **AS 43.05.225(1)** [AS 43.05.225].

2 * **Sec. 6.** AS 43.55.020 is amended by adding a new subsection to read:

3 (i) Notwithstanding any contrary provision of AS 43.05.225 or (g) or (h) of
4 this section, if the amount of a tax payment, including an installment payment, due
5 under (a)(1) - (4) of this section is affected by the retroactive application of a
6 regulation adopted under this chapter, the department shall determine whether the
7 retroactive application of the regulation caused an underpayment or an overpayment of
8 the amount due and adjust the interest due on the affected payment as follows:

9 (1) if an underpayment of the amount due occurred, the department
10 shall waive interest that would otherwise accrue for the underpayment before the first
11 day of the second month following the month in which the regulation became
12 effective, if

13 (A) the department determines that the producer's
14 underpayment resulted because the regulation was not in effect when the
15 payment was due; and

16 (B) the producer demonstrates that it made a good faith
17 estimate of its tax obligation in light of the regulations then in effect when the
18 payment was due and paid the estimated tax;

19 (2) if an overpayment of the amount due occurred and the department
20 determines that the producer's overpayment resulted because the regulation was not in
21 effect when the payment was due, the obligation for a refund for the overpayment does
22 not begin to accrue interest earlier than the following, as applicable:

23 (A) except as otherwise provided under (B) of this paragraph,
24 the first day of the second month following the month in which the regulation
25 became effective;

26 (B) 90 days after an amended statement under AS 43.55.030(a)
27 and an application to request a refund of production tax paid is filed, if the
28 overpayment was for a period for which an amended statement under
29 AS 43.55.030(a) was required to be filed before the regulation became
30 effective.

31 * **Sec. 7.** AS 43.55.023(a) is amended to read:

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

3 (1) notwithstanding that a qualified capital expenditure may be a
4 deductible lease expenditure for purposes of calculating the production tax value of oil
5 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
6 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or
7 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit
8 against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that
9 expenditure; [HOWEVER, NOT MORE THAN HALF OF THE TAX CREDIT MAY
10 BE APPLIED FOR A SINGLE CALENDAR YEAR;]

11 (2) a producer or explorer may take a credit for a qualified capital
12 expenditure incurred in connection with geological or geophysical exploration or in
13 connection with an exploration well only if the producer or explorer

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

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

18 * **Sec. 8.** AS 43.55.023(d) is amended to read:

19 (d) Except as limited by (i) of this section, a person that is entitled to take a tax
20 credit under this section that wishes to transfer the unused credit to another person or
21 obtain a cash payment under AS 43.55.028 may apply to the department for a
22 transferable tax credit certificate [CERTIFICATES]. An application under this
23 subsection must be in a form prescribed by the department and must include
24 supporting information and documentation that the department reasonably requires.
25 The department shall grant or deny an application, or grant an application as to a lesser
26 amount than that claimed and deny it as to the excess, not later than 120 days after the
27 latest of (1) March 31 of the year following the calendar year in which the qualified
28 capital expenditure or carried-forward annual loss for which the credit is claimed was
29 incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for
30 the calendar year in which the qualified capital expenditure or carried-forward annual
31 loss for which the credit is claimed was incurred; or (3) the date the application was

1 received by the department. If, based on the information then available to it, the
 2 department is reasonably satisfied that the applicant is entitled to a credit, the
 3 department shall issue the applicant a [TWO TRANSFERABLE] tax credit certificate
 4 [CERTIFICATES, EACH FOR HALF OF THE AMOUNT OF THE CREDIT]. The
 5 credit shown on [ONE OF] the certificate [TWO CERTIFICATES] is available for
 6 immediate use. [THE CREDIT SHOWN ON THE SECOND OF THE TWO
 7 CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR
 8 YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE
 9 CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE
 10 CERTIFICATE MUST CONTAIN A CONSPICUOUS STATEMENT TO THAT
 11 EFFECT.] A certificate issued under this subsection does not expire.

12 * **Sec. 9.** AS 43.55.023(g) is amended to read:

13 (g) The issuance of a transferable tax credit certificate under (d) of this section
 14 or the purchase of a certificate under AS 43.55.028 does not limit the department's
 15 ability to later audit a tax credit claim to which the certificate relates or to adjust the
 16 claim if the department determines, as a result of the audit, that the applicant was not
 17 entitled to the amount of the credit for which the certificate was issued. The tax
 18 liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased
 19 by the amount of the credit that exceeds that to which the applicant was entitled, or the
 20 applicant's available valid outstanding credits applicable against the tax levied by
 21 AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased
 22 under this subsection, the increase bears interest under AS 43.05.225(1)
 23 [AS 43.05.225] from the date the transferable tax credit certificate was issued. For
 24 purposes of this subsection, an applicant that is an explorer is considered a producer
 25 subject to the tax levied by AS 43.55.011(e).

26 * **Sec. 10.** AS 43.55.023 is amended by adding a new subsection to read:

27 (m) A producer or explorer may take a tax credit for a well-related
 28 expenditure after June 30, 2010, and before July 1, 2016, as follows:

29 (1) notwithstanding that a well-related expenditure may be a
 30 deductible lease expenditure under AS 43.55.165 for purposes of calculating the
 31 production tax value of oil and gas under AS 43.55.160(a), unless a credit for that

1 expenditure is taken under (a) of this section, AS 38.05.180(i), AS 41.09.010,
2 AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a well-related
3 expenditure may also elect to apply a credit against a tax levied by AS 43.55.011(e) in
4 the amount of 30 percent of that expenditure;

5 (2) a producer or explorer may take a credit for a well-related
6 expenditure incurred in connection with geological or geophysical exploration or in
7 connection with an exploration well only if the producer or explorer

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

10 (B) submits to the Department of Natural Resources all data
11 that would be required to be submitted under AS 43.55.025(f)(2) for a credit
12 under AS 43.55.025;

13 (3) in this subsection, "well-related expenditure" means a lease
14 expenditure

15 (A) directly related to an exploration well, a stratigraphic test
16 well, a producing well, or an injection well other than a disposal well, if the
17 expenditure is a qualified capital expenditure and an intangible drilling and
18 development cost under 26 U.S.C. 263(c), as amended, and 26 C.F.R. 1.612-4,
19 regardless of the elections made under 26 U.S.C. 263(c); in this subparagraph,
20 an expenditure directly related to a well includes an expenditure for well
21 drilling, well sidetracking, well deepening, well testing, well stimulation, well
22 completion or recompletion, or well workover, regardless as to whether the
23 well is or has been a producing well; or

24 (B) for seismic work conducted within the boundaries of a
25 production or exploration unit.

26 * Sec. 11. AS 43.77.020(d) is amended to read:

27 (d) A person subject to the tax under this chapter shall make quarterly
28 payments of the tax estimated to be due for the year, as required under regulations
29 adopted by the department. A taxpayer will be subject to an estimated tax penalty,
30 determined by applying the interest rate specified in AS 43.05.225(1) [AS 43.05.225]
31 to the underpayment for each quarter, unless the taxpayer makes estimated tax

1 payments in equal installments that total either

2 (1) at least 90 percent of the taxpayer's tax liability under this chapter
3 for the tax year; or

4 (2) at least 100 percent of the taxpayer's tax liability under this chapter
5 for the prior tax year.

6 * **Sec. 12.** AS 43.90.430 is amended to read:

7 **Sec. 43.90.430. Interest.** When a payment due to the state under this chapter
8 becomes delinquent, the payment bears interest at the rate applicable to a delinquent
9 tax under AS 43.05.225(1) [AS 43.05.225].

10 * **Sec. 13.** AS 43.55.028(e)(2) and 43.55.028(e)(3) are repealed.

11 * **Sec. 14.** The uncodified law of the State of Alaska is amended by adding a new section to
12 read:

13 **TRANSITION: APPLICABILITY OF SEC. 6 OF THIS ACT.** Section 6 of this Act
14 applies to taxes, including installment payments of estimated tax, due on or after February 27,
15 2007.

16 * **Sec. 15.** The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 **RETROACTIVITY OF REGULATIONS.** Notwithstanding any contrary provision of
19 AS 44.62.240, if the Department of Revenue expressly designates in a regulation to
20 implement, interpret, make specific or otherwise carry out secs. 6, 7, or 8 of this Act, or
21 AS 43.55.023(m), as enacted by sec. 10 of this Act, that the regulation applies retroactively to
22 a specific date, the regulation applies retroactively to that date.

23 * **Sec. 16.** The uncodified law of the State of Alaska is amended by adding a new section to
24 read:

25 **RETROACTIVITY OF SECS. 6 - 8 OF THIS ACT.** (a) Section 6 of this Act is
26 retroactive to February 28, 2007.

27 (b) Sections 7 and 8 of this Act are retroactive to January 1, 2010.

28 * **Sec. 17.** Sections 1 - 5, 9, and 11 of this Act and AS 43.55.023(m), enacted by sec. 10 of
29 this Act take effect July 1, 2010.










30 * **Sec. 18.** Except as provided in sec. 17 of this Act, this Act takes effect immediately under
31 AS 01.10.070(c).

Department of Revenue > Tax Division > Tax Types > ACES Production Tax
> ACES Production Tax Forms

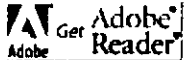
ACES (Alaska's Clear & Equitable Share)

Note: The Tax Division is offering users an interactive option to **some** of the forms provided on this page. This means that you may either print a blank form to fill out manually, or you may enter your data directly onto the form and then print the completed form to sign and send to the Tax Division.

Forms that are interactive will have the (Fill-in Form) designation next to the form number. Before using the interactive forms, please review the instructions.

Form Name	Form
2009 Tax Summary 0405-156 (Rev 03/10) Excel	
Alaska Oil and Gas Production Tax Credits (AS 43.55.023) 0405-330 (Rev 03/09) Excel fill-in	
Oil and Gas Production Tax Credit Claim (AS 43.55.025) 0405-310 (Rev 03/09) Excel fill-in	
Limited Power of Attorney for Members of Consortium of Explorers 0405-776 (Rev 01/09) Excel	
Application for Tax Credit Certificate & Transfer of the Certificate under AS 43.55.023(d) 0405-331 (Rev 03/09) Excel fill-in	
Application for Cash Purchase of Tax Credit Certificate under AS (43.55.028) 0405-325 (Rev 03/09) Excel fill-in	
Monthly Information Report AS 43.55 (Rev 05/09) Excel fill-in	
Production Tax Refund Request Form 0405-360 (Rev 01/10) Excel fill-in	
2009 Annual Tax Information Form 0405-340.08 (Rev 03/10) Excel fill-in	

Previous Years' Forms



0405-330 (Rev 03/09) Excel fill-in

State of Alaska
 Department of Revenue
 Tax Division
 550 W 7th Ave Ste 500
 Anchorage AK 99501-3566
 Phone 907.269.6620
 Fax 907.269.6644

**Application for Cash Purchase of
 Alaska Oil and Gas Production Tax Credit Certificate AS
 43.55.028**

This form is available online at www.tax.alaska.gov

DEPT USE ONLY			
APP ID: _____			
A. Producer or Explorer Name			Federal EIN
B. Mailing Address	City	State	Zip Code + 4
C. Physical Address of Business	City	State	Zip Code + 4
D. Contact Person, for Examination of Records		Title	
Contact Email Address	Phone Number	Fax Number	
E. Producer or Explorer Exploration Tax Credit from a Transferable Tax Credit Certificate under AS 43.55.023(d) or AS 43.55.025(f):			
Tax Credit Certificate Number* _____		Tax Credit Certificate Amount _____	
Amount Requested for Cash Purchase.....		_____	
Remaining Amount on Tax Credit Certificate		_____	
*If the Tax Certificate Number has a "B" after the year of issue, which indicates that it is second half of the total credit, please identify the calendar year that the first half of the credit certificate, part "A", was used			
F. Schedule A must be attached to certify that all conditions are met under AS 43.55.028(e).			
G. <input type="checkbox"/> All documentation to support the additional qualified capital expenditures or successful bid on a state lease under AS 43.55.028(e)(2) must be attached and submitted with this form.			
<i>I declare under penalty of perjury that this application and each attachment has been examined by me and to the best of my knowledge and belief is true, correct and complete.</i>			
Signature	Type or Print Name and Title		Date
DEPT USE ONLY			

Form 0405-325 web new 03/09

Alaska Department of Revenue AS 43.55 Monthly Information Report

Company Name: COMPANY NAME
 Month for Which Information Applies: May
 Report Year: 2008
 Date Submitted: Jun-08

General Instructions

This form is to be used to report monthly information relating to volumes and values of oil and gas produced, lease expenditures incurred for oil exploration, development, and production operations, production tax credits, and tax amounts remitted. Every entity (corporate level) involved in oil and gas operations is required to fill out and file this report monthly (see 15 AAC 55.520(f)).

For operations within a unit, report information at the Participating Area ("PA") level, except where information is requested only at the unit level. PA costs should include unit costs that are allocated to the PA, in addition to PA-specific costs. Information requested at the unit level should only reflect the producer's/ explorer's share of the unit.

Note that there is a separate worksheet for each current North Slope unit, and within each unit sheet, a column for each Participating Area (PA) or tract operation.

There are also three additional worksheets for 1) other/future North Slope units and operations outside units (tract identifiers), 2) Cook Inlet, and 3) non-North Slope/Cook Inlet areas. For these three areas, each column represents a unit or tract identifier. Please identify the unit or tract identifier in the column heading. Each unit column should include the activity from all the PA's within the unit.

A credit summary and tax totals worksheet provides space for the reporting of credits used, carried forward, transferred, and estimated future credits generated through expenditures during the reporting period. The monthly remittances section of the worksheet captures detail of the composition of the monthly payment.

The values reported should reflect the information underlying the tax payments or credit activity for the reporting period (month). Where a value may be affected by regulations yet to be adopted, report the value that was the basis for the tax payment or credit activity in the period.

THIS EXCEL WORKBOOK MUST BE USED TO FILE MONTHLY REPORTS, EXCEPT FOR THE ATTACHMENT REQUIRED BELOW. IT MUST BE UNPROTECTED AND FULLY EDITABLE, AND MUST BE SUBMITTED ELECTRONICALLY TO THE DOR TAX DIVISION THROUGH THE WEB PORTAL AT <https://myalaska.state.ak.us/OTIS>. ANY OTHER FORM OF SUBMITTAL IS A VIOLATION OF THE REPORTING REQUIREMENTS UNDER AS 43.55.030.

**REQUIRED ATTACHMENT:
 PLEASE ATTACH A COPY OF THE CALCULATIONS OF THE AMOUNT OF PRODUCTION TAX REMITTED**

SPECIFIC INSTRUCTIONS

SERIES 100-300
Lines 101, 201, and 301

Volumes recovered equals volumes produced plus used for operations or repressuring (per AS 43.55.0220(e)). Volumes should be reported for the reservoir they are recovered from. Where volumes are recovered more than once they should be reported whenever recovered. Taxable volumes should be reported for the reservoir they are ultimately recovered from. If offshore lease or property is on federal land report the entire volume. If offshore lease or property is on both state and federal submerged land report the portion from state land. Volume increases/decreases include pipeline losses/gains, marine shipping losses/gains, and ngl shrinkage. Allocate to PA's based on relative volumes of oil recovered less of used for operations or repressuring. Gas sales are authorized liquid volumes. Gas sales reported include natural gas disposed out of state. Report only to the extent NGL's are measured separately from oil. If NGL's are not measured separately from oil leave blank.

Series 400 & 500
Lines 401, 451, and 501
Lines 401-405
Lines 403-411 & 453-461
Lines 406-410
Lines 451-455
Lines 456-460
Series 400 & 500

Report on unit basis only.
Destruction value as defined in 15 AAC 55.151.
All North Slope volumes should have the same weighted average figure.
TAPS and PS&I volumes apply only to North Slope oil.
All North Slope PA volumes which are not should have the same weighted average figure.
All North Slope PA volumes should have the same weighted average figure.
All North Slope PA volumes which are not should have the same weighted average figure.
Weighted average per barrel or per net barrel for the period should be derived in one of two ways:
a) Total applicable values for the period divided by the period can be derived in one of two ways:
b) Any other methodology approved by the Department for applicable volumes (for the appropriate values and volumes see instructions below on volumes for weighted averaging).
Values for weighted averaging should equal the distribution value under 15 AAC 55.151.
Volumes for weighted averaging should equal total payments for marine shipping.
Volumes for weighted averaging should equal total payments for TAPS pipeline transportation.
Volumes for weighted averaging should equal total payments for TAPS pipeline transportation.
Volumes for weighted averaging should equal total payments for TAPS pipeline transportation.
Volumes for weighted averaging should equal total payments for TAPS pipeline transportation.
Volumes for weighted averaging should equal total payments for TAPS pipeline transportation.
TAPS quality bank adjustments should be entered as a negative number.
Volumes for weighted averaging should equal net payments or receipts for quality bank adjustments upstream of PS # 1.
Quality bank adjustments should be entered as a negative number if they increase gross value at the point of production, and as a positive number if they decrease gross value at the point of production.
Volumes for weighted averaging should equal total payments for pipeline transportation to PS # 1.
Volumes for weighted averaging should equal total volumes subject to pipeline transportation to PS # 1.
Report only to the extent NGL value is measured separately from oil.
If NGL's are not measured separately use same values as in 401-411.

SERIES 600-800
Line 601
Line 602
Line 603
Line 606
Line 607
Line 701-705
Line 701
Line 702
Line 703
Line 704
Line 705
Line 707
Line 801

Reported figure should be before applying exclusions in Lines 605 and 606.
Exploration and development costs are costs incurred prior to commencement of commercial production. This should be the same amount as in Line 910a. If this is unknown at the time of monthly reporting, provide a good faith non-binding forecast.
Report on unit basis only.
Describe base for deriving reported monthly expenditures (i.e., actual, year-to-date, 1/12 of expected annual, etc.)
Should be reported as if AS 43.55.1650 did not apply, for units subject to AS 43.55.1650.
Figure should include items reported in Lines 702, 704, and 705 before applying exclusions in line 703.
Report on unit basis only.
Report on unit basis only.
Describe base for deriving reported monthly expenditures (i.e., actual, year-to-date, 1/12 of expected annual, etc.)
Report on unit basis only.

SERIES 900
Lines 901-903
Lines 903-905
Lines 901-908
Lines 905 & 907-909
Line 910
Line 911-912
Line 911
Line 912
Line 913
Line 920
Line 920a
Line 920b
Line 920c
Line 920d
Line 920e
Line 930
Line 940a
Line 940b
Line 950

Credits generated by the reporting company this period and subtracted this period in calculating estimated tax payments.
Credits generated or purchased in a prior period and subtracted this period in calculating estimated tax payments.
Net amount of each kind of credit being used for this period.
List credit certificate numbers used.
Sum of Lines 901-909.
List credits marketed to others.
Credits marketed to other companies.
List credits marketed to the State (cash refunds of credit certificates received from State).
List activity for the period that generated credits to be used in subsequent periods.
Sum of monthly installment payment calculation.
Total 1/12 of the portion of production of the oil and gas produced during the period for all leases and properties.
Total 1/12 of the adjusted lease expenditures that are deductible for the calendar year for all leases and properties.
Total sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) for all leases and properties.
Total credits subtracted this period in calculating monthly installment payment of estimated tax for this period for all leases and properties.
Total monthly installment payment of estimated tax for this period for all leases and properties.
If the total installment payment of estimated tax for the period, excluding conservation surcharges, for all leases and properties.
List AS 43.55.201 Conservation Surcharge liability for the period.
List AS 43.55.300 Conservation Surcharge liability for the period.
Total amount entitled (sum of Lines 920-940).

OIL AND GAS INTERIM MONTHLY INFORMATION REPORT

COMPANY NAME, May 2008		Column
		Totals This sheet
PRODUCTION		
100	Oil volume including NGLs (bbls.)	
101	Oil recovered from the reservoir (volumes produced plus used for operations or repressuring)	
102	Oil used in lease operations per AS 43.55.020(e)	
103	Oil used in lease operations - OCS	
104	Non-Taxable Royalty Volume (in kind)	
105	Non-Taxable Royalty Volume (in value)	
106	Private royalty volume per AS 43.55.011(i)	
107	Other oil volume increase/decrease	
108	Taxable oil volume sold and not shipped in TAPS	
109	Taxable oil volume sold and shipped in TAPS	
110	Volumes in 109 subject to marine transportation	
111	Volumes in 109 not subject to marine transportation	
112		
200	Gas volume (mcf)	
201	Gas recovered from the reservoir (volumes produced plus used for operations or repressuring plus authorized flare volumes)	
202	Gas reinjected into the reservoir	
203	Gas used in lease operations per AS 43.55.020(e)	
204	Gas used in lease operations - OCS	
205	Total flare volumes	
206	Excess flare volumes in 205 per 15 AAC 55.071	
207	Non-Taxable Royalty Volume (in kind)	
208	Non-Taxable Royalty Volume (in value)	
209	Private royalty volume per AS 43.55.011(i)	
211	Other gas volume increase/decrease	
212	Taxable gas sales - in state consumption	
213	Taxable gas sales - export	
214		
300	NGL volume (bbls.)	
301	NGLs recovered from the reservoir (volumes produced plus used for operations or repressuring)	
302	NGLs used in lease operations per AS 43.55.020(e)	
303	NGLs used in lease operations - OCS	
304	Non-Taxable Royalty Volume (in kind)	
305	Non-Taxable Royalty Volume (in value)	
306	Private royalty volume per AS 43.55.011(i)	
307	Other NGL volume increase/decrease	
308	Taxable NGL volume sold and not shipped in TAPS	
309	Taxable NGL volume sold and shipped in TAPS	
310	Volumes in 309 subject to marine transportation	
311	Volumes in 309 not subject to marine transportation	
312		

COMPANY NAME, May 2008		KUPARUK
		PA 1
PRODUCTION		
100	Oil volume including NGLs (bbls.)	
101	Oil recovered from the reservoir (volumes produced plus used for operations or repressuring)	
102	Oil used in lease operations per AS 43.55.020(e)	
103	Oil used in lease operations - OCS	
104	Non-Taxable Royalty Volume (in kind)	
105	Non-Taxable Royalty Volume (in value)	
106	Private royalty volume per AS 43.55.011(i)	
107	Other oil volume increase/decrease	
108	Taxable oil volume sold and not shipped in TAPS	
109	Taxable oil volume sold and shipped in TAPS	
110	Volumes in 109 subject to marine transportation	
111	Volumes in 109 not subject to marine transportation	
112		
200	Gas volume (mcf)	
201	Gas recovered from the reservoir (volumes produced plus used for operations or repressuring plus authorized flare volumes)	
202	Gas reinjected into the reservoir	
203	Gas used in lease operations per AS 43.55.020(e)	
204	Gas used in lease operations - OCS	
205	Total flare volumes	
206	Excess flare volumes in 205 per 15 AAC 55.071	
207	Non-Taxable Royalty Volume (in kind)	
208	Non-Taxable Royalty Volume (in value)	
209	Private royalty volume per AS 43.55.011(i)	
211	Other gas volume increase/decrease	
212	Taxable gas sales - in state consumption	
213	Taxable gas sales - export	
214		
300	NGL volume (bbls.)	
301	NGLs recovered from the reservoir (volumes produced plus used for operations or repressuring)	
302	NGLs used in lease operations per AS 43.55.020(e)	
303	NGLs used in lease operations - OCS	
304	Non-Taxable Royalty Volume (in kind)	
305	Non-Taxable Royalty Volume (in value)	
306	Private royalty volume per AS 43.55.011(i)	
307	Other NGL volume increase/decrease	
308	Taxable NGL volume sold and not shipped in TAPS	
309	Taxable NGL volume sold and shipped in TAPS	
310	Volumes in 309 subject to marine transportation	
311	Volumes in 309 not subject to marine transportation	
312		

EXPENDITURES / ADJUSTMENTS

600 Capital expenditures (\$millions)

601 Lease expenditures that are qualified capital expenditures before exclusions under AS 43.55.165(e)(18) and (19), and before adjustments under AS 43.55.170

602 Amounts in 601 for exploration (including delineation) and development (see instructions)

603	Amount in 602 for which there will be application for AS 43.55.025 credit								
604	Amounts in 601 for production								
605	Capex exclusion per AS 43.55.165(e)(18)								
606	Capex exclusion per AS 43.55.165(e)(19) (Unit only)	na	na	na	na	na	na	na	na
607	Briefly describe the basis for deriving reported monthly capital expenditures								
608									

700

Operating expenditures (\$millions)

These lines should be reported as if AS 43.55.165(j) did not apply, for units subject to AS 43.55.165(j)

701	Lease expenditures other than qualified capital expenditures before exclusion under AS 43.55.165(e)(19), and before adjustments under AS 43.55.170								
702	Overhead allowance included in Line 701								
	a) Overhead allowance that is a percentage of lease expenditures other than qualified capital expenditures								
	b) Overhead allowance that is a percentage of qualified capital expenditures								
703	Operating expenditure exclusion per AS 43.55.165(e)(19) (Unit only)	na	na	na	na	na	na	na	



Alaska Retirement Management Board
P.O. Box 110405
Juneau, Alaska 99811-0405
(907) 465-3749

February 23, 2007

The Honorable Paul Seaton
Alaska House of Representatives
State Capitol, Room 102
Juneau, Alaska 99801-1182

Dear Representative Seaton:

The trustees of the Alaska Retirement Management Board (ARMB) met today to consider the questions regarding HB 48 forwarded from you through Chief Investment Officer Gary Bader. At an earlier meeting this month the Board heard a legislative update with a brief synopsis of pending legislation that included this bill. The trustees also reviewed a memorandum from staff, a copy of which is attached.

The trustees agree that passage of HB 48, allowing the ARMB to purchase transferable tax credits established under the Petroleum Profits Tax (PPT) and obtain reimbursement of the credits through the Department of Revenue, is a valuable tool in addressing the retirement systems' unfunded liabilities and/or contribution rates. Trustees also concur with setting the discount rate at 92% for purchase of the investment tax credits.

We appreciate your continued support and efforts at finding solutions to fully fund our retirement system.

Very truly yours,

A handwritten signature in black ink, appearing to be "Gail R. Schubert", written over a horizontal line.

Gail R. Schubert, Chair

Attachment

ALASKA RETIREMENT MANAGEMENT BOARD

SUBJECT: Position on House Bill 48

ACTION: X

DATE: February 23, 2007

INFORMATION:

BACKGROUND:

House Bill 48 would allow the Alaska Retirement Management Board (ARMB) to purchase transferable tax credits established under the Petroleum Profits Tax (PPT) and obtain reimbursement of the credits through the Department of Revenue (DOR). The PPT created a direct refund of up to \$25,000,000 in transferable tax credits per company each year. These transferable credits only arise when a company generates investment credit, but has insufficient production tax against which to take the credit.

Under HB 48, the ARMB would not be required to purchase the credits. However, if the ARMB purchased credits, it would be required to do so at 92% of the face value of the credit certificate. The opportunity to purchase a credit for \$0.92 and sell it for \$1.00 would result in an 8.69% $((\$1.00 - \$0.92) / \$0.92)$ return on investment. However, the annualized rate of return on investment would be considerably higher since funds for the purchase would only be utilized for a short time. Therefore, it is likely that investment staff would nearly always opt to purchase a credit.

STATUS:

HB 48 is currently being considered by the House Finance Committee. During the course of deliberations about the Bill, some committee members expressed a desire to know: (1) if the ARMB supports legislation that would include this tool in the ARMB investment toolbox; and (2) if the ARMB would favor pegging the transfer rate to the ARMB at 92%, or empowering the investment staff to negotiate the rate with potential sellers.

Staff assumes the ARMB would only be approached to purchase the credits if a taxpayer could not use the credit directly and the universe of potential buyers of the credit is extremely thin or non-existent. If the legislature empowers ARMB staff to negotiate each tax credit purchase, staff would have a fiduciary responsibility to purchase the credits at the lowest possible price.

Investment staff engages in the buying and selling securities on a daily basis. However, in most instances, staff is investing in markets with substantially more transparency than anticipated in this instance. From an annualized rate of return perspective, investment staff may find a purchase price higher than 92% attractive. However, without market transparency, staff would be reluctant to bid up the price without knowing there was in fact a higher bidder. Staff believes the ARMB should favor a set purchase rate of 92% for the credits based upon the assumptions that the purchased credits can be rapidly converted to cash and that the originator of the credit will bear any penalty for denial of the credit by DOR pursuant to a subsequent audit.

RECOMMENDATION:

That the Chair of the ARMB notify Representative Seaton in writing that the ARMB endorses the passage of HB 48 with a set discount rate of 92% for purchase of investment tax credits as a valuable tool to address PERS and/or TRS unfunded liabilities and/or contribution rates.

March 14, 2007

Representative Paul Seaton
Alaska State House
State Capitol, Room 102
Juneau, AK 99801-1182

Re: House Bill 48 – Retirement Board Purchase PPT Credits

Dear Representative Seaton:

The undersigned oil and gas exploration and production companies, each with a significant land position in Alaska, support House Bill 48 – Retirement Board Purchase PPT Credits (HB 48) and we appreciate your work to move the bill through the Legislature.

Granting the Alaska Retirement Management Board (ARMB) the ability to purchase transferable credits under AS43.55.023 and AS43.55.025, and obtain reimbursement of the credits from the Department of Revenue creates a winning situation for both the State and those companies looking to monetize their transferable credits.

In setting a fixed price of 92% of the face value of the credit certificate, HB 48 provides the ARMB with a new investment tool that will guarantee a return on investment greater than 8%. Establishing a fixed price also eliminates the need for the ARMB's investment staff to engage in market research and purchase negotiations, greatly simplifying the transaction process. Furthermore, the price established by HB 48 will serve as a reasonable floor for those companies looking to sell their credits in a difficult marketplace – one with a shortage of potential buyers – guaranteeing a reasonably fair return relative to the true value of the certificates.

By making the process for redeeming tax credits more efficient, HB 48 builds on the State's goal of encouraging new investment in Alaska's oil and gas industry. It is this investment that will generate additional oil production and create new revenue to the State general fund. The undersigned companies support HB 48 fully and thank you for your leadership on this issue.

Sincerely,

Anadarko Petroleum Corporation
AVCG LLC
BG Alaska E&P Inc.
Brooks Range Petroleum Corporation
Doyon, Limited

FEX L.P.
Petro-Canada (Alaska) Inc.
Pioneer Natural Resources Alaska, Inc.
UltraStar Exploration LLC

John Jay Darrah
Brooks Range Petroleum Corporation
1400 West Benson #510
Anchorage, Ak 99503
Telephone 907-865-5841

March 8, 2007

Representative Paul Seaton
Alaska State House
State Capitol, Room 102
Juneau, AK 99801-1182

Re: House Bill 48

Dear Mr. Seaton,

Thank you for introducing House Bill 48. I think that this legislation is a win-win for the State's Retirement Management Board and the independent Alaska oil and gas explorers.

Brooks Range Petroleum is a small North Slope exploration company that is operating on a \$35,000,000 budget for 2007. We are currently drilling our North Shore prospect and will be moving onto our Sak River Prospect this weekend. In addition to drilling these two expensive prospects we are shooting 100 square miles of 3D seismic this winter.

The North Slope is very competitive and while we have good working relationships with the big three North Slope integrated oil companies, making fair and reasonable deals and trades with them is very tedious and often flat impossible. As an upstart company we would like to sell tax credit in advance of waiting to use them years later when our projects come to fruit with initial production. To quickly sell any earned credits, we currently have a very limited market. Given that market it is unlikely that we could successfully receive any more that 90 to 92 cents on the dollar.

As I am sure that you are aware that the State of Alaska would have to redeem any of our sold or traded credits at their full value. Your bill will direct those funds to the State's benefit. And this is the obvious win-win for both the small explorer and the State.

Good luck on advancing this legislation.

Sincerely,

A handwritten signature in black ink, appearing to read "Bo Darrah". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Bo Darrah

LEGAL SERVICES

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MEMORANDUM

April 7, 2008

SUBJECT: Single-subject requirement (HCS SB 254(FIN);
Work Order No. 25-LS1367\E)

TO: Representative Paul Seaton
Attn: Louie Flora

FROM: Alpheus Bullard *AB*
Legislative Counsel

You have requested a legal opinion as to the constitutionality of a committee substitute that extends the termination date of the Alaska regional economic assistance program and adds to it language that extends the termination date for the authority of the Commercial Fisheries Entry Commission to maintain a vessel based limited entry fisheries system. The pertinent legal question is whether the extension of these two programs is a "single subject" under art. II, sec. 13, of the state constitution. The continuation of a Department of Commerce, Community and Economic Development program that encourages the formation of, and provides assistance and grants to, certain regional development organizations and the continuation of a vessel based limited entry fisheries system (as opposed to a system that limits the entry of natural persons) are arguably separate subjects and I do not know whether a court would interpret the shared nucleus of "termination date extension" as satisfying Alaska's single-subject requirement.

The single-subject requirement

Under art. II, sec. 13, Constitution of the State of Alaska, "[e]very bill shall be confined to one subject unless it is an appropriation bill or one codifying, revising, or rearranging existing laws." This provision of the Alaska Constitution is frequently referred to as the "single-subject requirement." Each bill may only contain provisions related to the bill's single subject.

The standard adopted by the Alaska Supreme Court in regard to the single-subject requirement states that an "act should embrace some one general subject; and by this is meant, merely, that all matters treated of should fall under some one general idea, be so connected with or related to each other, either logically or in popular understanding, as to be parts of, or germane to, one general subject." Gellert v. State, 522 P.2d 1120, 1123 (Alaska 1974). The Alaska Supreme Court has held that the purpose of this constitutional provision is to guard against legislative log-rolling, "the practice of 'deliberately inserting in one bill several dissimilar or incongruous subjects in order to

Representative Paul Seaton

April 7, 2008

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secure the necessary support for passage of the measure." Evans v. State, 56 P.3d 1046, 1069 (Alaska 2002), quoting Gellert, supra at 1122.

Alaska's single-subject rule has been interpreted by the Alaska Supreme Court to permit very broad subject matter in a bill without violating the single-subject requirement. In construing the single-subject rule, the court will "resolve doubts in favor of validity." Also, "in order to warrant the setting aside of enactments for failure to comply, the violation must be substantial and plain." Suber v. Alaska State Bond Committee, 414 P.2d 546, 557 (Alaska 1966); see also Evans and Gellert, supra and Short v. State, 600 P.2d 20 (Alaska 1970). Specifically, the court has held that bills relating to such broad themes as "civil actions", "taxation", "transportation", and "land" are acceptable.¹ Evans, 56 P.3d at 1070; North Slope Borough v. Sohio Petroleum, 585 P.2d 534, 545 (Alaska 1978); Yute Air Alaska, Inc. v. McAlpine, 698 P.2d 1173, 1181 (Alaska 1985); State v. First National Bank of Anchorage, 660 P.2d 406 (Alaska 1982).

If I may be of further assistance, please advise.

TLAB:med
08-258.med

¹ The single-subject rule has been so broadly construed by the court, that the court itself has expressed misgivings. Yute Air Alaska, Inc., supra at 1180-1183; and First National Bank of Anchorage, supra at 414-415. However, without this broad construction, "statutes might be restricted unduly in scope and permissible subject matter, thereby multiplying and complicating the number of necessary enactments and their interrelationships." Gellert, supra at 1122, and quoted by Galbraith v. State, 693 P.2d 880, 886 (Alaska App. 1985). The court appears reluctant to impose a stricter standard. See Yute Air Alaska, Inc., supra at 1180-1181.