

HB

276

<TARGET><BILL>HB 276</BILL><SUBJECT>HB
276</SUBJECT><COMM>HFIN27</COMM></TARGET>

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB276(FIN)
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB276CS(FIN)-DNR-DOG-04-06-12 Dept. Affected Natural Resources
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Oil and Gas
 Allocation Oil and Gas
 Sponsor Rep. Thompson, Dick, Millett, Tuck, Miller
 Requester (H)FIN OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services	193.4		193.4	193.4	193.4	96.7		
Travel								
Services	11.0		11.0	11.0	11.0	5.5		
Commodities	7.0							
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	211.4	0.0	204.4	204.4	204.4	102.2	0.0	

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	211.4		204.4	204.4	204.4	102.2	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		211.4	0.0	204.4	204.4	204.4	102.2	0.0

POSITIONS								
Full-time		2		2	2	2	1	0
Part-time								
Temporary								

CHANGE IN REVENUES	***		***	***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

The House Finance committee substitute for HB 276 removed a subsection (q) and added a new section on production tax for commercial finds of oil or gas production south of 68 degrees, other than Cook Inlet. HB276CS(FIN) also extends the credit to Federal onshore lands and amends existing statutes that determine the production tax value of oil and gas.

Prepared by William C. Barron, Director
 Division Division of Oil and Gas
 Approved by Daniel Sullivan, Commissioner
Department of Natural Resources

Phone (907) 269-8800
 Date/Time 4/6/12 12:00 AM
 Date 4/6/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB276(FIN)

Analysis

The impact of CSHB 276(FIN)\S on state royalties is indeterminate. The impact is dependent on a commercial discovery being made on state lands, and the frontier areas contain lands for which the State owns the mineral rights.

Sections 2 and 3 of CSHB 276(FIN) would put a four percent gross tax ceiling on the current net tax for the first seven years of production from a field that is not on the North Slope, nor in the Cook Inlet, nor selling gas for use in-state. The impact of this section on state royalty revenue is indeterminate. Depending on the field's profitability, the four percent gross tax might be less than the current net tax. Despite the tax liability under current tax law for such a field already being reduced by the non-transferable tax credits available under AS 43.55.024(a) and (c) (if applicable), the four percent ceiling might improve the economics of field development.

Section 4 establishes for exploration activity within six frontier areas in Alaska two new credits: a credit for seismic work and a credit for drilling exploration wells. The credit for seismic activity provides for a credit equal to 75% of the cost of the seismic work or \$7.5 million, whichever is less, for the first four seismic exploration projects in those frontier areas. Not more than one seismic program can be undertaken for a given frontier area. The credit for exploration well drilling provides a credit equal to 80% of the cost of the well or \$22.5 million, whichever is less, for the four wells drilled in the six frontier areas. Not more than two wells can be drilled in a given frontier area. These two credits cannot be taken in conjunction with the qualified capital expenditure credit or carried-forward annual loss credit. The credit applies to exploration on state, private lands and onshore federal lands.

The 75% seismic and 80% well exploration credits provides a more generous tax benefit than is currently available for new entrant explorers in Alaska. Now, the new entrant explorer could receive at most a 65% tax benefit comprised of a 40% credit for a remote well drilled (or for seismic of a remote area) and a carried-forward annual loss credit of 25% under AS 43.55.023(b). This higher up-front tax benefit, all else equal, should encourage exploration by new entrants in some of the six frontier areas identified in the bill.

In the frontier areas denoted by the new AS 43.55.025(p)(5) and (p)(6), the Egegik and Port Moller areas, DNR holds annual Alaska Peninsula area lease sales. The area has moderate to high potential for gas and low to moderate potential for oil. The State has not received any bids for leases in this area over the last three lease sales. To the extent the more generous tax benefits there encourage lease bidding, drilling, and seismic work in the Alaska Peninsula, the State might eventually receive more revenue from bonus bids and royalties from that area.

The frontier area denoted by (p)(2), or the Fairbanks area, includes the Nenana basin, where Doyon currently has an exploration license with the State. To the extent the more generous tax benefits there encourage drilling and seismic work in the Nenana basin, the State may eventually receive more royalty revenue as the exploration licenses there are converted to leases.

Some of the frontier areas contain land whose mineral rights are owned by private landowners or the federal government. The prospective acreage in the Yukon Flats basin contained in the Fairbanks frontier area is on land owned by Native corporations. Similarly, while the State has a mineral interest in offshore lands up to the three mile limit for frontier areas denoted by (p)(1), Kotzebue, and (p)(3), Emmonak, the State lacks a substantial mineral interest on-shore in these frontier areas.

The Copper River basin is also identified and although there is a significant state land base, the area is mostly federal US Park Service lands. There are no state exploration licenses in the area; however, approximately ten to twelve exploration wells have been drilled in the area.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB276(FIN)

Analysis Continued

Sections 5 and 6 of the bill provides for some administrative responsibilities for DNR. A person wanting to receive a credit must obtain the approval of DNR for undertaking the seismic or drilling program, and DNR has 60 days or as soon as practical to evaluate the proposed expenditure. DNR's written evaluation must take into account a number of factors concerning the operator and proposed exploration. DNR must also find that the proposed work is located in a specified frontier basin. DNR must also ensure that data is collected on the exploration work, and, if applicable, obtain the agreement of a private landowner for public release of the data under AS 43.55.025(i).

DNR must make a best interests finding regarding the proposed work program after examining a variety of factors. DNR must also find that the proposed work is located in a specified frontier basin. The division is requesting two new NRS III positions (range 18, step C) to address the anticipated increase in well drilling and seismic activities in frontier areas and a potential influx in processing of exploration licenses. Other budgeted items include mandatory position costs, office equipment, and office space expenses.

Resource evaluation work such as serving as contacts for several stages of necessary correspondence between the operator, Division of Oil and Gas, and Department of Revenue; inventorying and checking completeness of data submitted; assisting in loading and conducting quality control on seismic and well data; monitoring release schedule; and helping coordinate the transfer of DNR data to Alaska Oil and Gas Conservation Commission for public distribution would also be required. Assuming this program is not amended or extended, the staffing increases could be reduced in FY17 and 18.

With the expected increase in seismic data as a result of the credit, DOG will likely need additional money for data storage, and may request funding in a supplemental or future budget cycle.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CS HB 276 (FIN)
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB276CS(FIN)-DOR-TAX-04-05-12 Dept. Affected _____ Revenue _____
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Taxation and Treasury
 Allocation _____ Tax _____
 Sponsor Representatives Thompson, Dick, Millett, Tuck, Miller
 Requester HFIN OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES	***	0.0	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required);
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required);
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Update for CS.

Prepared by Lennie Dees / Audit Master
 Division Tax
 Approved by Alicia Egan, Legislative Liaison
Department of Revenue

Phone 907-269-1019
 Date/Time 04/05/12 2:00 p.m.
 Date 4/6/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CS HB 276 (FIN)

Analysis

The revenue impact of this bill is indeterminate.

This bill adds new subsections (a)(6), (a)(7), (n), (o), and (p) to AS 43.55.025. Subsections (n) and (o) authorize production tax credits for drilling 4 exploration wells and conducting 4 seismic exploration projects in the 6 areas, or basins, indentified in new subsection (p) of the bill. The new credit amounts are defined in subsections (a)(6) and (a)(7). Subsection (a)(6) authorizes a credit which is the lesser of \$22.5 million or 80% of the exploration drilling expenditures for each well described in subsection (n) that qualify under subsections (b), (c) and (p) of AS 43.55.025. Subsection (a)(7) authorizes a credit which is the lesser of \$7.5 million or 75% of each seismic exploration project described in (o) that qualify under subsections (b) and (p) of AS 43.55.025. Only expenditures occurring after June 1, 2012 and before July 1, 2016 qualify under the bill.

The bill also adds a new subsection (p) to AS 43.55.011. This new subsection states that, for a period of seven years following the commencement of commercial production, which commences after December 31, 2012, but before January 1, 2022, from a lease or property or unit south of 68 degrees North latitude (but not including Cook Inlet), the tax rate for any new production in these areas would be taxed as oil and gas under AS 43.55.011(e), but the tax may not exceed 4% of the gross value at the point of production (so it is placing a tax ceiling on any new production from these areas for a period of seven years).

Under current law, producers or explorers conducting exploration activities described in the bill could qualify for tax credits under AS 43.55.025(a)(1)-(a)(4) and AS 43.55.023, which could total 65% of qualified exploration expenditures. The credits proposed in sections (a)(6) and (a)(7) of the bill respectively represent 15% and 10% increases above the maximum stackable credits currently available to any explorer or producer conducting exploration activities in the areas identified in the bill.

The bill also amends AS 43.55.020 and AS 43.55.160 to make necessary conforming amendments.

The fiscal impact of this bill is indeterminate. If four qualifying wells are drilled for the maximum allowed credit for each well of \$22.5 million, the immediate revenue impact to the state would be \$90 million. If four qualifying seismic exploration projects are conducted at the maximum allowed credit of \$7.5 million, the financial impact to the state would be \$30 million for a total of impact of \$120 million if all credits proposed in the bill are earned.

The Department of Revenue could administer the provisions of this bill with existing resources.

CS FOR HOUSE BILL NO. 276(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES THOMPSON, DICK, MILLETT, TUCK, AND MILLER, Tammie Wilson, Kawasaki, Feige, Joule

A BILL

FOR AN ACT ENTITLED

1 "An Act providing for a credit against the oil and gas production tax for costs incurred
2 for conducting seismic exploration and drilling certain oil or natural gas exploration
3 wells in certain basins; relating to the determination of the production tax value of oil
4 and gas production; and relating to a special tax rate for new oil or gas production south
5 of 68 degrees North latitude."

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

7 * **Section 1.** AS 43.55.011(e) is amended to read:

8 (e) There is levied on the producer of oil or gas a tax for all oil and gas
9 produced each calendar year from each lease or property in the state, less any oil and
10 gas the ownership or right to which is exempt from taxation or constitutes a
11 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), [AND]
12 (o), and (p) of this section, the tax is equal to the sum of

13 (1) the annual production tax value of the taxable oil and gas as

1 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

2 (2) the sum, over all months of the calendar year, of the tax amounts
3 determined under (g) of this section.

4 * **Sec. 2.** AS 43.55.011 is amended by adding a new subsection to read:

5 (p) For the seven years immediately following the commencement of
6 commercial production of oil or gas produced from leases or properties in the state
7 that are outside the Cook Inlet sedimentary basin and that do not include land located
8 north of 68 degrees North latitude, where that commercial production began after
9 December 31, 2012, and before January 1, 2022, the levy of tax under (e) of this
10 section for oil and gas may not exceed four percent of the gross value at the point of
11 production.

12 * **Sec. 3.** AS 43.55.020(a) is amended to read:

13 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
14 or (p) shall pay the tax as follows:

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

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

26 (i) zero; or

27 (ii) the sum of 25 percent and the tax rate calculated for
28 the month under AS 43.55.011(g) multiplied by the remainder obtained
29 by subtracting 1/12 of the producer's adjusted lease expenditures for the
30 calendar year of production under AS 43.55.165 and 43.55.170 that are
31 deductible for the leases or properties under AS 43.55.160 from the

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

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

6 (i) zero;

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

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

19 (C) for oil and gas produced from each lease or property
 20 subject to AS 43.55.011(j), (k), [OR] (o), or (p), the greater of

21 (i) zero; or

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

31 (2) an amount calculated under (1)(C) of this subsection for oil or gas

1 produced from a lease or property

2 (A) subject to AS 43.55.011(j), (k), or (o) may not exceed the
3 product obtained by carrying out the calculation set out in AS 43.55.011(j)(1)
4 or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1)
5 or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A)
6 or 43.55.011(o), as applicable, the amount of taxable gas produced during the
7 month for the amount of taxable gas produced during the calendar year and
8 substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of
9 taxable oil produced during the month for the amount of taxable oil produced
10 during the calendar year;

11 **(B) subject to AS 43.55.011(p) may not exceed four percent**
12 **of the gross value at the point of production of the oil or gas;**

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

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

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

25 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
26 credits applied as allowed by law, that exceeds the total of the amounts due as
27 installment payments of estimated tax is due on March 31 of the year following the
28 calendar year of production.

29 * **Sec. 4.** AS 43.55.025(a) is amended to read:

30 (a) Subject to the terms and conditions of this section, a credit against the
31 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that

1 qualify under (b) of this section in an amount equal to one of the following:

2 (1) 30 percent of the total exploration expenditures that qualify only
3 under (b) and (c) of this section;

4 (2) 30 percent of the total exploration expenditures that qualify only
5 under (b) and (d) of this section;

6 (3) 40 percent of the total exploration expenditures that qualify under
7 (b), (c), and (d) of this section;

8 (4) 40 percent of the total exploration expenditures that qualify only
9 under (b) and (e) of this section; [OR]

10 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
11 section, of the total exploration expenditures described in (b)(1) and (2) of this section
12 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
13 section;

14 **(6) the lesser of \$25,000,000 or 80 percent of the total exploration**
15 **drilling expenditures described in (n) of this section and that qualify under (b)**
16 **and (c) of this section; or**

17 **(7) the lesser of \$7,500,000 or 75 percent of the total seismic**
18 **exploration expenditures described in (o) of this section and that qualify under**
19 **(b) of this section.**

20 * Sec. 5. AS 43.55.025(c) is amended to read:

21 (c) To be eligible for a [THE 30 PERCENT] production tax credit authorized
22 by (a)(1), ~~(3)~~, or (6) of this section [OR THE 40 PERCENT PRODUCTION TAX
23 CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures
24 must

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

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

27 (A) before the well is spudded,

28 (i) the explorer shall submit to the commissioner of
29 natural resources the information necessary to determine whether the
30 geological objective of the well is a potential oil or gas trap that is
31 distinctly separate from any trap that has been tested by a preexisting

1 well;

2 (ii) at the time of the submittal of information under (i)
3 of this subparagraph, the commissioner of natural resources may
4 request from the explorer that specific data sets, ancillary data, and
5 reports including all results, and copies of well data collected and data
6 analyses for the well be provided to the Department of Natural
7 Resources upon completion of the drilling; in this sub-subparagraph,
8 well data include all analyses conducted on physical material, and well
9 logs collected from the well and sample analyses; testing geophysical
10 and velocity data including vertical seismic profiles and check shot
11 surveys; testing data and analyses; age data; geochemical analyses; and
12 access to tangible material; and

13 (iii) the commissioner of natural resources must make
14 an affirmative determination as to whether the geological objective of
15 the well is a potential oil or gas trap that is distinctly separate from any
16 trap that has been tested by a preexisting well and what information
17 under (ii) of this subparagraph must be submitted by the explorer after
18 completion, abandonment, or suspension under AS 31.05.030; the
19 commissioner of natural resources shall make that determination within
20 60 days after receiving all the necessary information from the explorer
21 based on the information received and on other information the
22 commissioner of natural resources considers relevant;

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

28 (C) after completion, suspension, or abandonment under
29 AS 31.05.030 of the exploration well, the commissioner of natural resources
30 must determine that the well was consistent with achieving the explorer's
31 stated geological objective.

1 * **Sec. 6.** AS 43.55.025 is amended by adding new subsections to read:

2 (n) The persons that drill the first four exploration wells in the state and within
3 the areas described in (p) of this section on state lands, private lands, or federal
4 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a
5 prospect in a basin described in (p) of this section are eligible for a credit under (a)(6)
6 of this section. A credit under this subsection may not be taken for more than two
7 exploration wells in a single area described in (p)(1) - (6) of this section. Exploration
8 expenditures eligible for the credit in this subsection must be incurred for work
9 performed after June 1, 2012, and before July 1, 2016. A person planning to drill an
10 exploration well on private land and to apply for a credit under this subsection shall
11 obtain written consent from the owner of the oil and gas interest for the full public
12 release of all well data after the expiration of the confidentiality period applicable to
13 information collected under (f) of this section. The written consent of the owner of the
14 oil and gas interest must be submitted to the commissioner of natural resources before
15 approval of the proposed exploration well. In addition to the requirements in (c) of this
16 section and submission of the written consent of the owner of the oil and gas interest, a
17 person planning to drill an exploration well shall obtain approval from the
18 commissioner of natural resources before the well is spudded. The commissioner of
19 natural resources shall make a written determination approving or rejecting an
20 exploration well within 60 days after receiving the request for approval or as soon as is
21 practicable thereafter. Before approving the exploration well, the commissioner of
22 natural resources shall consider the following: the location of the well; the proximity
23 to a community in need of a local energy source; the proximity of existing
24 infrastructure; the experience and safety record of the explorer in conducting
25 operations in remote or roadless areas; the projected cost schedule; whether seismic
26 mapping and seismic data sufficiently identify a particular trap for exploration;
27 whether the targeted and planned depth and range are designed to penetrate and fully
28 evaluate the hydrocarbon potential of the proposed prospect and reach the level below
29 which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or
30 more true vertical depth; and whether the exploration plan provides for a full
31 evaluation of the wellbore below surface casing to the depth of the well. Whether the

1 exploration well for which a credit is requested under this subsection is located within
2 an area and a basin described under (p) of this section shall be determined by the
3 commissioner of natural resources and reported to the commissioner. A taxpayer that
4 obtains a credit under this subsection may not claim a tax credit under AS 43.55.023
5 or another provision in this section for the same exploration expenditure.

6 (o) The persons that conduct the first four seismic exploration projects in the
7 state and within the areas described in (p) of this section for the purpose of discovering
8 oil or gas in a basin are eligible for the credit under (a)(7) of this section. A credit
9 under this subsection may not be taken for more than one seismic exploration project
10 in a single area described in (p)(1) - (6) of this section. Exploration expenditures
11 eligible for the credit in this subsection must be incurred for work performed after
12 June 1, 2012, and before July 1, 2016. A person planning to conduct a seismic
13 exploration project on private land and to apply for a credit under this subsection shall
14 obtain written consent from the owner of the oil and gas interest for the full public
15 release of all geophysical data and compliance with the data submission requirements
16 in (f)(2) of this section. Notwithstanding (f)(2)(C)(ii) of this section, to qualify for a
17 credit under this subsection, a person shall submit the written consent of the owner of
18 the oil and gas interest for the release of data if applicable, and all data required under
19 (f)(2) of this section to the Department of Natural Resources and shall agree in writing
20 that all seismic data requirements submitted under the requirements of (f)(2) of this
21 section may be made public two years after receiving a credit under this subsection. A
22 person intending to qualify for the tax credit under this subsection shall obtain
23 approval from the commissioner of natural resources before the commencement of the
24 seismic exploration activities. The commissioner of natural resources shall make a
25 written determination approving or rejecting a seismic project within 60 days after
26 receiving the request for approval or as soon as is practicable thereafter. Before
27 approving a seismic exploration project, the commissioner shall consider the
28 following: the location of the project; the projected cost schedule; the data acquisition
29 and data processing plan; the reasons for choosing the particular area for seismic
30 exploration; and the experience and safety record of the person in conducting seismic
31 exploration operations in remote or roadless areas. Whether the seismic exploration

1 project for which a credit is requested under this subsection is located in a basin
 2 described in (p) of this section shall be determined by the commissioner of natural
 3 resources and reported to the commissioner. A taxpayer that obtains a credit under this
 4 subsection may not claim a tax credit under AS 43.55.023 or another provision in this
 5 section for the same exploration expenditure.

6 (p) The activity that is the basis for a credit claimed under (a)(6) and (n) of
 7 this section or (a)(7) and (o) of this section must be for the exploration of a basin and
 8 within the following areas whose central points are determined using the World
 9 Geographic System of 1984 datum,

10 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
 11 West;

12 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
 13 West;

14 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
 15 West;

16 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
 17 West;

18 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
 19 West;

20 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees
 21 West.

22 * **Sec. 7.** AS 43.55.160(a) is amended to read:

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

24 (1) AS 43.55.011(e), the annual production tax value of the taxable oil,
 25 gas, or [(A)] oil and gas subject to this paragraph produced during a calendar year
 26 [FROM LEASES OR PROPERTIES IN THE STATE THAT INCLUDE LAND
 27 NORTH OF 68 DEGREES NORTH LATITUDE] is the gross value at the point of
 28 production of the oil, gas, or oil and gas taxable under AS 43.55.011(e) [AND
 29 PRODUCED BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES],
 30 less the producer's lease expenditures under AS 43.55.165 for the calendar year
 31 applicable to the oil, gas, or oil and gas, as applicable, produced by the producer from

1 [THOSE] leases or properties, as adjusted under AS 43.55.170; this paragraph
 2 applies to

3 (A) oil and gas produced from leases or properties in the
 4 state that include land north of 68 degrees North latitude, other than gas
 5 produced before 2022 and used in the state; [THIS SUBPARAGRAPH
 6 DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

7 (B) oil and gas produced [DURING A CALENDAR YEAR]
 8 from leases or properties in the state outside the Cook Inlet sedimentary basin,
 9 no part of which is north of 68 degrees North latitude [, IS THE GROSS
 10 VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS
 11 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
 12 PRODUCER FROM THOSE LEASES OR PROPERTIES, LESS THE
 13 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
 14 CALENDAR YEAR APPLICABLE TO THE OIL AND GAS PRODUCED
 15 BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES, AS
 16 ADJUSTED UNDER AS 43.55.170]; this subparagraph does not apply to gas

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

18 (ii) oil and gas subject to AS 43.55.011(p) [SUBJECT
 19 TO AS 43.55.011(o)];

20 (C) oil produced before 2022 [DURING A CALENDAR
 21 YEAR] from a lease or property in the Cook Inlet sedimentary basin [IS THE
 22 GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL
 23 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
 24 PRODUCER FROM THAT LEASE OR PROPERTY, LESS THE
 25 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
 26 CALENDAR YEAR APPLICABLE TO THE OIL PRODUCED BY THE
 27 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED
 28 UNDER AS 43.55.170];

29 (D) gas produced before 2022 [DURING A CALENDAR
 30 YEAR] from a lease or property in the Cook Inlet sedimentary basin [IS THE
 31 GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS

1 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
 2 PRODUCER FROM THAT LEASE OR PROPERTY, LESS THE
 3 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
 4 CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE
 5 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED
 6 UNDER AS 43.55.170];

7 (E) gas produced before 2022 [DURING A CALENDAR
 8 YEAR] from a lease or property in the state outside the Cook Inlet
 9 sedimentary basin and used in the state [IS THE GROSS VALUE AT THE
 10 POINT OF PRODUCTION OF THAT GAS TAXABLE UNDER
 11 AS 43.55.011(e) AND PRODUCED BY THE PRODUCER FROM THAT
 12 LEASE OR PROPERTY, LESS THE PRODUCER'S LEASE
 13 EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR
 14 APPLICABLE TO THAT GAS PRODUCED BY THE PRODUCER FROM
 15 THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170];

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

18 (G) oil and gas produced from a lease or property no part
 19 of which is north of 68 degrees North latitude, other than oil or gas
 20 described in (B), (C), (D), (E), or (F) of this paragraph;

21 (2) AS 43.55.011(g), the monthly production tax value of the taxable

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

30 (B) oil and gas produced during a month from leases or
 31 properties in the state outside the Cook Inlet sedimentary basin, no part of

1 which is north of 68 degrees North latitude, is the gross value at the point of
 2 production of the oil and gas taxable under AS 43.55.011(e) and produced by
 3 the producer from those leases or properties, less 1/12 of the producer's lease
 4 expenditures under AS 43.55.165 for the calendar year applicable to the oil and
 5 gas produced by the producer from those leases or properties, as adjusted under
 6 AS 43.55.170; this subparagraph does not apply to gas subject to
 7 AS 43.55.011(o);

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

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

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

27 * **Sec. 8.** AS 43.55.160(e) is amended to read:

28 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
 29 would otherwise be deductible by a producer in a calendar year but whose deduction
 30 would cause an annual production tax value calculated under (a)(1) of this section of
 31 taxable oil or gas produced during the calendar year to be less than zero may be used

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

Alaska State Legislature
HOUSE FINANCE COMMITTEE

Agenda
9:00AM

Friday, April 6, 2012

Bills Previously Heard or Scheduled

HB 276-OIL/GAS PRODUCTION TAX CREDITS: NENANA

NEW CS WORKDRAFT FIN 27-LS1193\G

NEW FISCAL NOTE (DNR) \$

NEW FISCAL NOTE (REV) INDETERMINATE

Alaska State Legislature
HOUSE FINANCE COMMITTEE

Agenda

~~9:00 AM~~

11:30 PM

Friday, April 6, 2012

Bills Previously Heard or Scheduled

HB 276-OIL/GAS PRODUCTION TAX CREDITS: NENANA

NEW CS WORKDRAFT FIN 27-LS1193\G

NEW FISCAL NOTE (DNR) \$ 4/6/12

NEW FISCAL NOTE (REV) INDETERMINATE 4/6/12

amendment Joule

amendment 2 Gara

Adopted
4/6/12

Amendment \

OFFERED IN THE HOUSE FINANCE

BY REPRESENTATIVE JOULE

TO: CSHB 276(FIN), Draft Version "F" G

Page 5, Line 14, following "of"

Delete [\$22,500,000] insert "\$25,000,000"

Adopted
4/6/12

27-LS1193\G.1
Nauman
4/6/12

AMENDMENT #2

OFFERED IN THE HOUSE

BY REPRESENTATIVE *Gara*

TO: CSHB 276(FIN), Draft Version "G"

- 1 Page 2, line 6, following "state":
- 2 Insert " that are outside the Cook Inlet sedimentary basin and"
- 3
- 4 Page 2, lines 9 - 10:
- 5 Delete ", other than gas subject to (j) of this section or oil subject to (k) of this
- 6 section,"

Adopted
4/6/12

27-LS1193\G
Nauman/Bullock
4/5/12

CS FOR HOUSE BILL NO. 276(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES THOMPSON, DICK, MILLETT, TUCK, AND MILLER, Tammie Wilson, Kawasaki, Feige, Joule

A BILL

FOR AN ACT ENTITLED

1 "An Act providing for a credit against the oil and gas production tax for costs incurred
2 for conducting seismic exploration and drilling certain oil or natural gas exploration
3 wells in certain basins; relating to the determination of the production tax value of oil
4 and gas production; and relating to a special tax rate for new oil or gas production south
5 of 68 degrees North latitude."

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

7 * **Section 1.** AS 43.55.011(e) is amended to read:

8 (e) There is levied on the producer of oil or gas a tax for all oil and gas
9 produced each calendar year from each lease or property in the state, less any oil and
10 gas the ownership or right to which is exempt from taxation or constitutes a
11 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), [AND]
12 (o), and (p) of this section, the tax is equal to the sum of

13 (1) the annual production tax value of the taxable oil and gas as

1 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

2 (2) the sum, over all months of the calendar year, of the tax amounts
3 determined under (g) of this section.

4 * **Sec. 2.** AS 43.55.011 is amended by adding a new subsection to read:

5 (p) For the seven years immediately following the commencement of
6 commercial production of oil or gas produced from leases or properties in the state
7 that do not include land located north of 68 degrees North latitude, where that
8 commercial production began after December 31, 2012, and before January 1, 2022,
9 the levy of tax under (e) of this section for oil and gas, other than gas subject to (j) of
10 this section or oil subject to (k) of this section, may not exceed four percent of the
11 gross value at the point of production.

12 * **Sec. 3.** AS 43.55.020(a) is amended to read:

13 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
14 or (p) shall pay the tax as follows:

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

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

26 (i) zero; or

27 (ii) the sum of 25 percent and the tax rate calculated for
28 the month under AS 43.55.011(g) multiplied by the remainder obtained
29 by subtracting 1/12 of the producer's adjusted lease expenditures for the
30 calendar year of production under AS 43.55.165 and 43.55.170 that are
31 deductible for the leases or properties under AS 43.55.160 from the

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

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

6 (i) zero;

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

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

19 (C) for oil and gas produced from each lease or property
20 subject to AS 43.55.011(j), (k), [OR] (o), or (p), the greater of

21 (i) zero; or

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

31 (2) an amount calculated under (1)(C) of this subsection for oil or gas

1 produced from a lease or property

2 (A) subject to AS 43.55.011(j), (k), or (o) may not exceed the
3 product obtained by carrying out the calculation set out in AS 43.55.011(j)(1)
4 or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1)
5 or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A)
6 or 43.55.011(o), as applicable, the amount of taxable gas produced during the
7 month for the amount of taxable gas produced during the calendar year and
8 substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of
9 taxable oil produced during the month for the amount of taxable oil produced
10 during the calendar year;

11 (B) subject to AS 43.55.011(p) may not exceed four percent
12 of the gross value at the point of production of the oil or gas;

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

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

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

25 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
26 credits applied as allowed by law, that exceeds the total of the amounts due as
27 installment payments of estimated tax is due on March 31 of the year following the
28 calendar year of production.

29 * Sec. 4. AS 43.55.025(a) is amended to read:

30 (a) Subject to the terms and conditions of this section, a credit against the
31 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that

1 qualify under (b) of this section in an amount equal to one of the following:

2 (1) 30 percent of the total exploration expenditures that qualify only
3 under (b) and (c) of this section;

4 (2) 30 percent of the total exploration expenditures that qualify only
5 under (b) and (d) of this section;

6 (3) 40 percent of the total exploration expenditures that qualify under
7 (b), (c), and (d) of this section;

8 (4) 40 percent of the total exploration expenditures that qualify only
9 under (b) and (e) of this section; [OR]

10 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
11 section, of the total exploration expenditures described in (b)(1) and (2) of this section
12 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
13 section;

14 **(6) the lesser of \$22,500,000 or 80 percent of the total exploration**
15 **drilling expenditures described in (n) of this section and that qualify under (b)**
16 **and (c) of this section; or**

17 **(7) the lesser of \$7,500,000 or 75 percent of the total seismic**
18 **exploration expenditures described in (o) of this section and that qualify under**
19 **(b) of this section.**

20 * Sec. 5. AS 43.55.025(c) is amended to read:

21 (c) To be eligible for a [THE 30 PERCENT] production tax credit authorized
22 by (a)(1), (3), or (6) of this section [OR THE 40 PERCENT PRODUCTION TAX
23 CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures
24 must

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

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

27 (A) before the well is spudded,

28 (i) the explorer shall submit to the commissioner of
29 natural resources the information necessary to determine whether the
30 geological objective of the well is a potential oil or gas trap that is
31 distinctly separate from any trap that has been tested by a preexisting

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well;

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

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

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

(C) after completion, suspension, or abandonment under AS 31.05.030 of the exploration well, the commissioner of natural resources must determine that the well was consistent with achieving the explorer's stated geological objective.

1 * **Sec. 6.** AS 43.55.025 is amended by adding new subsections to read:

2 (n) The persons that drill the first four exploration wells in the state and within
3 the areas described in (p) of this section on state lands, private lands, or federal
4 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a
5 prospect in a basin described in (p) of this section are eligible for a credit under (a)(6)
6 of this section. A credit under this subsection may not be taken for more than two
7 exploration wells in a single area described in (p)(1) - (6) of this section. Exploration
8 expenditures eligible for the credit in this subsection must be incurred for work
9 performed after June 1, 2012, and before July 1, 2016. A person planning to drill an
10 exploration well on private land and to apply for a credit under this subsection shall
11 obtain written consent from the owner of the oil and gas interest for the full public
12 release of all well data after the expiration of the confidentiality period applicable to
13 information collected under (f) of this section. The written consent of the owner of the
14 oil and gas interest must be submitted to the commissioner of natural resources before
15 approval of the proposed exploration well. In addition to the requirements in (c) of this
16 section and submission of the written consent of the owner of the oil and gas interest, a
17 person planning to drill an exploration well shall obtain approval from the
18 commissioner of natural resources before the well is spudded. The commissioner of
19 natural resources shall make a written determination approving or rejecting an
20 exploration well within 60 days after receiving the request for approval or as soon as is
21 practicable thereafter. Before approving the exploration well, the commissioner of
22 natural resources shall consider the following: the location of the well; the proximity
23 to a community in need of a local energy source; the proximity of existing
24 infrastructure; the experience and safety record of the explorer in conducting
25 operations in remote or roadless areas; the projected cost schedule; whether seismic
26 mapping and seismic data sufficiently identify a particular trap for exploration;
27 whether the targeted and planned depth and range are designed to penetrate and fully
28 evaluate the hydrocarbon potential of the proposed prospect and reach the level below
29 which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or
30 more true vertical depth; and whether the exploration plan provides for a full
31 evaluation of the wellbore below surface casing to the depth of the well. Whether the

1 exploration well for which a credit is requested under this subsection is located within
2 an area and a basin described under (p) of this section shall be determined by the
3 commissioner of natural resources and reported to the commissioner. A taxpayer that
4 obtains a credit under this subsection may not claim a tax credit under AS 43.55.023
5 or another provision in this section for the same exploration expenditure.

6 (o) The persons that conduct the first four seismic exploration projects in the
7 state and within the areas described in (p) of this section for the purpose of discovering
8 oil or gas in a basin are eligible for the credit under (a)(7) of this section. A credit
9 under this subsection may not be taken for more than one seismic exploration project
10 in a single area described in (p)(1) - (6) of this section. Exploration expenditures
11 eligible for the credit in this subsection must be incurred for work performed after
12 June 1, 2012, and before July 1, 2016. A person planning to conduct a seismic
13 exploration project on private land and to apply for a credit under this subsection shall
14 obtain written consent from the owner of the oil and gas interest for the full public
15 release of all geophysical data and compliance with the data submission requirements
16 in (f)(2) of this section. Notwithstanding (f)(2)(C)(ii) of this section, to qualify for a
17 credit under this subsection, a person shall submit the written consent of the owner of
18 the oil and gas interest for the release of data if applicable, and all data required under
19 (f)(2) of this section to the Department of Natural Resources and shall agree in writing
20 that all seismic data requirements submitted under the requirements of (f)(2) of this
21 section may be made public two years after receiving a credit under this subsection. A
22 person intending to qualify for the tax credit under this subsection shall obtain
23 approval from the commissioner of natural resources before the commencement of the
24 seismic exploration activities. The commissioner of natural resources shall make a
25 written determination approving or rejecting a seismic project within 60 days after
26 receiving the request for approval or as soon as is practicable thereafter. Before
27 approving a seismic exploration project, the commissioner shall consider the
28 following: the location of the project; the projected cost schedule; the data acquisition
29 and data processing plan; the reasons for choosing the particular area for seismic
30 exploration; and the experience and safety record of the person in conducting seismic
31 exploration operations in remote or roadless areas. Whether the seismic exploration

1 project for which a credit is requested under this subsection is located in a basin
2 described in (p) of this section shall be determined by the commissioner of natural
3 resources and reported to the commissioner. A taxpayer that obtains a credit under this
4 subsection may not claim a tax credit under AS 43.55.023 or another provision in this
5 section for the same exploration expenditure.

6 (p) The activity that is the basis for a credit claimed under (a)(6) and (n) of
7 this section or (a)(7) and (o) of this section must be for the exploration of a basin and
8 within the following areas whose central points are determined using the World
9 Geographic System of 1984 datum,

10 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
11 West;

12 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
13 West;

14 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
15 West;

16 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
17 West;

18 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
19 West;

20 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees
21 West.

22 * **Sec. 7.** AS 43.55.160(a) is amended to read:

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

24 (1) AS 43.55.011(e), the annual production tax value of the taxable oil,
25 gas, or [(A)] oil and gas subject to this paragraph produced during a calendar year
26 [FROM LEASES OR PROPERTIES IN THE STATE THAT INCLUDE LAND
27 NORTH OF 68 DEGREES NORTH LATITUDE] is the gross value at the point of
28 production of the oil, gas, or oil and gas taxable under AS 43.55.011(e) [AND
29 PRODUCED BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES],
30 less the producer's lease expenditures under AS 43.55.165 for the calendar year
31 applicable to the oil, gas, or oil and gas, as applicable, produced by the producer from

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[THOSE] leases or properties, as adjusted under AS 43.55.170; this paragraph applies to

(A) oil and gas produced from leases or properties in the state that include land north of 68 degrees North latitude, other than gas produced before 2022 and used in the state; [THIS SUBPARAGRAPH DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

(B) oil and gas produced [DURING A CALENDAR YEAR] from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude [, IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES, LESS THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR APPLICABLE TO THE OIL AND GAS PRODUCED BY THE PRODUCER FROM THOSE LEASES OR PROPERTIES, AS ADJUSTED UNDER AS 43.55.170]; this subparagraph does not apply to gas

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

(ii) oil and gas subject to AS 43.55.011(p) [SUBJECT TO AS 43.55.011(o)];

(C) oil produced before 2022 [DURING A CALENDAR YEAR] from a lease or property in the Cook Inlet sedimentary basin [IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, LESS THE PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR APPLICABLE TO THE OIL PRODUCED BY THE PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170];

(D) gas produced before 2022 [DURING A CALENDAR YEAR] from a lease or property in the Cook Inlet sedimentary basin [IS THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE GAS

1 TAXABLE UNDER AS 43.55.011(e) AND PRODUCED BY THE
2 PRODUCER FROM THAT LEASE OR PROPERTY, LESS THE
3 PRODUCER'S LEASE EXPENDITURES UNDER AS 43.55.165 FOR THE
4 CALENDAR YEAR APPLICABLE TO THE GAS PRODUCED BY THE
5 PRODUCER FROM THAT LEASE OR PROPERTY, AS ADJUSTED
6 UNDER AS 43.55.170];

7 (E) gas produced before 2022 [DURING A CALENDAR
8 YEAR] from a lease or property in the state outside the Cook Inlet
9 sedimentary basin and used in the state [IS THE GROSS VALUE AT THE
10 POINT OF PRODUCTION OF THAT GAS TAXABLE UNDER
11 AS 43.55.011(e) AND PRODUCED BY THE PRODUCER FROM THAT
12 LEASE OR PROPERTY, LESS THE PRODUCER'S LEASE
13 EXPENDITURES UNDER AS 43.55.165 FOR THE CALENDAR YEAR
14 APPLICABLE TO THAT GAS PRODUCED BY THE PRODUCER FROM
15 THAT LEASE OR PROPERTY, AS ADJUSTED UNDER AS 43.55.170];

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

18 (G) oil and gas produced from a lease or property no part
19 of which is north of 68 degrees North latitude, other than oil or gas
20 described in (B), (C), (D), (E), or (F) of this paragraph;

21 (2) AS 43.55.011(g), the monthly production tax value of the taxable

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

30 (B) oil and gas produced during a month from leases or
31 properties in the state outside the Cook Inlet sedimentary basin, no part of

1 which is north of 68 degrees North latitude, is the gross value at the point of
2 production of the oil and gas taxable under AS 43.55.011(e) and produced by
3 the producer from those leases or properties, less 1/12 of the producer's lease
4 expenditures under AS 43.55.165 for the calendar year applicable to the oil and
5 gas produced by the producer from those leases or properties, as adjusted under
6 AS 43.55.170; this subparagraph does not apply to gas subject to
7 AS 43.55.011(o);

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

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

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

27 * **Sec. 8.** AS 43.55.160(e) is amended to read:

28 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
29 would otherwise be deductible by a producer in a calendar year but whose deduction
30 would cause an annual production tax value calculated under (a)(1) of this section of
31 taxable oil or gas produced during the calendar year to be less than zero may be used

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

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB276(FIN)
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB276CS(FIN)-DNR-DOG-03-28-12 Dept. Affected Natural Resources
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Oil and Gas
 Allocation Oil and Gas
 Sponsor Rep. Thompson, Dick, Millett, Tuck, Miller
 Requester (H)FIN OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services	193.4		193.4	193.4	193.4	193.4	96.7	
Travel								
Services	11.0		11.0	11.0	11.0	11.0	5.5	
Commodities	7.0							
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	211.4	0.0	204.4	204.4	204.4	204.4	102.2	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	211.4		204.4	204.4	204.4	102.2	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		211.4	0.0	204.4	204.4	204.4	102.2	0.0

POSITIONS							
Full-time	2		2	2	2	1	0
Part-time							
Temporary							

CHANGE IN REVENUES	***		***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

The House Finance committee substitute for HB 276 removed a subsection (q) and added a new section on production tax for commercial finds of oil or gas production south of 68 degrees, other than Cook Inlet. HB276CS(FIN) also extends the credit to Federal onshore lands.

Prepared by William C. Barron, Director
 Division Division of Oil and Gas
 Approved by Daniel Sullivan, Commissioner
Department of Natural Resources

Phone (907) 269-8800
 Date/Time 3/28/12 4:00 PM
 Date 3/28/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB276(FIN)

Analysis

The impact of CSHB 276(FIN) on state royalties is indeterminate. The impact is dependent on a commercial discovery being made on state lands, and the frontier areas contain lands for which the State owns the mineral rights.

Section 2 of CSHB 276(FIN) would put a four percent gross tax ceiling on the current net tax for the first seven years of production from a field that is not on the North Slope, nor in the Cook Inlet, nor selling gas for use in-state. The impact of this section on state royalty revenue is indeterminate. Depending on the field's profitability, the four percent gross tax might be less than the current net tax. Despite the tax liability under current tax law for such a field already being reduced by the non-transferable tax credits available under AS 43.55.024(a) and (c) (if applicable), the four percent ceiling might improve the economics of field development.

Section 3 establishes for exploration activity within six frontier areas in Alaska two new credits: a credit for seismic work and a credit for drilling exploration wells. The credit for seismic activity provides for a credit equal to 75% of the cost of the seismic work or \$7.5 million, whichever is less, for the first four seismic exploration projects in those frontier areas. Not more than one seismic program can be undertaken for a given frontier area. The credit for exploration well drilling provides a credit equal to 80% of the cost of the well or \$22.5 million, whichever is less, for the four wells drilled in the six frontier areas. Not more than two wells can be drilled in a given frontier area. These two credits cannot be taken in conjunction with the qualified capital expenditure credit or carried-forward annual loss credit. The credit applies to exploration on state, private lands and onshore federal lands.

The 75% seismic and 80% well exploration credits provides a more generous tax benefit than is currently available for new entrant explorers in Alaska. Now, the new entrant explorer could receive at most a 65% tax benefit comprised of a 40% credit for a remote well drilled (or for seismic of a remote area) and a carried-forward annual loss credit of 25% under AS 43.55.023(b). This higher up-front tax benefit, all else equal, should encourage exploration by new entrants in some of the six frontier areas identified in the bill.

In the frontier areas denoted by the new AS 43.55.025(p)(5) and (p)(6), the Egegik and Port Moller basins, DNR holds annual Alaska Peninsula area lease sales. The area has moderate to high potential for gas and low to moderate potential for oil. The State has not received any bids for leases in this area over the last three lease sales. To the extent the more generous tax benefits there encourage lease bidding, drilling, and seismic work in the Alaska Peninsula, the State might eventually receive more revenue from bonus bids and royalties from that area.

The frontier area denoted by (p)(2), or the Fairbanks area, includes the Nenana basin, where Doyon currently has an exploration license with the State. To the extent the more generous tax benefits there encourage drilling and seismic work in the Nenana basin, the State may eventually receive more royalty revenue as the exploration licenses there are converted to leases.

Some of the frontier areas contain land whose mineral rights are owned by private landowners or the federal government. The prospective acreage in the Yukon Flats basin contained in the Fairbanks frontier area is on land owned by Native corporations. Similarly, while the State has a mineral interest in offshore lands up to the three mile limit for frontier areas denoted by (p)(1), Kotzebue, and (p)(3), Emmonak, the State lacks a substantial mineral interest on-shore in these frontier areas.

The Copper River basin is also identified and although there is a significant state land base, the area is mostly federal US Park Service lands. There are no state exploration licenses in the area; however, approximately ten to twelve exploration wells have been drilled in the area.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB276(FIN)

Analysis Continued

Section 5 of the bill provides for some administrative responsibilities for DNR. A person wanting to receive a credit must obtain the approval of DNR for undertaking the seismic or drilling program, and DNR has 60 days or as soon as practical to evaluate the proposed expenditure. DNR's written evaluation must take into account a number of factors concerning the operator and proposed exploration. DNR must also find that the proposed work is located in a specified frontier basin. DNR must also ensure that data is collected on the exploration work, and, if applicable, obtain the agreement of a private landowner for public release of the data under AS 43.55.025(i).

DNR must make a best interests finding regarding the proposed work program after examining a variety of factors. DNR must also find that the proposed work is located in a specified frontier basin. The division is requesting two new NRS III positions (range 18, step C) to address the anticipated increase in well drilling and seismic activities in frontier areas and a potential influx in processing of exploration licenses. Other budgeted items include mandatory position costs, office equipment, and office space expenses.

Resource evaluation work such as serving as contacts for several stages of necessary correspondence between the operator, Division of Oil and Gas, and Department of Revenue; inventorying and checking completeness of data submitted; assisting in loading and conducting quality control on seismic and well data; monitoring release schedule; and helping coordinate the transfer of DNR data to Alaska Oil and Gas Conservation Commission for public distribution would also be required. Assuming this program is not amended or extended, the staffing increases could be reduced in FY17 and 18.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CS HB 276 (FIN)
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB276CS(FIN)-DOR-TAX-03-28-12 Dept. Affected _____ Revenue _____
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Taxation and Treasury
 Allocation Tax
 Sponsor Representatives Thompson, Dick, Millett, Tuck, Miller
 Requester H FIN OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

	FY13	FY14	FY15	FY16	FY17	FY18
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Prgm (DGF)						
1037 GF/MH (UGF)						
1178 temp code (UGF)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS

	FY13	FY14	FY15	FY16	FY17	FY18
Full-time						
Part-time						
Temporary						

CHANGE IN REVENUES

	FY13	FY14	FY15	FY16	FY17	FY18
	***		***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Updated for version U

Prepared by Lennie Dees / Audit Master
 Division Tax
 Approved by Alicia Egan, Legislative Liaison
Department of Revenue

Phone 907-269-1019
 Date/Time 3/28/12 4:50 p.m.
 Date 3/28/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CS HB 276 (FIN)

Analysis

The revenue impact of this bill is indeterminate.

This bill adds new subsections (a)(6), (a)(7), (n), (o), and (p) to AS 43.55.025. Subsections (n) and (o) authorize production tax credits for drilling 4 exploration wells and conducting 4 seismic exploration projects in the 6 areas, or basins, identified in new subsection (p) of the bill. The new credit amounts are defined in subsections (a)(6) and (a)(7). Subsection (a)(6) authorizes a credit which is the lesser of \$22.5 million or 80% of the exploration drilling expenditures for each well described in subsection (n) that qualify under subsections (b), (c) and (p) of AS 43.55.025. Subsection (a)(7) authorizes a credit which is the lesser of \$7.5 million or 75% of each seismic exploration project described in (o) that qualify under subsections (b) and (p) of AS 43.55.025. Only expenditures occurring after June 1, 2012 and before July 1, 2016 qualify under the bill.

The bill also adds a new subsection (p) to AS 43.55.011. This new subsection states that, for a period of seven years following the commencement of commercial production from a lease or property or unit south of 68 degrees North latitude (but not including Cook Inlet) that did not have oil or gas production prior to January 1, 2013, the tax rate for any new production in these areas would be taxed as other oil and gas under AS 43.55.011(e), but the tax may not exceed 4% of the gross value at the point of production (so it is placing a tax ceiling on any new production from these areas for a period of seven years).

The fiscal impact of this bill is indeterminate. If four qualifying wells are drilled for the maximum allowed credit for each well of \$22.5 million, the immediate revenue impact to the state would be \$90 million. If four qualifying seismic exploration projects are conducted at the maximum allowed credit of \$7.5 million, the financial impact to the state would be \$30 million for a total impact of \$120 million if all credits proposed in the bill are earned.

The Department of Revenue could administer the provisions of this bill with existing resources.

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sponsor Statement

HB 276 "An Act providing for a credit against the oil and gas production tax for costs incurred for conducting seismic exploration and drilling certain oil or natural gas exploration wells in certain basins."

HB 276 is designed to attract exploration drilling and seismic exploration in certain remote areas of Alaska that show a promise of holding hydrocarbons, but are underexplored yet located in close proximity to communities in need of a local energy source. Due to complications and costs associated with accessing and developing these remote locations, they have remained unexplored or underexplored and provided scant geological information to either the state or possible investors. At a time when economic growth and development in many regions of Alaska are crippled by high energy prices and the lack of reliable energy supplies, this legislation will provide needed encouragement to independent companies and landowners otherwise hesitant to invest in exploration projects near energy challenged communities. For example, the Fairbanks community spends over \$660 million per year on space heating, yet is located just 50 miles away from the Nenana Basin, a geologic basin that has shown strong potential to be a source for oil and gas. All that is needed to develop this potential resource is investors. Like tax credits use in other regions in the state, HB 276 tax credits for frontier basins will attract those needed investors.

HB 276 provides to the first four persons that perform seismic exploration in four different areas identified in the bill a credit in the amount of \$7,500,000 or 75% of the total seismic exploration expenditures, whichever is less. The first four exploration well drillers to drill within the areas described in the bill will receive \$22,500,000 or 80% of the total exploration drilling expenses, whichever is less. No more than two wells in a single designated area may qualify for the credit. In exchange for the tax credit, explorers must agree to meet certain criteria before commencing exploration that will assure the state that the project is sound, and they must agree to provide to the state specific data acquired through the project.

By providing meaningful tax credits to the first four exploration drillers to drill in these remote areas, and the first four seismic projects to be completed, HB 276 will create a stampede of exploration in specific remote basins that the Department of Natural Resources has identified may hold oil and gas reserves. The exploration incentives in HB 276 will benefit the Interior and other regions of the state faced with crippling high-energy costs by spurring explorations projects near these regions and benefit the state by providing information needed to better define potential resources and further attract investment and exploration in these remote areas.

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

HB276 Explanation of Changes between Version E and Version G

Section 1. Added conforming amendment to add (p) to into 43.55.011(e).

Section 2. Is a new section to the bill that provides for a 4% production tax for the first 7 years following the commencement of commercialization or production taxes levied under AS 43.55.011(e) whichever is less, for a calendar year before 2022, should there be a commercial find of oil or gas produced south of 68 degrees North latitude, other than the Cook Inlet.

Section 3. Added conforming amendment to add new subsection (p) into AS 43.55.020, which sets forth how taxes are paid.

Section 4. is Section 1 in version E

Section 5 is Section 2 in version E – Adds the new exploration frontier basin drilling credit to qualifications under AS 43.55.025(c)

Section 6 is similar to Section 3 of version E. Sets forth qualifications in the new frontier basin drilling credit. Page 7, line 3 added Federal onshore lands to those that qualify for the credit in this bill (this was at the suggestion of DOR since taxes would still be collected, similarly to private lands and there are often federal lands included in these frontier basins.

Page 7, Line 20 Deleted the word “obtain” and insert “apply for”

Page 7, lines 15-21 - language change re: DNR approval of credit and making a written determination by the commissioner of DNR approving or rejecting an exploration well within 60 days.

Page 8, lines 24-26, language change re: DNR approval of credit.

Section 7. Is a new Section, reorganizing AS 43.55.160 **Determination of Production Tax** into applicable areas by separating them out into subparagraphs in the chapter.

Section 8. Amends the determination of production tax values to include the new tax created in Section 2, AS 43.55.011(p).

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sectional House Bill 276 (version G) 4.5.12

Sec. 1. AS 43.55.011(e) makes a conforming amendment to Section 2.

Sec. 2. AS 43.55.011(p) adds a new oil and gas production tax rate for certain new production. Providing that for seven years commencing commercial production of oil or gas produced from leases or properties that are not located north of 68 degrees North latitude, the tax rate levied under (e) for oil and gas, other than gas subject to (j) of this section or oil subject to (k) of this section, may not exceed four percent of the gross value at the point of production. This tax rate applies only to production that began after December 31, 2012 and before January 1, 2022.

Sec. 3 AS 43.55.020 makes a conforming amendment to include payments of the new AS 43.55.011(p) taxes.

Sec. 4. AS 43.55.025(a) is amended to establish the new frontier basin exploration credits for seismic and drilling work.

Sec. 5. AS 43.55.025(c) makes a conforming amendment to add the new frontier basin drilling credits to eligibility requirements under AS 43.55.025(b) and (c).

Sec. 6. AS 43.55.025 is amended by adding new subsections:

(n) Describes the new frontier basin exploration drilling credits and its requirements.

(o) Describes the new frontier basin exploration seismic credits and its requirements.

(p) Lists the six areas within the State of Alaska that qualify for the new frontier basin credits.

Sec. 7. AS 43.55.160 is amended to reorganize the paragraph and to include reference to gas and oil tax treatment under the new AS 43.55.011(p).

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Sec. 8. AS 43.55.160(e) is amended to add reference to the new subsection AS 43.55.011(p), and the new subsection (F) of the paragraph, which was a subsection added as a conforming change under **Sec. 7.**

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON

DISTRICT 10

Sponsor Statement

HB 276 *“An Act providing for a credit against the oil and gas production tax for costs incurred for conducting seismic exploration and drilling certain oil or natural gas exploration wells in certain basins.”*

HB 276 is designed to attract exploration drilling and seismic exploration in certain remote areas of Alaska that show a promise of holding hydrocarbons, but are underexplored yet located in close proximity to communities in need of a local energy source. Due to complications and costs associated with accessing and developing these remote locations, they have remained unexplored or underexplored and provided scant geological information to either the state or possible investors.

At a time when economic growth and development in many regions of Alaska are crippled by high energy prices and the lack of reliable energy supplies, this legislation will provide needed encouragement to independent companies and landowners otherwise hesitant to invest in exploration projects near energy challenged communities. For example, the Fairbanks community spends over \$660 million per year on space heating, yet is located just 50 miles away from the Nenana Basin, a geologic basin that has shown strong potential to be a source for oil and gas. All that is needed to develop this potential resource is investors. Like tax credits use in other regions in the state, HB 276 tax credits for frontier basins will attract those needed investors.

HB 276 provides to the first four persons that perform seismic exploration in four different areas identified in the bill a credit in the amount of \$7,500,000 or 75% of the total seismic exploration expenditures, whichever is less. The first four exploration well drillers to drill within the areas described in the bill will receive \$22,500,000 or 80% of the total exploration drilling expenses, whichever is less. No more than two wells in a single designated area may qualify for the credit. In exchange for the tax credit, explorers must agree to meet certain criteria before commencing exploration that will assure the state that the project is sound, and they must agree to provide to the state specific data acquired through the project.

Additionally, should gas or oil be discovered south of 68 degrees North latitude, and outside of Cook Inlet with commercial production beginning after December 31, 2012 and before January 1, 2022, the production tax rate levied under .011(e), may not exceed four percent of the gross value at the point of production.

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By providing meaningful tax credits and a clear, understandable production tax rate, HB 276 may create a stampede of exploration in specific remote basins in “middle earth”. The exploration incentives in HB 276 will benefit the Interior and other regions of the state faced with crippling high-energy costs by spurring explorations projects near these regions and benefit the state by providing information needed to better define potential resources and further attract investment and exploration in these remote areas.

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sectional House Bill 276 (version U)

Sec. 1. AS 43.55.011(e) Conforming amendment to Section 2

Sec. 2. AS 43.55.011(p) A new subsection is added to establish a special production tax rate of 4% for 7 years or taxes under AS 43.55.011(e), whichever is less, for oil and gas discovered south of 68 degrees North latitude and outside of the Cook Inlet.

Sec. 3. AS 43.55.025(a) is amended to establish the new frontier basin credits for seismic and drilling exploration.

Sec. 4. AS 43.55.025(c) Conforming amendment to add the new frontier basin credits to eligibility requirements under AS 43.55.025(b) and (c).

Sec. 5. AS 43.55.025 is amended by adding new subsections:

- (n) Describes the frontier basin drilling credits and its requirements.
- (o) Describes the frontier basin seismic credits and its requirements.
- (p) Lists the six areas within the State of Alaska that qualify for the frontier basin credits.

ALASKA STATE LEGISLATURE

Session:

State Capitol Building
Room 428
Juneau, Alaska 99801-2186
Phone (907) 465-3004
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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

HB276 Explanation of Changes between Version M and Version U

Section 2, Page 2. Is a new section to the bill that provides for a 4% production tax for the first 7 years following the commencement of commercialization or production taxes levied under AS 43.55.011(e) whichever is less, for a calendar year before 2022, should there be a commercial find of oil or gas produced south of 68 degrees North latitude, other than the Cook Inlet.

Page 4, Line 14 – Added Federal on-shore lands to those that qualify for the credit in this bill.

Page 4, Line 20 Deleted the word “obtain” and insert “apply for”

Page 4, Lines 23-24 deleted repetitive language.

Page 4, lines 30 – 31, Page 5, lines 1-2 - language change re: DNR approval of credit and making a written determination by the commissioner of DNR approving or rejecting an exploration well within 60 days.

Page 6, lines 3-6, language change re: DNR approval of credit.

Page 6, line 6 Changes language so that the commissioner of DNR shall make a written determination approving or rejecting a seismic credit within 60 days.

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

Sectional House Bill 276 (version E)

Sec. 1. Establishes the new frontier basin credits for seismic and drilling exploration.

Sec. 2. Conforming amendment to add the new frontier basin credits to eligibility requirements under AS 43.55.025(b) and (c).

Sec. 3. AS 43.55.025 is amended by adding new subsections:

(n) Describes the frontier basin drilling credits and their requirements.

(o) Describes the frontier basin seismic credits and their requirements.

(p) Lists the six areas within the State of Alaska that qualify for the frontier basin credits.

(q) Is designed to treat explorers and producers equally in the state contribution rate to a project. Section (q) ensures that the combination of an exploration credit under AS 43.55.025, plus deductibility against production tax cannot exceed 65% state participation except for the credits given for the "stampede" and "frontier" portions of AS 43.55.025 (l)(n) and (o).

E-mail [Representative Steve Thompson@legis.state.ak.us](mailto:Representative_Steve_Thompson@legis.state.ak.us)

Title 43. Revenue and Taxation

Chapter 55. Oil and Gas Production Tax and Oil Surcharge (Refs & Annos)

Article 1. Oil and Gas Production Tax



KeyCite Yellow Flag - Negative Treatment

1. Proposed Legislation

AS § 43.55.025

§ 43.55.025. Alternative tax credit for oil and gas exploration

Currentness

(a) Subject to the terms and conditions of this section, a credit against the production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that qualify under (b) of this section in an amount equal to one of the following:

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

(2) 30 percent of the total exploration expenditures that qualify only under (b) and (d) of this section;

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

(4) 40 percent of the total exploration expenditures that qualify only under (b) and (e) of this section; or

(5) 80, 90, or 100 percent, or a lesser amount described in (f) of this section, of the total exploration expenditures described in (b)(1) and (2) of this section and not excluded by (b)(3) and (4) of this section that qualify only under (f) of this section.

(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed after June 30, 2008, and before July 1, 2016, and

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

(2) if for an exploration well,

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

(B) may be for either a well that encounters an oil or gas deposit or a dry hole;

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

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

(3) may not be for administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or other payments to governments related to the well; costs, including repairs and replacements, arising from or associated with fraud, wilful misconduct, gross negligence, criminal negligence, or violation of law, including a violation of 33 U.S.C. 1319(c)(1) or 1321(b)(3) (Clean Water Act); or other costs that are generally recognized as indirect costs or financing costs; and

(4) may not be incurred for an exploration well or seismic exploration that is included in a plan of exploration or a plan of development for any unit before May 14, 2003.

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

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

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

(A) before the well is spudded,

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

(ii) at the time of the submittal of information under (i) of this subparagraph, the commissioner of natural resources may request from the explorer that specific data sets, ancillary data, and reports including all results, and copies of well data collected and data analyses for the well be provided to the Department of Natural Resources upon completion of the drilling; in this sub-subparagraph, well data include all analyses conducted on physical material, and well

logs collected from the well and sample analyses; testing geophysical and velocity data including vertical seismic profiles and check shot surveys; testing data and analyses; age data; geochemical analyses; and access to tangible material; and

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

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

(C) after completion, suspension, or abandonment under AS 31.05.030 of the exploration well, the commissioner of natural resources must determine that the well was consistent with achieving the explorer's stated geological objective.

(d) To be eligible for the 30 percent production tax credit authorized by (a)(2) of this section or the 40 percent production tax credit authorized by (a)(3) of this section, an exploration expenditure must

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

(2) be for an exploration well that is located not less than 25 miles outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of development, except that for an exploration well for a Cook Inlet prospect to qualify under this paragraph, the exploration well must be located not less than 10 miles outside the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of development.

(e) To be eligible for the 40 percent production tax credit authorized by (a)(4) of this section, the exploration expenditure must

- (1) qualify under (b) of this section;
- (2) be for seismic exploration; and
- (3) have been conducted outside the boundaries of a production unit or an exploration unit; however, the amount of the expenditure that is otherwise eligible under this subsection is reduced proportionately by the portion of the seismic exploration activity that crossed into a production unit or an exploration unit.

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

(1) an explorer shall, in a form prescribed by the department and, except for a credit under (k) of this section, within six months of the completion of the exploration activity, claim the credit and submit information sufficient to demonstrate to the department's satisfaction that the claimed exploration expenditures qualify under this section; in addition, the explorer shall submit information necessary for the commissioner of natural resources to evaluate the validity of the explorer's compliance with the requirements of this section;

(2) an explorer shall agree, in writing,

(A) to notify the Department of Natural Resources, within 30 days after completion of seismic or geophysical data processing, completion of well drilling, or filing of a claim for credit, whichever is the latest, for which exploration costs are claimed, of the date of completion and submit a report to that department describing the processing sequence and providing a list of data sets available;

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

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

(ii) well data include all analyses conducted on physical material, and well logs collected from the well, results, and copies of data collected and data analyses for the well, including well logs; sample analyses;

testing geophysical and velocity data including seismic profiles and check shot surveys; testing data and analyses; age data; geochemical analyses; and tangible material;

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

(i) in the case of well data, until the expiration of the 24-month period of confidentiality described in AS 31.05.035(c), at which time the Department of Natural Resources will release the information after 30 days' public notice unless, in the discretion of the commissioner of natural resources, it is necessary to protect information relating to the valuation of unleased acreage in the same vicinity, or unless the well is on private land and the owner, including the lessor but not the lessee, of the oil and gas resources has not given permission to release the well data;

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

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

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

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

(5) if the department is satisfied that the explorer's claimed expenditures are qualified under this section and that all data required to be submitted under this section have been submitted, the department shall issue to the explorer a production tax credit certificate for the amount of credit to be allowed against production taxes

levied by AS 43.55.011(e); notwithstanding any contrary provision of AS 38, AS 40.25.100, or AS 43.05.230, the following information is not confidential:

- (A) the explorer's name;
- (B) the date of the application;
- (C) the location of the well or seismic exploration;
- (D) the date of the department's issuance of the certificate; and
- (E) the date on which the information required to be submitted under this section will be released.

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

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

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

- (1) a credit may not be applied to reduce a taxpayer's tax liability under AS 43.55.011(e) below zero for a calendar year; and
- (2) an amount of the production tax credit in excess of the amount that may be applied for a calendar year under this subsection may be carried forward and applied against the taxpayer's tax liability under AS 43.55.011(e) in one or more later calendar years.

(j) Notwithstanding any other provision of this title, of AS 31.05, or of AS 40.25.100, the department shall provide to the Department of Natural Resources information submitted with a claim under this section to support the eligibility of an exploration expenditure, including seismic exploration data and well data, and any information described in (f)(2) of this section received by the department.

(k) Subject to the terms and conditions of this section, if a claim is filed under (f)(1) of this section before January 1, 2016, a credit against the production tax levied by AS 43.55.011(e) is allowed in an amount equal to five percent of an eligible expenditure under this subsection incurred for seismic exploration performed before July 1, 2003. To be eligible under this subsection, an expenditure must

(1) have been for seismic exploration that

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

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

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

(l) The first three unaffiliated persons that drill an offshore exploration well for the purpose of discovering oil or gas in Cook Inlet that penetrates and evaluates a prospect in the pre-Tertiary zone using a jack-up rig are eligible for the credit under this subsection. The person that drills the first exploration well is entitled to a credit in the amount of 100 percent of its exploration expenditures or \$25,000,000, whichever is less; the person that drills the second exploration well using the same jack-up rig is entitled to a credit in the amount of 90 percent of its exploration expenditures or \$22,500,000, whichever is less; and the person that drills the third exploration well using the same jack-up rig is entitled to a credit in the amount of 80 percent of its exploration expenditures or \$20,000,000, whichever is less. A person or an affiliate of a person drilling an exploration well is not entitled to a credit for more than one exploration well under this subsection. The department shall make a determination of the order in which the wells are drilled based on the date and time that the drill bit first turns to the right against the seafloor for the purpose of drilling the well. Exploration expenditures eligible for the credit in this subsection may include the necessary and reasonable costs to modify an existing jack-up rig for use in Cook Inlet, may not include the cost to construct or manufacture a jack-up rig, and, notwithstanding (b) of this section, must be incurred for work performed after March 31, 2010. If the exploration well for which a credit is received under this subsection results in sustained production of oil or gas from a reservoir discovered by the exploration well, and notwithstanding that the credit may have been transferred under (g) of this section, 50 percent of the amount of the credit received shall be repaid to the department by the person that received the credit in equal monthly installments over a 10-year period commencing 60 days after the start of sustained

production of oil or gas. Whether the exploration well for which a credit is requested under this subsection penetrated and evaluated a prospect in the pre-Tertiary zone and the exploration well resulted in sustained production of oil or gas from a reservoir discovered by the exploration well shall be determined by the commissioner of natural resources and reported to the commissioner. A taxpayer that obtains a credit under this subsection may not claim a tax credit under AS 43.55.023 or another provision in this section for the same exploration expenditure. In this subsection,

- (1) "jack-up rig" means a mobile drilling platform with extendible legs for support on the ocean floor;
- (2) "reservoir" means an oil and gas accumulation, discovered and evaluated by testing, that is separate from any other accumulation of oil and gas;
- (3) "sustained production" means production of oil or gas from a reservoir into a pipeline or other means of transportation to market, but does not include testing, evaluation, or pilot production.

(m) In this section,

- (1) Repealed by 3rd Sp. Sess. 2006, ch. 2, § 34, eff. August 20, 2006.
- (2) "Cook Inlet prospect" means a location within the Cook Inlet sedimentary basin, as that term is defined by regulation adopted to implement AS 38.05.180(f)(4);
- (3) Repealed by 3rd Sp. Sess. 2006, ch. 2, § 34, eff. August 20, 2006.
- (4) "preexisting well" means a well that was spudded more than 540 days but less than 35 years before the date on which the exploration well to which it is compared is spudded.

Credits

SLA 2003, ch. 59, § 3; SLA 2004, ch. 49, § 49; SLA 2005, ch. 81, §§ 2--8; 3rd Sp. Sess. 2006, ch. 2, §§ 14 to 18, 34, eff. Aug. 20, 2006. Amended by 2nd Sp. Sess. 2007, ch. 1, §§ 36 to 40, 42 to 45, eff. July 1, 2008; 2nd Sp. Sess. 2007, ch. 1, § 41, eff. Dec. 20, 2007; SLA 2010, ch. 15, §§ 9, 10, eff. May 11, 2010.

Editors' Notes

RETROACTIVITY

<Subsection (g), as amended by 2nd Sp. Sess. 2007, Ch. 1, is retroactive to July 1, 2003.>

Current through the 2011 of the First Regular Session and First Special Session of the 27th
Legislature

End of Document

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Nenana and Yukon Flats Basins

Tasmanites
in oil shale

Yukon Flats Basin
7.6 million acres



0 10 20 30 40 50

Miles



Birch Creek Exploration Area:
619,326 acres
FORT YUKON

Stevens Exploration Area:
392,130 acres

Beaver Exploration Area:
471,707 acres

TAPS Pump
Station 6

TAPS Pump
Station 7

Planned
Seismic

Nenana License Area:
482,941 acres

FAIRBANKS

Nenana Basin
800,000 acres

Unocal Nenana #1
(1963)

Muhival #1
(2005)

NENANA

Totek Hills #1
(1984)

Petro-Gen
Refinery
22,000 bpd

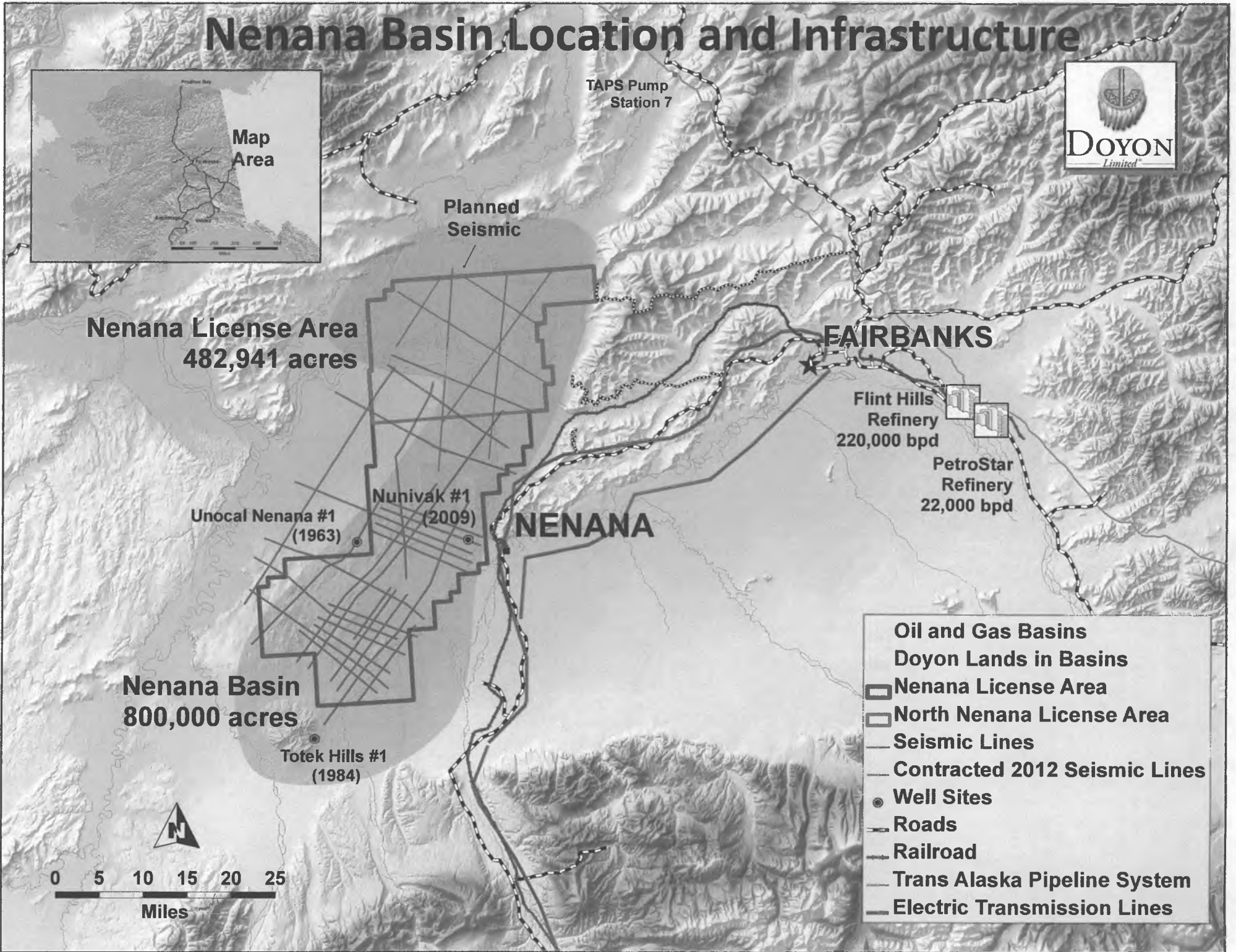
Fluor
Refinery
220,000 bpd

Bitumen
Outcrops

Marine
Glenn Shale
outcrop

- Oil and Gas Basins**
- Doyon Lands in Basins**
- Yukon Flats Exploration Areas
- Nenana License Area
- North Nenana License Area
- Seismic Lines
- Contracted 2012 Seismic Lines
- Fall 2011 Airborne Gravity Survey
- Well Sites
- Roads
- Railroad
- Trans Alaska Pipeline System
- Electric Transmission Lines

Nenana Basin Location and Infrastructure



Nenana License Area
482,941 acres

Nenana Basin
800,000 acres

FAIRBANKS

NENANA

Unocal Nenana #1
(1963)

Nunivak #1
(2009)

Totek Hills #1
(1984)

Flint Hills
Refinery
220,000 bpd

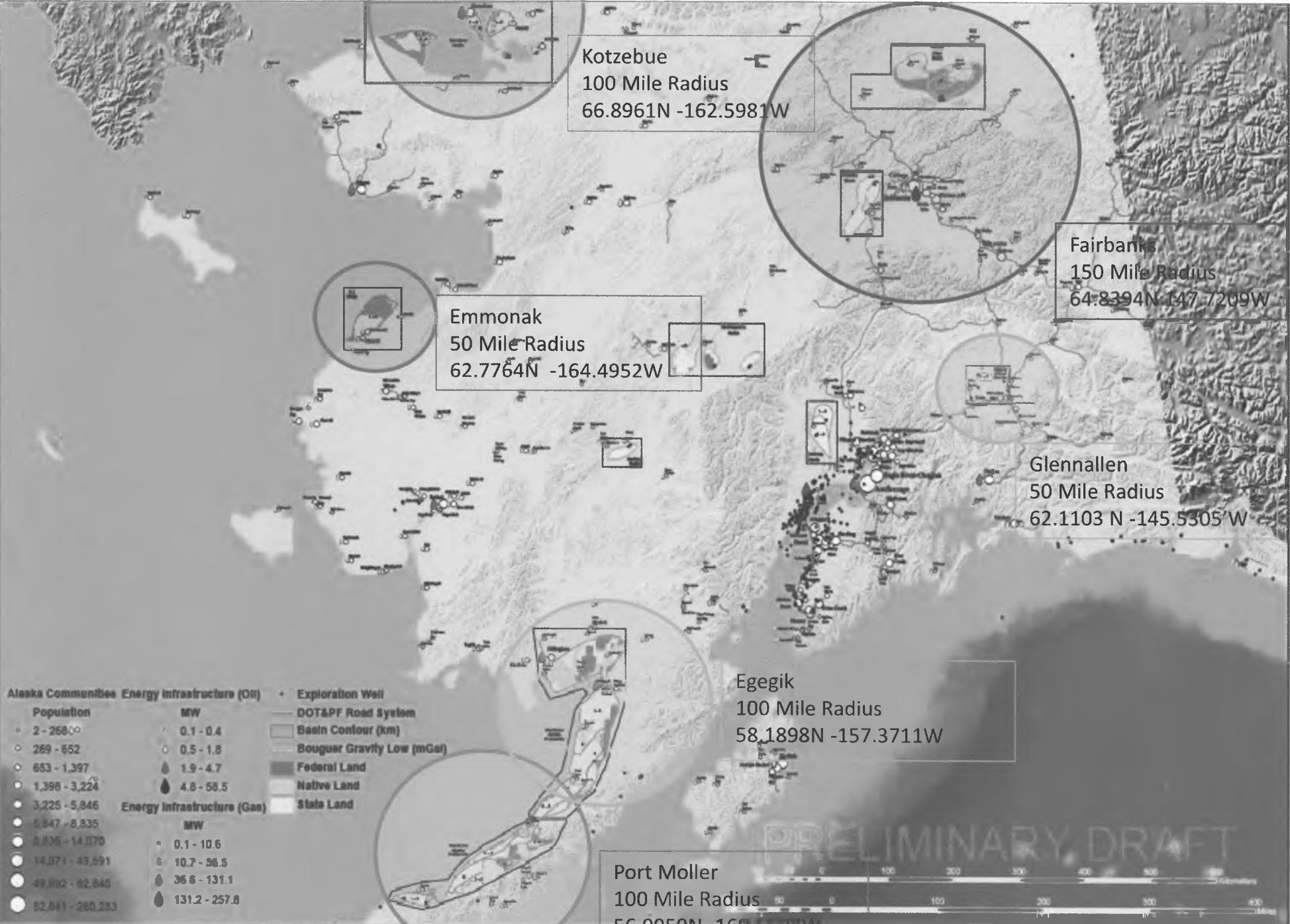
PetroStar
Refinery
22,000 bpd

TAPS Pump
Station 7

Planned
Seismic

- Oil and Gas Basins
- Doyon Lands in Basins
- Nenana License Area
- North Nenana License Area
- Seismic Lines
- Contracted 2012 Seismic Lines
- Well Sites
- Roads
- Railroad
- Trans Alaska Pipeline System
- Electric Transmission Lines





Kotzebue
100 Mile Radius
66.8961N -162.5981W

Fairbanks
150 Mile Radius
64.8394N -147.7209W

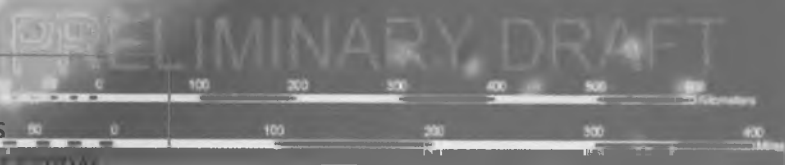
Emmonak
50 Mile Radius
62.7764N -164.4952W

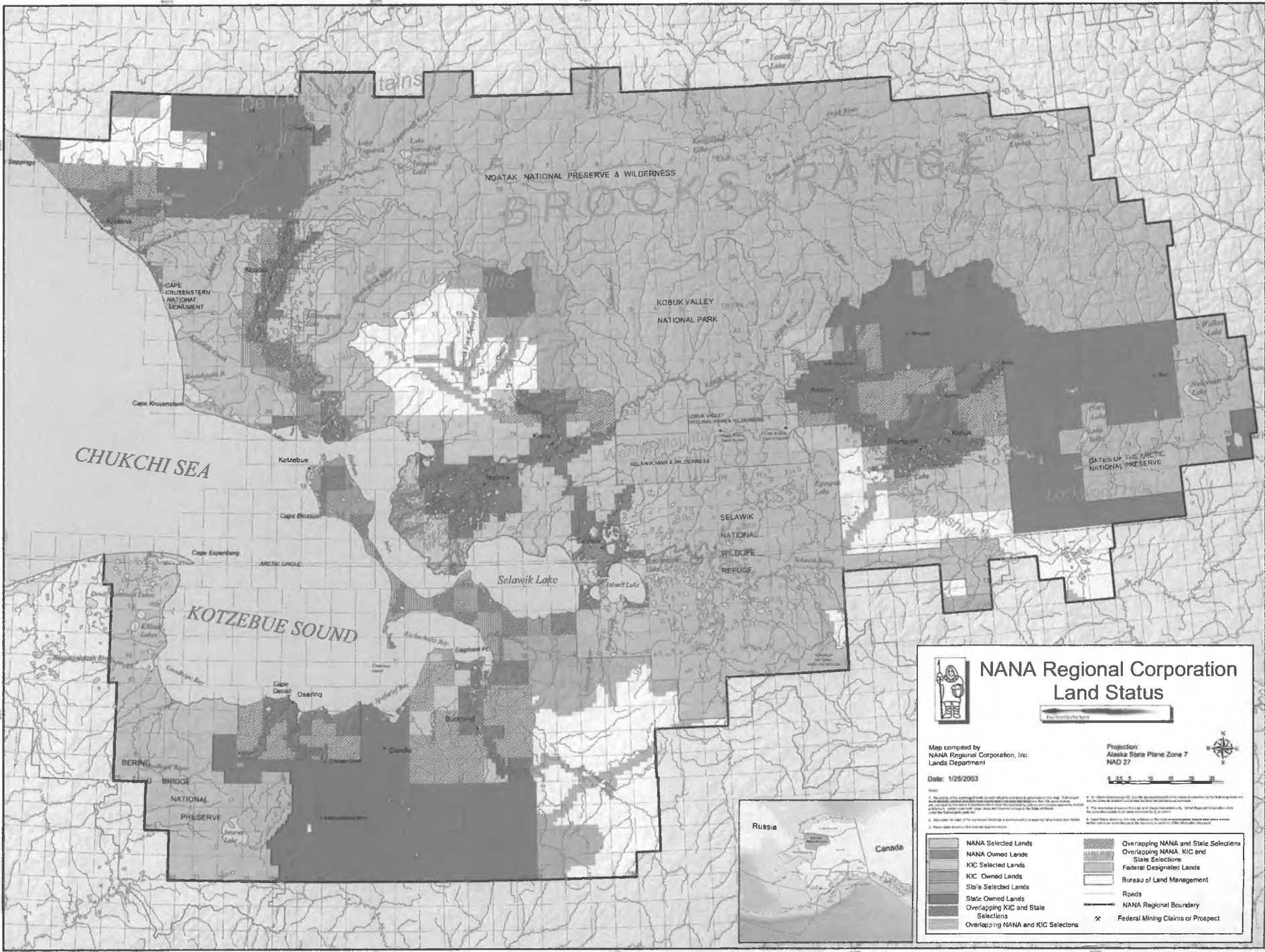
Glennallen
50 Mile Radius
62.1103 N -145.5305 W

Egegik
100 Mile Radius
58.1898N -157.3711W

Port Moller
100 Mile Radius
56.0059N -160.5668W

Alaska Communities		Energy Infrastructure (Oil)		Exploration Well	
Population		MW		DOT&PF Road System	
○ 2 - 268		○ 0.1 - 0.4		— Basin Contour (km)	
○ 269 - 652		○ 0.5 - 1.8		— Bouguer Gravity Low (mGal)	
○ 653 - 1,397		● 1.9 - 4.7		■ Federal Land	
○ 1,398 - 3,224		● 4.8 - 58.5		■ Native Land	
● 3,225 - 5,846				■ State Land	
● 5,847 - 8,835		Energy Infrastructure (Gas)			
● 8,836 - 14,070		MW			
● 14,071 - 43,691		○ 0.1 - 10.6			
● 43,692 - 82,840		○ 10.7 - 36.5			
● 82,841 - 260,233		● 36.6 - 131.1			
		● 131.2 - 257.0			





NANA Regional Corporation Land Status

Projection: Alaska State Plane Zone 7
NAD 27

Map compiled by
NANA Regional Corporation, Inc.
Lands Department
Date: 1/25/2003



Notes:
1. This map shows only those lands selected by NANA Regional Corporation, Inc. for acquisition of title to the land. It does not show other lands owned or controlled by NANA Regional Corporation, Inc. or other entities.
2. The map shows only those lands selected by NANA Regional Corporation, Inc. for acquisition of title to the land. It does not show other lands owned or controlled by NANA Regional Corporation, Inc. or other entities.
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- | | |
|--------------------------------------|--|
| NANA Selected Lands | Overlapping NANA and State Selections |
| NANA Owned Lands | Overlapping NANA, KIC and State Selections |
| KIC Selected Lands | Federal Designated Lands |
| KIC Owned Lands | Bureau of Land Management |
| State Selected Lands | Roads |
| State Owned Lands | NANA Regional Boundary |
| Overlapping KIC and State Selections | Federal Mining Claims or Prospect |
| Overlapping NANA and KIC Selections | |



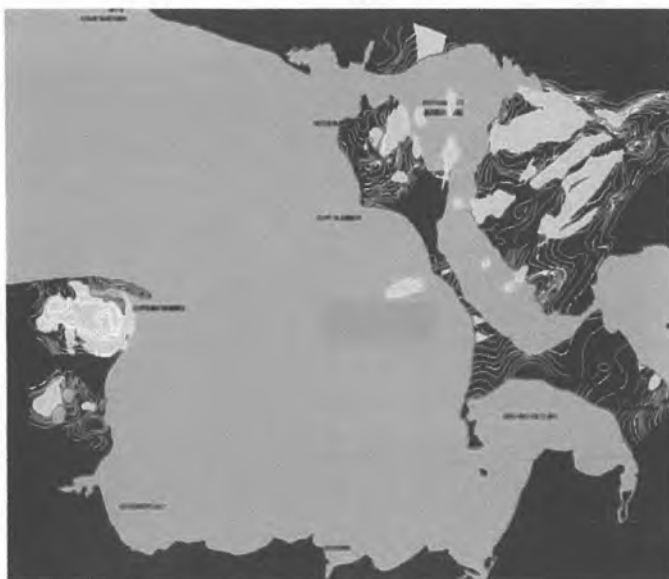
A HUNT FOR GIANT OIL AND GAS RESERVES



Northwest Alaska, LLC & NANA Regional Corp.

NORTHWEST ALASKA OIL AND GAS PLAY

Southern Chukchi Sea – Onshore Kotzebue Basin



~2.2 million mineral acres (NANA fee)

~30 prospects: 3,000-9,000' depth

Most-likely risked reserves of 9 premier prospects:

3.1 billion barrels oil-equivalent

READY TO DRILL 2012

Northwest Alaska, LLC & NANA Regional Corp.



Project Summary

The Kotzebue Basin may contain giant oil and gas reserves. Located offshore under the southern Chukchi Sea and onshore in northwest Alaska, it is one of the major sedimentary basins of North America, with 20,000 feet or more of Tertiary and Cretaceous basin-fill. The basin is about the same size as the prolific Alaska Cooke Inlet Basin (cumulative 10 TCFG) and is interpreted to have a petroleum system similar to that of the Cooke, including:

- a self-sourcing biogenic (microbial) gas system associated with thick Tertiary nonmarine coals and carbonaceous mudstones that are in the present-day biogenic gas window at 0-6,000 feet, and
- a thermogenic oil-gas system in deeper basinal source areas between 6,000-20,000+ feet

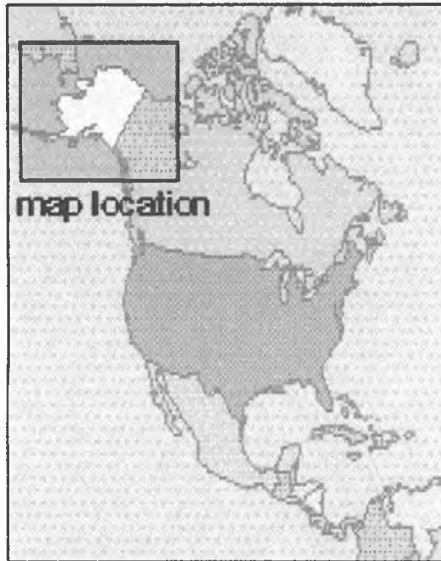
In the 1970s, SOCAL collected a vast amount of data in the area and drilled two stratigraphic test wells that encountered thick, highly-prospective sequences of interbedded sandstone, conglomerate, mudstone and coal, with oil and gas shows. These stratigraphic test wells did not evaluate prospects, but did demonstrate that hydrocarbons are present and that the components critical for major hydrocarbon accumulations are also present – thick and highly porous and permeable reservoirs (sandstone and conglomerate), source (mudstone and coal), seal (mudstone), and large potential traps (structural and stratigraphic). There is also potential in fractured and weathered basement reservoirs, and in shallow traps sealed by permafrost.

Approximately thirty prospects are identified, some of which are immense, potential giants. The Cape Espenberg Prospect, located near the cape, is a shallow anticlinal dome with approximately 70 square miles of structural closure. The Amaouk Creek Prospect, located north of the Kobuk Delta, is an anticline with approximately 30 square miles of structural closure. These two prospects are assigned most-likely risked recoverable reserves of 1.65 billion barrels oil equivalent.

NANA Regional Corporation controls the onshore portion of the basin (mineral interests covering 2.2 million acres) and is working jointly with NW Alaska, LLC to advance the exploration and development project. These companies are seeking one or more additional significant partners to join the project.

Important Notice: The data provided here are believed to be valid, and the interpretations are considered to represent reasonable judgment. However, NW Alaska LLC, NANA Regional Corporation and their associates, advisors and consultants, do not warrant the validity of the data and interpretations and shall not be liable for any losses or damages that stem from their use. Oil and gas exploration projects have intrinsic risks, including but not limited to loss of an entire investment. Actual project results may be substantially different from those postulated here. This oil and gas play is appropriate for sophisticated companies and individuals with significant experience in the petroleum industry, who should conduct their own evaluation of the data and risks. This is a nonexclusive offering, subject to prior sale, and may be withdrawn by the presenting parties at any time.

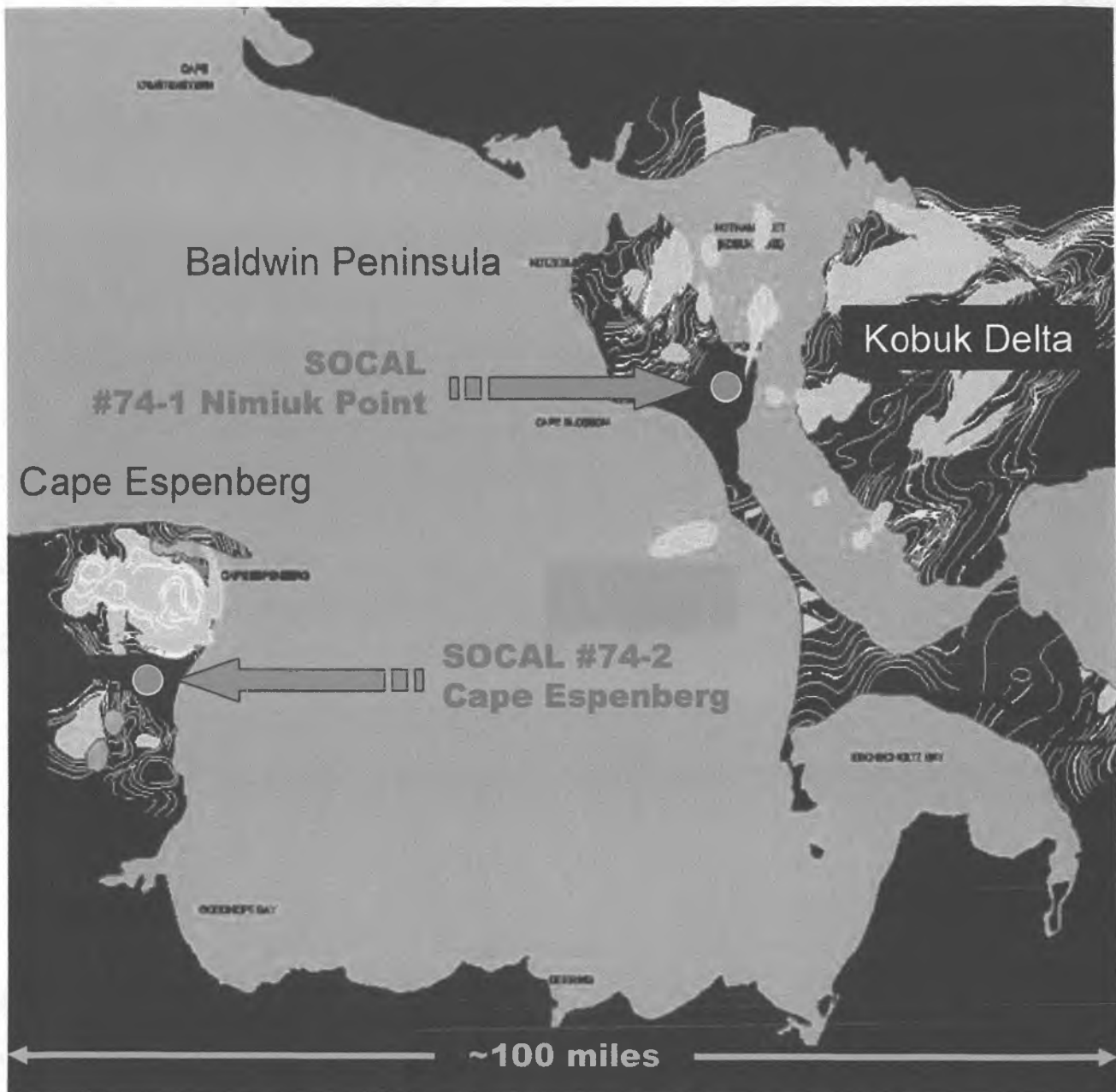
Northwest Alaska, LLC & NANA Regional Corp.



The Kotzebue Basin is located primarily offshore under the southern Chukchi Sea, and also onshore under the lands of the NANA Regional Corporation. The oil and gas play is onshore, under NANA's 2.2 million mineral acres.

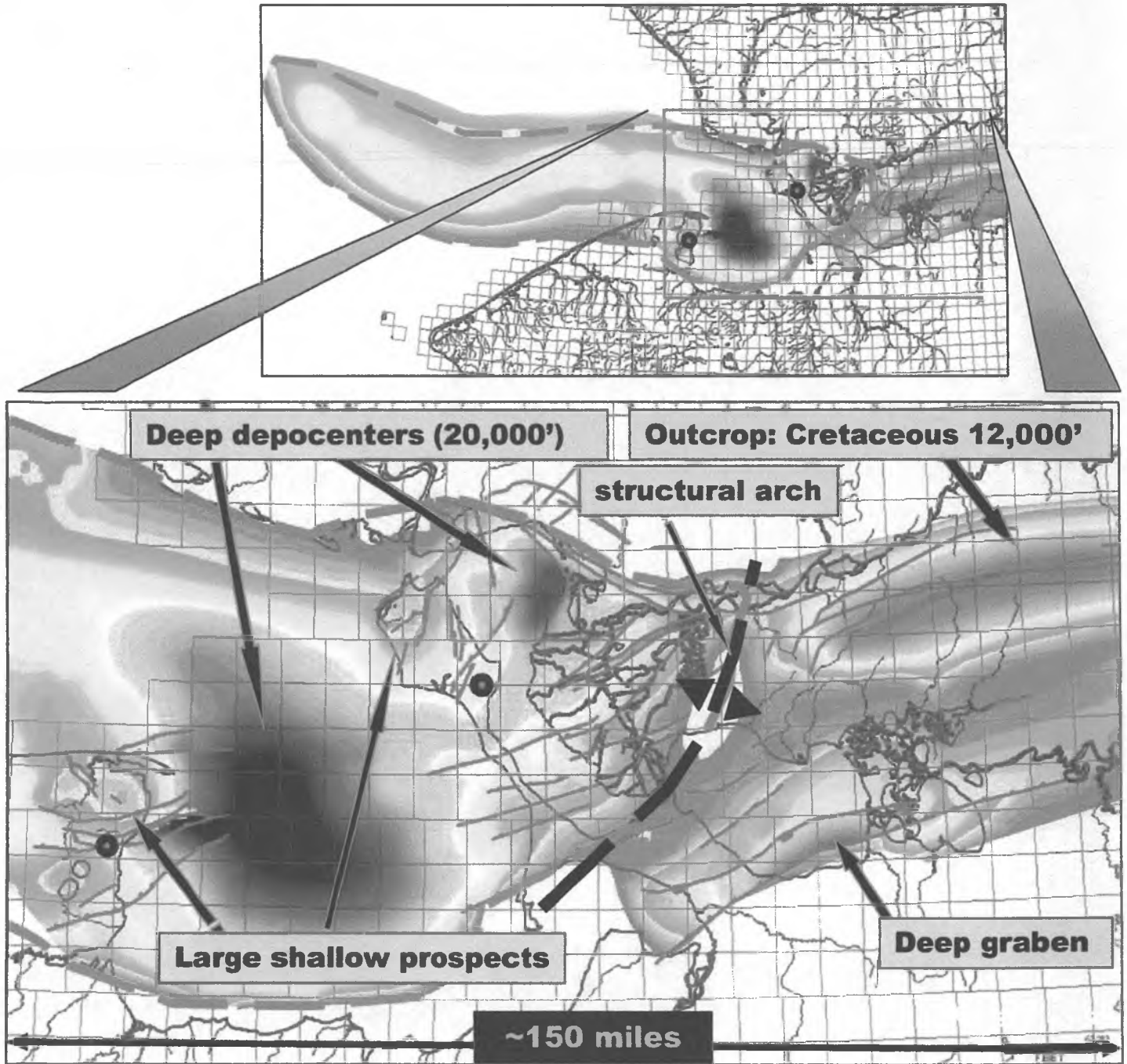
The basin is 350 miles long by 80 miles wide, and it contains 20,000 feet or more of Tertiary and Cretaceous basin-fill. Structural arches and sub-basins separate the Kotzebue Basin from the greater Chukchi Basin to the north, where significant oil-gas reserves have been discovered and billions of dollars spent on federal leases.





Shown here are areas of land (black), water (blue), petroleum prospects (orange) and the locations of the two stratigraphic test wells (red dots). Note that prospects occur primarily in three land areas: Cape Espenberg, the Kobuk Delta and the Baldwin Peninsula.

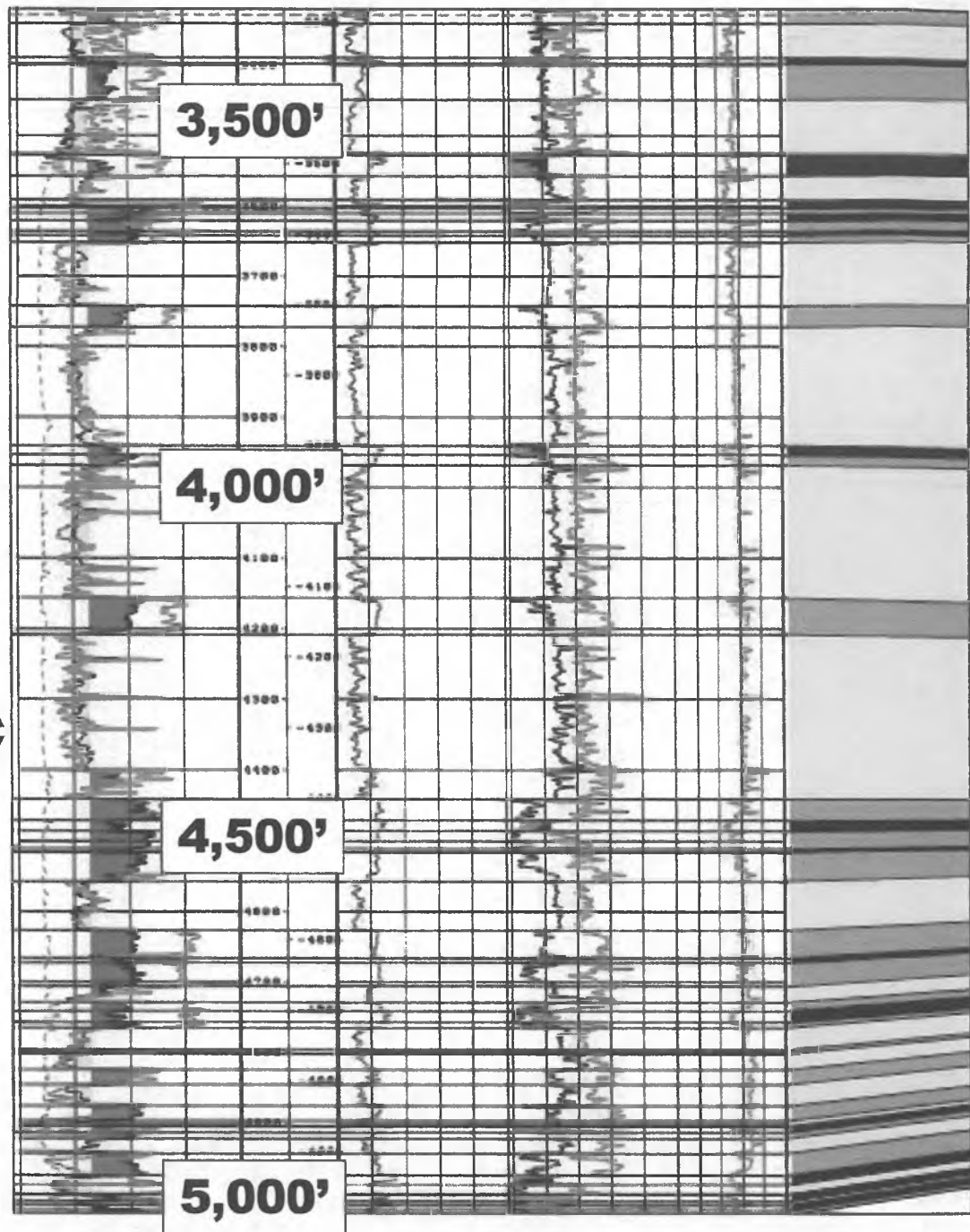
Northwest Alaska, LLC & NANA Regional Corp.



Shown here is a Time Structure Map of Top Acoustic Basement (Paleozoic). Dark blue areas have approximately 20,000 feet of Tertiary and probably Cretaceous basin-fill above basement, grading to shallow areas in dark red. Note locations of large shallow prospects at Cape Espenberg and the Baldwin Peninsula, two major deep depocenters, a shallow structural arch on the east flank of the basin, and location of outcrops of 12,000' of Cretaceous. Locations of the two stratigraphic test wells also shown.



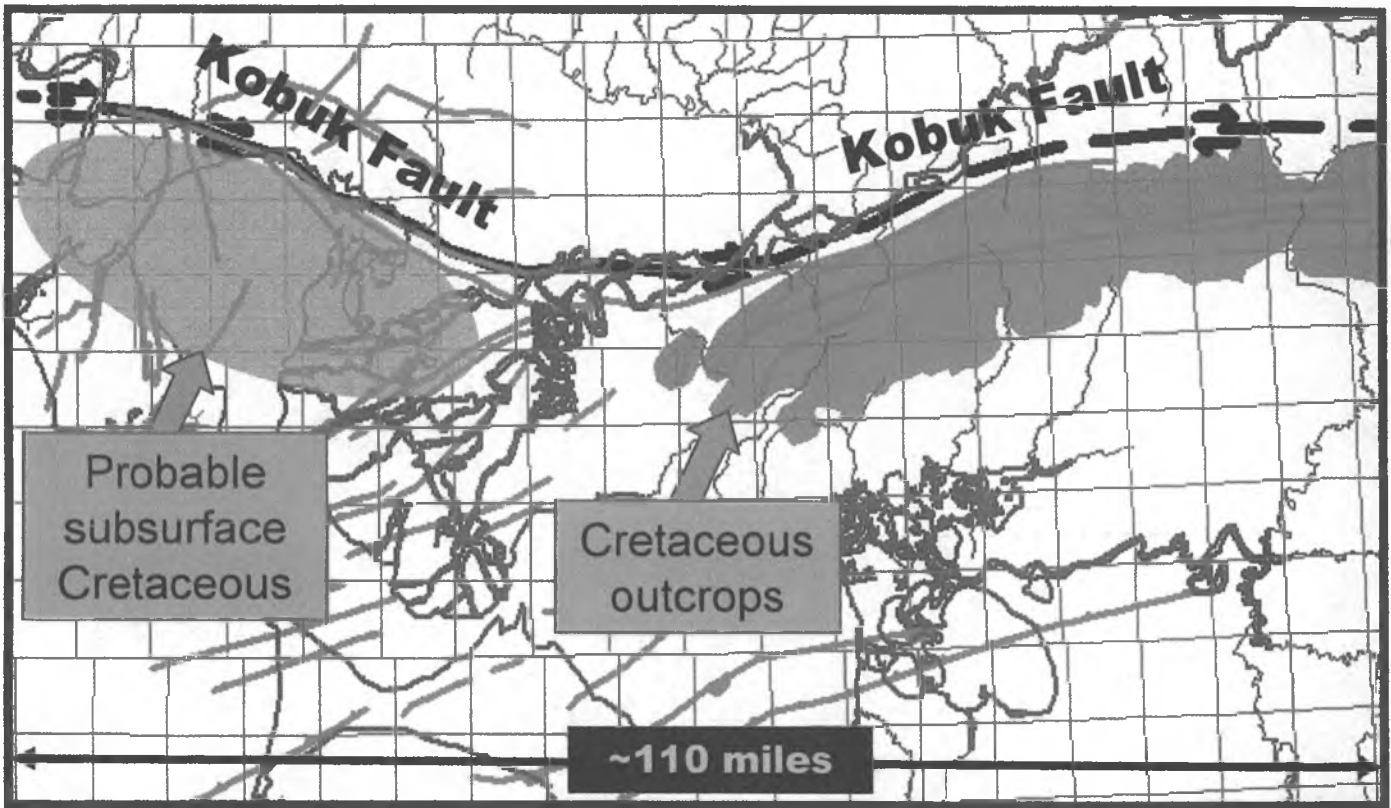
100 ft ⇕



Shown here is an example of a highly-prospective interval that was drilled in one of the stratigraphic test wells. It is a 1,700 foot thick interval of Eocene-Oligocene strata, comprised of thick, stacked sandstone reservoir targets (yellow), stacked layers of mudstone source and seal beds (brown), and layers of coal source rocks (black). There are about 15 distinct sand bodies (reservoir targets), 10-200 feet thick each. This is a primarily nonmarine fluvial sequence, probably a mixture of low sinuosity braided and high sinuosity meandering systems.

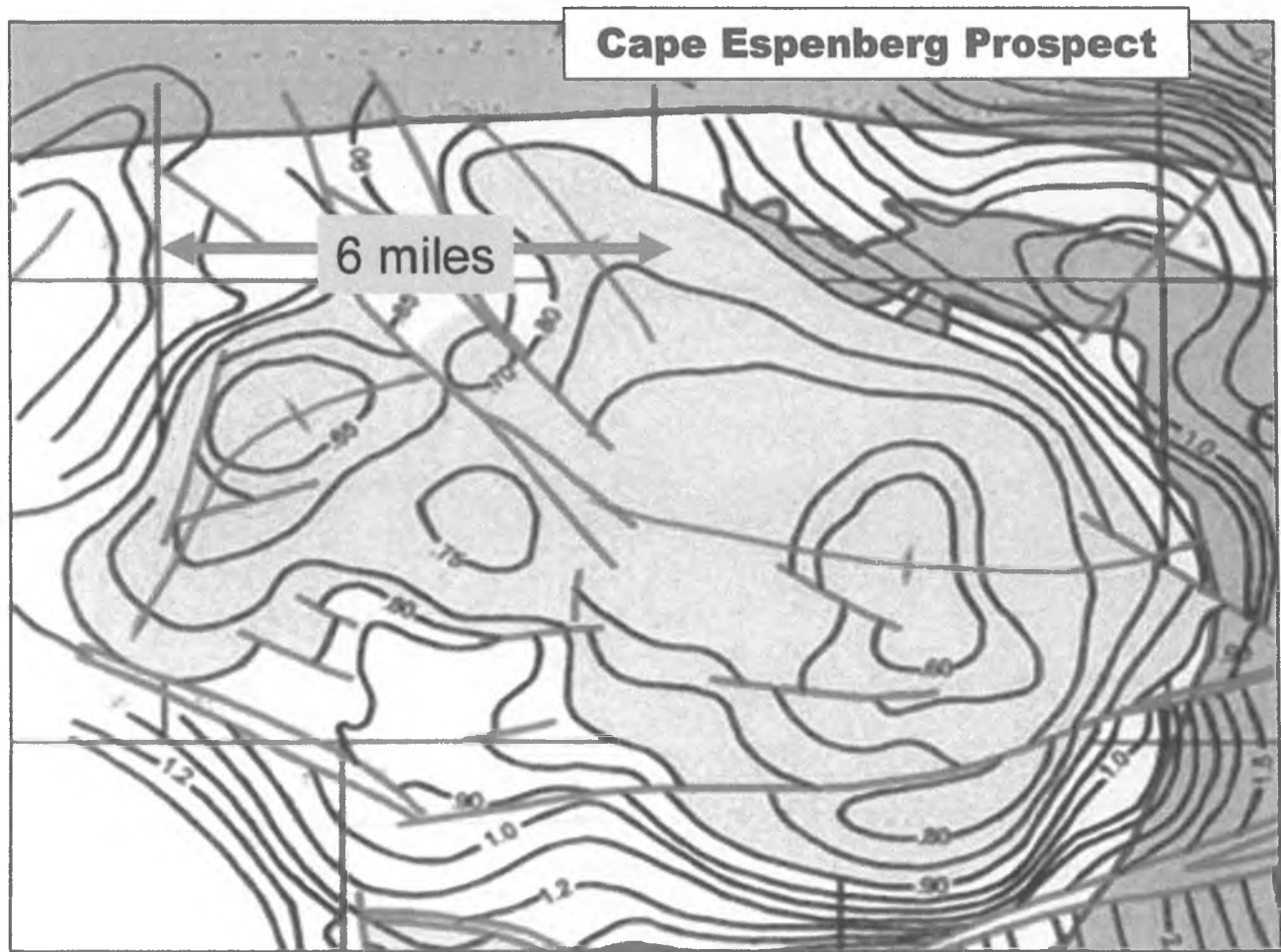
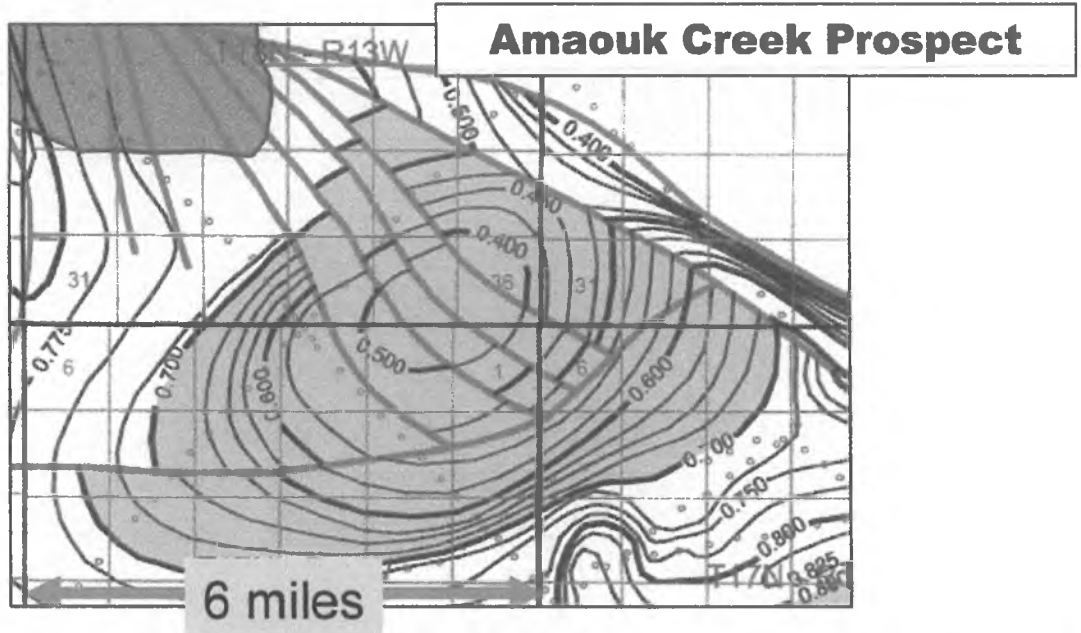
Northwest Alaska, LLC & NANA Regional Corp.

Approximately 12,000 feet of Cretaceous sedimentary rocks are present in outcrops located about 12 miles east of the Kotzebue Basin (e.g., in the Hockley Hill area). The Cretaceous outcrops occur primarily on the down-dropped, southern side of the major right-lateral Kobuk fault and, based on seismic interpretation, also occur in the Kotzebue Basin. Cretaceous strata provide reservoir targets (sandstone and conglomerate), oil and gas source rocks (mudstone, shale, limestone, coal) and seals (shale and mudstone). Photos are of local outcrops of Cretaceous rocks.



A HUNT FOR GIANT OIL AND GAS RESERVES

- Structure maps of two of the premier prospects
- Both maps at same horizontal scale



A HUNT FOR GIANT OIL AND GAS RESERVES

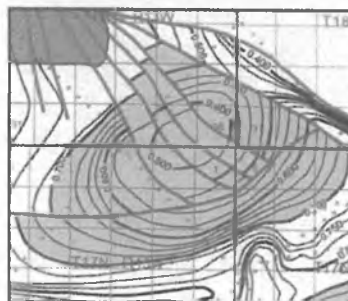


- Comparison of the Cape Espenberg and Amaouk Creek prospects with two partial-analogue giant gas fields – the Kenai and Beluga River gas fields, Cooke Inlet Basin, Alaska
- All maps at same horizontal scale

Cape Espenberg Prospect



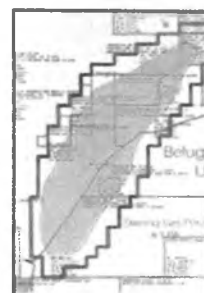
Amaouk Creek Prospect



**Kenai Gas Field
Top Beluga Fm.
Cum.: 2.4 TCF**



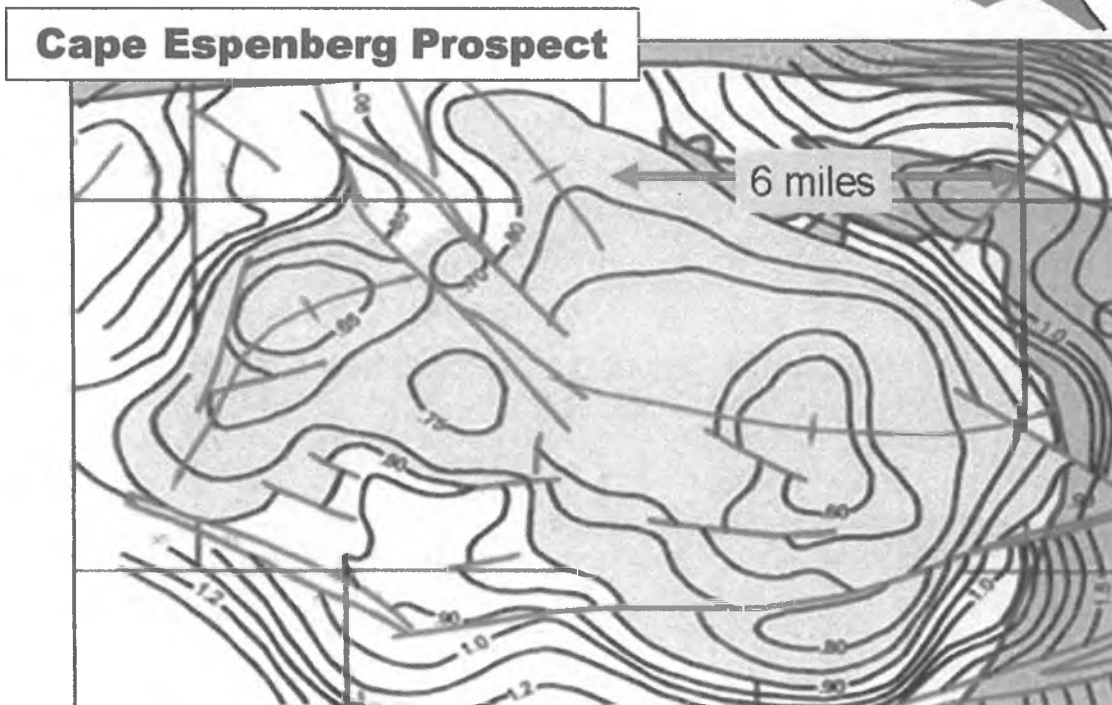
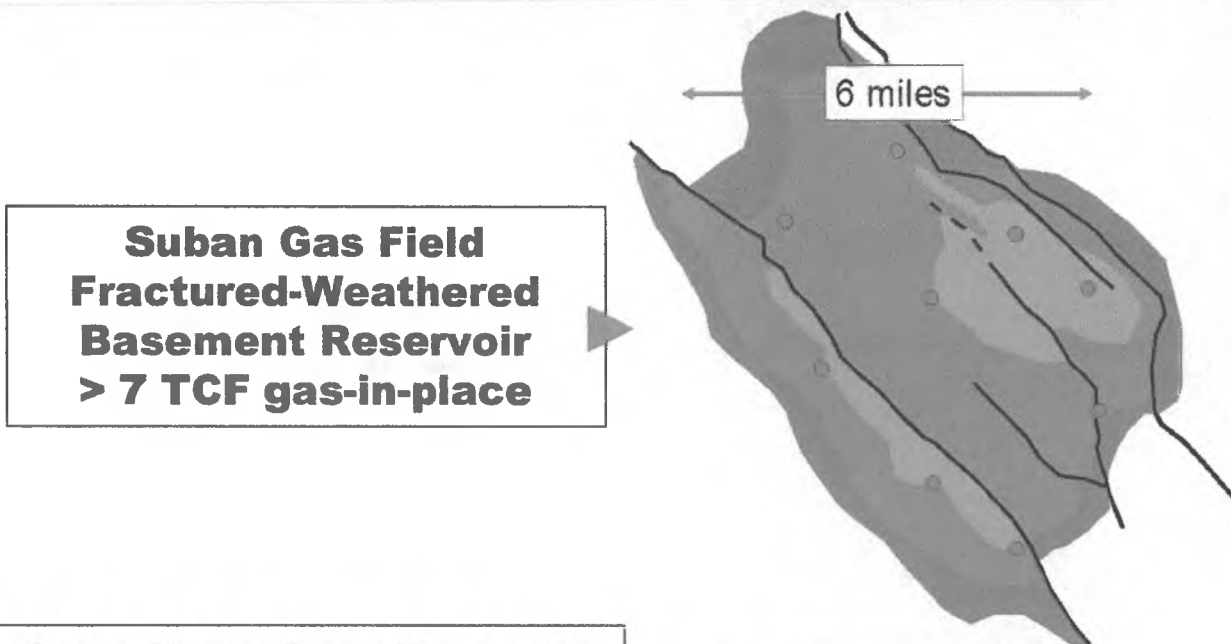
**Beluga River Gas Field
Top Sterling Fm.
Cum.: 1.2 TCF**



A HUNT FOR GIANT OIL AND GAS RESERVES



- **Comparison of the Cape Espenberg Prospect with the partial-analogue giant Suban Gas Field, South Sumatra Basin, Indonesia**
- **Both maps at same horizontal scale**

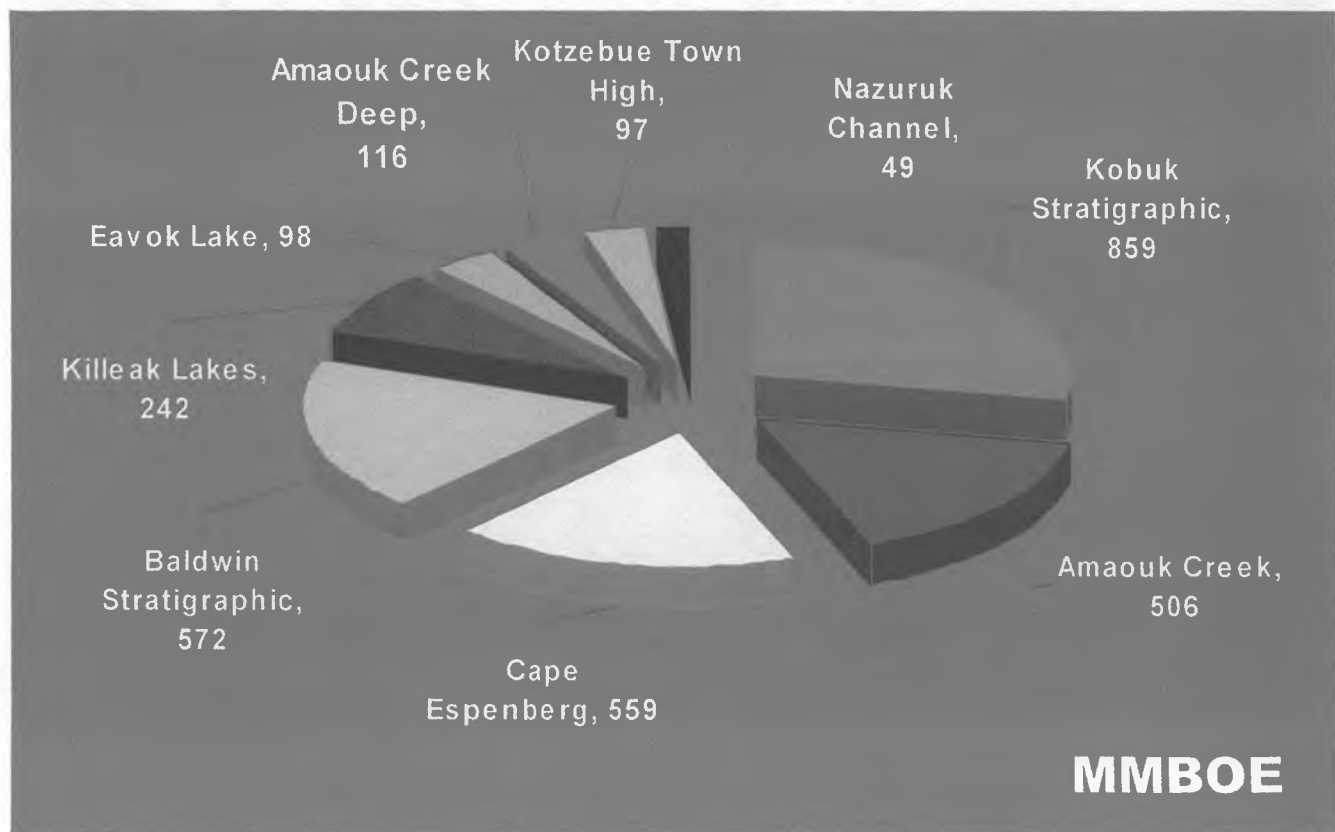


In addition to primary reservoir targets in stacked Tertiary sandstones, this prospect has deeper, secondary reservoir targets in Paleozoic (pre-Late Devonian) rocks, including limestone, dolomite, marble, schist and quartzite, which were subaerially exposed and weathered for millions of years. The Paleozoic has immense potential as weathered and/or fractured reservoir, similar to the that at the partial-analogue giant Suban Field (> 7 TCF original gas-in-place), although the Suban structure appears to be smaller.

A HUNT FOR GIANT OIL AND GAS RESERVES



**For nine premier prospects:
Risky, most-likely, recoverable reserves:
2.8 billion barrels oil + 1.9 trillion cubic feet gas
or
3.1 billion barrels oil-equivalent**



A HUNT FOR GIANT OIL AND GAS RESERVES



Northwest Alaska, LLC & NANA Regional Corp.

NORTHWEST ALASKA OIL AND GAS PLAY

Southern Chukchi Sea – Onshore Kotzebue Basin

Contact Information

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March 19, 2012

Members of the Alaska Interior Delegation
Alaska State Capitol
Juneau, Alaska 99801

RE: High Cost of Energy

Dear Members of the Interior Delegation,

The Board of Directors of the Greater Fairbanks Chamber of Commerce appreciates the work that you are doing to address the high cost of energy in the Interior, the Chamber's number one priority this legislative session. Our bi-weekly teleconferences have ensured that the Chamber is informed and engaged regarding the multiple and occasionally conflicting legislative activities taking place in Juneau that impact our community.

The purpose of this letter is to **emphasize and clarify the collective priorities** of the Chamber in reducing the high cost of energy that is severely impacting our residential and business communities. After thorough review of the bills and appropriations currently being addressed this session, the Chamber provides the following recommendations for your consideration.

For the near term (less than 5 years) gas trucking project(s) from the North Slope and gas storage tax credits are the quickest approaches to bring affordable natural gas to the Interior. Immediate actions for longer term solutions include House Bill 9 and exploration tax credits. The top recommendations are summarized below:

1. Capital funding for liquefaction and vaporization facilities that are necessary to supply natural gas to the Interior of Alaska.
2. Legislation providing gas storage tax credits are critical components of supplying gas to the Interior. This methodology has been used in the South-central region to meet storage needs. The same approach and parity should be used for Interior storage needs.
3. The new version of House Bill 9 aligns with the Chamber's ongoing priority for getting reasonably priced gas to the Interior. We strongly support the work being done on a gas pipeline and will work diligently to ensure the issues, such as fair tariffs, will be addressed without preventing passage of the bill.
4. Legislation that provides tax credits for oil and gas exploration in frontier basins is an important piece of the long term energy picture for the Interior.
5. The expansion of a distribution system, as well as low cost energy conversion loans, will prove to be valuable once movement has occurred addressing the supply of natural gas.

INVESTORS

DIAMOND

BP Exploration
ConocoPhillips
ExxonMobil
Fairbanks Daily News-Miner
Fairbanks Memorial Hospital & Denali Center
Flint Hills Resources Alaska
Mt. McKinley Bank
Santina's Flowers & Gifts

PLATINUM

Alyeska Pipeline Service Co.
Carlson Center
Doyon, Limited
Fred Meyer Stores
Golden Heart Utilities
Wells Fargo Bank Alaska

GOLD

Birchwood Homes
Denali State Bank
Design Alaska
Doyon Utilities LLC
First National Bank Alaska
GCI
Kinross-Fort Knox Mine
Lynden
MAC Federal Credit Union
Northrim Bank
Sumitomo Metal Mining Pogo LLC
Usibelli Coal Mine

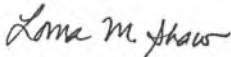
SILVER

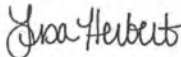
ACS
Alaska Airlines
Alaska Railroad
Alaska USA
AT&T
Dr. Christopher Henry – Henry Orthodontics
Everts Air Cargo, Everts Air AK
Exclusive Paving/Univ. Redi-Mix
Fairbanks Natural Gas
Flowline Alaska
Fountainhead Hotels
General Teamsters Local 959
GVEA
Hale & Associates, Inc.
JL Properties, Inc.
Key Bank
Personnel Plus
Shell Exploration & Production Co.
Spirit of Alaska FCU
Tanana Valley Clinic
TDL Staffing
TOTE
Tower Hill Mines-Livengood Gold Project
WAL-MART Stores, Inc.
Yukon Title Company

In addition to the above recommendations, the Chamber continues to support forward movement on the Susitna/Watana Dam project and the re-start of the Healy Clean Coal Plant (HCCP). Specifically, the hydroelectric energy project is a valuable investment for the state to ensure stable electric rates for the next 100 years. The scope of the project however, should be designed for maximum benefit for the ratepayers of the Interior. Both the Susitna/Watana Dam project and HCCP would provide significant energy relief for the Interior.

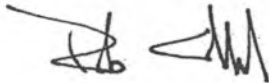
We respectfully urge the Interior Delegation to act collectively in support of our recommendations.

Thank you again for your hard work,


Lorna Shaw
Board of Directors, Chair

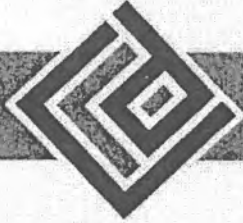

Lisa Herbert
Executive Director


Brian Newton
Government Relations Committee, Chair


Bob Shefchik
Energy Committee, Chair

cc:

The Honorable Governor Parnell
Senator Gary Stevens, Senate President
Senator Kevin Meyer, Majority Leader
Senator Lyman Hoffman, Co-Chair Finance
Senator Bert Stedman, Co-Chair Finance
Representative Mike Chenault, Speaker
Representative Alan Austerman, Majority Leader
Representative Beth Kerttula, Minority Leader
Representative Bill Stoltze, Co-Chair Finance
Representative Bill Thomas, Co-Chair Finance
Fairbanks North Star Borough Assembly
Fairbanks City Council
North Pole City Council
Membership of the Greater Fairbanks Chamber of Commerce
Alaska State Chamber of Commerce
Anchorage Chamber of Commerce
Consumer Energy Alliance – Alaska
Alaska Support Industry Alliance
Alaska Oil & Gas Association



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

March 12, 2012

Co-Chairs Feige and Seaton
House Resources Committee
Alaska State Legislature
State Capitol Building
Juneau, AK 99801

Re: House Resources Hearing on CS HB 276 - Oil and Gas Tax Credits

Dear Co-Chairs Feige and Seaton and Members of House Resources:

The Resource Development Council (RDC) writes to express support for CS HB 276, oil and gas tax credits in areas south of the Brooks Range to outside the Cook Inlet basin, including the Nenana and Selawik basins.

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

RDC supports the much needed development of oil and gas resources in Interior and western Alaska, regions that relies heavily on high priced heating fuel. Much of the area under consideration is near existing infrastructure, and Fairbanks, which could be a practical market for the oil and gas.

Not only is it a top priority for RDC to advocate for tax policy and incentives that enhance the State of Alaska's competitiveness for all industries, but also to support measures to reverse the Alaska oil and gas production decline. This includes legislation that results in new exploration and development.

Additionally, oil and gas exploration and production in Interior and rural Alaska would provide other benefits, such as new, well-paying jobs, and increased tax and royalty income to the state.

Thank you for the opportunity to comment.

Sincerely,

Marleanna Hall
Projects Coordinator
Resource Development Council

Founded 1975
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Rick Rogers
2011-2012 Executive Committee
Tom Maloney, President
Phil Cochrane, Sr. Vice President
L.F. "Len" Horst, Vice President
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