

整理

276

<TARGET><BILL>HB 276</BILL><SUBJECT>HB
276</SUBJECT><COMM>SF IN27</COMM></TARGET>

SENATE FINANCE COMMITTEE REPORT

DATE: 4/11/12

FURTHER:
DATE TURNED
INTO OFFICE: _____

Finance Committee considered CS FOR HOUSE BILL NO. 276(FIN)

HB 276 OIL/GAS PROD. TAX CREDITS/RATES/VALUE

"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; relating to the determination of the production tax value of oil and gas production; and relating to a special tax rate for new oil or gas production south of 68 degrees North latitude."

and recommends:

- be replaced with SCS CS HB 276 (FIN) Same Title Technical Title Change New Title/SCR No. _____
- adopt previous SCS _____ (_____) Same Title Technical Title Change New Title/SCR No. _____
- attached amendment(s) _____ Letter of Intent
- adopt _____ Letter of Intent
- further referral to _____ Committee

Dept Abbr.	
ADM	LEG
CED	LAW
COR	LWF
CRT	MVA
EED	DNR
DEC	DPS
Dfg	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTES(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTES(S)				
Dept.	Fiscal	Indet.	Zero	FN #
REV		X		3
DNR	X			4

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:		PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
		Thomas	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Thomas	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		McQuire	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Beeson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Ellis	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CO-CHAR:		Hoffman	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CO-CHAIR:		Stodman	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SENATE CS FOR CS FOR HOUSE BILL NO. 276(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION
BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

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

SENATORS Thomas, Olson, Coghill, Dyson, Meyer, Menard, Paskvan, McGuire, Wagoner

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to the oil and gas production tax; providing for a reduction in the
2 production tax value in the amount of 30 percent of the gross value at the point of
3 production for oil and gas produced from certain leases or properties north of 68
4 degrees North latitude that were not, as of January 1, 2008, in commercial production or
5 within a unit; providing for a credit against the oil and gas production tax for costs
6 incurred for conducting seismic exploration and drilling certain oil or natural gas
7 exploration wells in certain basins; relating to the determination of the production tax
8 value of oil and gas production; providing that the tax rate for new oil or gas production
9 south of 68 degrees North latitude and outside of the Cook Inlet sedimentary basin may
10 not exceed four percent of the gross value at the point of production; and providing for
11 an effective date."

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

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

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

7 (1) the annual production tax value of the taxable oil and gas as
8 calculated under AS 43.55.160(a)(1), as adjusted by AS 43.55.162, multiplied by 25
9 percent; and

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

12 * Sec. 2. AS 43.55.011(g) is amended to read:

13 (g) For each month of the calendar year for which the producer's average
14 monthly production tax value under AS 43.55.160(a)(2) of a [PER] BTU equivalent
15 barrel of the taxable oil and gas is more than \$30, the amount of tax for purposes of
16 (e)(2) of this section is determined by multiplying the monthly production tax value of
17 the taxable oil and gas produced during the month, as adjusted by AS 43.55.162, by
18 the tax rate calculated as follows:

19 (1) if the producer's average monthly production tax value of a [PER]
20 BTU equivalent barrel of the taxable oil and gas for the month is not more than
21 \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the
22 difference between that average monthly production tax value of a [PER] BTU
23 equivalent barrel and \$30; or

24 (2) if the producer's average monthly production tax value of a [PER]
25 BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50,
26 the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the
27 number that represents the difference between the average monthly production tax
28 value of a [PER] BTU equivalent barrel and \$92.50, except that the sum determined
29 under this paragraph may not exceed 50 percent.

30 * Sec. 3. AS 43.55.011 is amended by adding a new subsection to read:

31 (p) For the seven years immediately following the commencement of

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

7 * Sec. 4. AS 43.55.020(a) is amended to read:

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

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

17 (A) for oil and gas produced from leases or properties in the
18 state outside the Cook Inlet sedimentary basin but not subject to
19 AS 43.55.011(o) or (d), other than leases or properties subject to
20 AS 43.55.011(f), 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 for the leases or properties under AS 43.55.160 and 1/12 of
27 the adjustment to production tax value for the calendar year under
28 AS 43.55.162 from the gross value at the point of production of the oil
29 and gas produced from the leases or properties during the month for
30 which the installment payment is calculated;
- 31 (B) for oil and gas produced from leases or properties subject

1 to AS 43.55.011(f), the greatest of

- 2 (i) zero;
- 3 (ii) zero percent, one percent, two percent, three
- 4 percent, or four percent, as applicable, of the gross value at the point of
- 5 production of the oil and gas produced from all leases or properties
- 6 during the month for which the installment payment is calculated; or
- 7 (iii) the sum of 25 percent and the tax rate calculated for
- 8 the month under AS 43.55.011(g) multiplied by the remainder obtained
- 9 by subtracting 1/12 of the producer's adjusted lease expenditures for the
- 10 calendar year of production under AS 43.55.165 and 43.55.170 that are
- 11 deductible for those leases or properties under AS 43.55.160 and 1/12
- 12 of the adjustment to production tax value for the calendar year
- 13 under AS 43.55.162 from the gross value at the point of production of
- 14 the oil and gas produced from those leases or properties during the
- 15 month for which the installment payment is calculated;

16 (C) for oil and gas produced from each lease or property

17 subject to AS 43.55.011(j), (k), [OR] (o), or (d), the greater of

- 18 (i) zero; or
- 19 (ii) the sum of 25 percent and the tax rate calculated for
- 20 the month under AS 43.55.011(g) multiplied by the remainder obtained
- 21 by subtracting 1/12 of the producer's adjusted lease expenditures for the
- 22 calendar year of production under AS 43.55.165 and 43.55.170 that are
- 23 deductible under AS 43.55.160 and 1/12 of the adjustment to
- 24 production tax value for the calendar year under AS 43.55.162 for
- 25 oil or gas; as applicable [RESPECTIVELY], produced from the lease
- 26 or property from the gross value at the point of production of the oil or
- 27 gas, as applicable [RESPECTIVELY], produced from the lease or
- 28 property during the month for which the installment payment is
- 29 calculated;
- 30 (2) an amount calculated under (1)(C) of this subsection for oil or gas
- 31 produced from a lease or property

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

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

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

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

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

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

28 * Sec. 5. AS 43.55.025(a) is amended to read:

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

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

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

5 (3) 40 percent of the total exploration expenditures that qualify under
6 (b), (c), and (d) of this section;

7 (4) 40 percent of the total exploration expenditures that qualify only
8 under (b) and (e) of this section; [OR]

9 (5) 80, 90, or 100 percent, or a lesser amount described in (1) of this
10 section, of the total exploration expenditures described in (b)(1) and (2) of this section
11 and not excluded by (b)(3) and (4) of this section that qualify only under (1) of this
12 section;

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

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

19 * Sec. 6. AS 43.55.025(c) is amended to read:

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

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

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

26 (A) before the well is spudded,

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

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

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

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

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

31 *Sec. 7. AS 43.55.025 is amended by adding new subsections to read:

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

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

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

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

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

9 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
10 West;

11 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
12 West;

13 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
14 West;

15 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
16 West;

17 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
18 West;

19 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees
20 West.

21 * Sec. 8. AS 43.55.160(a) is amended to read:

22 (a) Except as provided in (b) of this section, and subject to adjustment
23 under AS 43.55.162, 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. 9. 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 (d), 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 (d) 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 (d). 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."

16 * Sec. 10. AS 43.55 is amended by adding a new section to read:

17 **Sec. 43.55.162. Adjustment to production tax value for increasing oil and**
18 **gas production.** The production tax value of oil and gas produced during the first 10
19 consecutive years after the start of sustained production or produced during the first 10
20 consecutive years after the effective date of this bill section, whichever is later, from a
21 lease or property north of 68 degrees North latitude that was not, as of January 1,
22 2008, within a unit or in commercial production, is reduced by, for the calendar year,
23 30 percent of the gross value at the point of production of that oil and gas. The rate of
24 tax under AS 43.55.011(g) shall be determined before the application of the
25 adjustment provided by this section.

26 * Sec. 11. This Act takes effect January 1, 2013.

FISCAL NOTE

**STATE OF ALASKA
2012 LEGISLATIVE SESSION**

Bill Version _____
Fiscal Note Number _____
(H) Publish Date _____

CSHB 276(FIN)
4
4/9/12

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
Oil/Gas Production Tax Credits: Nenana Allocation _____ Oil and Gas
Sponsor _____ Rep. Thompson, Dick, Milliet, Tuck, Miller
Requester _____ (H)FIN _____ OMB Component Number 439

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY13 Appropriation Requested	Included in FY13 Governor's Request	Out-Year Cost Estimates					
			FY14	FY15	FY16	FY17	FY18	
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	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	204.4	102.2	0.0	

POSITIONS	Full-time	Part-time	Temporary
	2		
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 Phone (907) 269-8800
Division Division of Oil and Gas Date/Time 4/6/12 12:00 AM
Approved by Daniel Sullivan, Commissioner Date 4/6/2012
Department of Natural Resources

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.

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 MRS 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 CSHB 276(FIN)
 Fiscal Note Number 3
 (H) Publish Date 4/9/12

Identifier (file name) HB276CS(FIN)-DOR-TAX-04-05-12 Dept. Affected _____ Revenue _____
 Title Oil/Gas Production Tax Credits: Nenana Appropriation Taxation and Treasury
 Sponsor Representatives Thompson, Dick, Millett, Tuck, Miller Allocation Tax
 Requester HF1N OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY13 Appropriation Requested	FY13 Included in Governor's Request	Out-Year Cost Estimates					
			FY14	FY15	FY16	FY17	FY18	
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	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								
CHANGE IN REVENUES	***	0.0	***	***	***	***	***	***

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 Phone 907-269-1019
 Division Tax Date/Time 04/05/12 2:00 p.m.
 Approved by Alicia Egan, Legislative Liaison Date 4/6/2012
Department of Revenue

STATE OF ALASKA
2012 LEGISLATIVE SESSION

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 , 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.

ADOPTED 4/14/12 9:30 am

27-LS1193\W
Nauman
4/13/12

SENATE CS FOR CS FOR HOUSE BILL NO. 276(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

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

SENATORS Thomas, Olson, Coghill, Dyson, Meyer, Menard, Paskvan, McGuire, Wagoner

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the oil and gas production tax; providing for a reduction in the
2 production tax value in the amount of 30 percent of the gross value at the point of
3 production for oil and gas produced from certain leases or properties north of 68
4 degrees North latitude that were not, as of January 1, 2008, in commercial production or
5 within a unit; providing for a credit against the oil and gas production tax for costs
6 incurred for conducting seismic exploration and drilling certain oil or natural gas
7 exploration wells in certain basins; relating to the determination of the production tax
8 value of oil and gas production; providing that the tax rate for new oil or gas production
9 south of 68 degrees North latitude and outside of the Cook Inlet sedimentary basin may
10 not exceed four percent of the gross value at the point of production; and providing for
11 an effective date."

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

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

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

7 (1) the annual production tax value of the taxable oil and gas as
8 calculated under AS 43.55.160(a)(1), as adjusted by AS 43.55.162, multiplied by 25
9 percent; and

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

12 * **Sec. 2.** AS 43.55.011(g) is amended to read:

13 (g) For each month of the calendar year for which the producer's average
14 monthly production tax value under AS 43.55.160(a)(2) of a [PER] BTU equivalent
15 barrel of the taxable oil and gas is more than \$30, the amount of tax for purposes of
16 (e)(2) of this section is determined by multiplying the monthly production tax value of
17 the taxable oil and gas produced during the month, as adjusted by AS 43.55.162, by
18 the tax rate calculated as follows:

19 (1) if the producer's average monthly production tax value of a [PER]
20 BTU equivalent barrel of the taxable oil and gas for the month is not more than
21 \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the
22 difference between that average monthly production tax value of a [PER] BTU
23 equivalent barrel and \$30; or

24 (2) if the producer's average monthly production tax value of a [PER]
25 BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50,
26 the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the
27 number that represents the difference between the average monthly production tax
28 value of a [PER] BTU equivalent barrel and \$92.50, except that the sum determined
29 under this paragraph may not exceed 50 percent.

30 * **Sec. 3.** AS 43.55.011 is amended by adding a new subsection to read:

31 (p) For the seven years immediately following the commencement of

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

7 * Sec. 4. AS 43.55.020(a) is amended to read:

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

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

17 (A) for oil and gas produced from leases or properties in the
18 state outside the Cook Inlet sedimentary basin but not subject to
19 AS 43.55.011(o) or (d), other than leases or properties subject to
20 AS 43.55.011(f), 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 for the leases or properties under AS 43.55.160 and 1/12 of
27 the adjustment to production tax value for the calendar year under
28 AS 43.55.162 from the gross value at the point of production of the oil
29 and gas produced from the leases or properties during the month for
30 which the installment payment is calculated;

31 (B) for oil and gas produced from leases or properties subject

1 to AS 43.55.011(f), the greatest of

- 2 (i) zero;
- 3 (ii) zero percent, one percent, two percent, three
- 4 percent, or four percent, as applicable, of the gross value at the point of
- 5 production of the oil and gas produced from all leases or properties
- 6 during the month for which the installment payment is calculated; or
- 7 (iii) the sum of 25 percent and the tax rate calculated for
- 8 the month under AS 43.55.011(g) multiplied by the remainder obtained
- 9 by subtracting 1/12 of the producer's adjusted lease expenditures for the
- 10 calendar year of production under AS 43.55.165 and 43.55.170 that are
- 11 deductible for those leases or properties under AS 43.55.160 and 1/12
- 12 of the adjustment to production tax value for the calendar year
- 13 under AS 43.55.162 from the gross value at the point of production of
- 14 the oil and gas produced from those leases or properties during the
- 15 month for which the installment payment is calculated;
- 16 (C) for oil and gas produced from each lease or property
- 17 subject to AS 43.55.011(j), (k), [OR] (o), or (p), the greater of
- 18 (i) zero; or
- 19 (ii) the sum of 25 percent and the tax rate calculated for
- 20 the month under AS 43.55.011(g) multiplied by the remainder obtained
- 21 by subtracting 1/12 of the producer's adjusted lease expenditures for the
- 22 calendar year of production under AS 43.55.165 and 43.55.170 that are
- 23 deductible under AS 43.55.160 and 1/12 of the adjustment to
- 24 production tax value for the calendar year under AS 43.55.162 for
- 25 oil or gas, as applicable [RESPECTIVELY], produced from the lease
- 26 or property from the gross value at the point of production of the oil or
- 27 gas, as applicable [RESPECTIVELY], produced from the lease or
- 28 property during the month for which the installment payment is
- 29 calculated;
- 30 (2) an amount calculated under (1)(C) of this subsection for oil or gas
- 31 produced from a lease or property

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

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

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

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

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

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

28 * Sec. 5. AS 43.55.025(a) is amended to read:

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

- 1 (1) 30 percent of the total exploration expenditures that qualify only
2 under (b) and (c) of this section;
3 (2) 30 percent of the total exploration expenditures that qualify only
4 under (b) and (d) of this section;
5 (3) 40 percent of the total exploration expenditures that qualify under
6 (b), (c), and (d) of this section;
7 (4) 40 percent of the total exploration expenditures that qualify only
8 under (b) and (e) of this section; [OR]
9 (5) 80, 90, or 100 percent, or a lesser amount described in (D) of this
10 section, of the total exploration expenditures described in (b)(1) and (2) of this section
11 and not excluded by (b)(3) and (4) of this section that qualify only under (D) of this
12 section;

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

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

19 * Sec. 6. AS 43.55.025(c) is amended to read:

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

- 24 (1) qualify under (b) of this section; and
25 (2) be for an exploration well, subject to the following:

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

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

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

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

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

31 * **Sec. 7.** AS 43.55.025 is amended by adding new subsections to read:

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

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

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

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

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

9 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
10 West;

11 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
12 West;

13 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
14 West;

15 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
16 West;

17 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
18 West;

19 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees
20 West.

21 * **Sec. 8.** AS 43.55.160(a) is amended to read:

22 (a) Except as provided in (b) of this section, **and subject to adjustment**
23 **under AS 43.55.162**, 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. 9.** 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."

16 * **Sec. 10.** AS 43.55 is amended by adding a new section to read:

17 **Sec. 43.55.162. Adjustment to production tax value for increasing oil and**
18 **gas production.** The production tax value of oil and gas produced during the first 10
19 consecutive years after the start of sustained production or produced during the first 10
20 consecutive years after the effective date of this bill section, whichever is later, from a
21 lease or property north of 68 degrees North latitude that was not, as of January 1,
22 2008, within a unit or in commercial production, is reduced by, for the calendar year,
23 30 percent of the gross value at the point of production of that oil and gas. The rate of
24 tax under AS 43.55.011 (g) shall be determined before the application of the
25 adjustment provided by this section.

26 * **Sec. 11.** This Act takes effect January 1, 2013.

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; relating to a special tax rate for new oil or gas production south of 68 degrees North latitude.”*

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 \$25,000,000 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,

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2022, the production tax rate levied under .011(e), may not exceed four percent of the gross value at the point of production.

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 K) 4.9.12

- 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 and not within the Cook Inlet, the tax rate levied under (e) for oil and gas, 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.

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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).

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.

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REPRESENTATIVE STEVE THOMPSON DISTRICT 10

HB276 Explanation of Changes between Version E and Version K

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 in middle earth, 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. Page 5, Line 14 – Exploration drilling credit was raised to 80% or \$25,000,000, whichever is less.

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.

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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.

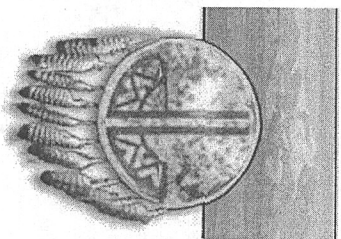
Section 8. Amends the determination of production tax values to include the new tax created in Section 2, AS 43.55.011(p).

North Nenana Well Costs

prepared for

Doyon, Limited

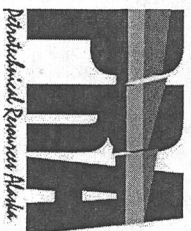
DOYON, LIMITED



January 2012

Peter J. Stokes, PE

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Due to the uncertainties of drilling rig and supplier market and the uncertainties from possible drilling problems, this is a best estimate based of well costs based on current data. As such, Petrotechnical Resources of Alaska can make no warranty as to actual future well drilling costs for the North Nenana wells.

Introduction

This report details cost estimates and timing for wells at Northern Nenana, near the Old Minto town site. Ultimate locations and planned depths will be based on prospects identified from the interpretation of the Doyon 2011-12 Seismic Program, but for a range of costs, an 8,000' MD and a 12,000' MD well were estimated for dry hole costs and completed and tested costs.

Cost Estimate Assumptions

Each well cost assumes a summer barging operation and included in each cost is the barging, mob and de-mob of the rig for a single well.

The rig, equipment and materials will be transported from Nenana on a chartered large barge/tug. This chartered barge will also be under contract during drilling operations and will also be used for de-mob back to Nenana.

The well drilling time estimates were based on drilling rates experienced from the Nunivak #1 well drilled in 2009.

Drilling rig cost estimates were assumed to be \$51,000 per day to reflect the current tight rig market conditions.

Equipment, materials, rentals and other costs were based on actual expenditures for the Nunivak #1 well escalated by 12.5% for inflation and the completion costs estimates from a current Kenai drilling program using a 25% increase in estimate to allow for a remote operation.

There was no contingency added for additional costs due to delays from drilling problems, fire delays or weather conditions.

Summary of Well Cost Estimates

A summary of the operational days and well costs are shown below:

Well	Days	Cost, MM\$
8,000' MD Dry Hole	65	22.8
8,000' MD Completed & Tested	69	25.6
12,000' MD Dry Hole	72	24.4
12,000' MD Completed & Tested	76	27.6

Following is the cost and detail of each well.

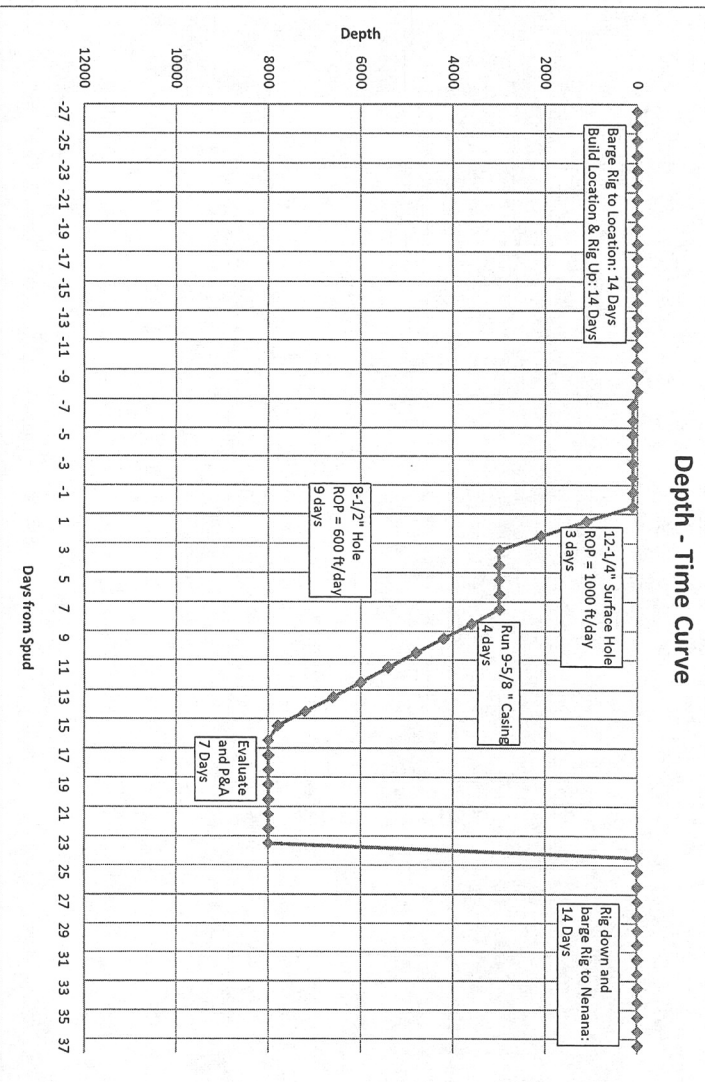
8,000' MD Well – Dry Hole

The single well dry hole cost for an 8,000' well from the Old Minto area is \$22.8 million. This estimated cost is for the well will be drilled to 8,000', logged and abandoned.

Below are the cost breakdown and the drilling time curve:

Well Expenditure Category	MM\$
Permits/Surveys/Insurance/Bonding	0.90
Drilling & Production Tangibles	0.47
Barging and Location Work	7.43
Rig Costs: Mob/Demob & Day Rates	8.93
Drilling Costs: Bits, Muds and Casing Crews	2.35
Cement / Stimulation	0.24
Directional	0.37
Logging	0.72
Specialty Services	0.16
Completion or Abandonment Costs	0.20
Project Management	1.02
Total Well	22.79

No. Nenana Old Minto Area Summer Barge 8,000' MD - Dry Hole



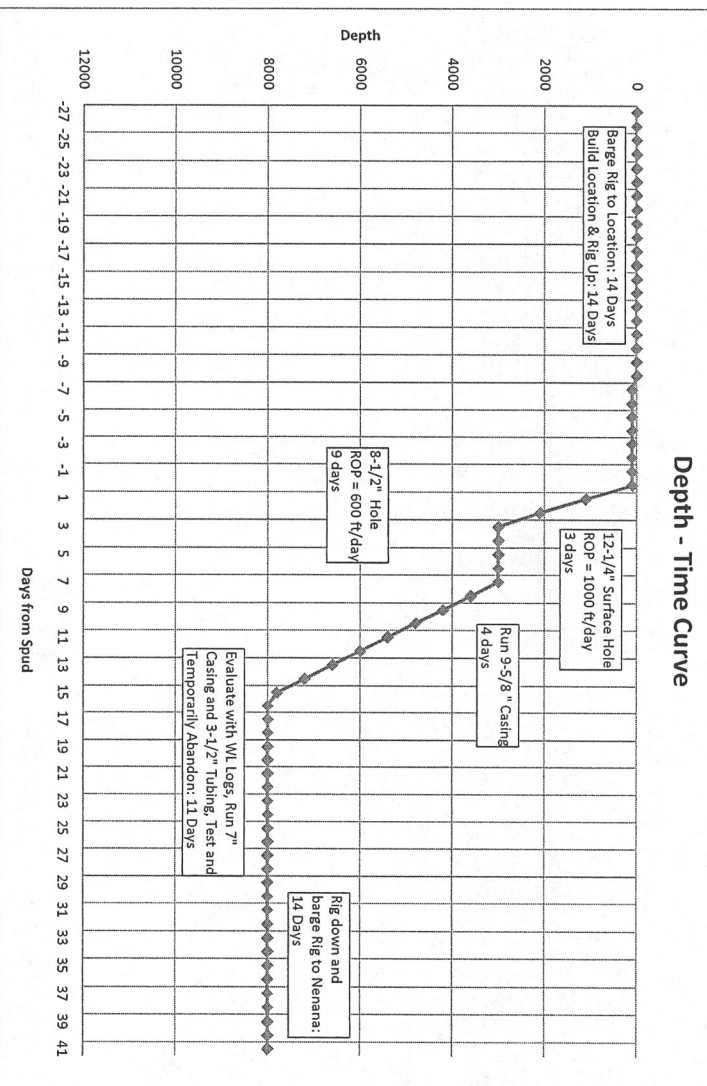
8,000' MD Well – Successful Tested Completion

The single well cost for tested discovery of an 8,000' well from the Old Minto area is \$25.6 million. This well will be drilled to 8,000', logged, 7" casing cemented, tested through 3-1/2" tubing and temporarily abandoned.

Below are the cost breakdown and the drilling time curve:

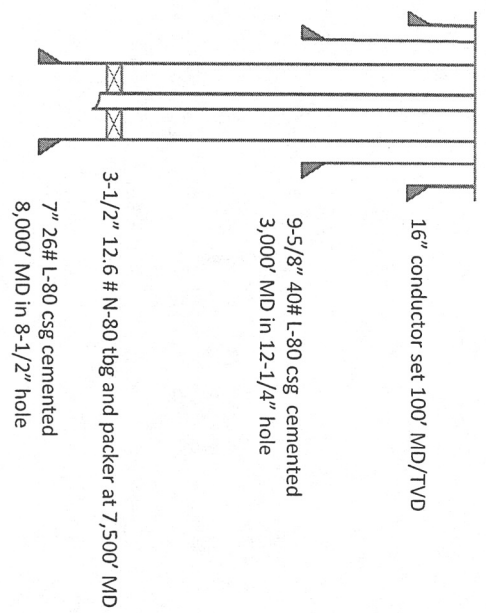
Well Expenditure Category	MM\$
Permits/Surveys/Insurance/Bonding	0.90
Drilling & Production Tangibles	1.28
Barging and Location Work	7.67
Rig Costs: Mob/Demob & Day Rates	9.22
Drilling Costs: Bits, Muds and Casing Crews	2.46
Cement / Stimulation	0.65
Directional	0.38
Logging	1.09
Specialty Services	0.16
Completion or Abandonment Costs	0.73
Project Management	1.02
Total Well	25.57

No. Nenana Old Minto Area Summer Barge 8,000' MD - Completed & Tested



Below is the well schematic of the 8,000' completed well at North Nenana.

Well Schematic No. Nenana 8,000' Completed Well



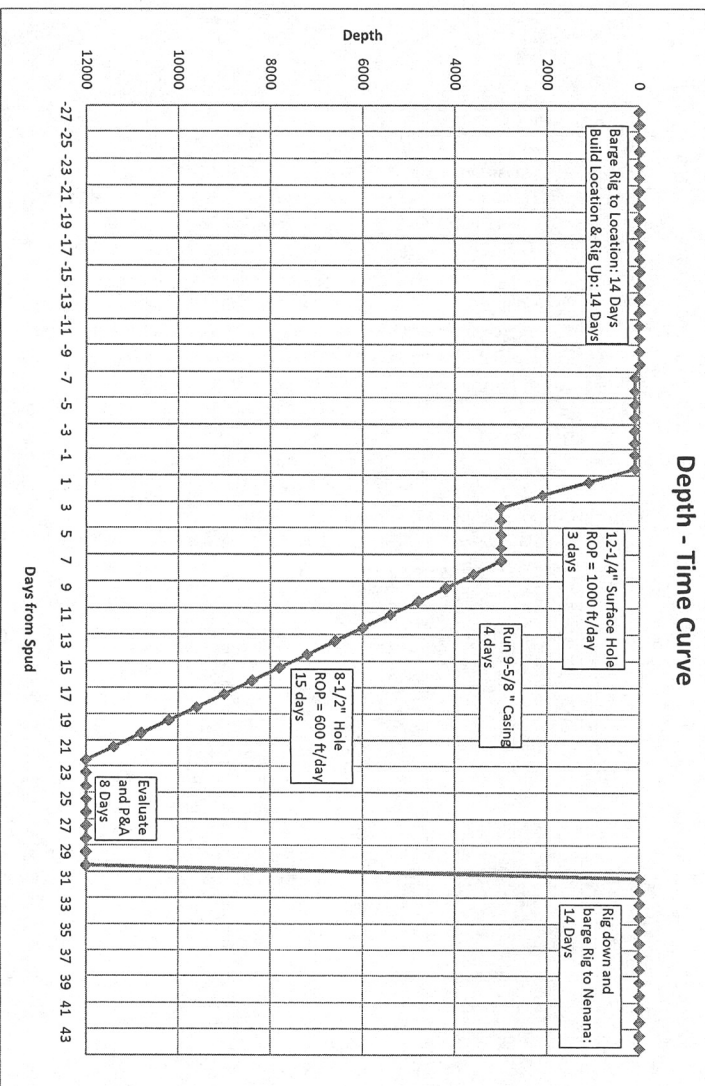
12,000' MD Well – Dry Hole

The single well dry hole cost for a 12,000' well from the Old Minto area is \$24.4 million. This well will be drilled to 12,000', logged and abandoned.

Below are the cost breakdown and the drilling time curve:

Well Expenditure Category	MM\$
Permits/Surveys/Insurance/Bonding	0.90
Drilling & Production Tangibles	0.47
Barging and Location Work	8.03
Rig Costs: Mob/Demob & Day Rates	9.44
Drilling Costs: Bits, Muds and Casing Crews	2.46
Cement / Stimulation	0.24
Directional	0.45
Logging	0.93
Specialty Services	0.18
Completion or Abandonment Costs	0.20
Project Management	1.14
Total Well	24.44

No. Nenana Old Minto Area Summer Barge 12,000' MD - Dry Hole



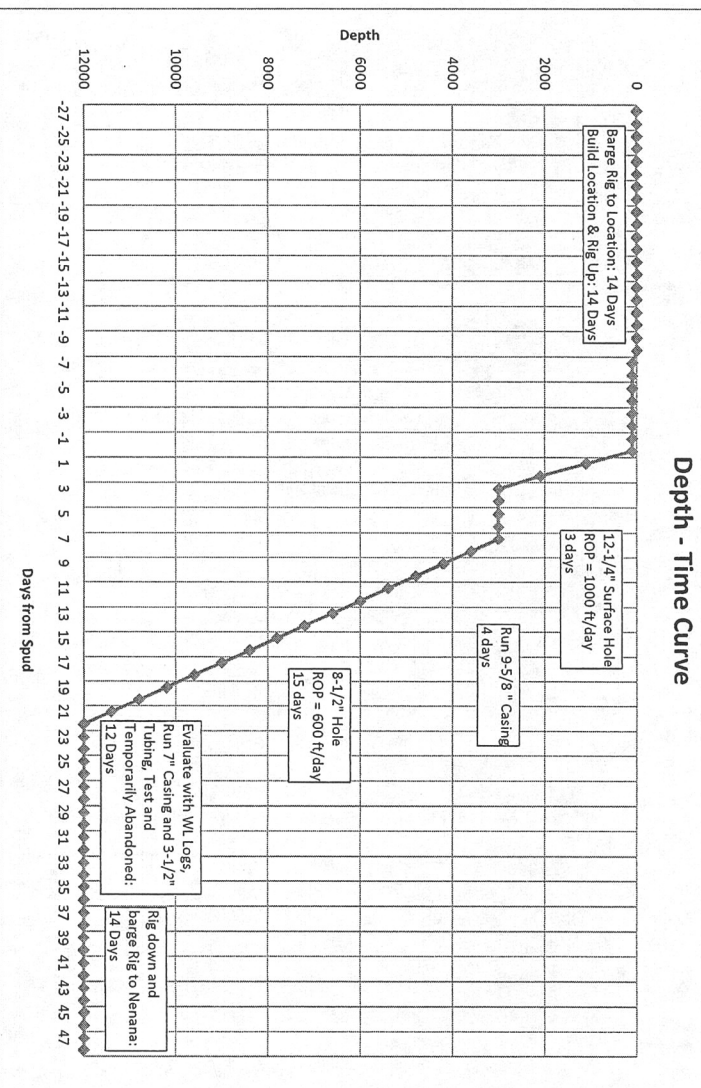
12,000' MD Well – Successful Tested Completion

The single well cost for tested discovery of a 12,000' well from the Old Minto area is \$27.6 million. This well will be drilled to 12,000', logged, 7" casing cemented, tested thorough 3-1/2" tubing and temporarily abandoned.

Below are the cost breakdown and the drilling time curve:

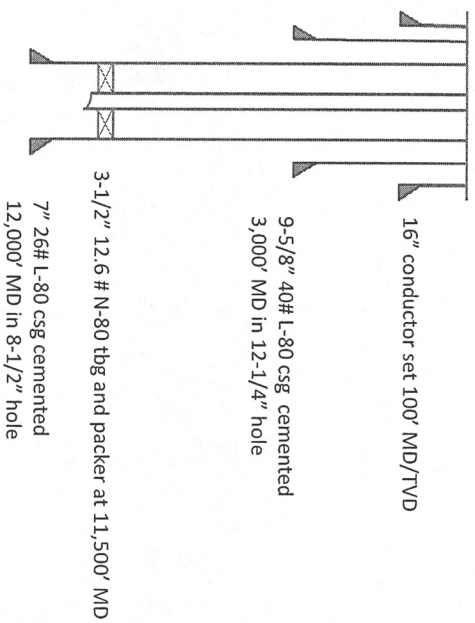
Well Expenditure Category	MM\$
Permits/Surveys/Insurance/Bonding	0.90
Drilling & Production Tangibles	1.60
Barging and Location Work	8.27
Rig Costs: Mob/Demob & Day Rates	9.73
Drilling Costs: Bits, Muds and Casing Crews	2.62
Cement / Stimulation	0.65
Directional	0.46
Logging	1.30
Specialty Services	0.18
Completion or Abandonment Costs	0.73
Project Management	1.14
Total Well	27.58

No. Nenana Old Minto Area Summer Barge 12,000' MD - Completed & Tested



Below is the well schematic of the 12,000' completed well at North Nenana.

Well Schematic No. Nenana 12,000' Completed Well



Map of Northern Nenana Well and Barging Route



	Towns
	Potential Barge Landing Points
	Parks Highway
	Forest Service Roads
	RS2477 Trails
	2009 Forest Fire
	Tanana Valley State Forest

Note: Shot holes will not occur within DOF timber sales.

ADF&G required blasting setbacks to fish-bearing waters will also be followed.

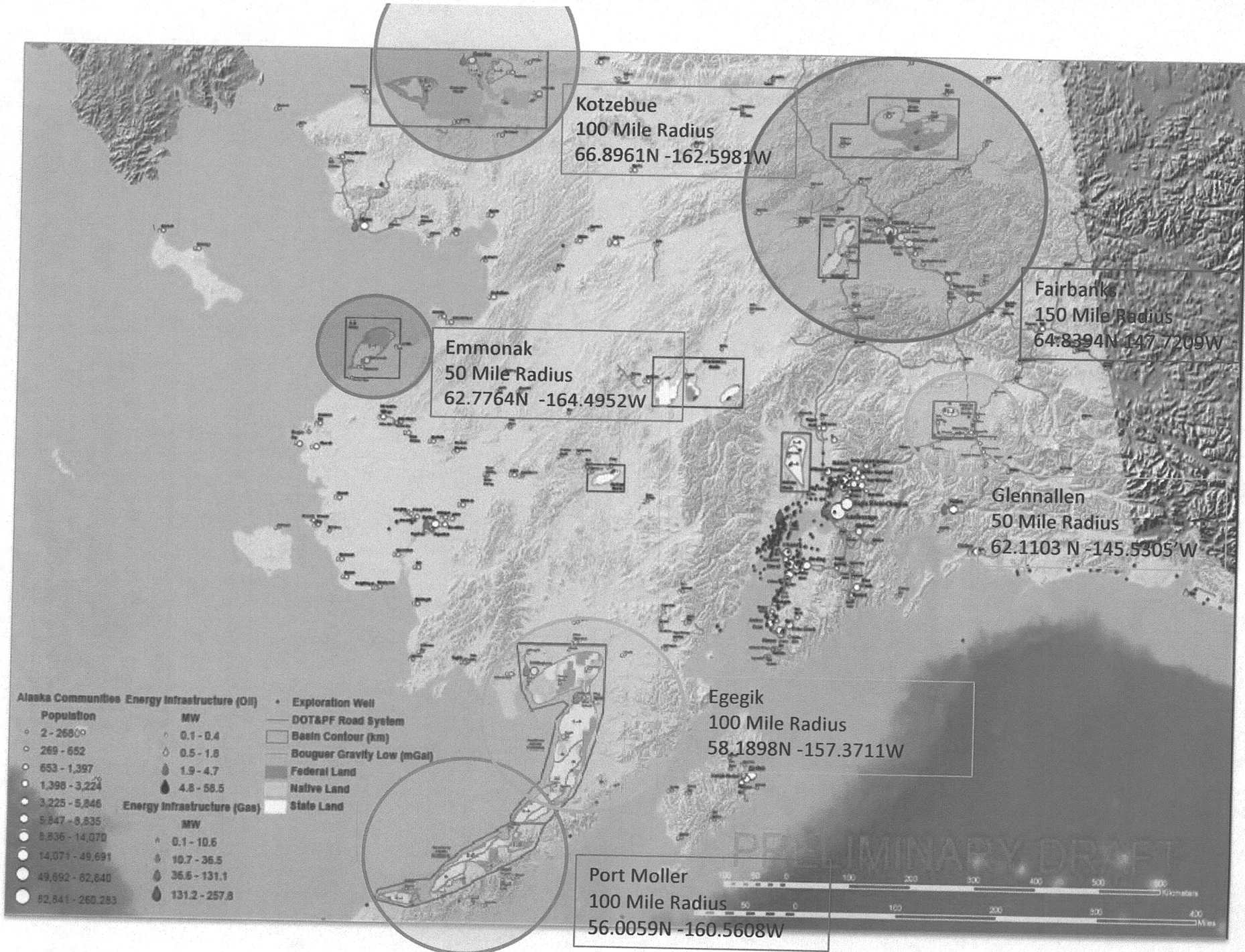
DOYON
Limited

**NENANA NORTH
EXPLORATION AREA
BARGING ALTERNATIVE**

UTM Zone 6, NAD 83

SCALE:	FIGURE:
0 1.25 2.5 5 Miles	1

ARCADIS: MIN0026.mxd, 10/13/2011 R02



Kotzebue
 100 Mile Radius
 66.8961N -162.5981W

Fairbanks
 150 Mile Radius
 64.8394N -147.7209W

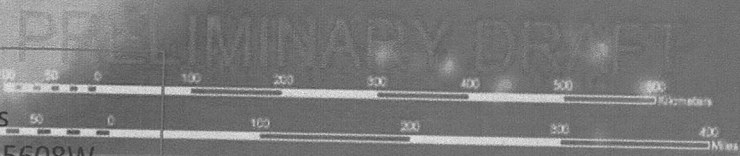
Emmonak
 50 Mile Radius
 62.7764N -164.4952W

Glennallen
 50 Mile Radius
 62.1103 N -145.5305 W

Egegik
 100 Mile Radius
 58.1898N -157.3711W

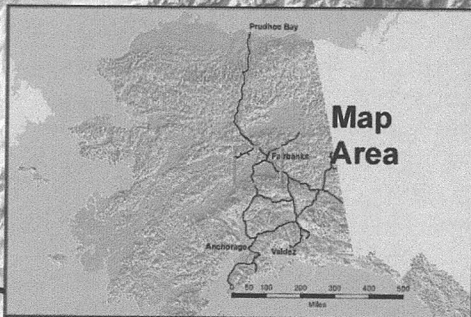
Port Moller
 100 Mile Radius
 56.0059N -160.5608W

- Alaska Communities**
- | | | | |
|--------------------|------------------------------------|------------------------------------|-------------------------|
| Population | Energy Infrastructure (Oil) | Energy Infrastructure (Gas) | Exploration Well |
| ○ 2 - 256 | ○ 0.1 - 0.4 | ○ 0.1 - 10.6 | ● |
| ○ 269 - 652 | ○ 0.5 - 1.8 | ○ 10.7 - 36.5 | — |
| ○ 653 - 1,397 | ○ 1.9 - 4.7 | ○ 36.6 - 131.1 | — |
| ○ 1,398 - 3,224 | ○ 4.8 - 58.5 | ○ 131.2 - 257.8 | — |
| ○ 3,225 - 5,846 | | | — |
| ○ 5,847 - 8,835 | | | — |
| ○ 8,836 - 14,070 | | | — |
| ○ 14,071 - 49,691 | | | — |
| ○ 49,692 - 62,840 | | | — |
| ○ 62,841 - 260,283 | | | — |
- DOT&PF Road System
 - Basin Contour (km)
 - Bouguer Gravity Low (mGal)
 - Federal Land
 - Native Land
 - State Land



PRELIMINARY DRAFT

Nenana Basin Location and Infrastructure



Map Area

TAPS Pump Station 7

Planned Seismic

Nenana License Area
482,941 acres

FAIRBANKS

Flint Hills Refinery
220,000 bpd

PetroStar Refinery
22,000 bpd

Unocal Nenana #1
(1963)

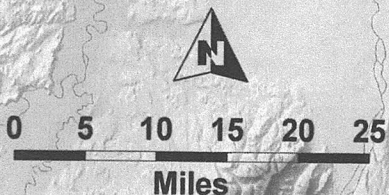
Nunivak #1
(2009)

NENANA

Nenana Basin
800,000 acres

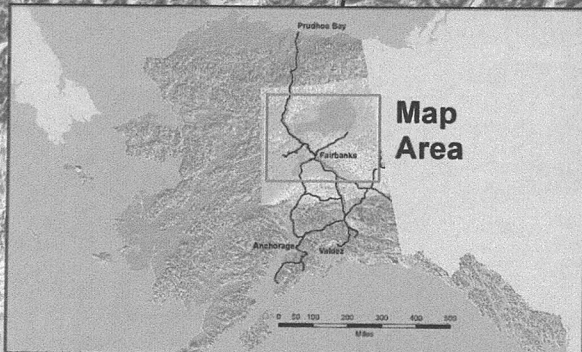
Totek Hills #1
(1984)

- 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



Nenana and Yukon Flats Basins

Tasmanites
in oil shale



Yukon Flats Basin
7.6 million acres

Birch Creek Exploration Area:
619,326 acres
FORT YUKON



Miles



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

Unocal Nenana #1 (1963)

Nuhivak #1 (2009)

NENANA

PetroStar Refinery
22,000 bpd

Flint Hills Refinery
220,000 bpd

Nenana Basin
800,000 acres

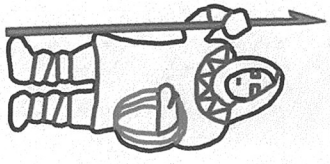
Totok Hills #1 (1984)

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

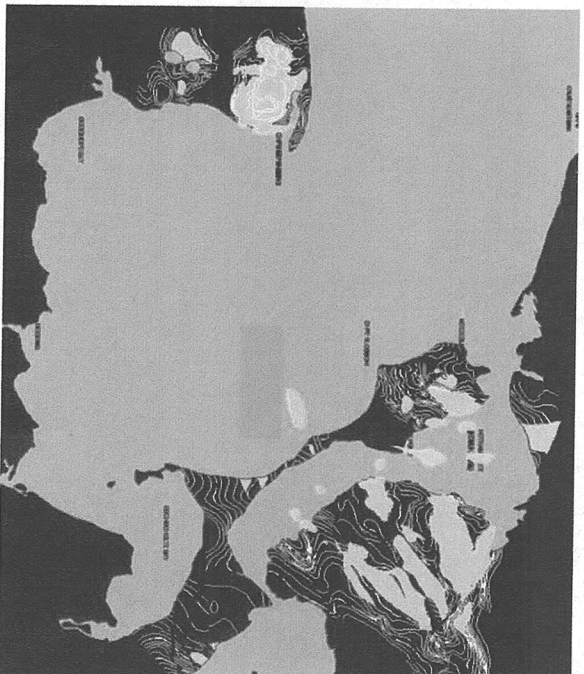
A HUNT FOR GIANT OIL AND GAS RESERVES



Northwest Alaska, LLC & NANA Regional Corp.

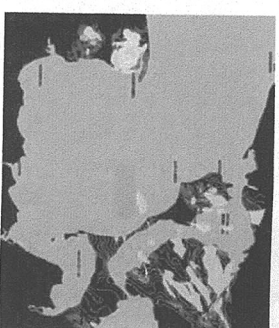
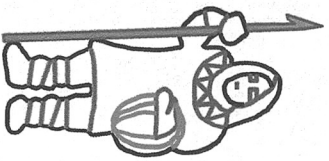
NORTHWEST ALASKA OIL AND GAS PLAY

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.

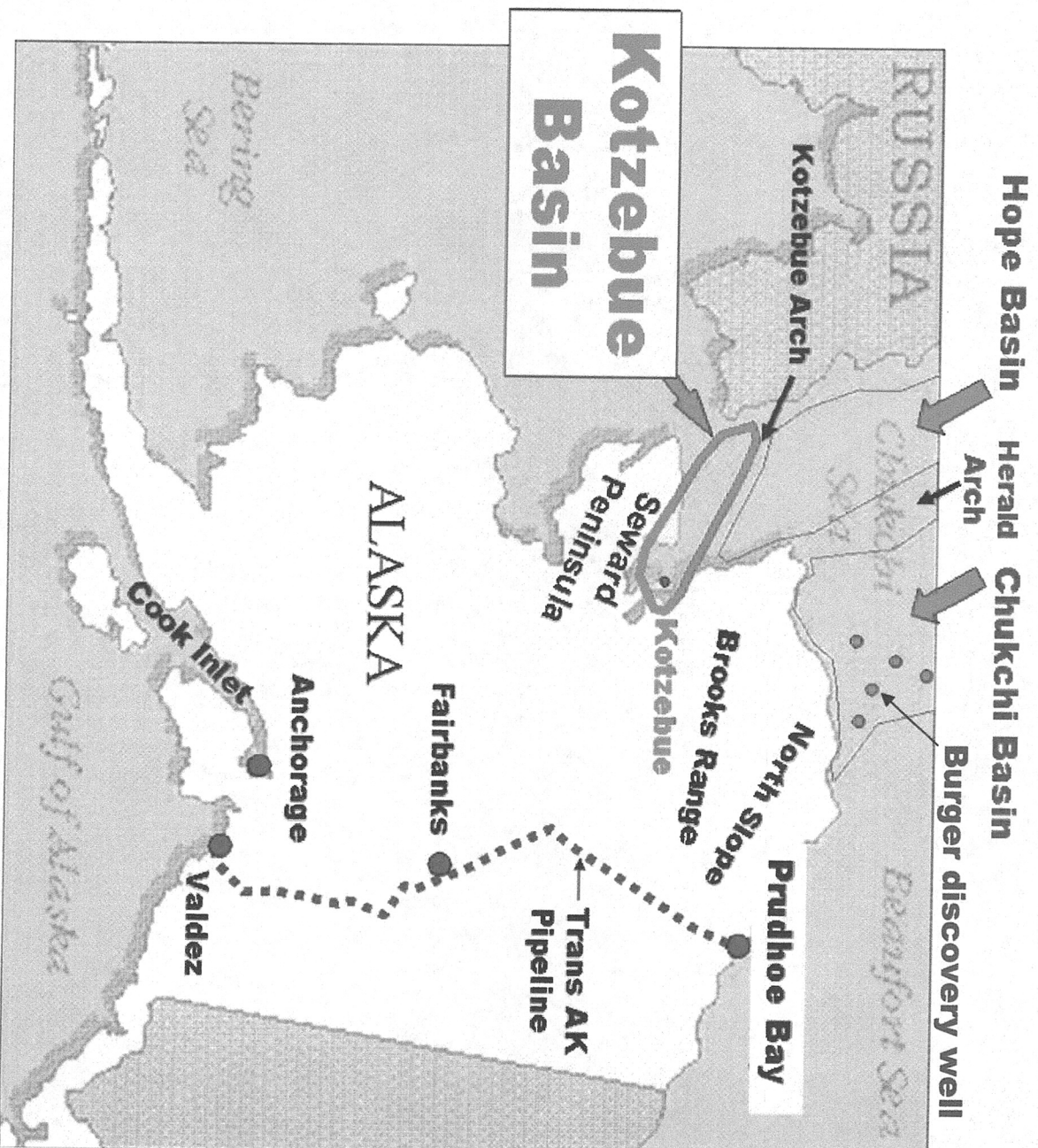
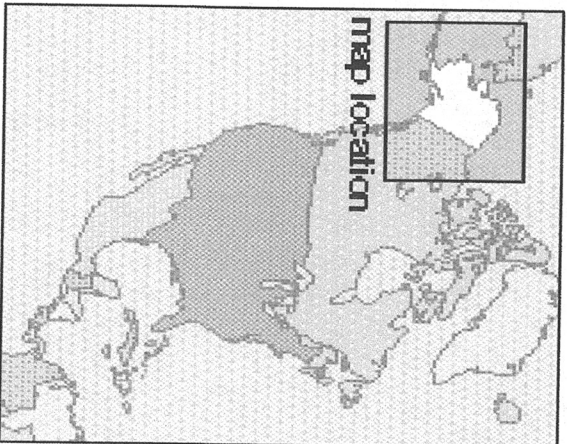
NANA Regional Corporation controls the onshore portion of the basin (mineral interests covering 2.2 million acres) and is working jointly with NW Alaska, LLC to advance the exploration and development project. These companies are seeking one or more additional significant partners to join the project.

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.

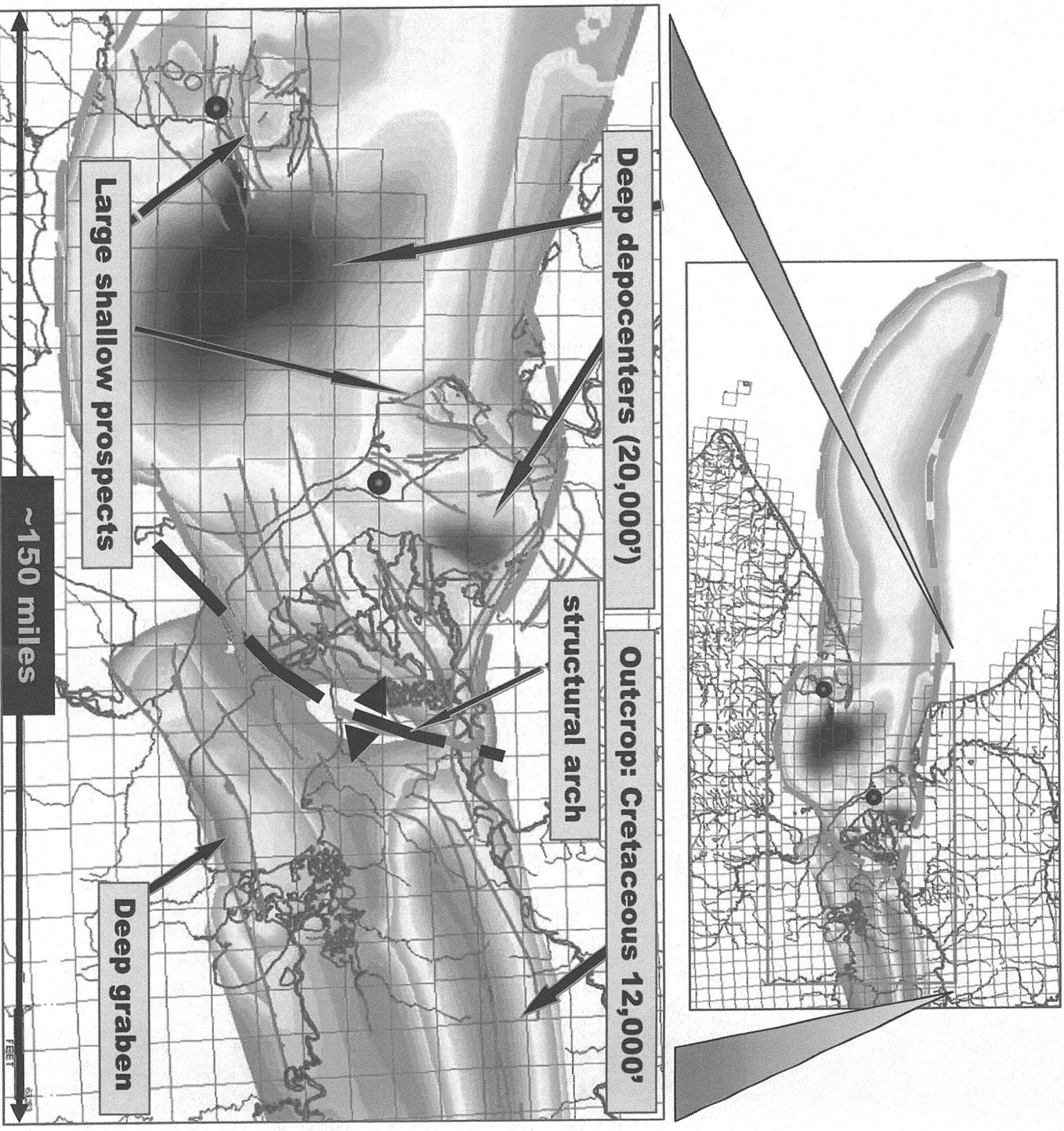
Northwest Alaska, LLC & NANA Regional Corp.

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.

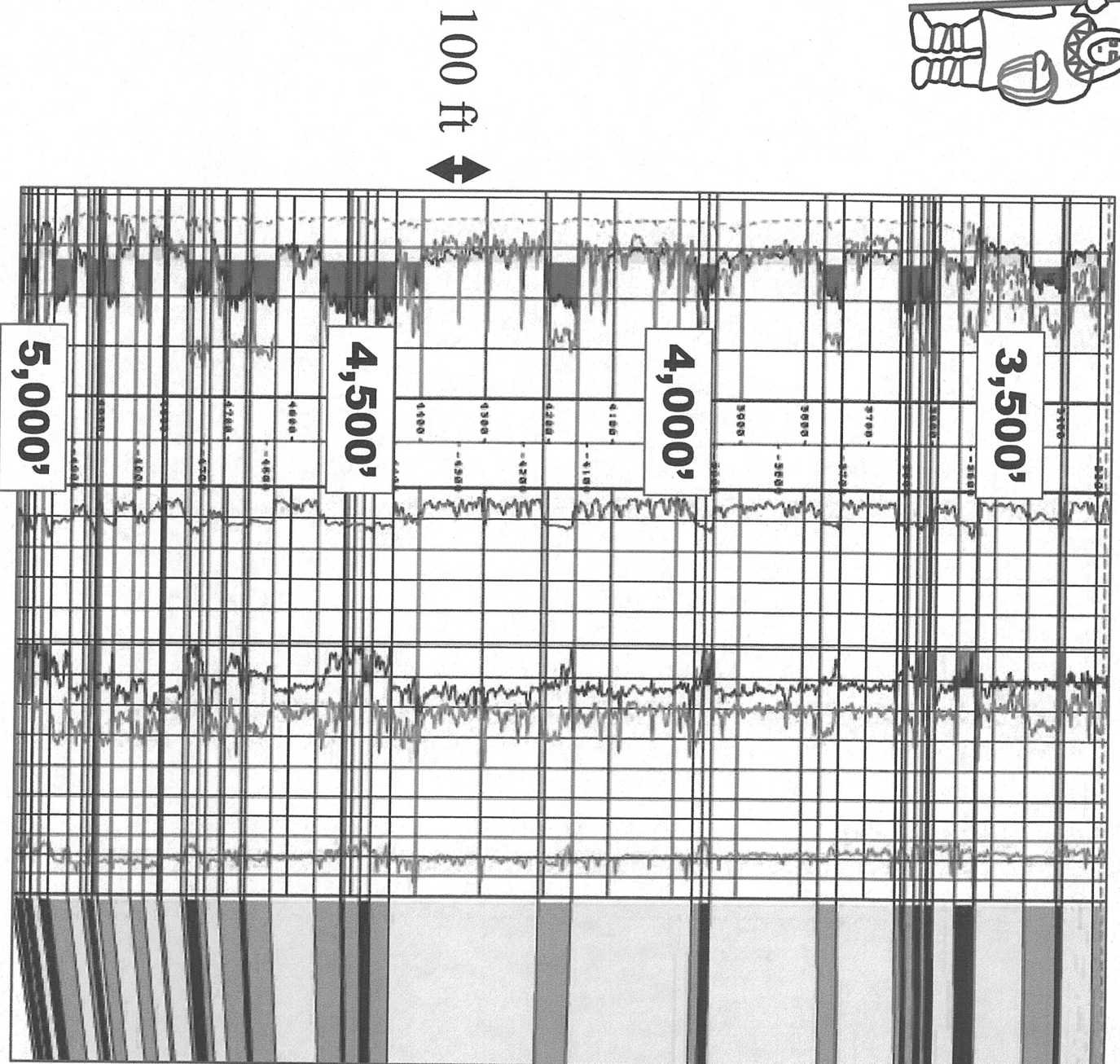
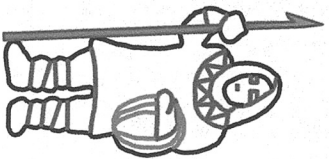
The basin is 350 miles long by 80 miles wide, and it contains 20,000 feet or more of Tertiary and Cretaceous basin-fill. Structural arches and sub-basins separate the Kotzebue Basin from the greater Chukchi Basin to the north, where significant oil-gas reserves have been discovered and billions of dollars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



Northwest Alaska, LLC
& NANA Regional Corp.



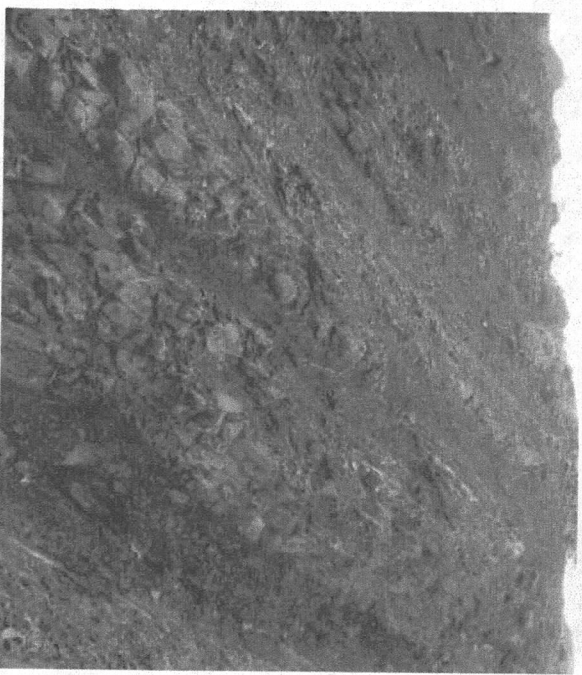
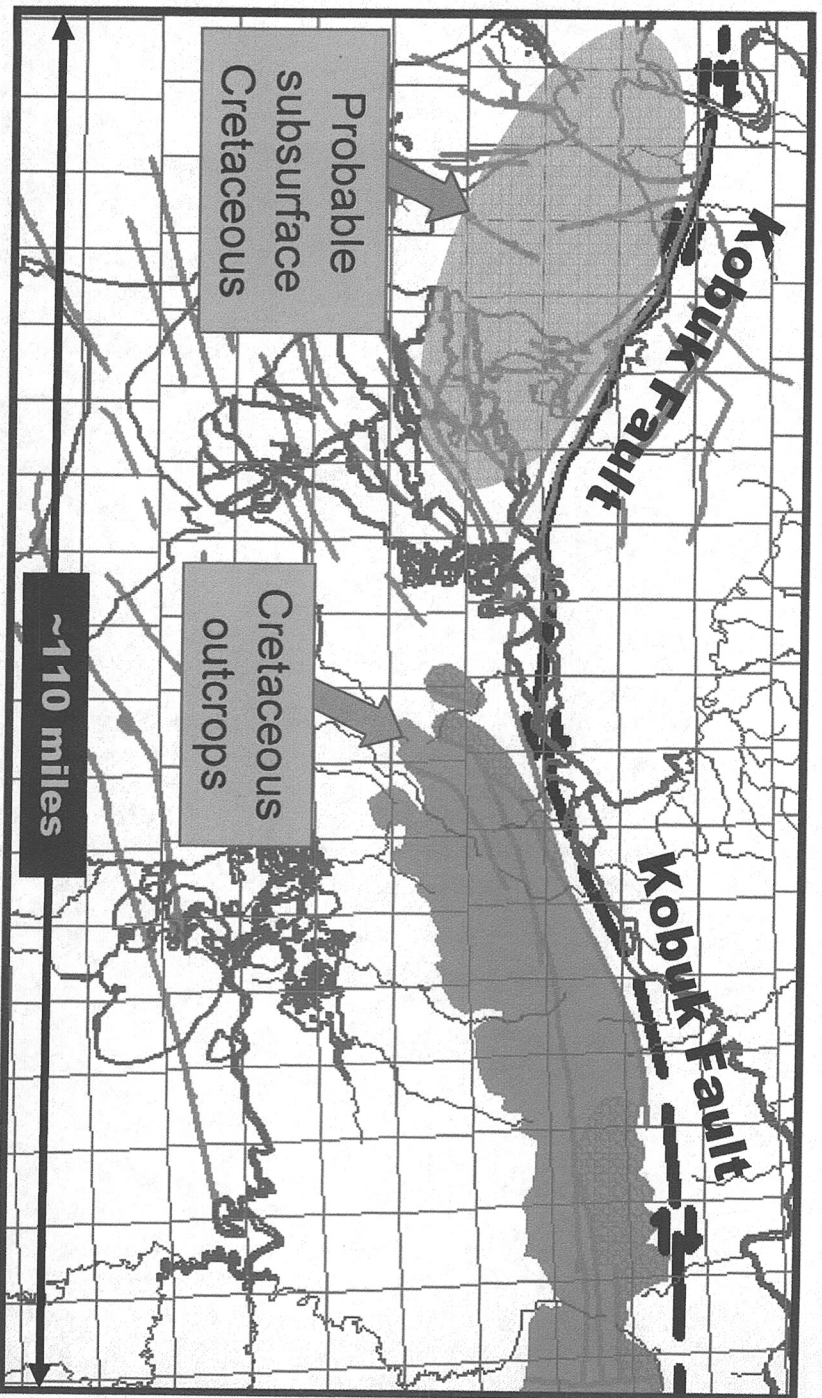
Shown here is a Time Structure Map of Top Acoustic Basement (Paleozoic). Dark blue areas have approximately 20,000 feet of Tertiary and probably Cretaceous basin-fill above basement, grading to shallow areas in dark red. Note locations of large shallow prospects at Cape Espenberg and the Baldwin Peninsula, 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.



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.

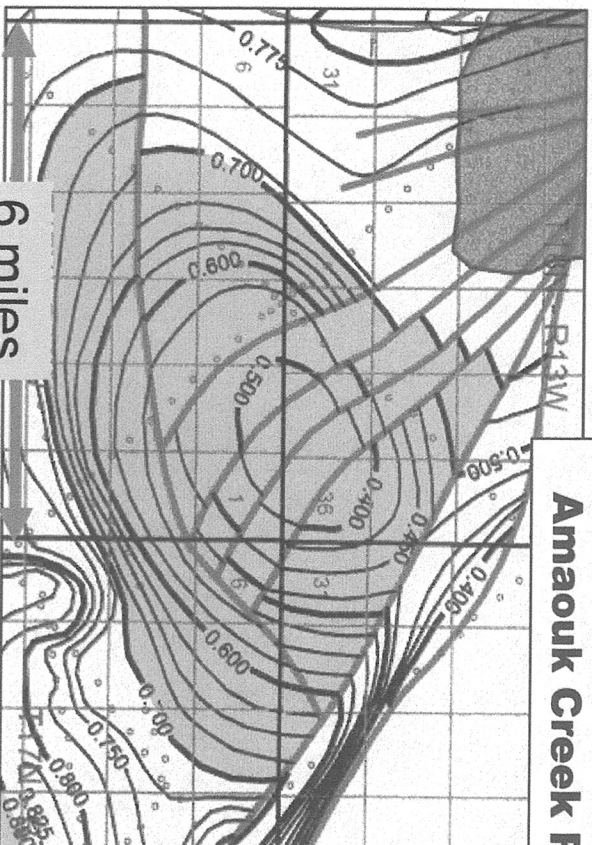
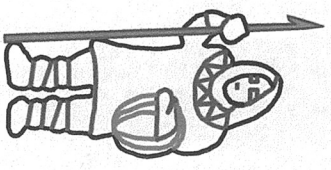
Northwest Alaska, LLC & NANA Regional Corp.

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.

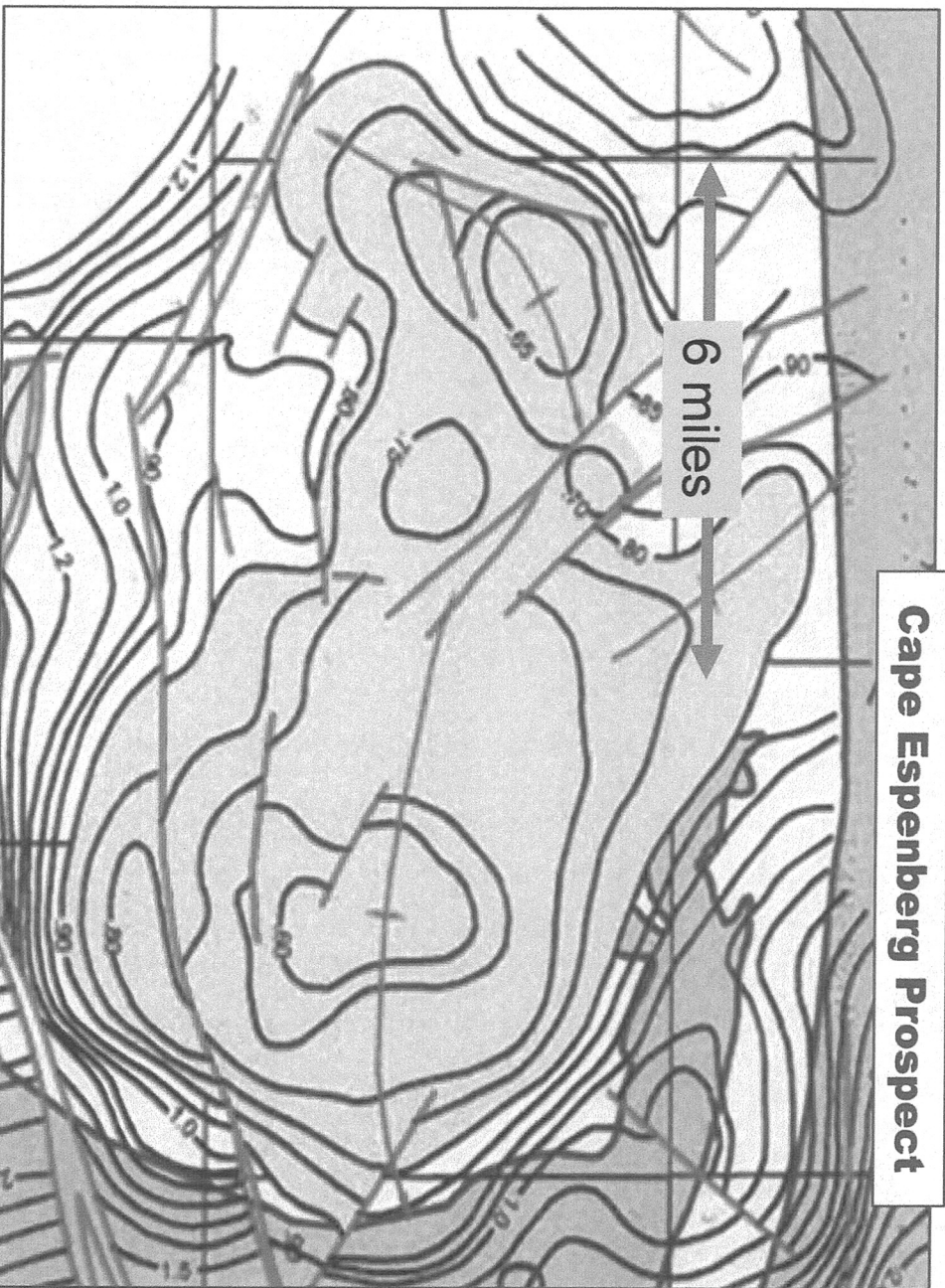


A HUNT FOR GIANT OIL AND GAS RESERVES

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

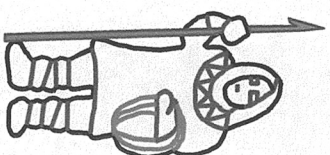


Amaouk Creek Prospect



Cape Espenberg Prospect

A HUNT FOR GIANT OIL AND GAS RESERVES

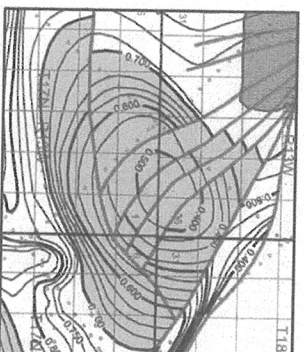


- Comparison of the Cape Espenberg and Amaouk Creek prospects with two partial-analogue giant gas fields – the Kenai and Beluga River gas fields, Cooke Inlet Basin, Alaska
- All maps at same horizontal scale

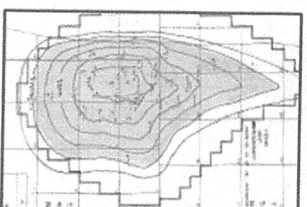
Cape Espenberg Prospect



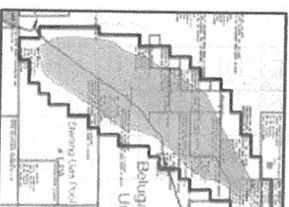
Amaouk Creek Prospect



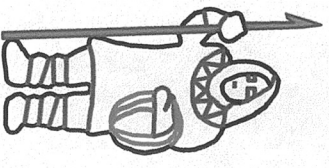
Kenai Gas Field
Top Beluga Fm.
Cum.: 2.4 TCF



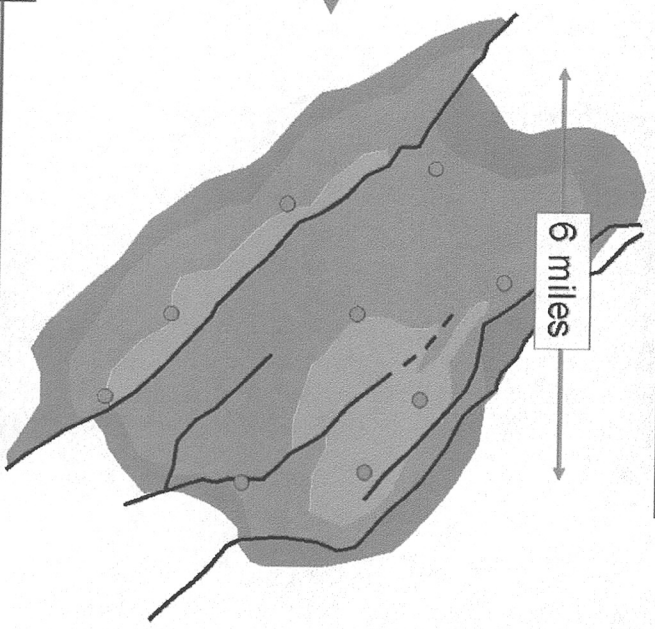
Beluga River Gas Field
Top Sterling Fm.
Cum.: 1.2 TCF



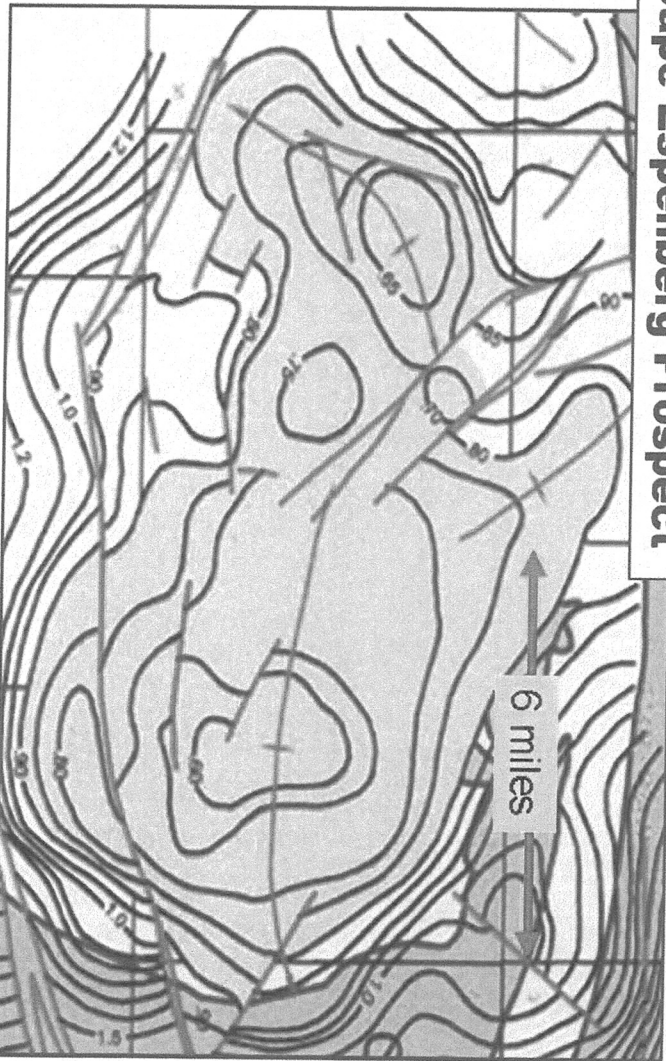
A HUNT FOR GIANT OIL AND GAS RESERVES



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



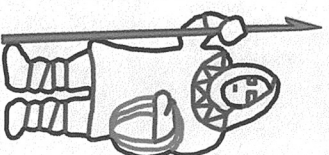
**Suban Gas Field
Fractured-Weathered
Basement Reservoir
> 7 TCF gas-in-place**



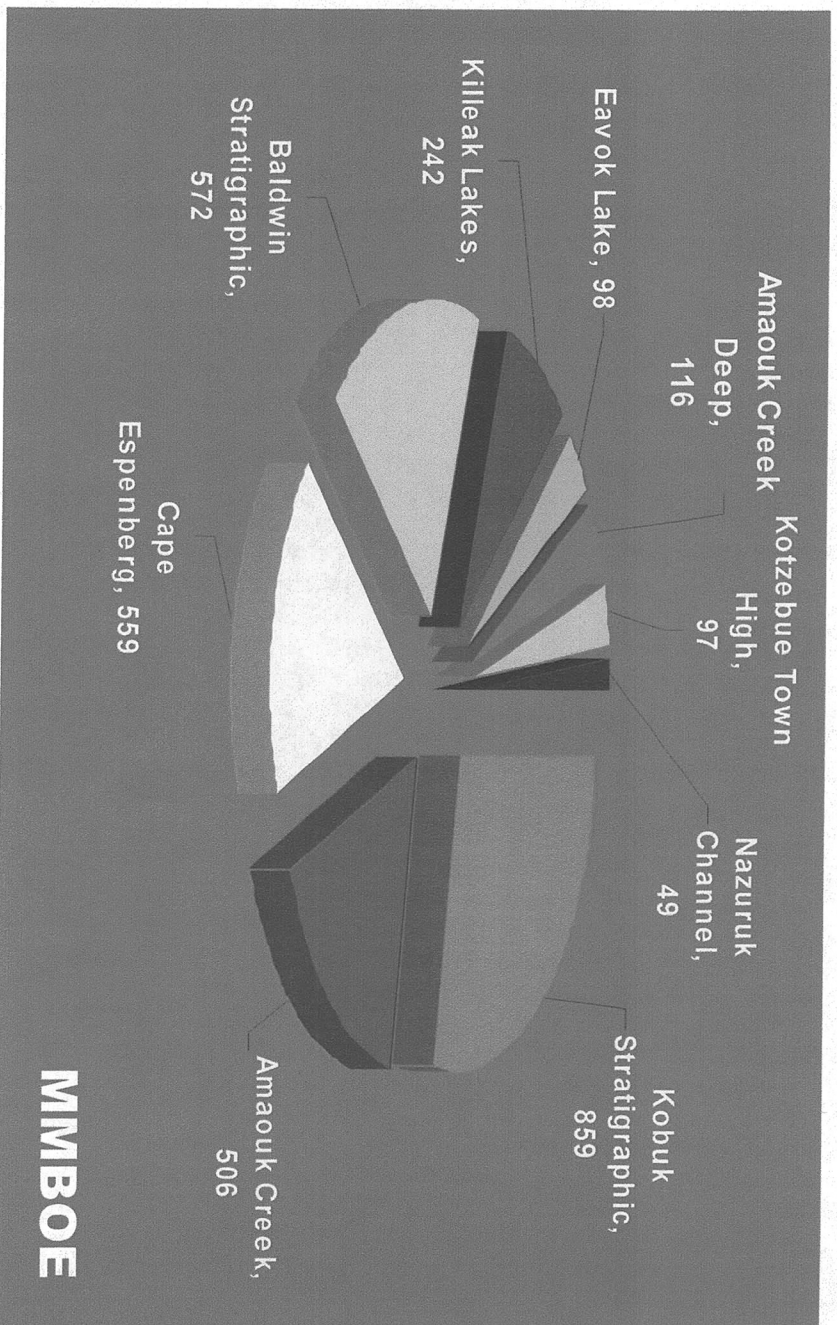
Cape Espenberg Prospect

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.

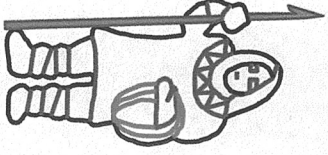
A HUNT FOR GIANT OIL AND GAS RESERVES



**For nine premier prospects:
Risked, 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 & MANNA Regional Corp.

NORTHWEST ALASKA OIL AND GAS PLAY

Southern Chukchi Sea – Onshore Kotzebue Basin

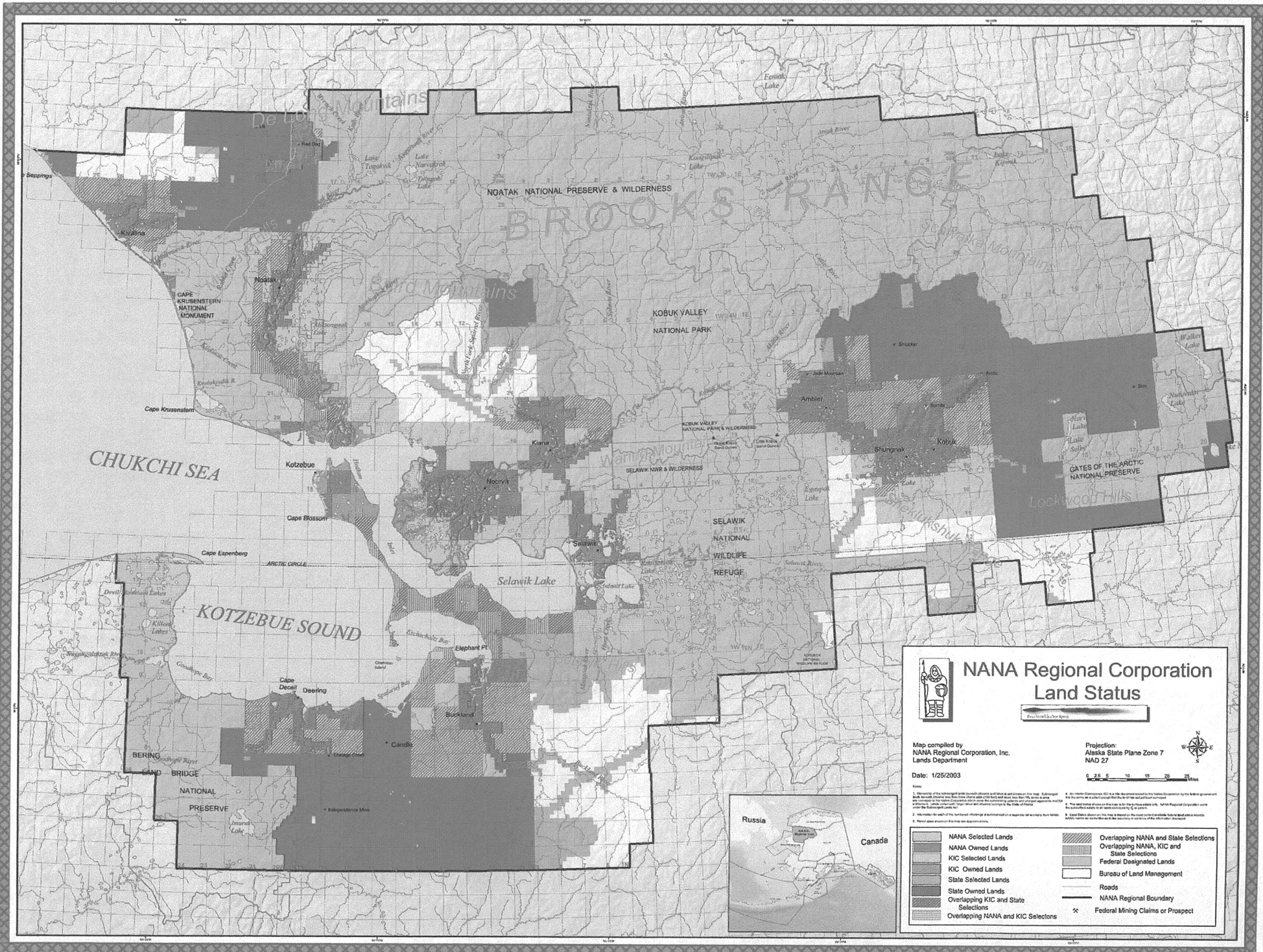
Contact Information


Trio Petroleum LLC (Operator for NW Alaska, LLC)
5401 Business Park South, Suite 115
Bakersfield, California, USA, 93309

office: 661.324.3911
fax: 661.324.1122

Stan Eschner (chairman): eschner@trio petroleum.com
Steve Rowlee (vice president): rowlee@trio petroleum.com

Terry Eschner (consulting geologist)
Sarlan Resources Inc. (president)
P.O. Box 4587, Englewood, Colorado, USA 80155
office: 303-220-8463
fax: 303-770-6925
tbeschner@aol.com





NANA Regional Corporation Land Status

From Vision to Clear Space
















Map compiled by
NANA Regional Corporation, Inc.
Lands Department

Projection:
Alaska State Plane Zone 7
NAD 27

Date: 1/25/2003

Scale: 0 2.5 5 10 15 20 25 Miles

Map of Alaska showing the location of the NANA region in the northwestern part of the state, bordering Russia and Canada.

	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		

1. Ownership of the highlighted lands (shown in solid or with diagonal line maps) is subject to the terms of the relevant selection or acquisition agreement. 2. The map is based on the most current information available to the NANA Regional Corporation as of the date of publication. 3. Information for each of the highlighted features is contained in a separate map available from NANA. 4. Federal mining claims are shown on this map as based on the most current available federal land data available to the NANA Regional Corporation as of the date of publication.



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

Founded 1975
Executive Director

Rick Rogers

2011-2012 Executive Committee

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Senator Mark Begich
Senator Lisa Murkowski
Congressman Don Young
Governor Sean Parnell

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,

Mazzoni Hall

Marleanna Hall
Projects Coordinator
Resource Development Council