

SB 21

(FILE 1)

<TARGET><BILL>SB 21</BILL><SUBJECT>SB 21 (FILE
1)</SUBJECT><COMM>HFIN28</COMM></TARGET>

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 4, 2013

FURTHER REFERRALS:

Date of Committee Action: 4/11/13

The FINANCE Committee considered:

CSSB 21(FIN) am(efd fld)

CS FOR SENATE BILL NO. 21(FIN) am(efd fld)

"An Act relating to the interest rate applicable to certain amounts due for fees, taxes, and payments made and property delivered to the Department of Revenue; providing a tax credit against the corporation income tax for qualified oil and gas service industry expenditures; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fund; relating to annual statements by producers and explorers; establishing the Oil and Gas Competitiveness Review Board; and making conforming amendments."

SB 21 OIL AND GAS PRODUCTION TAX

Recommends it be replaced with HCS or CS for CSSB 21 (FIN)
 For Senate Bills with new title: Technical Title New Title: HCR 9 Same Title , New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

- List of Abbrev for Depts.:
- ADM
 - CEC
 - COR
 - CRT
 - EED
 - DEC
 - DFG
 - GOV
 - DHS
 - LWF
 - LAW
 - LEG
 - MVA
 - DNR
 - DPS
 - REV
 - DOT
 - UA

NEW FISCAL NOTES				
*FN# is assigned by Chief Clerk's Office				
*FN#	List by Dept(s):	Fiscal	Indet.	Zero
	DNR		✓	
	REV	✓		
	REV	✓		

PREVIOUS FISCAL NOTES				
FN#	List by Dept(s):	Fiscal	Indet.	Zero
11	CEC			✓

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	KAWKAR		✗		
	Holmes			X	
	THOMPSON	✓			
	MUNOZ			✓	
	NEUM	✓			
	T. Wilson			✓	
	Edgmon			X	
	Gave				✓
	CASTELLO	✓			
Chair:	STUBBS	✓			
Chair:	HUSTON			X	

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: HCS CSSB 21(RES)
Fiscal Note Number: 11
(H) Publish Date: 4/8/13

Identifier: SB021CS(RES)-DCCED-AIDEA-04-06-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Resources

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Industrial Development and Export
Authority
Allocation: Alaska Industrial Development and Export
Authority
OMB Component Number: 1234

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates				
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
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

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

The House Resources CS of SB 21 included a new provision regarding AIDEA. Previous versions of this bill did not impact AIDEA.

Prepared By: Ted Leonard, Executive Director	Phone: (907)771-3050
Division: Alaska Industrial Development & Export Authority	Date: 04/06/2013 11:55 PM
Approved By: JoEllen Hanrahan, Director	Date: 04/06/13
Administrative Services Division	

FISCAL NOTE ANALYSIS #11

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB 21(RES)

Analysis

Section 42 of HCS SB 21 (RES) adds a new section and establishes a new Oil and Gas infrastructure fund in AIDEA. The fund consists of money appropriated to the authority for deposit in the fund and money deposited by the authority. The fund is not an account of AIDEA's revolving fund and AIDEA shall account for it separately. Money in the fund may be used to finance the construction and improvement of an oil or gas processing facility on the North Slope and flow lines and other surface infrastructure for the facility.

Section 47 of the bill provides legislative approval for AIDEA to issue bonds to finance the construction and improvement of an oil or gas processing facility on the North Slope. The principal amount of the bonds may not exceed \$200,000,000. The issuance of bonds under this section does not apply to AIDEA's bond limitation of \$400,000,000 in a 12-month period.

Bond authorization does not imply that AIDEA will issue bonds. Any project financed by AIDEA goes through a project analysis and due-diligence process providing for a series of "go" "no go" decision points concluding with a decision by the AIDEA Board of Directors to execute the project.

No fiscal impact to AIDEA.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB021HCSCS(FIN)-DNR-DOG-4-11-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Finance

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates					
			FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
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	***	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

The committee substitute adopted by the House Finance Committee adds that the Gross Revenue Exclusion does not apply to gas produced before 2022 that is used in the state. The HCS CSSB21(FIN) also adds a new subsection AS 43.55.160(g), which reduces the gross value at the point of production by an additional 10% if the oil or gas is produced from a unit made up solely of leases that have a royalty share of more than 12.5%.

Prepared By:	Esther Tempel, Legislative Liaison	Phone:	(907)465-4730
Division	Commissioner's Office	Date:	04/11/2013 10:00 PM
Approved By:	Daniel S. Sullivan, Commissioner	Date:	04/11/13
	Department of Natural Resources		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB21(FIN)

Analysis

HCS CSSB21(FIN) reforms the oil and gas production tax system in Alaska. This bill will not result in any procedural changes in how the Division of Oil and Gas operates and therefore the Department of Natural Resources (DNR) does not anticipate any fiscal impact to the Department's operating budget.

HCS CSSB21(FIN) improves Alaska's competitiveness and encourages producers to invest more by simplifying the oil and gas production tax system. First, this bill repeals the progressivity feature of the tax structure, which will help encourage the type of long-term planning and investment needed to promote new investment in production in Alaska. Further, this bill shifts incentives away from spending and provides new incentives to reward new production.

This bill also amends AS 43.55.025(a)(6) and (m) to clarify that in order to qualify for the alternative tax credit for oil and gas exploration, DNR's approval must be based on criteria established in AS 43.55.025(c)(1), (c)(2)(A), and (c)(2)(C) thereby removing the 3-mile exclusion for areas classified in AS 43.55.025(o), known as "Middle Earth".

A new subsection AS 43.55.160(f) provides the gross revenue exclusion (GRE) for 20% of the gross value at the point of production for 10 years following the commencement of production from the well. The GRE applies to production from leases or properties containing land that is north of 68 degrees North latitude and meets one or more of the three criteria: (1) is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced from a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by DNR on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. HCS CSSB21(FIN) adds that this subsection does not apply to gas produced before 2022 that is used in the state. This section also clarifies that the GRE may not reduce the gross value at the point of production below zero.

A new subsection AS 43.55.160(g) states that on and after January 1, 2014, in addition to the reduction under AS 43.55.160(f), the gross value at the point of production of oil or gas produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003, is reduced by 10% if the oil or gas is produced from a unit made up solely of leases that have a royalty share of more than 12.5% in amount or value of the production removed or sold from the lease.

At forecasted price ranges, overall government take and marginal tax rates are reduced materially. To the extent that investments are made as a consequence of these changes to the tax regime, royalty revenue may rise. The fiscal impact on royalty revenue is an indeterminate positive.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB21(FIN)

Analysis Continued

**Differences in Royalty Revenues from
New Production Scenarios in \$Millions***

*Note: These scenarios are based on Department of Revenue modeling.

At Forecasted Production

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$ 120	\$0	\$0	\$0	\$0	\$0	\$0
\$ 100	\$0	\$0	\$0	\$0	\$0	\$0
\$ 90	\$0	\$0	\$0	\$0	\$0	\$0

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$0	\$0	\$0	\$12	\$24	\$35
\$100	\$0	\$0	\$0	\$10	\$20	\$29
\$90	\$0	\$0	\$0	\$9	\$17	\$26

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of \$500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$57	\$106	\$147	\$181	\$212	\$179
\$100	\$47	\$87	\$120	\$148	\$173	\$146
\$90	\$42	\$77	\$107	\$132	\$154	\$130

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day and declining at a rate of 15% per year. Development costs for each well assumed to be \$20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$111	\$213	\$307	\$433	\$557	\$533
\$100	\$91	\$174	\$251	\$354	\$455	\$435
\$90	\$81	\$155	\$223	\$314	\$404	\$386

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of \$5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new 50-million barrel field.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB021HCSCS(FIN)-DOR-COMM-04-11-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Finance

Department: Department of Revenue
Appropriation: Administration and Support
Allocation: Commissioner's Office
OMB Component Number: 123

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
Personal Services		157.8	157.8	157.8	157.8	157.8	157.8
Travel	4.6		4.6	4.6	4.6	4.6	4.6
Services							
Commodities	30.0		20.0	20.0	20.0	20.0	20.0
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	34.6	157.8	182.4	182.4	182.4	182.4	182.4

Fund Source (Operating Only)

1004 Gen Fund	34.6	157.8	182.4	182.4	182.4	182.4	182.4
Total	34.6	157.8	182.4	182.4	182.4	182.4	182.4

Positions

Full-time		1.0	1.0	1.0	1.0	1.0	1.0
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

House Finance Committee substitute added language requiring an updated fiscal note from Revenue.

Prepared By: Jerry Burnett, and Alicia Egan
Division: Administrative Services
Approved By: Bryan D. Butcher, Commissioner
Department of Revenue

Phone: (907)465-2312
Date: 04/11/2013 11:30 PM
Date: 04/11/13

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB021(FIN)

Analysis

The bill establishes a nine member Oil and Gas Competitiveness Review Board, in the Department of Revenue, which is charged with: (1) establishing and maintaining a salient collection of information related to oil and gas exploration, development, and production in the state and related to tax structures, rates, and credits in other regions with oil and gas resources; (2) reviewing historical, current, and potential levels of investment in the state's oil and gas sector; (3) identifying factors that affect investment in oil and gas exploration, development, and production in the state, including tax structure, rates, and credits, royalty requirements, infrastructure, workforce availability, and regulatory requirements; and (4) reviewing the competitive position of the state to attract and maintain investment in the oil and gas sector in the state as compared to the competitive position of other regions with oil and gas resources.

The board is charged with establishing procedures to accept and keep confidential information, including the creation of a secure data room. The Board shall meet at least once per year.

The board is charged with making two written reports to the Legislature. The first report, due by January 31, 2015, or as soon thereafter as practical, focuses on regulatory issues, labor issues, infrastructure issues, and fiscal regime competitiveness. The second report, due by January 31, 2021, or as soon thereafter as practical, focuses on changes to the state's fiscal regime that would increase investment, alternative means of supporting investment, and a review of the effectiveness and future value of provisions that are expiring in the next five years.

To accomplish these tasks the Department would use existing professional staff, primarily the Oil and Gas Program Coordinator currently in the Commissioner's Office, and funding to provide board meeting and travel, space and overhead costs associated with the data room.

The fiscal note assumes one board meeting per year.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB021HCSCS(FIN)-DOR-TAX-04-11-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (H) Finance

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Personal Services							
Travel							
Services	100.0						
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	100.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	100.0						
Total	100.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/14

Why this fiscal note differs from previous version:

This version updates the fiscal note based on the House Finance committee substitute.

Prepared By: Cherie Nienhuis, Ed King and Dan Stickel Phone: (907)269-1019
Division: Tax Division Date: 04/11/2013 10:30 PM
Approved By: Bryan D. Butcher, Commissioner Date: 04/11/13
Department of Revenue

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB021(FIN)

Analysis

Operating expenditures: This bill makes changes to the tax credits under the production tax system. For leases or properties that contain land that is north of 68 degrees North latitude, the following changes are made: (1) Credits for qualified capital expenditures are limited to expenditures incurred before January 1, 2014; (2) beginning January 1, 2014, the rate for credits earned for net operating losses increases to 45% of the loss; (3) beginning January 1, 2016, the rate for credits earned for net operating losses decreases to 35% of the loss. The operating portion of the long-term fiscal plan anticipates an average of \$400 million in refundable credits through 2023. It is anticipated that the changes in this bill would impact those future appropriations, beginning in FY 2015.

The change to the interest rate for delinquent taxes is expected to require changes to the department's tax accounting systems to accommodate the changes, requiring a one-time appropriation of \$100,000 in FY14 for contractor costs.

Regulations: The bill does not direct DOR to adopt new regulations to implement its provisions, but existing regulations may need to be reviewed and amended. There may be additional regulations required, but not before January 1, 2014.

*****The revenue impact of this bill is an estimate based on the Spring 2013 Forecast.**

This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed separately below. The effective date of each of the bill's provisions listed below is assumed to be January 1, 2014 with the exception of provision 6, which is effective for expenditures beginning January 1, 2013.

1. The progressive portion of the production tax at AS 43.55.011(g) is repealed. Based on our Spring 2013 forecast, this change decreases production tax revenue over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

2. The production tax rate under AS 43.55.011(e) has been increased to a tax rate of 35% of production tax value. Based on our Spring 2013 forecast, this change increases production tax revenue over the forecast period analyzed from this portion of the tax. Please see detailed summary table on page 4 of this fiscal note.

3. Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 on leases or properties that contain land north of 68 degrees North latitude. Based on our Spring 2013 forecast, this change increases production tax revenue annually over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

4. Companies that incur net losses from leases or properties that contain land north of 68 degrees North latitude will earn a credit of 45% of those losses; on January 1, 2016, the credits for these losses changes to 35%. These losses are transferable and eligible for refund by the state. The impact of this provision is on the operating budget and is expected to increase credit refunds appropriated through the operating budget by approximately \$80 million per year over the amount anticipated under current law for CY 2014 and CY 2015 (shown in FY 2015 and FY 2016), decreasing to \$40 million per year over the amount anticipated under current law in the following years.

5. A gross revenue exclusion (GRE) of 20% of the gross value at the point of production is applicable to production from certain areas with an additional 10% GRE available to a limited amount of that production. The GRE applies to oil or gas production from wells north of 68 degrees North Latitude that meet one or more of the following criteria: (1) is produced within a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced within a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by the Department of Natural Resources on or after January 1, 2014, and the producer demonstrates that the volume of oil or gas produced is from acreage added to an existing participating area. Production that qualifies for (1) of this provision may also qualify for an additional 10% GRE if the production comes from a unit which is comprised entirely of leases greater than 12.5% royalty. Please see detailed summary table on page 4 of this fiscal note for revenue impacts of this provision.

6. The provision requiring that credits be taken over two years is eliminated. This provision would result in companies using credits earlier than they would without this change, and except for the time value of money impact, it is revenue neutral. This provision applies to expenditures after December 31, 2012.

Analysis Continued

- 7. The community revenue sharing fund is amended to allow the legislature to make an appropriation from the state corporate income tax under AS 43.20 as opposed to tying the appropriation to revenue collected under AS 43.55.011(g).** This provision has no revenue impact under our Spring 2013 forecast.
- 8. A credit of \$5 per taxable barrel may be applied against a producer's production tax liability for oil produced from GRE-eligible areas.** This credit cannot be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. Please see detailed summary table on page 4 of this fiscal note for the revenue impact of this provision.
- 9. A sliding scale credit ranging from zero to \$8 per taxable barrel may be applied against a producer's production tax liability for areas not eligible for a GRE.** The sliding scale credit is a dollar-per-taxable-barrel credit ranging from zero dollars per barrel at per-barrel GVPP values greater than \$150 to \$8 per barrel at per-barrel GVPP values less than \$80. The credit cannot be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. The credit may not reduce the producer's tax liability to less than the minimum tax established under AS 43.55.011(f). Please see detailed summary table on page 4 of this fiscal note for the revenue impact of this provision.
- 10. A credit of 10% of qualified oil and gas industry service expenditures may be applied to tax liabilities under AS 43.20 in amounts up to \$10 million per taxpayer per year.** The credit applies to qualified oil and gas service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of 3 years or more. The credit is not transferable, however, any amount of the credit that exceeds the taxpayer's liability under AS 43.20 may be carried forward for up to five years. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may be as high as -\$25 million per year. The revenue impact of this provision is indeterminate.
- 11. The interest rate on delinquent taxes is changed from the greater of 5 percentage points above the annual rate of interest charged by the 12th Federal Reserve District or 11 percent, to 3 percentage points above the annual rate of interest charged by the 12th Federal Reserve District.** There will be one-time contractor costs to implement this change in the DOR accounting system. Over the past five fiscal years (FY 2008-FY 2012), interest on delinquent taxes and refunds has resulted in a net positive revenue to the state. The average annual net revenue to the state in these years was \$26 million in revenue to the General Fund and \$71 million in revenue to the Constitutional Budget Reserve Fund. The Department of Revenue does not forecast interest on taxes. Over the time horizon of this fiscal note, this provision is estimated to impact state revenues in amounts up to -\$25 million per year. The impact will increase over time as more delinquent taxes are calculated under the new interest rates established with this provision. Our estimates do not take into account changes in taxpayer behavior as a result of this reduction in interest rate.
- 12. The 3-mile requirement for frontier basin tax credit under AS 43.55.025(m) is removed.** The frontier basin credit is a credit of 80% of eligible expenses up to \$25 million per well for first 4 qualifying wells and a seismic basin credit of \$7.5 million or 80 percent, whichever is less. This bill removes the provision wells must be at least 3 miles from an existing well to qualify for the credit. This provision has no expected fiscal impact under the Spring 2013 forecast, as the forecast already assumes spending for the 4 eligible wells for the frontier basin credit will take place and credits will be issued.
- 13. The 4 percent gross tax ceiling for production of oil or gas outside the North Slope or Cook Inlet is extended.** The sunset date for this provision is extended from January 1, 2022 to January 1, 2027. This provision has no expected fiscal impact under the Spring 2013 forecast, as it is beyond the time horizon of this fiscal note and we are not forecasting any qualifying production.
- 14. The exploration credit under AS 43.55.025(a)(1)-(4) is extended through January 1, 2022 for areas outside the North Slope and Cook Inlet.** This is a refundable credit of 30% or 40% of eligible seismic and well exploration expenditures. This provision has an indeterminate fiscal impact.
- 15. An Oil and Gas Competitiveness Review Board is established in the Department of Revenue.** The board will be tasked with collecting and evaluating data on oil and gas development and providing recommendations to the Legislature on proposed changes to improve the regulatory workforce infrastructure and fiscal systems of the state to improve Alaska's investment climate.

Analysis Continued

Provisions in HCS CSSB21(FIN) and their Estimated Fiscal Impact as compared to Spring 2013 Forecast (\$millions)¹

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-\$725	-\$1,400	-\$1,725	-\$1,875	-\$1,650	-\$1,525
2. Base tax rate changed to 35% of production tax value	\$550	\$1,050	\$1,100	\$1,100	\$1,000	\$925
3. Limitation of credits for qualified capital expenditures for North Slope	\$300	\$675	\$650	\$525	\$475	\$450
4. Net operating loss credit rate increased to 45% until 1/1/16 then 35%; transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	\$0	\$0 to -\$25	-\$25 to -\$50	-\$25 to -\$50	-\$25 to -\$50	-\$50 to -\$75
6. Provision requiring credits be taken over 2 years eliminated ²	-\$225					
7. Amendment to the community revenue sharing fund	\$0	\$0	\$0	\$0	\$0	\$0
8. Credit of \$5 per taxable barrel for GRE-eligible oil production	-\$5	-\$10	-\$25	-\$25	-\$25	-\$25
9. Sliding scale \$0-\$8 credit per taxable barrel for non GRE-eligible production based on oil price	-\$420	-\$815	-\$750	-\$725	-\$675	-\$650
10. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -\$25 million annually)					
11. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -\$25 million annually, increasing over time)					
12. Removal of 3-mile requirement for frontier basin tax credit	\$0	\$0	\$0	\$0	\$0	\$0
13. Extends limitation on tax rate for Middle Earth from 2022 to 2027	\$0	\$0	\$0	\$0	\$0	\$0
14. Extends credits under AS 43.55.025(a)(1)-(4) for Middle Earth from 2016 to 2022	Indeterminate					
15. Establishes Oil and Gas Competitiveness Review Board	No fiscal impact for Tax Division					
Total Revenue Impact	-\$520 to	-\$490 to	-\$750 to	-\$1000 to	-\$875 to	-\$850 to
	-\$570	-\$565	-\$825	-\$1075	-\$950	-\$925
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-\$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		\$150	\$150	\$150	\$150	\$150
Impact on Operating Budget of increase in Net Operating Loss credits to 45% until 1/1/16 then 35%		-\$80	-\$80	-\$40	-\$40	-\$40
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production³	-\$670 to	-\$420 to	-\$680 to	-\$890 to	-\$765 to	-\$740 to
	-\$720	-\$495	-\$755	-\$965	-\$840	-\$815

¹The impacts listed are based on production and prices as forecasted in our Spring 2013 revenue forecast. The forecasted oil prices are between \$109.61 and \$118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

²Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is \$375 million, with \$225 million taken against tax liability as a revenue impact and \$150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

³NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB021(FIN)

Analysis Continued

**Differences in General Fund Unrestricted Revenue under Proposed
Bill from Current Tax System in \$Millions***

*Note: These hypothetical examples of additional production assess the impacts from the change in tax rates, per barrel allowance and gross revenue exclusions only and do not attempt to quantify impacts of other parts of the bill, such as the removal of the credit split, or the impact on the long-range budget from the elimination of QCE credits or changes to NOL credits. Values are generated from a scenario model and may vary slightly from other models.

At Forecasted Production

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$225	-\$150	-\$200	-\$325	-\$275	-\$400
\$100	-\$275	-\$250	-\$325	-\$475	-\$375	-\$450
\$120	-\$575	-\$800	-\$925	-\$1,125	-\$925	-\$925

All additional production scenarios below compare additional production under the proposed bill to ACES without the additional production.

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$225	-\$150	-\$200	-\$325	-\$275	-\$375
\$100	-\$275	-\$250	-\$325	-\$475	-\$375	-\$425
\$120	-\$575	-\$800	-\$925	-\$1,100	-\$900	-\$900

Assumes field outside of a current unit and subject to 30% gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of \$500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$175	\$50	\$125	\$50	\$225	\$25
\$100	-\$200	\$25	\$75	\$0	\$225	\$50
\$120	-\$475	-\$425	-\$400	-\$475	-\$125	-\$250

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day beginning in FY 2014, with a maximum production rate of 60,000 barrels per day for a total of 140 million barrels. Development costs for each well assumed to be \$20 million. None of this oil is assumed to qualify for the GRE under the provisions of this bill.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$275	\$0	\$175	\$300	\$950	\$725
\$100	-\$300	\$0	\$200	\$350	\$1,100	\$925
\$120	-\$525	-\$350	-\$125	\$125	\$1,100	\$925

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2014 at total development costs of \$5 billion, none of which is assumed to qualify for the GRE. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new field.

Adopted
4/11/13
#
1

AMENDMENT 1

OFFERED IN THE HOUSE

BY REPRESENTATIVE THOMPSON

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 5, following line 30:

2 Insert a new bill section to read:

3 **** Sec. 8.** AS 43.55.011(p) is amended to read:

4 (p) For the seven years immediately following the commencement of
5 commercial production of oil or gas produced from leases or properties in the state
6 that are outside the Cook Inlet sedimentary basin and that do not include land located
7 north of 68 degrees North latitude, where that commercial production began after
8 December 31, 2012, and before January 1, 2027 [2022], the levy of tax under (e) of
9 this section for oil and gas may not exceed four percent of the gross value at the point
10 of production."
11

12 Renumber the following bill sections accordingly.

13
14 Page 28, line 26:

15 Delete "sec. 26"

16 Insert "sec. 27"

17
18 Page 28, line 27:

19 Delete "sec. 13"

20 Insert "sec. 14"

21 Delete "secs. 15 - 18"

22 Insert "secs. 16 - 19"

23

- 1 Page 29, line 7:
- 2 Delete "Sec. 30"
- 3 Insert "Sec. 31"
- 4
- 5 Page 29, line 19:
- 6 Delete "15 - 18, 23, and 31"
- 7 Insert "16 - 19, 24, and 32"
- 8
- 9 Page 32, line 20:
- 10 Delete "sec. 13"
- 11 Insert "sec. 14"
- 12 Delete "sec. 26"
- 13 Insert "sec. 27"

Extends the sunset on 4% production tax cap for first 7 years of production for new fields in Middle Earth from 2022 to 2027.

Amendment 28-GS1647L.3

When SB 23 passed there was a 2022 sunset on this provision. This 2022 date is convenient because a number of Cook Inlet tax treatments sunset then. However, a sunset in 2022 works at cross purposes with the objective of Middle Earth production and the hoped for attractiveness may now be illusory. Whether considering Yukon Flats, parts of Nenana, or the Kotzebue area basins, none of those and similar areas have much of a chance at getting into production before 2022, even with aggressive exploration, success and no setbacks. They are just too remote and expensive. A simple, flat rate tax cap as a measure was chosen to help attract new investment into these high cost and geologically risky areas which have no oil and gas infrastructure and no discoveries. A 5- year extension to 2027 will go a long way toward making this provision work as intended.

AMENDMENT ~~#~~ 2

Failed
4/7

OFFERED IN THE HOUSE

BY REPRESENTATIVE EDGMON

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 17, line 18, through page 18, line 20:

2 Delete all material and insert:

3 "(j) For each month of the calendar year for which a producer's average
4 monthly gross value at the point of production of a barrel of taxable oil and gas is less
5 than \$150, a producer may apply against the producer's tax liability for the calendar
6 year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for
7 each barrel of taxable oil under AS 43.55.011(e) that does not meet any of the criteria
8 in AS 43.55.160(f) and that is produced during a calendar year after December 31,
9 2013, from leases or properties north of 68 degrees North latitude. A tax credit under
10 this section may not reduce a producer's tax liability for a calendar year under
11 AS 43.55.011(e) below zero. The amount of the tax credit for a barrel of taxable oil
12 subject to this subsection is

13 (1) if the producer's average monthly gross value at the point of
14 production of a barrel of taxable oil and gas is less than or equal to \$100, \$5 for each
15 barrel of taxable oil; or

16 (2) if the producer's average monthly gross value at the point of
17 production of a barrel of taxable oil and gas is more than \$100 and less than \$150, \$5
18 for each barrel of taxable oil, reduced by one-tenth of the difference between that
19 average monthly gross value at the point of production of a barrel of oil and \$100."

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

Failed
4/7

DATE: 4/11/13

Amendment: 2

MEMBER

Favor

Oppose

REP. NEUMAN		✓
REP. THOMPSON		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON	✓	
REP. GARA	✓	
<i>Kawasaki</i> REP. GUTTENBERG	✓	
REP. HOLMES		✓
REP. MUNOZ	✓	
REP. AUSTERMAN		✓
REP. STOLTZE		✓

YEA 4

NAY 7

Adopted
Rassard

AMENDMENT 3

OFFERED IN THE HOUSE

BY REPRESENTATIVE THOMPSON

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 19, following line 11:

2 Insert a new bill section to read:

3 **"* Sec. 22.** AS 43.55.025(b) is amended to read:

4 (b) To qualify for the production tax credit under (a)(5), (6), or (7) [(a)] of this
5 section, an exploration expenditure must be incurred for work performed after
6 June 30, 2008, and before July 1, 2016, or, for work qualifying under (a)(1), (2), (3),
7 or (4) of this section, for work performed in an area outside of the Cook Inlet
8 sedimentary basin and south of 68 degrees North latitude, after June 30, 2008,
9 and before January 1, 2022, and

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

12 (2) if for an exploration well,

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

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

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

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

1 after the date the well was spudded;

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

9 (4) may not be incurred for an exploration well or seismic exploration
10 that is included in a plan of exploration or a plan of development for any unit before
11 May 14, 2003."
12

13 Page 28, line 26:

14 Delete "sec. 26"

15 Insert "sec. 27"

16
17 Page 29, line 7:

18 Delete "sec. 30"

19 Insert "sec. 31"

20
21 Page 29, line 11:

22 Delete "23, and 31"

23 Insert "24, and 32"

24
25 Page 32, line 20:

26 Delete "sec. 26"

27 Insert "sec. 27"

Extends the 30% and 40% credits in AS 43.55.025(a)(1),(2),(3), or (4) set to expire in 2016 to 2022 for Middle Earth. The amendment leaves in place 2016 sunset for the 75% and 80% credits applicable only to Middle Earth.

~~Adopted~~

Rescinded

28-GS1647L.6
Nauman/Bullock
4/11/13

AMENDMENT

4

OFFERED IN THE HOUSE

BY REPRESENTATIVE TAMMIE WILSON

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 25, lines 27 - 29:

2 Delete "nominated by the two leading nonprofit trade associations representing the oil
3 and gas industry in the state and appointed by the governor, with one member nominated by
4 each association"

5 Insert "of the public appointed by the governor who do not represent the oil and gas
6 industry ["]~~in the state~~"

7

8 Page 26, line 22:

9 Delete "may not meet more than"

10 Insert "shall meet at least"

Failed
5/6

28-GS1647L.9
Nauman/Bullock
4/11/13

AMENDMENT

5

Garcia + Muñoz

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

- 1 Page 24, line 11, following "section,":
- 2 Insert "for the first seven years immediately following the commencement of
- 3 production subject to tax under AS 43.55.011(e),"
- 4
- 5 Page 24, line 30, following "section,":
- 6 Insert "for the first seven years immediately following the commencement of
- 7 production subject to tax under AS 43.55.011(e),"

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

Failed
5/6

DATE: 4/11/13

Amendment: 5

MEMBER

Favor

Oppose

REP. HOLMES		✓
REP. MUNOZ	✓	
REP. NEUMAN		✓
REP. THOMPSON		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON	✓	
REP. GARA	✓	
<i>Kawasaki</i> REP. GUTTENBERG	✓	
REP. AUSTERMAN	✓	
REP. STOLTZE		✓

YEA 5

NAY 6

Handwritten signatures and initials

Failed
2/9

28-GS1647\L.29
Nauman/Bullock
4/11/13

AMENDMENT

6

Gara & Kawasaki

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 4, line 18, following "to":

2 Insert "the sum of

3 (A)"

4

5 Page 4, line 20, following "percent":

6 Insert "; and

7 (B) the sum, over all months of the calendar year, of the tax
8 amounts determined under (g) of this section"

9

10 Page 4, line 21, through page 5, line 7:

11 Delete all material and insert:

12 "* Sec. 5. AS 43.55.011(g) is amended to read:

13 (g) For purposes of (e) of this section, the tax amount is determined as
14 follows:

15 (1) before January 1, 2014, for [FOR] each month of the calendar
16 year for which the producer's average monthly production tax value under
17 AS 43.55.160(a)(2) of a [PER] BTU equivalent barrel of the taxable oil and gas is
18 more than \$30, the amount of tax for purposes of (e)(1)(B) and (e)(2)(B) [(e)(2)] of
19 this section is determined by multiplying the monthly production tax value of the
20 taxable oil and gas produced during the month by the tax rate calculated as follows:

21 (A) [(1)] if the producer's average monthly production tax
22 value of a [PER] BTU equivalent barrel of the taxable oil and gas for the
23 month is not more than \$92.50, the tax rate is 0.4 percent multiplied by the

1 number that represents the difference between that average monthly production
2 tax value of a [PER] BTU equivalent barrel and \$30; or

3 (B) [(2)] if the producer's average monthly production tax value
4 of a [PER] BTU equivalent barrel of the taxable oil and gas for the month is
5 more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1
6 percent multiplied by the number that represents the difference between the
7 average monthly production tax value of a [PER] BTU equivalent barrel and
8 \$92.50, except that the sum determined under this paragraph may not exceed
9 50 percent;

10 (2) on or after January 1, 2014, for each month of the calendar
11 year for which the producer's average monthly production tax value under
12 AS 43.55.160(a)(2) of a BTU equivalent barrel of the taxable oil and gas is more
13 than \$60, the difference between the monthly production tax value of a BTU
14 equivalent barrel and \$60 multiplied by the volume of oil and gas produced by
15 the producer for the month multiplied by 10 percent."

16
17 Renumber the following bill sections accordingly.

18
19 Page 9, line 15, following "(ii)":

20 Insert "the sum of the amount calculated for the month under AS 43.55.011(g)
21 and"

22
23 Page 9, line 30, following "(iii)":

24 Insert "the sum of the amount calculated for the month under AS 43.55.011(g)
25 and"

26
27 Page 10, line 12, following "(ii)":

28 Insert "the sum of the amount calculated for the month under AS 43.55.011(g)
29 and"

30
31 Page 10, line 21, following "(i)":

1 Insert "the sum of the amount calculated for the month under AS 43.55.011(g)
2 and"

3

4 Page 11, lines 10 - 28:

5 Delete all material.

6

7 Renumber the following bill sections accordingly.

8

9 Page 13, lines 11 - 29:

10 Delete all material.

11

12 Renumber the following bill sections accordingly.

13

14 Page 28, line 20:

15 Delete "AS 43.55.020(d), 43.55.023(i), and 43.55.023(p)"

16 Insert "AS 43.55.023(i) and 43.55.023(p)"

17

18 Page 28, line 26:

19 Delete "sec. 26"

20 Insert "sec. 24"

21

22 Page 28, line 27:

23 Delete "sec. 13"

24 Insert "sec. 11"

25 Delete "secs. 15 - 18"

26 Insert "secs. 13 - 16"

27

28 Page 29, line 7:

29 Delete "sec. 30"

30 Insert "sec. 28"

31

1 Page 29, line 11:

2 Delete "15 - 18, 23, and 31"

3 Insert "13 - 16, 21, and 29"

4

5 Page 29, line 12:

6 Delete "sec. 13"

7 Insert "sec. 11"

8 Delete "sec. 26"

9 Insert "sec. 24"

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

*Failed
2/9*

DATE: 4/11/13

Amendment: 6

MEMBER

Favor

Oppose

REP. MUNOZ		✓
REP. NEUMAN		✓
REP. THOMPSON		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON		✓
REP. GARA	✓	
<i>Kawasaki</i> REP. GUTTENBERG	✓	
REP. HOLMES		✓
REP. STOLTZE		✓
REP. AUSTERMAN		✓

YEA 2 7

NAY 9 7

Failed
2/9

NEW AMENDMENT #7

Offered by
Representative Gara

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

BY: REPRESENTATIVES GARA and KAWASAKI

1 Page 24, line 13:

2 Delete "20"

3 Insert "15"

4

5 Page 24, line 28 through Page 25, line 8

6 Delete all material

7

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

*Failed
2/9*

DATE: 4/11/13

Amendment: 7 28-LS0021

MEMBER

Favor

Oppose

REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON		✓
REP. GARA	✓	
<i>Kawasaki</i> REP. GUTTENBERG	✓	
REP. HOLMES		✓
REP. MUNOZ		✓
REP. NEUMAN		✓
REP. THOMPSON		✓
REP. AUSTERMAN		✓
REP. STOLTZE		✓

YEA 2 2

NAY 9 9

9

Failed

#8

AMENDMENT

Coera + Kawasaki

OFFERED IN THE HOUSE
TO: HCS CSSB 21(RES)

1 Page 1, line 4:

2 Delete "rate"

3 Insert "rates"

4

5 Page 2, line 2:

6 Delete "and"

7

8 Page 2, line 3, following "amendments":

9 Insert "; and providing for an effective date"

10

11 Page 2, following line 16:

12 Insert a new bill section to read:

13 "* Sec. 3. AS 29.60.850(b), as amended by sec. 2 of this Act, is amended to read:

14 (b) Each fiscal year, the legislature may appropriate to the community revenue
15 sharing fund an amount equal to 20 percent of the money received by the state
16 during the previous calendar year under AS 43.55.011(g) [AS 43.20.030(c)]. The
17 amount may not exceed

18 (1) \$60,000,000; or

19 (2) the amount that, when added to the fund balance on June 30 of the
20 previous fiscal year, equals \$180,000,000."

21

22 Renumber the following bill sections accordingly.

23

1 Page 6, following line 13:

2 Insert a new bill section to read:

3 **** Sec. 13.** AS 43.55.011(e), as amended by sec. 12 of this Act, is repealed and reenacted to
4 read:

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

10 (1) the annual production tax value of the taxable oil and gas as
11 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

12 (2) the sum, over all months of the calendar year, of the tax amounts
13 determined under (q) of this section."
14

15 Renumber the following bill sections accordingly.
16

17 Page 7, following line 5:

18 Insert new bill sections to read:

19 **** Sec. 16.** AS 43.55.011(o), as amended by sec. 15 of this Act, is amended to read:

20 (o) Notwithstanding other provisions of this section, for a calendar year before
21 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas
22 produced from a lease or property outside the Cook Inlet sedimentary basin and used
23 in the state [, OTHER THAN GAS SUBJECT TO (p) OF THIS SECTION,] may not
24 exceed the amount of tax for each 1,000 cubic feet of gas that is determined under
25 (j)(2) of this section.

26 *** Sec. 17.** AS 43.55.011 is amended by adding a new subsection to read:

27 (q) For each month of the calendar year for which the producer's average
28 monthly production tax value under AS 43.55.160(a)(2) of a BTU equivalent barrel of
29 the taxable oil and gas is more than \$30, the amount of tax for purposes of (e)(2) of
30 this section is determined by multiplying the monthly production tax value of the
31 taxable oil and gas produced during the month by the tax rate calculated as follows:

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

5 (2) if the producer's average monthly production tax value of a BTU
 6 equivalent barrel of the taxable oil and gas for the month is more than \$92.50, the tax
 7 rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number
 8 that represents the difference between the average monthly production tax value of a
 9 BTU equivalent barrel and \$92.50, except that the sum determined under this
 10 paragraph may not exceed 50 percent."

11
 12 Renumber the following bill sections accordingly.

13
 14 Page 12, following line 16:

15 Insert a new bill section to read:

16 "* **Sec. 19.** AS 43.55.020(a), as amended by sec. 18 of this Act, is repealed and reenacted to
 17 read:

18 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f),
 19 (h), (i), (p), or (q) shall pay the tax as follows:

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

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

31 (i) zero; or

1 (ii) the sum of 25 percent and the tax rate calculated for
2 the month under AS 43.55.011(q) multiplied by the remainder obtained
3 by subtracting 1/12 of the producer's adjusted lease expenditures for the
4 calendar year of production under AS 43.55.165 and 43.55.170 that are
5 deductible for the leases or properties under AS 43.55.160 from the
6 gross value at the point of production of the oil and gas produced from
7 the leases or properties during the month for which the installment
8 payment is calculated;

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

11 (i) zero;

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

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

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

26 (i) zero; or

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

1 from the lease or property from the gross value at the point of
2 production of the oil or gas, respectively, produced from the lease or
3 property during the month for which the installment payment is
4 calculated;

5 (2) an amount calculated under (1)(C) of this subsection for oil or gas
6 produced from a lease or property

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

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

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

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

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

30 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
31 credits applied as allowed by law, that exceeds the total of the amounts due as

1 installment payments of estimated tax is due on March 31 of the year following the
2 calendar year of production."
3

4 Renumber the following bill sections accordingly.
5

6 Page 13, following line 4:

7 Insert a new bill section to read:

8 "* **Sec. 21.** AS 43.55.020(d), as amended by sec. 20 of this Act, is repealed and reenacted to
9 read:

10 (d) In making settlement with the royalty owner for oil and gas that is taxable
11 under AS 43.55.011, the producer may deduct the amount of the tax paid on taxable
12 royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in value at the
13 time the tax becomes due to the amount of the tax paid. If the total deductions of
14 installment payments of estimated tax for a calendar year exceed the actual tax for that
15 calendar year, the producer shall, before April 1 of the following year, refund the
16 excess to the royalty owner. Unless otherwise agreed between the producer and the
17 royalty owner, the amount of the tax paid under AS 43.55.011(e), (f), and (q) on
18 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
19 right to which constitutes a landowner's royalty interest, is considered to be the gross
20 value at the point of production of the taxable royalty oil and gas produced during the
21 calendar year multiplied by a figure that is a quotient, in which

22 (1) the numerator is the producer's total tax liability under
23 AS 43.55.011(e), (f), and (q) for the calendar year of production; and

24 (2) the denominator is the total gross value at the point of production
25 of the oil and gas taxable under AS 43.55.011(e), (f), and (q) produced by the producer
26 from all leases and properties in the state during the calendar year."
27

28 Renumber the following bill sections accordingly.
29

30 Page 15, following line 6:

31 Insert a new bill section to read:

1 ** Sec. 25. AS 43.55.023(a), as amended by sec. 24 of this Act, is amended to read:

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

4 (1) notwithstanding that a qualified capital expenditure may be a
5 deductible lease expenditure for purposes of calculating the production tax value of oil
6 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
7 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or
8 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit
9 against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that
10 expenditure; **however, not more than half of the tax credit may be applied for a**
11 **single calendar year;**

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

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

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

19 (3) A CREDIT FOR A QUALIFIED CAPITAL EXPENDITURE
20 INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS
21 DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE MAY BE
22 TAKEN ONLY IF THE EXPENDITURE IS INCURRED BEFORE JANUARY 1,
23 2014]."

24
25 Renumber the following bill sections accordingly.

26
27 Page 15, following line 19:

28 Insert a new bill section to read:

29 ** Sec. 27. AS 43.55.023(b), as amended by sec. 26 of this Act, is amended to read:

30 (b) A [FOR LEASE EXPENDITURES INCURRED TO EXPLORE FOR,
31 DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED SOUTH OF 68

1 DEGREES NORTH LATITUDE, A] producer or explorer may elect to take a tax
2 credit in the amount of 25 percent of a carried-forward annual loss. [FOR LEASE
3 EXPENDITURES INCURRED AFTER DECEMBER 31, 2013, TO EXPLORE FOR,
4 DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68
5 DEGREES NORTH LATITUDE, A PRODUCER OR EXPLORER MAY ELECT TO
6 TAKE A TAX CREDIT IN THE AMOUNT OF 33 PERCENT OF A CARRIED-
7 FORWARD ANNUAL LOSS.] A credit under this subsection may be applied against
8 a tax levied by AS 43.55.011(e). For purposes of this subsection, a carried-forward
9 annual loss is the amount of a producer's or explorer's adjusted lease expenditures
10 under AS 43.55.165 and 43.55.170 for a previous calendar year that was not
11 deductible in calculating production tax values for that calendar year under
12 AS 43.55.160."

13
14 Renumber the following bill sections accordingly.

15
16 Page 16, following line 13:

17 Insert a new bill section to read:

18 "* Sec. 29. AS 43.55.023(d), as amended by sec. 28 of this Act, is repealed and reenacted to
19 read:

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

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

10
11 Renumber the following bill sections accordingly.

12
13 Page 16, following line 29:

14 Insert a new bill section to read:

15 **"* Sec. 31.** AS 43.55.023(g), as amended by sec. 30 of this Act, is amended to read:

16 (g) The issuance of a transferable tax credit certificate under (d) or (p) of this
17 section or former (m) of this section or the purchase of a certificate under
18 AS 43.55.028 does not limit the department's ability to later audit a tax credit claim to
19 which the certificate relates or to adjust the claim if the department determines, as a
20 result of the audit, that the applicant was not entitled to the amount of the credit for
21 which the certificate was issued. The tax liability of the applicant under
22 AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit
23 that exceeds that to which the applicant was entitled, or the applicant's available valid
24 outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced
25 by that amount. If the applicant's tax liability is increased under this subsection, the
26 increase bears interest under [AS 43.05.225(a) BEFORE JANUARY 1, 2014, OR
27 UNDER] AS 43.05.225(b)(1) [ON AND AFTER JANUARY 1, 2014,] from the date
28 the transferable tax credit certificate was issued. For purposes of this subsection, an
29 applicant that is an explorer is considered a producer subject to the tax levied by
30 AS 43.55.011(e)."

1 Renumber the following bill sections accordingly.

2
3 Page 17, following line 12:

4 Insert a new bill section to read:

5 **"* Sec. 33.** AS 43.55.023(n), as amended by sec. 32 of this Act, is amended to read:

6 (n) For the purposes of *(l)* **and (q)** of this section, a well lease expenditure
7 incurred in the state south of 68 degrees North latitude is a lease expenditure that is

8 (1) directly related to an exploration well, a stratigraphic test well, a
9 producing well, or an injection well other than a disposal well, located in the state
10 south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure
11 and an intangible drilling and development cost authorized under 26 U.S.C. (Internal
12 Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made
13 under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well
14 includes an expenditure for well sidetracking, well deepening, well completion or
15 recompletion, or well workover, regardless of whether the well is or has been a
16 producing well; or

17 (2) an expense for seismic work conducted within the boundaries of a
18 production or exploration unit."
19

20 Renumber the following bill sections accordingly.

21
22 Page 17, line 13:

23 Delete "a new subsection"

24 Insert "new subsections"
25

26 Page 17, following line 18:

27 Insert a new subsection to read:

28 "(q) For a lease expenditure incurred in the state south of 68 degrees North
29 latitude after December 31, 2018, that qualifies for tax credits under (a) and (b) of this
30 section, and for a well lease expenditure incurred in the state south of 68 degrees
31 North latitude that qualifies for a tax credit under *(l)* of this section, the department

1 shall issue transferable tax credit certificates to the person entitled to the credit for the
2 full amount of the credit. The transferable tax credit certificates do not expire."

3
4 Page 21, following line 26:

5 Insert a new bill section to read:

6 **"* Sec. 41.** AS 43.55.028(e), as amended by sec. 40 of this Act, is amended to read:

7 (e) The department, on the written application of a person to whom a
8 transferable tax credit certificate has been issued under AS 43.55.023(d) or (p) or
9 former AS 43.55.023(m) or to whom a production tax credit certificate has been issued
10 under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to
11 purchase, in whole or in part, the certificate if the department finds that

12 (1) the calendar year of the purchase is not earlier than the first
13 calendar year for which the credit shown on the certificate would otherwise be allowed
14 to be applied against a tax;

15 (2) the applicant does not have an outstanding liability to the state for
16 unpaid delinquent taxes under this title;

17 (3) the applicant's total tax liability under AS 43.55.011(e), after
18 application of all available tax credits, for the calendar year in which the application is
19 made is zero;

20 (4) the applicant's average daily production of oil and gas taxable
21 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
22 the application is made was not more than 50,000 BTU equivalent barrels; and

23 (5) the purchase is consistent with this section and regulations adopted
24 under this section."

25
26 Renumber the following bill sections accordingly.

27
28 Page 22, following line 5:

29 Insert a new bill section to read:

30 **"* Sec. 43.** AS 43.55.028(g), as amended by sec. 42 of this Act, is amended to read:

31 (g) The department may adopt regulations to carry out the purposes of this

1 section, including standards and procedures to allocate available money among
 2 applications for purchases under this chapter and claims for refunds and payments
 3 under AS 43.20.046 or 43.20.047 when the total amount of the applications for
 4 purchase and claims for refund exceed the amount of available money in the fund. The
 5 regulations adopted by the department may not, when allocating available money in
 6 the fund under this section, distinguish an application for the purchase of a credit
 7 certificate issued under AS 43.55.023(p) or former AS 43.55.023(m), or a claim for a
 8 refund or payment under AS 43.20.046 or 43.20.047."

9
 10 Renumber the following bill sections accordingly.

11
 12 Page 22, following line 18:

13 Insert a new bill section to read:

14 **** Sec. 45.** AS 43.55.030(e), as amended by sec. 44 of this Act, is amended to read:

15 (e) An explorer or producer that incurs a lease expenditure under
 16 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
 17 year but does not produce oil or gas from a lease or property in the state during the
 18 calendar year shall file with the department, on March 31 of the following year, a
 19 statement, under oath, in a form prescribed by the department, giving, with other
 20 information required, the following:

21 (1) the [EXPLORER'S OR] producer's qualified capital expenditures,
 22 as defined in AS 43.55.023, other lease expenditures under AS 43.55.165, and
 23 adjustments or other payments or credits under AS 43.55.170; and

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

27
 28 Renumber the following bill sections accordingly.

29
 30 Page 24, following line 23:

31 Insert a new bill section to read:

1 ** Sec. 47. AS 43.55.160(a), as amended by sec. 46 of this Act, is repealed and reenacted to
2 read:

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

4 (1) AS 43.55.011(e), the annual production tax value of the taxable oil,
5 gas, or oil and gas subject to this paragraph produced during a calendar year is the
6 gross value at the point of production of the oil, gas, or oil and gas taxable under
7 AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the
8 calendar year applicable to the oil, gas, or oil and gas, as applicable, produced by the
9 producer from leases or properties, as adjusted under AS 43.55.170; this paragraph
10 applies to

11 (A) oil and gas produced from leases or properties in the state
12 that include land north of 68 degrees North latitude, other than gas produced
13 before 2022 and used in the state;

14 (B) oil and gas produced from leases or properties in the state
15 outside the Cook Inlet sedimentary basin, no part of which is north of 68
16 degrees North latitude; this subparagraph does not apply to

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

18 (ii) oil and gas subject to AS 43.55.011(p);

19 (C) oil produced before 2022 from a lease or property in the
20 Cook Inlet sedimentary basin;

21 (D) gas produced before 2022 from a lease or property in the
22 Cook Inlet sedimentary basin;

23 (E) gas produced before 2022 from a lease or property in the
24 state outside the Cook Inlet sedimentary basin and used in the state;

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

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

30 (2) AS 43.55.011(q), the monthly production tax value of the taxable

31 (A) oil and gas produced during a month from leases or

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

8 (B) oil and gas produced during a month from leases or
9 properties in the state outside the Cook Inlet sedimentary basin, no part of
10 which is north of 68 degrees North latitude, is the gross value at the point of
11 production of the oil and gas taxable under AS 43.55.011(e) and produced by
12 the producer from those leases or properties, less 1/12 of the producer's lease
13 expenditures under AS 43.55.165 for the calendar year applicable to the oil and
14 gas produced by the producer from those leases or properties, as adjusted under
15 AS 43.55.170; this subparagraph does not apply to gas subject to
16 AS 43.55.011(o);

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

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

29 (E) gas produced during a month from a lease or property
30 outside the Cook Inlet sedimentary basin and used in the state is the gross
31 value at the point of production of that gas taxable under AS 43.55.011(e) and

1 produced by the producer from that lease or property, less 1/12 of the
2 producer's lease expenditures under AS 43.55.165 for the calendar year
3 applicable to that gas produced by the producer from that lease or property, as
4 adjusted under AS 43.55.170."
5

6 Renumber the following bill sections accordingly.
7

8 Page 26, following line 2:

9 Insert a new subsection to read:

10 "(h) Notwithstanding any contrary provision of AS 43.55.150, for purposes of
11 calculating a monthly production tax value under (a)(2) of this section, the gross value
12 at the point of production of the oil and gas is calculated under regulations adopted by
13 the department that provide for using an appropriate monthly share of the producer's
14 costs of transportation for the calendar year."
15

16 Page 31, following line 11:

17 Insert a new bill section to read:

18 "** Sec. 59. AS 43.55.020(l), 43.55.024(i), 43.55.024(j), 43.55.160(f), and 43.55.160(g) are
19 repealed."
20

21 Page 31, line 17:

22 Delete "Section 13 of this Act and AS 43.55.160(a)(1)(E), as amended by sec. 32"

23 Insert "Section 15 of this Act, AS 43.55.160(a)(1)(E), as amended by sec. 46 of this
24 Act, and AS 43.55.160(f) and (g) as enacted by sec. 48"
25

26 Page 31, line 19:

27 Delete "sec. 18"

28 Insert "sec. 24"

29 Delete "secs. 20 - 23"

30 Insert "secs. 28, 30, 32, and AS 43.55.023(p) in sec. 34 of this Act"
31

1 Page 31, line 21:

2 Delete "Section 19"

3 Insert "Section 26"

4

5 Page 31, following line 22:

6 Insert a new subsection to read:

7 "(d) AS 43.55.160(h), enacted by sec. 48 of this Act, applies to the transportation of
8 oil and gas produced on and after the effective date of sec. 13 of this Act."

9

10 Page 32, line 19:

11 Delete "Sections 13, 20 - 23, 29, and 43"

12 Insert "Sections 15, 28, 30, 32, 34, and 58"

13

14 Page 32, line 20:

15 Delete "sec. 18"

16 Insert "sec. 24"

17 Delete "sec. 32"

18 Insert "sec. 46"

19

20 Page 32, following line 21:

21 Insert new bill sections to read:

22 **** Sec. 65.** The uncodified law of the State of Alaska is amended by adding a new section to
23 read:

24 **CONDITIONAL EFFECT.** Sections 3, 13, 16, 17, 19, 21, 25, 27, 29, 31, 33, 41, 43,
25 45, 47, and 59 of this Act, AS 43.55.023(q) in sec. 34 of this Act, and AS 43.55.160(h) in sec.
26 48 of this Act take effect only if the volume of oil production for the calendar year 2018 does
27 not exceed the volume of oil produced for the 2013 calendar year. The commissioner of
28 natural resources shall notify the lieutenant governor and the revisor of statutes before
29 January 1, 2019, or as soon as practicable thereafter, if the volume of oil production for the
30 calendar year 2018 is greater than the volume of oil produced during the 2013 calendar year.

31 *** Sec. 66.** If secs. 3, 13, 16, 17, 19, 21, 25, 27, 29, 31, 33, 41, 43, 45, 47, and 59 of this Act,

- 1 AS 43.55.023(q) in sec. 34 of this Act, and AS 43.55.160(h) in sec. 48 of this Act take effect
- 2 under sec. 65 of this Act, they take effect January 1, 2019."

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

3/8
Failed

DATE: 4/11/13

Amendment: 8

MEMBER

Favor

Oppose

REP. NEUMAN		✓
REP. THOMPSON		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON	✓	
REP. GARA	✓	
REP. ^{KAWASAKI} GUTTENBERG	✓	
REP. HOLMES		✓
REP. MUNOZ		✓
REP. AUSTERMAN		✓
REP. STOLTZE		✓

YEA 3 93
 NAY 8 18

Failed
2/9

28-GS1647L.11
Nauman/Bullock
4/11/13

10

#9

AMENDMENT

Gora + Kawasaki

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

- 1 Page 24, line 12, following "gas":
- 2 Insert "produced from an area, unit, or expanded area that did not have production
- 3 before July 1, 2013, and"
- 4
- 5 Page 24, line 30, following "gas":
- 6 Insert "produced from an area, unit, or expanded area that did not have production
- 7 before July 1, 2013, and"

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

Failed 2/9

DATE: 4/11/13

Amendment: 9

MEMBER

Favor

Oppose

REP. NEUMAN		✓
REP. THOMPSON		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON		✓
REP. GARA	✓	
<i>KAWASAKI</i> REP. GUTTENBERG	✓	
REP. HOLMES		✓
REP. MUNOZ		✓
REP. AUSTERMAN		✓
REP. STOLTZE		✓

YEA 2 2

NAY 9 9

Withdrawn

10

Gara + Kawasaki

AMENDMENT

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 24, line 22, following "area.":

2 Insert "This subsection does not apply to a lease or property that is located within a
3 unit for more than 20 years before commercial production on the lease or property."
4

5 Page 24, lines 25 - 27:

6 Delete "In this subsection, "participating area" means a reservoir or portion of a
7 reservoir producing or contributing to production as approved by the Department of Natural
8 Resources."
9

10 Page 25, line 6, following "calculated.":

11 Insert "This subsection does not apply to a lease or property that is located within a
12 unit for more than 20 years before commercial production on the lease or property."
13

14 Page 25, following line 8:

15 Insert a new subsection to read:

16 "(h) In this section,

17 (1) "commercial production" means the production of oil for the
18 purpose of sale or other beneficial use, except when the sale or beneficial use is
19 incidental to the testing of an unproven well or unproven completion interval; and

20 (2) "participating area" means a reservoir or portion of a reservoir
21 producing or contributing to production as approved by the Department of Natural
22 Resources."

Failed
2/9

28-GS1647L.14
Nauman/Bullock
4/11/13

12

AMENDMENT

#11

Gara i Kawasaki

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 4, line 17:

2 Delete "(g)"

3 Insert "(g)(1) [(g)]"

4

5 Page 4, line 18, following "to":

6 Insert "the sum of

7 (A)"

8

9 Page 4, line 20, following "percent":

10 Insert "; and

11 (B) the sum, over all the months of the calendar year, of the

12 tax amounts determined under (g)(2) of this section"

13

14 Page 4, line 21, through page 5, line 7:

15 Delete all material and insert:

16 "** Sec. 5. AS 43.55.011(g) is amended to read:

17 (g) For purposes of (e) of this section, the tax amount is determined by

18 multiplying the monthly production tax value of the taxable oil and gas produced

19 during the month by the tax rate calculated as follows:

20 (1) before January 1, 2014, for [FOR] each month of the calendar

21 year for which the producer's average monthly production tax value under

22 AS 43.55.160(a)(2) of a [PER] BTU equivalent barrel of the taxable oil and gas is

23 more than \$30, [THE AMOUNT OF TAX FOR PURPOSES OF (e)(2) OF THIS

1 SECTION IS DETERMINED BY MULTIPLYING THE MONTHLY
2 PRODUCTION TAX VALUE OF THE TAXABLE OIL AND GAS PRODUCED
3 DURING THE MONTH BY] the tax rate calculated as follows:

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

9 (B) [(2)] if the producer's average monthly production tax value
10 of a [PER] BTU equivalent barrel of the taxable oil and gas for the month is
11 more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1
12 percent multiplied by the number that represents the difference between the
13 average monthly production tax value of a [PER] BTU equivalent barrel and
14 \$92.50, except that the sum determined under this paragraph may not exceed
15 50 percent;

16 (2) on or after January 1, 2014, for each month of the calendar
17 year for which the producer's average monthly production tax value under
18 AS 43.55.160(a)(2) of a BTU equivalent barrel of the taxable oil and gas is more
19 than \$55, the tax rate calculated by multiplying by 0.2 the number that
20 represents the difference between that average monthly production tax value of a
21 BTU equivalent barrel and \$55, except that the tax rate determined under this
22 paragraph may not exceed 15 percent."

23
24 Page 9, line 15:

25 Delete "35 percent"

26 Insert "the sum of 35 percent and the tax rate calculated for the month under
27 AS 43.55.011(g)"

28
29 Page 9, line 30:

30 Delete "35 percent"

31 Insert "the sum of 35 percent and the tax rate calculated for the month under

1 AS 43.55.011(g)"

2

3 Page 10, line 12:

4 Delete "35 percent"

5 Insert "the sum of 35 percent and the tax rate calculated for the month under

6 AS 43.55.011(g)"

7

8 Page 10, line 21:

9 Delete "35 percent"

10 Insert "the sum of 35 percent and the tax rate calculated for the month under

11 AS 43.55.011(g)"

12

13 Page 11, lines 10 - 28:

14 Delete all material.

15

16 Renumber the following bill sections accordingly.

17

18 Page 13, lines 11 - 29:

19 Delete all material.

20

21 Renumber the following bill sections accordingly.

22

23 Page 14, lines 22 - 26:

24 Delete "For lease expenditures incurred on and after January 1, 2014, and before
25 January 1, 2016, to explore for, develop, or produce oil or gas deposits located north of
26 68 degrees North latitude, a producer or explorer may elect to take a tax credit in the
27 amount of 45 percent of a carried-forward annual loss."

28

29 Page 14, line 27:

30 Delete "2016"

31 Insert "2014"

- 1
- 2 Page 28, line 20:
 - 3 Delete "AS 43.55.020(d), 43.55.023(i), and 43.55.023(p)"
 - 4 Insert "AS 43.55.023(i) and 43.55.023(p)"
 - 5
- 6 Page 28, line 26:
 - 7 Delete "sec. 26"
 - 8 Insert "sec. 24"
 - 9
- 10 Page 28, line 27:
 - 11 Delete "sec. 13"
 - 12 Insert "sec. 11"
 - 13 Delete "secs. 15 - 18"
 - 14 Insert "secs. 13 - 16"
 - 15
- 16 Page 29, line 7:
 - 17 Delete "sec. 30"
 - 18 Insert "sec. 28"
 - 19
- 20 Page 29, line 11:
 - 21 Delete "15 - 18, 23, and 31"
 - 22 Insert "13 - 16, 21, and 29"
 - 23
- 24 Page 29, line 12:
 - 25 Delete "sec. 13"
 - 26 Insert "sec. 11"
 - 27 Delete "sec. 26"
 - 28 Insert "sec. 24"

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

Failed
2/9

DATE:

4/11/13

Amendment:

11

MEMBER

Favor

Oppose

MEMBER	Favor	Oppose
REP. HOLMES		✓
REP. MUNOZ		✓
REP. NEUMAN		✓
REP. THOMPSON		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON		✓
REP. GARA	✓	
<i>Kawasaki</i> REP. GUTTENBERG	✓	
REP. AUSTERMAN		✓
REP. STOLTZE		✓

YEA

2

NAY

9

Withdrawn

28-GS1647\L.17
Nauman/Bullock
4/11/13

13

AMENDMENT #12

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

Gara + Kawasaki

- 1 Page 17, line 28:
- 2 Delete "\$80"
- 3 Insert "\$50"
- 4
- 5 Page 17, line 30:
- 6 Delete "\$80"
- 7 Insert "\$50"
- 8
- 9 Page 17, line 31:
- 10 Delete "\$90"
- 11 Insert "\$60"
- 12
- 13 Page 18, line 2:
- 14 Delete "\$90"
- 15 Insert "\$60"
- 16
- 17 Page 18, line 3:
- 18 Delete "\$100"
- 19 Insert "\$70"
- 20
- 21 Page 18, line 5:
- 22 Delete "\$100"
- 23 Insert "\$70"

1

2 Page 18, line 6:

3 Delete "\$110"

4 Insert "\$80"

5

6 Page 18, line 8:

7 Delete "\$110"

8 Insert "\$80"

9

10 Page 18, line 9:

11 Delete "\$120"

12 Insert "\$90"

13

14 Page 18, line 11:

15 Delete "\$120"

16 Insert "\$90"

17

18 Page 18, line 12:

19 Delete "\$130"

20 Insert "\$100"

21

22 Page 18, line 14:

23 Delete "\$130"

24 Insert "\$100"

25

26 Page 18, line 15:

27 Delete "\$140"

28 Insert "\$110"

29

30 Page 18, line 17:

31 Delete "\$140"

1 Insert "\$110"

2

3 Page 18, line 18:

4 Delete "\$150"

5 Insert "\$120"

6

7 Page 19, line 20:

8 Delete "\$150"

9 Insert "\$120"

14

13

Withdrawn

AMENDMENT

Kawasaki + Coera

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 17, line 27, through page 18, line 20:

2 Delete all material and insert:

3 "(1) if the average gross value at the point of production for the month
4 is less than \$80 a barrel,

5 (A) \$8 for each barrel of taxable oil if the volume of taxable oil
6 produced by the producer for the month exceeds the volume of taxable oil
7 produced in the corresponding month in 2012; or

8 (B) \$6 for each barrel of taxable oil if the volume of taxable oil
9 produced by the producer for the month does not exceed the volume of taxable
10 oil produced in the corresponding month in 2012;

11 (2) if the average gross value at the point of production for the month
12 is greater than or equal to \$80 a barrel, but less than \$90 a barrel,

13 (A) \$7 for each barrel of taxable oil if the volume of taxable oil
14 produced by the producer for the month exceeds the volume of taxable oil
15 produced in the corresponding month in 2012; or

16 (B) \$5 for each barrel of taxable oil if the volume of taxable oil
17 produced by the producer for the month does not exceed the volume of taxable
18 oil produced in the corresponding month in 2012;

19 (3) if the average gross value at the point of production for the month
20 is greater than or equal to \$90 a barrel, but less than \$100 a barrel,

21 (A) \$6 for each barrel of taxable oil if the volume of taxable oil
22 produced by the producer for the month exceeds the volume of taxable oil
23 produced in the corresponding month in 2012; or

1 (B) \$4 for each barrel of taxable oil if the volume of taxable oil
2 produced by the producer for the month does not exceed the volume of taxable
3 oil produced in the corresponding month in 2012;

4 (4) if the average gross value at the point of production for the month
5 is greater than or equal to \$100 a barrel, but less than \$110 a barrel,

6 (A) \$5 for each barrel of taxable oil if the volume of taxable oil
7 produced by the producer for the month exceeds the volume of taxable oil
8 produced in the corresponding month in 2012; or

9 (B) \$3 for each barrel of taxable oil if the volume of taxable oil
10 produced by the producer for the month does not exceed the volume of taxable
11 oil produced in the corresponding month in 2012;

12 (5) if the average gross value at the point of production for the month
13 is greater than or equal to \$110 a barrel, but less than \$120 a barrel,

14 (A) \$4 for each barrel of taxable oil if the volume of taxable oil
15 produced by the producer for the month exceeds the volume of taxable oil
16 produced in the corresponding month in 2012; or

17 (B) \$2 for each barrel of taxable oil if the volume of taxable oil
18 produced by the producer for the month does not exceed the volume of taxable
19 oil produced in the corresponding month in 2012;

20 (6) if the average gross value at the point of production for the month
21 is greater than or equal to \$120 a barrel, but less than \$130 a barrel,

22 (A) \$3 for each barrel of taxable oil if the volume of taxable oil
23 produced by the producer for the month exceeds the volume of taxable oil
24 produced in the corresponding month in 2012; or

25 (B) \$1 for each barrel of taxable oil if the volume of taxable oil
26 produced by the producer for the month does not exceed the volume of taxable
27 oil produced in the corresponding month in 2012;

28 (7) if the average gross value at the point of production for the month
29 is greater than or equal to \$130 a barrel, but less than \$140 a barrel,

30 (A) \$2 for each barrel of taxable oil if the volume of taxable oil
31 produced by the producer for the month exceeds the volume of taxable oil

1 produced in the corresponding month in 2012; or

2 (B) zero if the volume of taxable oil produced by the producer
3 for the month does not exceed the volume of taxable oil produced in the
4 corresponding month in 2012;

5 (8) if the average gross value at the point of production for the month
6 is greater than or equal to \$140 a barrel, but less than \$150 a barrel,

7 (A) \$1 for each barrel of taxable oil if the volume of taxable oil
8 produced by the producer for the month exceeds the volume of taxable oil
9 produced in the corresponding month in 2012; or

10 (B) zero if the volume of taxable oil produced by the producer
11 for the month does not exceed the volume of taxable oil produced in the
12 corresponding month in 2012;

13 (9) zero if the average gross value at the point of production for the
14 month is greater than or equal to \$150 a barrel."

15

Failed
2/9

AMENDMENT

14

Cora + Kawasaki

OFFERED IN THE HOUSE

TO: HCS CSSB 21(FIN), Draft Version "L"

1 Page 1, line 1, through page 2, line 2:

2 Delete all material and insert:

3 **""An Act relating to the oil and gas production tax; relating to oil and gas production**
4 **tax credits; amending the minimum tax on oil and gas production; relating to the**
5 **determination of the production tax value of oil and gas; relating to the financing of oil**
6 **processing facilities on the North Slope by the Alaska Industrial Development and**
7 **Export Authority; and providing for an effective date.""**

8

9 Page 2, line 4, through page 29, line 13:

10 Delete all material and insert:

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

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

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

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

22 *** Sec. 2.** AS 43.55.011(f) is repealed and reenacted to read:

23 (f) Except for oil and gas subject to (i) of this section and gas subject to (o) of

1 this section, the provisions of this subsection apply to oil and gas produced from each
 2 lease or property within a unit or nonunitized reservoir that has cumulatively produced
 3 1,000,000,000 BTU equivalent barrels of oil or gas by the close of the most recent
 4 calendar year and from which the average daily oil and gas production from the unit or
 5 nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU
 6 equivalent barrels. Notwithstanding any contrary provision of law, a producer may not
 7 apply tax credits to reduce its total tax liability under (e) and (g) of this section for oil
 8 and gas produced from all leases or properties within the unit or nonunitized reservoir
 9 below 10 percent of the total gross value at the point of production of that oil and gas.
 10 If the amount of tax calculated by multiplying the tax rates in (e) and (g) of this
 11 section by the total production tax value of the oil and gas taxable under (e) and (g) of
 12 this section produced from all of the producer's leases or properties within the unit or
 13 nonunitized reservoir is less than 10 percent of the total gross value at the point of
 14 production of that oil and gas, the tax levied by (e) and (g) of this section for that oil
 15 and gas is equal to 10 percent of the total gross value at the point of production of that
 16 oil and gas.

17 * **Sec. 3.** AS 43.55.011(g) is amended to read:

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

24 (1) 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 not more than
 26 \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the
 27 difference between that average monthly production tax value of a [PER] BTU
 28 equivalent barrel and \$30; or

29 (2) if the producer's average monthly production tax value of a [PER]
 30 BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50,
 31 the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the

1 number that represents the difference between the average monthly production tax
 2 value of a [PER] BTU equivalent barrel and \$92.50, except that the sum determined
 3 under this paragraph may not exceed 30 [50] percent.

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

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

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

14 (A) for oil and gas produced from leases or properties in the
 15 state outside the Cook Inlet sedimentary basin but not subject to
 16 AS 43.55.011(o) or (p), other than leases or properties subject to
 17 AS 43.55.011(f), 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 for the leases or properties under AS 43.55.160 **and 1/12 of**
 24 **the adjustment to production tax value for the calendar year under**
 25 **AS 43.55.162** from the gross value at the point of production of the oil
 26 and gas produced from the leases or properties during the month for
 27 which the installment payment is calculated;

28 (B) for oil and gas produced from leases or properties subject
 29 to AS 43.55.011(f), **10 percent of the gross value at the point of production**
 30 **of that oil and gas** [THE GREATEST OF

31 (i) ZERO;

1 (ii) ZERO PERCENT, ONE PERCENT, TWO
 2 PERCENT, THREE PERCENT, OR FOUR PERCENT, AS
 3 APPLICABLE, OF THE GROSS VALUE AT THE POINT OF
 4 PRODUCTION OF THE OIL AND GAS PRODUCED FROM ALL
 5 LEASES OR PROPERTIES DURING THE MONTH FOR WHICH
 6 THE INSTALLMENT PAYMENT IS CALCULATED; OR

7 (iii) THE SUM OF 25 PERCENT AND THE TAX
 8 RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g)
 9 MULTIPLIED BY THE REMAINDER OBTAINED BY
 10 SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE
 11 EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION
 12 UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE
 13 FOR THOSE LEASES OR PROPERTIES UNDER AS 43.55.160
 14 FROM THE GROSS VALUE AT THE POINT OF PRODUCTION
 15 OF THE OIL AND GAS PRODUCED FROM THOSE LEASES OR
 16 PROPERTIES DURING THE MONTH FOR WHICH THE
 17 INSTALLMENT PAYMENT IS CALCULATED];

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

20 (i) zero; or

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

1 (2) an amount calculated under (1)(C) of this subsection for oil or gas
2 produced from a lease or property

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

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

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

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

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

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

30 * Sec. 5. AS 43.55.024(d) is amended to read:

31 (d) A producer may not take a tax credit under (c) of this section for any

1 calendar year after the later of

2 (1) 2022 [2016]; or

3 (2) if the producer did not have commercial oil or gas production from
4 a lease or property in the state before April 1, 2006, the ninth calendar year after the
5 calendar year during which the producer first has commercial oil or gas production
6 before May 1, 2016, from at least one lease or property in the state.

7 * **Sec. 6.** AS 43.55 is amended by adding a new section to read:

8 **Sec. 43.55.026. Heavy oil research and development tax credit.** (a) A
9 taxpayer may apply 20 percent of the taxpayer's expenditure attributable to this state
10 for research and development related to improving methods of producing heavy oil in
11 the state for the taxable year that exceeds the base amount, but not to exceed
12 \$10,000,000, as a credit against the state tax liability imposed on the taxpayer under
13 this chapter.

14 (b) Research and development expenditures in this section are attributable to
15 this state if the research and development is being conducted in this state or the payroll
16 of employees conducting the research and development is in this state. In this
17 subsection, payroll of an employee is in this state if compensation is paid to an
18 employee in this state and reported as paid in this state in the quarterly contribution
19 report under AS 23.20 to the Department of Labor and Workforce Development.

20 (c) If the tax credit under this section exceeds the taxpayer's tax liability after
21 other tax credits are taken under this chapter for the year in which the expenditure is
22 incurred, the excess of the tax credit over the liability may be carried forward for up to
23 seven years. If an unused credit is carried forward to a tax year from an earlier year,
24 the credit arising in the earliest year is applied first against the tax liability for the year.

25 (d) A person may not claim a credit under this section for research and
26 development expenditures that were deducted in the calculation of tax liability under
27 AS 43.55.011(e).

28 (e) Each year, if three or more taxpayers claim the credit authorized under this
29 section during the immediately preceding year, the department shall report to the
30 legislature the number of taxpayers who claimed credits under this section in the prior
31 year, the total cumulative amount of credits granted to all taxpayers under this section

1 for the prior tax year, a description of the research and development projects for which
 2 the credit was granted, and the total cumulative number of employees conducting the
 3 research and development for which all taxpayers claim the credit.

4 (f) The commissioner shall establish in regulation a method for apportioning
 5 research expenditures of a producer related to heavy oil production in and outside of
 6 the state. When developing the regulations, the commissioner may consider the
 7 relative amounts of heavy oil the producer is seeking to produce in areas in and
 8 outside of the state or consider another reasonable basis on which fairly to apportion
 9 costs for research related to in-state oil production and oil produced outside of the
 10 state.

11 (g) In this section, "base amount" means the average of research and
 12 development expenditures related to improving methods of producing heavy oil and
 13 attributable to this state for the three tax years immediately preceding the taxable year
 14 for which the credit is being claimed.

15 * Sec. 7. AS 43.55.030(a) is amended to read:

16 (a) A producer that produces oil or gas from a lease or property in the state
 17 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
 18 for that oil or gas, shall file with the department on March 31 of the following year a
 19 statement, under oath, in a form prescribed by the department, giving, with other
 20 information required by the department under a regulation adopted by the
 21 department, the following:

22 (1) a description of each lease or property from which oil or gas was
 23 produced, by name, legal description, lease number, or accounting codes assigned by
 24 the department;

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

27 (3) the gross amount of oil and the gross amount of gas produced from
 28 each lease or property, and the percentage of the gross amount of oil and gas owned by
 29 the producer;

30 (4) the gross value at the point of production of the oil and of the gas
 31 produced from each lease or property owned by the producer and the costs of

1 transportation of the oil and gas;

2 (5) the name of the first purchaser and the price received for the oil and
3 for the gas, unless relieved from this requirement in whole or in part by the
4 department;

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

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

9 (8) any claims for tax credits to be applied; [AND]

10 (9) calculations showing the amounts, if any, that were or are due
11 under AS 43.55.020(a) and interest on any underpayment or overpayment; **and**

12 **(10) for each expenditure that is the basis for a credit claimed**
13 **under AS 43.55.023 or 43.55.025, a description of the expenditure, a detailed**
14 **description of the purpose of the expenditure, and a description of the lease or**
15 **property for which the expenditure was incurred; notwithstanding**
16 **AS 40.25.100(a) and AS 43.05.230(a), information submitted under this**
17 **paragraph may be disclosed to the public and shall be disclosed to the legislature**
18 **in a report submitted within 10 days after the convening of the next regular**
19 **legislative session following the date a statement is filed under this section.**

20 * Sec. 8. AS 43.55.030(e) is amended to read:

21 (e) An explorer or producer that incurs a lease expenditure under
22 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
23 year but does not produce oil or gas from a lease or property in the state during the
24 calendar year shall file with the department on March 31 of the following year a
25 statement, under oath, in a form prescribed by the department, giving, with other
26 information required **by the department under a regulation adopted by the**
27 **department**, the following:

28 (1) the producer's qualified capital expenditures, as defined in
29 AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other
30 payments or credits under AS 43.55.170; [AND]

31 (2) if the explorer or producer receives a payment or credit under

1 AS 43.55.170, calculations showing whether the explorer or producer is liable for a
2 tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount; **and**

3 **(3) for each expenditure that is the basis for a credit claimed under**
4 **this chapter, a description of the expenditure, a detailed description of the**
5 **purpose of the expenditure, and a description of the lease or property for which**
6 **the expenditure was incurred; notwithstanding AS 40.25.100(a) and**
7 **AS 43.05.230(a), information submitted under this paragraph may be disclosed to**
8 **the public and shall be disclosed to the legislature in a report submitted within 10**
9 **days after the convening of the next regular legislative session following the date**
10 **a statement is filed under this section.**

11 * Sec. 9. AS 43.55.160(a) is amended to read:

12 (a) Except as provided in (b) of this section, **and subject to adjustment**
13 **under AS 43.55.162,** for the purposes of

14 (1) AS 43.55.011(e), the annual production tax value of the taxable oil,
15 gas, or oil and gas subject to this paragraph produced during a calendar year is the
16 gross value at the point of production of the oil, gas, or oil and gas taxable under
17 AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the
18 calendar year applicable to the oil, gas, or oil and gas, as applicable, produced by the
19 producer from leases or properties, as adjusted under AS 43.55.170; this paragraph
20 applies to

21 (A) oil and gas produced from leases or properties in the state
22 that include land north of 68 degrees North latitude, other than gas produced
23 before 2022 and used in the state;

24 (B) oil and gas produced from leases or properties in the state
25 outside the Cook Inlet sedimentary basin, no part of which is north of 68
26 degrees North latitude; this subparagraph does not apply to gas

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

28 (ii) oil and gas subject to AS 43.55.011(p);

29 (C) oil produced before 2022 from a lease or property in the
30 Cook Inlet sedimentary basin;

31 (D) gas produced before 2022 from a lease or property in the

1 Cook Inlet sedimentary basin;

2 (E) gas produced before 2022 from a lease or property in the
3 state outside the Cook Inlet sedimentary basin and used in the state;

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

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

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

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

18 (B) oil and gas produced during a month from leases or
19 properties in the state outside the Cook Inlet sedimentary basin, no part of
20 which is north of 68 degrees North latitude, is the gross value at the point of
21 production of the oil and gas taxable under AS 43.55.011(e) and produced by
22 the producer from those leases or properties, less 1/12 of the producer's lease
23 expenditures under AS 43.55.165 for the calendar year applicable to the oil and
24 gas produced by the producer from those leases or properties, as adjusted under
25 AS 43.55.170; this subparagraph does not apply to gas subject to
26 AS 43.55.011(o);

27 (C) oil produced during a month from a lease or property in the
28 Cook Inlet sedimentary basin is the gross value at the point of production of
29 the oil taxable under AS 43.55.011(e) and produced by the producer from that
30 lease or property, less 1/12 of the producer's lease expenditures under
31 AS 43.55.165 for the calendar year applicable to the oil produced by the

1 producer from that lease or property, as adjusted under AS 43.55.170;

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

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

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

16 **Sec. 43.55.162. Adjustments to production tax value.** (a) The annual
17 production tax value of oil produced from a lease or property north of 68 degrees
18 North latitude by the producer is reduced, during the first seven consecutive years
19 after the start of commercial production by 20 percent of the gross value at the point of
20 production of oil produced during the calendar year. This subsection does not apply to
21 a lease or property that

22 (1) was in commercial production before January 1, 2007;

23 (2) is located within a unit area that has never had commercial
24 production; or

25 (3) is located within a unit for more than 20 years before the first
26 commercial production on the lease or property.

27 (b) The annual production tax value of oil or gas produced by a producer is
28 reduced during the first five consecutive years after the start of commercial production
29 by 10 percent if the oil or gas is produced from a participating area established after
30 December 31, 2012, that is within a unit formed under AS 38.05.180(p) before
31 January 1, 2003, if the participating area does not contain a reservoir that had

1 previously been in a participating area established before January 1, 2012. This
2 subsection does not apply to production from a lease or property located within a unit
3 for more than 20 years before the first commercial production on the lease or property.

4 (c) The annual production tax value of heavy oil produced by a producer is
5 reduced by 10 percent of the gross value at the point of production of heavy oil
6 produced, for the calendar year, from a lease or property that is located within a unit
7 area existing on January 1, 2014.

8 (d) For a calendar year after 2012, the annual production tax value of oil
9 produced by a producer that produced oil in 2012 is reduced by 10 percent of the gross
10 value at the point of production of the volume of oil produced during the calendar year
11 in excess of the total volume produced by the producer in 2012. The volume of oil
12 produced by a producer in 2012 is the average daily statewide production of the
13 producer, excluding from the calculation the days on which production is significantly
14 reduced, multiplied by the number of days in the calendar year. For the purposes of
15 this subsection, production is significantly reduced when the production volume of oil
16 for the day is less than one-half of the quotient of the total volume of oil production
17 that is produced by the producer for the year and the number of days in the calendar
18 year. A producer that increases its volume of production through the purchase, merger,
19 or other acquisition of another producer is the sum of the producer's total target
20 volume and the total target volume for the producer that is purchased, merged with, or
21 otherwise acquired; however, if the producer that is purchased, merged with, or
22 otherwise acquired did not have a target volume determined under this section, the
23 volume of the increased production that is attributable to the purchase, merger, or
24 other acquisition may not be considered for the purpose of determining whether the
25 producer that acquired the additional production has increased the volume of
26 production above its target volume.

27 (e) A reduction in production tax value provided by this section may not be
28 combined with any other reduction in production tax value provided by this section in
29 the same year. Oil or gas from a lease or property that produces oil or gas that results
30 in a production tax reduction under (a) of this section is ineligible for a production tax
31 reduction under (b) and (c) of this section and may not be used in the calculation of

1 production volume under (d) of this section.

2 (f) A reduction in production tax value provided by this section may not
3 reduce the production tax value of a producer below zero.

4 (g) The rate of tax under AS 43.55.011(g) shall be determined before the
5 application of the adjustment provided by this section.

6 (h) In this section,

7 (1) "commercial production" means the production of oil for the
8 purpose of sale or other beneficial use, except when the sale or beneficial use is
9 incidental to the testing of an unproved well or unproved completion interval;

10 (2) "participating area" means that part of an oil and gas lease unit to
11 which production is allocated in the manner described in a unit agreement.

12 * **Sec. 11.** AS 43.55.990 is amended by adding a new paragraph to read:

13 (14) "heavy oil" means oil with an American Petroleum Institute
14 gravity of less than 18 degrees.

15 * **Sec. 12.** AS 44.88.140(a) is amended to read:

16 (a) Except as provided in AS 29.45.030(a)(1) **and AS 44.88.168**, the real and
17 personal property of the authority and its assets, income, and receipts are declared to
18 be the property of a political subdivision of the state and, together with any project or
19 development project financed under AS 44.88.155 - 44.88.159 or 44.88.172 -
20 44.88.177, and a leasehold interest created in a project or development project
21 financed under AS 44.88.155 - 44.88.159 or 44.88.172 - 44.88.177, devoted to an
22 essential public and governmental function and purpose, and the property, assets,
23 income, receipts, project, development project, and leasehold interests shall be exempt
24 from all taxes and special assessments of the state or a political subdivision of the
25 state, including, without limitation, all boroughs, cities, municipalities, school
26 districts, public utility districts, and other taxing units. All bonds of the authority are
27 declared to be issued by a political subdivision of the state and for an essential public
28 and governmental purpose and to be a public instrumentality, and the bonds, and the
29 interest on them, the income from them and the transfer of the bonds, and all assets,
30 income, and receipts pledged to pay or secure the payments of the bonds, or interest on
31 them, shall at all times be exempt from taxation by or under the authority of the state,

1 except for inheritance and estate taxes and taxes on transfers by or in contemplation of
 2 death. Nothing in this section affects or limits an exemption from license fees,
 3 property taxes, or excise, income, or any other taxes, provided under any other law,
 4 nor does it create a tax exemption with respect to the interest of any business
 5 enterprise or other person, other than the authority, in any property, assets, income,
 6 receipts, project, development project, or lease whether or not financed under this
 7 chapter. By January 10 of each year, the authority shall submit to the governor a report
 8 describing the nature and extent of the tax exemption of the property, assets, income,
 9 receipts, project, development project, and leasehold interests of the authority under
 10 this section. The authority shall notify the legislature that the report is available.

11 * **Sec. 13.** AS 44.88 is amended by adding a new section to read:

12 **Sec. 44.88.168. Oil and gas infrastructure fund.** (a) The oil and gas
 13 infrastructure fund is established in the authority. The oil and gas infrastructure fund
 14 consists of money appropriated to the authority for deposit in the fund, and money
 15 deposited in the fund by the authority. The fund is not an account in the revolving loan
 16 fund established in AS 44.88.060, and the authority shall account for the fund
 17 separately from the revolving fund. Money in the fund may be used to finance the
 18 construction and improvement of an oil or gas processing facility on the North Slope
 19 and flow lines and other surface infrastructure for the facility.

20 (b) Notwithstanding AS 44.88.140, the state or a political subdivision of the
 21 state may levy a tax or special assessment on an oil or gas processing facility, flow
 22 lines, and other surface infrastructure for the facility financed by the oil and gas
 23 infrastructure fund.

24 (c) In this section, "North Slope" means that area of the state lying north of 68
 25 degrees North latitude.

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

28 **LEGISLATIVE APPROVAL; NORTH SLOPE OIL OR GAS PROCESSING**
 29 **FACILITY.** (a) The Alaska Industrial Development and Export Authority may issue bonds to
 30 finance the construction and improvement of an oil or gas processing facility on the Alaska
 31 North Slope and flow lines and other surface infrastructure for the facility. The processing

1 facility, flow lines, and other surface infrastructure for the facility shall be used to secure
2 bonds issued under this section. The principal amount of the bonds provided by the authority
3 for the facility, flow lines, and other surface infrastructure may not exceed \$200,000,000 and
4 may include the costs of funding reserves and other costs of issuing the bonds that the
5 authority considers reasonable and appropriate. Notwithstanding AS 44.88.140, an oil or gas
6 processing facility, flow lines, and other surface infrastructure for the facility constructed or
7 financed by the oil and gas infrastructure fund are subject to taxes and special assessments of
8 the state or a political subdivision of the state.

9 (b) This section constitutes the legislative approval required by AS 44.88.095(g) and
10 44.88.690.

11 (c) The prohibition on the issuance of bonds in an amount exceeding \$400,000,000
12 under AS 44.88.095 does not apply to bonds issued under this section, and the principal
13 amount of bonds issued under this section may not be considered in determining whether the
14 limit in AS 44.88.095 has been reached.

15 * **Sec. 15.** This Act takes effect January 1, 2014."

2013 HOUSE FINANCE COMMITTEE VOTE SHEET

*Failed
2/9*

DATE: 4/11/13

Amendment: 14

MEMBER

Favor

Oppose

REP. THOMPSON		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. EDGMON		✓
REP. GARA	✓	
<i>Kawasaki</i> REP. GUTTENBERG	✓	
REP. HOLMES		✓
REP. MUNOZ		✓
REP. NEUMAN		✓
REP. STOLTZE		✓
REP. AUSTERMAN		✓

YEA 2

NAY 9

*Revised
Adopted*
#15
#16

28-GS1647L.30
Nauman/Bullock
4/11/13

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE AUSTERMAN

TO: HCS CSSB 21(FIN), Draft Version "L"

- 1 Page 2, line 14:
2 Delete "when a tax levied in this title becomes delinquent"
3 Insert "**a delinquent tax under this title.**"
4
5 Page 2, line 15:
6 Delete "it"
7 Insert "[WHEN A TAX LEVIED IN THIS TITLE BECOMES DELINQUENT, IT]"
8 Delete "a"
9 Insert "**each** [A]"
10
11 Page 2, line 20:
12 Delete "**it**"
13 Delete "**a**"
14 Insert "**each**"
15
16 Page 2, lines 23 - 25:
17 Delete "**, or at the annual rate of 11 percent, whichever is greater, compounded**
18 **quarterly as of the last day of that quarter**"
19
20 Page 22, lines 5 - 6:
21 Delete "**attributable to that category and to that** [FOR THE CALENDAR YEAR
22 APPLICABLE TO THE]"
23 Insert "for the calendar year applicable to the"

1

2 Page 22, line 7:

3 Following "gas":

4 Insert "in that category"

5 Delete "for"

6 Insert "during"

7

8 Page 25, lines 9 - 14:

9 Delete all material.

10

11 Renumber the following bill sections accordingly.

12

13 Page 29, line 7:

14 Delete "sec. 30"

15 Insert "sec. 29"

16 Delete "November 1, 2014"

17 Insert "January 1, 2014"

18

19 Page 29, line 11:

20 Delete "31"

21 Insert "30"

Rescind Amendment #4 28-GS1647\L.6

conforming amendment
Adopted Amendment
16

Offer new amendment #4

#16

Page 25, line 29, following "association"

Insert "and two members of the public appointed by the governor who do not represent the oil and gas industry."

Page 26, line 22:

Delete "may not meet more than"

Insert "shall meet at least"

conforming amendment
to increase the board to
11 members
was adopted

*Adopted
4/11/13*

28-GS1647L
Nauman/Bullock
4/10/13

**HOUSE CS FOR CS FOR SENATE BILL NO. 21(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - FIRST SESSION**

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

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

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the interest rate applicable to certain amounts due for fees, taxes,**
2 **and payments made and property delivered to the Department of Revenue; relating to**
3 **appropriations from taxes paid under the Alaska Net Income Tax Act; providing a tax**
4 **credit against the corporation income tax for qualified oil and gas service industry**
5 **expenditures; relating to the oil and gas production tax rate; relating to gas used in the**
6 **state; relating to monthly installment payments of the oil and gas production tax;**
7 **relating to oil and gas production tax credits for certain losses and expenditures;**
8 **relating to oil and gas production tax credit certificates; relating to nontransferable tax**
9 **credits based on production; relating to the oil and gas tax credit fund; relating to**
10 **annual statements by producers and explorers; establishing an Oil and Gas**
11 **Competitiveness Review Board; relating to the determination of annual oil and gas**
12 **production tax value including adjustments based on a percentage of gross value at the**

L

1 point of production from certain leases or properties; and making conforming
2 amendments."

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

4 * **Section 1.** AS 29.60.850(b) is amended to read:

5 (b) Each fiscal year, the legislature may appropriate to the community revenue
6 sharing fund [AN AMOUNT EQUAL TO 20 PERCENT OF THE] money received by
7 the state during the previous calendar year under AS 43.20.030(c) [AS 43.55.011(g)].

8 The amount may not exceed

9 (1) \$60,000,000; or

10 (2) the amount that, when added to the fund balance on June 30 of the
11 previous fiscal year, equals \$180,000,000.

12 * **Sec. 2.** AS 43.05.225 is amended to read:

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

14 (1) when a tax levied in this title becomes delinquent,

15 (A) before January 1, 2014, it bears interest in a calendar
16 quarter at the rate of five percentage points above the annual rate charged
17 member banks for advances by the 12th Federal Reserve District as of the first
18 day of that calendar quarter, or at the annual rate of 11 percent, whichever is
19 greater, compounded quarterly as of the last day of that quarter; or

20 (B) on and after January 1, 2014, it bears interest in a
21 calendar quarter at the rate of three percentage points above the annual
22 rate charged member banks for advances by the 12th Federal Reserve
23 District as of the first day of that calendar quarter, or at the annual rate of
24 11 percent, whichever is greater, compounded quarterly as of the last day
25 of that quarter;

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

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

28 (B) unclaimed property that is not timely paid or delivered, as
29 allowed by AS 34.45.470(a).

30 * **Sec. 3.** AS 43.20 is amended by adding a new section to read:

1 **Sec. 43.20.049. Qualified oil and gas service industry expenditure credit.**

2 (a) For a tax year beginning after December 31, 2013, a taxpayer may apply a credit
3 against the tax due under this chapter for a qualified oil and gas service industry
4 expenditure incurred in the state. The total amount of credit a taxpayer may receive in
5 a tax year may not exceed the lesser of 10 percent of qualified oil and gas service
6 industry expenditures incurred in the state during the tax year or \$10,000,000.

7 (b) A taxpayer may not apply more than \$10,000,000 in tax credits under this
8 section in a tax year. A tax credit or portion of a tax credit under this section may not
9 be used to reduce the taxpayer's tax liability under this chapter below zero. Any
10 unused tax credit or portion of a tax credit under this section may be applied in later
11 tax years, except that any unused tax credit or portion of a tax credit may not be
12 carried forward for more than five tax years immediately following the tax year in
13 which the qualified oil and gas service industry expenditures were incurred.

14 (c) An expenditure that is the basis of the credit under this section may not be
15 the basis for

- 16 (1) a deduction against the tax levied under this chapter;
17 (2) a credit or deduction under another provision of this title; or
18 (3) any federal credit claimed under this title.

19 (d) Notwithstanding any contrary provision of AS 40.25.100(a) or
20 AS 43.05.230(e), for a year that three or more taxpayers claim a tax credit under this
21 section, the department may publish the aggregated amount of tax credits claimed
22 under this section and a description of the qualified oil and gas service industry
23 expenditures that were the basis for a tax credit under this section.

24 (e) In this section,

25 (1) "manufacture" means to perform substantial industrial operations in
26 the state to transform raw material into tangible personal property with a useful life of
27 three years or more for use in the exploration for, development of, or production of oil
28 or gas deposits;

29 (2) "modification" means an adjustment, equipping, or other alteration
30 to existing tangible personal property that has a useful life of three years or more and
31 is for use in the exploration for, development of, or production of oil or gas deposits;

1 "modification" does not include minor product alterations or inventory activities;

2 (3) "qualified oil and gas service industry expenditure" means an
3 expenditure directly attributable to an in-state manufacture or in-state modification of
4 tangible personal property used in the exploration for, development of, or production
5 of oil or gas deposits, but does not include components or equipment used for or in the
6 process of that manufacturing or modification.

7 * Sec. 4. AS 43.55.011(e) is amended to read:

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

13 (1) before January 1, 2014, the tax is equal to the sum of

14 (A) the annual production tax value of the taxable oil and gas
15 as calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

16 (B) [(2)] the sum, over all months of the calendar year, of the
17 tax amounts determined under (g) of this section;

18 (2) on and after January 1, 2014, the tax is equal to the annual
19 production tax value of the taxable oil and gas as calculated under
20 AS 43.55.160(a)(1) multiplied by 35 percent.

21 * Sec. 5. AS 43.55.011(g) is amended to read:

22 (g) For each month of a [THE] calendar year before 2014 for which the
23 producer's average monthly production tax value under AS 43.55.160(a)(2) of a [PER]
24 BTU equivalent barrel of the taxable oil and gas is more than \$30, the amount of tax
25 for purposes of (e)(1)(B) [(e)(2)] of this section is determined by multiplying the
26 monthly production tax value of the taxable oil and gas produced during the month by
27 the tax rate calculated as follows:

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

1 equivalent barrel and \$30; or

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

8 * Sec. 6. AS 43.55.011(i) is amended to read:

9 (i) There is levied on the producer of oil or gas a tax for all oil and gas
10 produced each calendar year from each lease or property in the state the ownership or
11 right to which constitutes a landowner's royalty interest, except for oil and gas the
12 ownership or right to which is exempt from taxation. The provisions of this subsection
13 apply to a landowner's royalty interest as follows:

14 (1) the tax levied for oil is equal to five percent of the gross value at
15 the point of production of the oil;

16 (2) the tax levied for gas is equal to 1.667 percent of the gross value at
17 the point of production of the gas;

18 (3) if the department determines that, for purposes of reducing the
19 producer's tax liability under (1) or (2) of this subsection, the producer has received or
20 will receive consideration from the royalty owner offsetting all or a part of the
21 producer's royalty obligation, other than a deduction under AS 43.55.020 related to a
22 settlement with a royalty owner [AS 43.55.020(d)] of the amount of a tax paid, then,
23 notwithstanding (1) and (2) of this subsection, the tax is equal to 25 percent of the
24 gross value at the point of production of the oil and gas.

25 * Sec. 7. AS 43.55.011(o) is amended to read:

26 (o) Notwithstanding other provisions of this section, for a calendar year before
27 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas
28 produced from a lease or property outside the Cook Inlet sedimentary basin and used
29 in the state, other than gas subject to (p) of this section, may not exceed the amount
30 of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

31 * Sec. 8. AS 43.55.020(a) is amended to read:

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

3 (1) before January 1, 2014, an installment payment of the estimated
4 tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due
5 for each month of the calendar year on the last day of the following month; except as
6 otherwise provided under (2) of this subsection, the amount of the installment payment
7 is the sum of the following amounts, less 1/12 of the tax credits that are allowed by
8 law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but
9 the amount of the installment payment may not be less than zero:

10 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
11 produced from leases or properties in the state outside the Cook Inlet
12 sedimentary basin [BUT NOT SUBJECT TO AS 43.55.011(o) OR (p)], other
13 than leases or properties subject to AS 43.55.011(f), the greater of

14 (i) zero; or

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

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

25 (i) zero;

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

31 (iii) the sum of 25 percent and the tax rate calculated for

1 the month under AS 43.55.011(g) multiplied by the remainder obtained
2 by subtracting 1/12 of the producer's adjusted lease expenditures for the
3 calendar year of production under AS 43.55.165 and 43.55.170 that are
4 deductible for the oil and gas [THOSE LEASES OR PROPERTIES]
5 under AS 43.55.160 from the gross value at the point of production of
6 the oil and gas produced from those leases or properties during the
7 month for which the installment payment is calculated;

8 (C) for oil or [AND] gas [PRODUCED FROM EACH LEASE
9 OR PROPERTY] subject to AS 43.55.011(j), (k), or (o) [, OR (p)], for each
10 lease or property, the greater of

11 (i) zero; or

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

21 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

22 (i) the sum of 25 percent and the tax rate calculated
23 for the month under AS 43.55.011(g) multiplied by the remainder
24 obtained by subtracting 1/12 of the producer's adjusted lease
25 expenditures for the calendar year of production under
26 AS 43.55.165 and 43.55.170 that are deductible for the oil and gas
27 under AS 43.55.160 from the gross value at the point of production
28 of the oil and gas produced from the leases or properties during the
29 month for which the installment payment is calculated, but not less
30 than zero; or

31 (ii) four percent of the gross value at the point of

1 production of the oil and gas produced from the leases or
2 properties during the month, but not less than zero;

3 (2) an amount calculated under (1)(C) of this subsection for oil or gas
4 [PRODUCED FROM A LEASE OR PROPERTY

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

14 [(B) SUBJECT TO AS 43.55.011(p) MAY NOT EXCEED
15 FOUR PERCENT OF THE GROSS VALUE AT THE POINT OF
16 PRODUCTION OF THE OIL OR GAS;]

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

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

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

29 (4) any amount of tax levied by AS 43.55.011 [AS 43.55.011(e) OR
30 (i)], net of any credits applied as allowed by law, that exceeds the total of the amounts
31 due as installment payments of estimated tax is due on March 31 of the year following

1 the calendar year of production;

2 (5) on and after January 1, 2014, an installment payment of the
3 estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed
4 by law, is due for each month of the calendar year on the last day of the following
5 month; except as otherwise provided under (6) of this subsection, the amount of
6 the installment payment is the sum of the following amounts, less 1/12 of the tax
7 credits that are allowed by law to be applied against the tax levied by
8 AS 43.55.011(e) for the calendar year, but the amount of the installment payment
9 may not be less than zero:

10 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
11 produced from leases or properties in the state outside the Cook Inlet
12 sedimentary basin, other than leases or properties subject to
13 AS 43.55.011(f), the greater of

14 (i) zero; or

15 (ii) 35 percent multiplied by the remainder obtained
16 by subtracting 1/12 of the producer's adjusted lease expenditures
17 for the calendar year of production under AS 43.55.165 and
18 43.55.170 that are deductible for the oil and gas under
19 AS 43.55.160 from the gross value at the point of production of the
20 oil and gas produced from the leases or properties during the
21 month for which the installment payment is calculated;

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

24 (i) zero;

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

30 (iii) 35 percent multiplied by the remainder obtained
31 by subtracting 1/12 of the producer's adjusted lease expenditures

1 for the calendar year of production under AS 43.55.165 and
2 43.55.170 that are deductible for the oil and gas under
3 AS 43.55.160 from the gross value at the point of production of the
4 oil and gas produced from those leases or properties during the
5 month for which the installment payment is calculated, except that,
6 for the purposes of this calculation, a reduction from the gross
7 value at the point of production may apply for oil and gas subject
8 to AS 43.55.160(f) or (g);

9 (C) for oil or gas subject to AS 43.55.011(i), (k), or (o), for
10 each lease or property, the greater of

11 (i) zero; or

12 (ii) 35 percent multiplied by the remainder obtained
13 by subtracting 1/12 of the producer's adjusted lease expenditures
14 for the calendar year of production under AS 43.55.165 and
15 43.55.170 that are deductible under AS 43.55.160 for the oil or gas,
16 respectively, produced from the lease or property from the gross
17 value at the point of production of the oil or gas, respectively,
18 produced from the lease or property during the month for which
19 the installment payment is calculated;

20 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

21 (i) 35 percent multiplied by the remainder obtained
22 by subtracting 1/12 of the producer's adjusted lease expenditures
23 for the calendar year of production under AS 43.55.165 and
24 43.55.170 that are deductible for the oil and gas under
25 AS 43.55.160 from the gross value at the point of production of the
26 oil and gas produced from the leases or properties during the
27 month for which the installment payment is calculated, but not less
28 than zero; or

29 (ii) four percent of the gross value at the point of
30 production of the oil and gas produced from the leases or
31 properties during the month, but not less than zero;

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

10 * Sec. 9. AS 43.55.020(d) is amended to read:

11 (d) Before January 1, 2014, in [IN] making settlement with the royalty owner
12 for oil and gas that is taxable under AS 43.55.011, the producer may deduct the
13 amount of the tax paid on taxable royalty oil and gas, or may deduct taxable royalty oil
14 or gas equivalent in value at the time the tax becomes due to the amount of the tax
15 paid. If the total deductions of installment payments of estimated tax for a calendar
16 year exceed the actual tax for that calendar year, the producer shall, before April 1 of
17 the following year, refund the excess to the royalty owner. Unless otherwise agreed
18 between the producer and the royalty owner, the amount of the tax paid under
19 AS 43.55.011(e) - (g) on taxable royalty oil and gas for a calendar year, other than oil
20 and gas the ownership or right to which constitutes a landowner's royalty interest, is
21 considered to be the gross value at the point of production of the taxable royalty oil
22 and gas produced during the calendar year multiplied by a figure that is a quotient, in
23 which

24 (1) the numerator is the producer's total tax liability under
25 AS 43.55.011(e) - (g) for the calendar year of production; and

26 (2) the denominator is the total gross value at the point of production
27 of the oil and gas taxable under AS 43.55.011(e) - (g) produced by the producer from
28 all leases and properties in the state during the calendar year.

29 * Sec. 10. AS 43.55.020(g) is amended to read:

30 (g) Notwithstanding any contrary provision of AS 43.05.225,

31 (1) before January 1, 2014, an unpaid amount of an installment

1 payment required under (a)(1) - (3) of this section that is not paid when due bears
2 interest **(A)** [(1)] at the rate provided for an underpayment under 26 U.S.C. 6621
3 (Internal Revenue Code), as amended, compounded daily, from the date the
4 installment payment is due until March 31 following the calendar year of production,
5 and **(B)** [(2)] as provided for a delinquent tax under AS 43.05.225 after that March 31;
6 **interest** [. INTEREST] accrued under **(A)** [(1)] of this **paragraph** [SUBSECTION]
7 that remains unpaid after that March 31 is treated as an addition to tax that bears
8 interest under **(B)** [(2)] of this **paragraph; an** [SUBSECTION. AN] unpaid amount of
9 tax due under (a)(4) of this section that is not paid when due bears interest as provided
10 for a delinquent tax under AS 43.05.225;

11 **(2) on and after January 1, 2014, an unpaid amount of an**
12 **installment payment required under (a)(3), (5), or (6) of this section that is not**
13 **paid when due bears interest (A) at the rate provided for an underpayment**
14 **under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily,**
15 **from the date the installment payment is due until March 31 following the**
16 **calendar year of production, and (B) as provided for a delinquent tax under**
17 **AS 43.05.225 after that March 31; interest accrued under (A) of this paragraph**
18 **that remains unpaid after that March 31 is treated as an addition to tax that**
19 **bears interest under (B) of this paragraph; an unpaid amount of tax due under**
20 **(a)(4) of this section that is not paid when due bears interest as provided for a**
21 **delinquent tax under AS 43.05.225.**

22 * Sec. 11. AS 43.55.020(h) is amended to read:

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

24 (1) an overpayment of an installment payment required under (a)(1) -
25 (3), **(5) or (6)** of this section bears interest at the rate provided for an overpayment
26 under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from
27 the later of the date the installment payment is due or the date the overpayment is
28 made, until the earlier of

29 (A) the date it is refunded or is applied to an underpayment; or

30 (B) March 31 following the calendar year of production;

31 (2) except as provided under (1) of this subsection, interest with

1 respect to an overpayment is allowed only on any net overpayment of the payments
2 required under (a) of this section that remains after the later of March 31 following the
3 calendar year of production or the date that the statement required under
4 AS 43.55.030(a) is filed;

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

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

11 * **Sec. 12.** AS 43.55.020 is amended by adding a new subsection to read:

12 (d) On and after January 1, 2014, in making settlement with the royalty owner
13 for oil and gas that is taxable under AS 43.55.011, the producer may deduct the
14 amount of the tax paid on taxable royalty oil and gas, or may deduct taxable royalty oil
15 or gas equivalent in value at the time the tax becomes due to the amount of the tax
16 paid. If the total deductions of installment payments of estimated tax for a calendar
17 year exceed the actual tax for that calendar year, the producer shall, before April 1 of
18 the following year, refund the excess to the royalty owner. Unless otherwise agreed
19 between the producer and the royalty owner, the amount of the tax paid under
20 AS 43.55.011(e) on taxable royalty oil and gas for a calendar year, other than oil and
21 gas the ownership or right to which constitutes a landowner's royalty interest, is
22 considered to be the gross value at the point of production of the taxable royalty oil
23 and gas produced during the calendar year multiplied by a figure that is a quotient, in
24 which

25 (1) the numerator is the producer's total tax liability under
26 AS 43.55.011(e) for the calendar year of production; and

27 (2) the denominator is the total gross value at the point of production
28 of the oil and gas taxable under AS 43.55.011(e) produced by the producer from all
29 leases and properties in the state during the calendar year.

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

31 (a) A producer or explorer may take a tax credit for a qualified capital

1 expenditure as follows:

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

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

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

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

17 **(3) a credit for a qualified capital expenditure incurred to explore**
18 **for, develop, or produce oil or gas deposits located north of 68 degrees North**
19 **latitude may be taken only if the expenditure is incurred before January 1, 2014.**

20 * Sec. 14. AS 43.55.023(b) is amended to read:

21 (b) **Before January 1, 2014, a [A] producer or explorer may elect to take a**
22 **tax credit in the amount of 25 percent of a carried-forward annual loss. For lease**
23 **expenditures incurred on and after January 1, 2014, and before January 1, 2016,**
24 **to explore for, develop, or produce oil or gas deposits located north of 68 degrees**
25 **North latitude, a producer or explorer may elect to take a tax credit in the**
26 **amount of 45 percent of a carried-forward annual loss. For lease expenditures**
27 **incurred on and after January 1, 2016, to explore for, develop, or produce oil or**
28 **gas deposits located north of 68 degrees North latitude, a producer or explorer**
29 **may elect to take a tax credit in the amount of 35 percent of a carried-forward**
30 **annual loss. For lease expenditures incurred on or after January 1, 2014, to**
31 **explore for, develop, or produce oil or gas deposits located south of 68 degrees**

1 North latitude, a producer or explorer may elect to take a tax credit in the
 2 amount of 25 percent of a carried-forward annual loss. A credit under this
 3 subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of
 4 this subsection, a carried-forward annual loss is the amount of a producer's or
 5 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
 6 previous calendar year that was not deductible in calculating production tax values for
 7 that calendar year under AS 43.55.160.

8 * **Sec. 15.** AS 43.55.023(d) is amended to read:

9 (d) A [EXCEPT AS LIMITED BY (i) OF THIS SECTION, A] person that is
 10 entitled to take a tax credit under this section that wishes to transfer the unused credit
 11 to another person or obtain a cash payment under AS 43.55.028 may apply to the
 12 department for a transferable tax credit certificate [CERTIFICATES]. An application
 13 under this subsection must be in a form prescribed by the department and must include
 14 supporting information and documentation that the department reasonably requires.
 15 The department shall grant or deny an application, or grant an application as to a lesser
 16 amount than that claimed and deny it as to the excess, not later than 120 days after the
 17 latest of (1) March 31 of the year following the calendar year in which the qualified
 18 capital expenditure or carried-forward annual loss for which the credit is claimed was
 19 incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for
 20 the calendar year in which the qualified capital expenditure or carried-forward annual
 21 loss for which the credit is claimed was incurred; or (3) the date the application was
 22 received by the department. If, based on the information then available to it, the
 23 department is reasonably satisfied that the applicant is entitled to a credit, the
 24 department shall issue the applicant a [TWO] transferable tax credit certificate for
 25 [CERTIFICATES, EACH FOR HALF OF] the amount of the credit. [THE CREDIT
 26 SHOWN ON ONE OF THE TWO CERTIFICATES IS AVAILABLE FOR
 27 IMMEDIATE USE. THE CREDIT SHOWN ON THE SECOND OF THE TWO
 28 CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR
 29 YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE
 30 CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE
 31 CERTIFICATE MUST CONTAIN A CONSPICUOUS STATEMENT TO THAT

1 EFFECT.] A certificate issued under this subsection does not expire.

2 * **Sec. 16.** AS 43.55.023(g) is amended to read:

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

16 * **Sec. 17.** AS 43.55.023(n) is amended to read:

17 (n) For the purposes of (l) [AND (m)] of this section, a well lease expenditure
18 incurred in the state south of 68 degrees North latitude is a lease expenditure that is

19 (1) directly related to an exploration well, a stratigraphic test well, a
20 producing well, or an injection well other than a disposal well, located in the state
21 south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure
22 and an intangible drilling and development cost authorized under 26 U.S.C. (Internal
23 Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made
24 under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well
25 includes an expenditure for well sidetracking, well deepening, well completion or
26 recompletion, or well workover, regardless of whether the well is or has been a
27 producing well; or

28 (2) an expense for seismic work conducted within the boundaries of a
29 production or exploration unit.

30 * **Sec. 18.** AS 43.55.023 is amended by adding a new subsection to read:

31 (p) Before January 1, 2014, the provisions of (d) of this section may be limited

1 by (i) of this section.

2 * **Sec. 19.** AS 43.55.024(e) is amended to read:

3 (e) On written application by a producer that includes any information the
4 department may require, the department shall determine whether the producer
5 qualifies for a calendar year under (a) and (c) of this section. To qualify under (a) and
6 (c) of this section, a producer must demonstrate that its operation in the state or its
7 ownership of an interest in a lease or property in the state as a distinct producer would
8 not result in the division among multiple producer entities of any production tax
9 liability under AS 43.55.011(e) that reasonably would be expected to be attributed to a
10 single producer if the tax credit provisions of (a) or (c) of this section did not exist.

11 * **Sec. 20.** AS 43.55.024 is amended by adding new subsections to read:

12 (i) A producer may apply against the producer's tax liability for the calendar
13 year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under
14 AS 43.55.011(e) that meets one or more of the criteria in AS 43.55.160(f) or (g) and
15 that is produced during a calendar year after December 31, 2013. A tax credit
16 authorized by this subsection may not reduce a producer's tax liability for a calendar
17 year under AS 43.55.011(e) below zero.

18 (j) A producer may apply against the producer's tax liability for the calendar
19 year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for
20 each barrel of oil taxable under AS 43.55.011(e) that does not meet any of the criteria
21 in AS 43.55.160(f) or (g) and that is produced during a calendar year after
22 December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax
23 credit under this subsection may not reduce a producer's tax liability for a calendar
24 year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). The
25 amount of the tax credit for a barrel of taxable oil subject to this subsection produced
26 during a month of the calendar year is

27 (1) \$8 for each barrel of taxable oil if the average gross value at the
28 point of production for the month is less than \$80 a barrel;

29 (2) \$7 for each barrel of taxable oil if the average gross value at the
30 point of production for the month is greater than or equal to \$80 a barrel, but less than
31 \$90 a barrel;

1 (3) \$6 for each barrel of taxable oil if the average gross value at the
2 point of production for the month is greater than or equal to \$90 a barrel, but less than
3 \$100 a barrel;

4 (4) \$5 for each barrel of taxable oil if the average gross value at the
5 point of production for the month is greater than or equal to \$100 a barrel, but less
6 than \$110 a barrel;

7 (5) \$4 for each barrel of taxable oil if the average gross value at the
8 point of production for the month is greater than or equal to \$110 a barrel, but less
9 than \$120 a barrel;

10 (6) \$3 for each barrel of taxable oil if the average gross value at the
11 point of production for the month is greater than or equal to \$120 a barrel, but less
12 than \$130 a barrel;

13 (7) \$2 for each barrel of taxable oil if the average gross value at the
14 point of production for the month is greater than or equal to \$130 a barrel, but less
15 than \$140 a barrel;

16 (8) \$1 for each barrel of taxable oil if the average gross value at the
17 point of production for the month is greater than or equal to \$140 a barrel, but less
18 than \$150 a barrel;

19 (9) zero if the average gross value at the point of production for the
20 month is greater than or equal to \$150 a barrel.

21 * **Sec. 21.** AS 43.55.025(a) is amended to read:

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

25 (1) 30 percent of the total exploration expenditures that qualify only
26 under (b) and (c) of this section;

27 (2) 30 percent of the total exploration expenditures that qualify only
28 under (b) and (d) of this section;

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

31 (4) 40 percent of the total exploration expenditures that qualify only

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

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

6 (6) the lesser of \$25,000,000 or 80 percent of the total exploration
7 drilling expenditures described in (m) of this section and that qualify under (b) and
8 (c)(1), (c)(2)(A), and (c)(2)(C) [(c)] of this section; or

9 (7) the lesser of \$7,500,000 or 75 percent of the total seismic
10 exploration expenditures described in (n) of this section and that qualify under (b) of
11 this section.

12 * Sec. 22. AS 43.55.025(m) is amended to read:

13 (m) The persons that drill the first four exploration wells in the state and
14 within the areas described in (o) of this section on state lands, private lands, or federal
15 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a
16 prospect in a basin described in (o) of this section are eligible for a credit under (a)(6)
17 of this section. A credit under this subsection may not be taken for more than two
18 exploration wells in a single area described in (o)(1) - (6) of this section. Exploration
19 expenditures eligible for the credit in this subsection must be incurred for work
20 performed after June 1, 2012, and before July 1, 2016. A person planning to drill an
21 exploration well on private land and to apply for a credit under this subsection shall
22 obtain written consent from the owner of the oil and gas interest for the full public
23 release of all well data after the expiration of the confidentiality period applicable to
24 information collected under (f) of this section. The written consent of the owner of the
25 oil and gas interest must be submitted to the commissioner of natural resources before
26 approval of the proposed exploration well. In addition to the requirements in (c)(1),
27 (c)(2)(A), and (c)(2)(C) [(c)] of this section and submission of the written consent of
28 the owner of the oil and gas interest, a person planning to drill an exploration well
29 shall obtain approval from the commissioner of natural resources before the well is
30 spudded. The commissioner of natural resources shall make a written determination
31 approving or rejecting an exploration well within 60 days after receiving the request

1 for approval or as soon as is practicable thereafter. Before approving the exploration
2 well, the commissioner of natural resources shall consider the following: the location
3 of the well; the proximity to a community in need of a local energy source; the
4 proximity of existing infrastructure; the experience and safety record of the explorer in
5 conducting operations in remote or roadless areas; the projected cost schedule;
6 whether seismic mapping and seismic data sufficiently identify a particular trap for
7 exploration; whether the targeted and planned depth and range are designed to
8 penetrate and fully evaluate the hydrocarbon potential of the proposed prospect and
9 reach the level below which economic hydrocarbon reservoirs are likely to be found,
10 or reach 12,000 feet or more true vertical depth; and whether the exploration plan
11 provides for a full evaluation of the wellbore below surface casing to the depth of the
12 well. Whether the exploration well for which a credit is requested under this
13 subsection is located within an area and a basin described under (o) of this section
14 shall be determined by the commissioner of natural resources and reported to the
15 commissioner. A taxpayer that obtains a credit under this subsection may not claim a
16 tax credit under AS 43.55.023 or another provision in this section for the same
17 exploration expenditure.

18 * **Sec. 23.** AS 43.55.028(e) is amended to read:

19 (e) The department, on the written application of a person to whom a
20 transferable tax credit certificate has been issued under AS 43.55.023(d) or **former**
21 **AS 43.55.023(m)** [(m)] or to whom a production tax credit certificate has been issued
22 under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to
23 purchase, in whole or in part, the certificate if the department finds that

24 (1) the calendar year of the purchase is not earlier than the first
25 calendar year for which the credit shown on the certificate would otherwise be allowed
26 to be applied against a tax;

27 (2) the applicant does not have an outstanding liability to the state for
28 unpaid delinquent taxes under this title;

29 (3) the applicant's total tax liability under AS 43.55.011(e), after
30 application of all available tax credits, for the calendar year in which the application is
31 made is zero;

1 (4) the applicant's average daily production of oil and gas taxable
2 under AS 43.55.011(e) during the calendar year preceding the calendar year in which
3 the application is made was not more than 50,000 BTU equivalent barrels; and

4 (5) the purchase is consistent with this section and regulations adopted
5 under this section.

6 * **Sec. 24.** AS 43.55.028(g) is amended to read:

7 (g) The department may adopt regulations to carry out the purposes of this
8 section, including standards and procedures to allocate available money among
9 applications for purchases under this chapter and claims for refunds and payments
10 under AS 43.20.046 or 43.20.047 when the total amount of the applications for
11 purchase and claims for refund exceed the amount of available money in the fund. The
12 regulations adopted by the department may not, when allocating available money in
13 the fund under this section, distinguish an application for the purchase of a credit
14 certificate issued under former AS 43.55.023(m) or a claim for a refund or payment
15 under AS 43.20.046 or 43.20.047.

16 * **Sec. 25.** AS 43.55.030(e) is amended to read:

17 (e) An explorer or producer that incurs a lease expenditure under
18 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar
19 year but does not produce oil or gas from a lease or property in the state during the
20 calendar year shall file with the department, on March 31 of the following year, a
21 statement, under oath, in a form prescribed by the department, giving, with other
22 information required, the following:

23 (1) the explorer's or producer's qualified capital expenditures, as
24 defined in AS 43.55.023, other lease expenditures under AS 43.55.165, and
25 adjustments or other payments or credits under AS 43.55.170; and

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

29 * **Sec. 26.** AS 43.55.160(a) is amended to read:

30 (a) Except as provided in (b), (f), and (g) of this section, for the purposes of

31 (1) AS 43.55.011(e), the annual production tax value of [THE] taxable

1 oil, gas, or oil and gas [SUBJECT TO THIS PARAGRAPH] produced during a
2 calendar year in a category for which a separate annual production tax value is
3 required to be calculated under this paragraph is the gross value at the point of
4 production of that [THE] oil, gas, or oil and gas taxable under AS 43.55.011(e), less
5 the producer's lease expenditures under AS 43.55.165 attributable to that category
6 and to that [FOR THE CALENDAR YEAR APPLICABLE TO THE] oil, gas, or oil
7 and gas [, AS APPLICABLE,] produced by the producer for the calendar year
8 [FROM LEASES OR PROPERTIES], as adjusted under AS 43.55.170; a separate
9 annual production tax value must be calculated for [THIS PARAGRAPH
10 APPLIES TO]

11 (A) oil and gas produced from leases or properties in the state
12 that include land north of 68 degrees North latitude, other than gas produced
13 before 2022 and used in the state;

14 (B) oil and gas produced from leases or properties in the state
15 outside the Cook Inlet sedimentary basin, no part of which is north of 68
16 degrees North latitude and that qualifies for a tax credit under
17 AS 43.55.024(a) and (b); this subparagraph does not apply to [GAS]

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

19 (ii) oil and gas subject to AS 43.55.011(p);

20 (C) oil produced before 2022 from each [A] lease or property
21 in the Cook Inlet sedimentary basin;

22 (D) gas produced before 2022 from each [A] lease or property
23 in the Cook Inlet sedimentary basin;

24 (E) gas produced before 2022 from each [A] lease or property
25 in the state outside the Cook Inlet sedimentary basin and used in the state,
26 other than gas subject to AS 43.55.011(p);

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

29 (G) oil and gas produced from leases or properties in the
30 state [A LEASE OR PROPERTY] no part of which is north of 68 degrees
31 North latitude, other than oil or gas described in (B), (C), (D), (E), or (F) of

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this paragraph;

(2) AS 43.55.011(g), for oil and gas produced before January 1, 2014, the monthly production tax value of the taxable

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

(B) oil and gas produced during a month from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

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

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

1 producer from that lease or property, as adjusted under AS 43.55.170;

2 (E) gas produced during a month from a lease or property
3 outside the Cook Inlet sedimentary basin and used in the state is the gross
4 value at the point of production of that gas taxable under AS 43.55.011(e) and
5 produced by the producer from that lease or property, less 1/12 of the
6 producer's lease expenditures under AS 43.55.165 for the calendar year
7 applicable to that gas produced by the producer from that lease or property, as
8 adjusted under AS 43.55.170.

9 * **Sec. 27.** AS 43.55.160 is amended by adding new subsections to read:

10 (f) On and after January 1, 2014, in the calculation of an annual production tax
11 value of a producer under (a)(1) of this section, the gross value at the point of
12 production of oil or gas produced from a lease or property north of 68 degrees North
13 latitude meeting one or more of the following criteria is reduced by 20 percent: (1) the
14 oil or gas is produced from a lease or property that does not contain a lease that was
15 within a unit on January 1, 2003; (2) the oil or gas is produced from a participating
16 area established after December 31, 2011, that is within a unit formed under
17 AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a
18 reservoir that had previously been in a participating area established before
19 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
20 existing participating area by the Department of Natural Resources on and after
21 January 1, 2014, and the producer demonstrates to the department that the volume of
22 oil or gas produced is from acreage added to an existing participating area. This
23 subsection does not apply to gas produced before 2022 that is used in the state. A
24 reduction under this subsection may not reduce the gross value at the point of
25 production below zero. In this subsection, "participating area" means a reservoir or
26 portion of a reservoir producing or contributing to production as approved by the
27 Department of Natural Resources.

28 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
29 section, in the calculation of an annual production tax value of a producer under (a)(1)
30 of this section, the gross value at the point of production of oil or gas produced from a
31 lease or property that does not contain a lease that was within a unit on January 1,

2003, is reduced by 10 percent if the oil or gas is produced from a unit made up solely of leases that have a royalty share of more than 12.5 percent in amount or value of the production removed or sold from the lease as determined under AS 38.05.180(f). This subsection does not apply if the royalty obligation for one or more of the leases in the unit has been reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the annual production tax is calculated. This subsection does not apply to gas produced before 2022 that is used in the state. A reduction under this subsection may not reduce the gross value at the point of production below zero.

* **Sec. 28.** AS 43.55.180(b) is amended to read:

(b) The department shall prepare a report on or before the first day of the 2016 [2011] regular session of the legislature on the results of the study made under (a) of this section, including recommendations as to whether any changes should be made to this chapter. The department shall notify the legislature that the report prepared under this subsection is available.

* **Sec. 29.** AS 43.56.160 is amended to read:

Sec. 43.56.160. Interest and penalty. When the tax levied by AS 43.56.010(a) becomes delinquent, a penalty of 10 percent shall be added. Before January 1, 2014, interest [INTEREST] on the delinquent taxes, exclusive of penalty, shall be assessed at a rate of eight percent a year. On and after January 1, 2014, interest on the delinquent taxes, exclusive of penalty, shall be assessed at the rate specified in AS 43.05.225.

* **Sec. 30.** AS 43.98 is amended by adding new sections to read:

Article 2. Oil and Gas Competitiveness Review Board.

Sec. 43.98.040. Oil and Gas Competitiveness Review Board. (a) The Oil and Gas Competitiveness Review Board is established in the department.

(b) The board shall consist of ~~nine~~¹¹ members as follows:

(1) two members nominated by the two leading nonprofit trade associations representing the oil and gas industry in the state and appointed by the governor, with one member nominated by each association;

(2) the chair of the Alaska Oil and Gas Conservation Commission or the chair's designee;

1 (3) three members of the public appointed by the governor, including
2 one member who is a petroleum engineer, one member who is a geologist, and one
3 member who is a financial analyst;

4 (4) the commissioner of environmental conservation or the
5 commissioner's designee;

6 (5) the commissioner of natural resources or the commissioner's
7 designee; and

8 (6) the commissioner of revenue or the commissioner's designee.

9 (c) The governor shall, every two years, designate one of the members as
10 chair.

11 (d) Members of the board appointed under (b)(1) and (3) of this section serve
12 for four years. An individual who has served on the board may be reappointed.

13 (e) A vacancy on the board shall be filled in the manner of the original
14 appointment.

15 (f) A member of the board may be removed and replaced at the discretion of
16 the governor.

17 (g) The members of the board appointed under (b)(1) and (3) of this section
18 serve without compensation but shall receive per diem and travel expenses authorized
19 for boards and commissions under AS 39.20.180.

20 (h) The board may enter into contracts for professional services. The
21 department shall provide staff for administrative support for the board.

22 (i) The board may not meet more than once in a calendar year.

23 **Sec. 43.98.050. Duties.** The duties of the board include the following:

24 (1) establish and maintain a salient collection of information related to
25 oil and gas exploration, development, and production in the state and related to tax
26 structures, rates, and credits in other regions with oil and gas resources;

27 (2) review historical, current, and potential levels of investment in the
28 state's oil and gas sector;

29 (3) identify factors that affect investment in oil and gas exploration,
30 development, and production in the state, including tax structure, rates, and credits;
31 royalty requirements; infrastructure; workforce availability; and regulatory

1 requirements;

2 (4) review the competitive position of the state to attract and maintain
3 investment in the oil and gas sector in the state as compared to the competitive
4 position of other regions with oil and gas resources;

5 (5) in order to facilitate the work of the board, establish procedures to
6 accept and keep confidential information that is beneficial to the work of the board,
7 including the creation of a secure data room and confidentiality agreements to be
8 signed by individuals having access to confidential information;

9 (6) make written findings and recommendations to the Alaska State
10 Legislature before

11 (A) January 31, 2015, or as soon thereafter as practicable,
12 regarding

13 (i) changes to the state's regulatory environment and
14 permitting structure that would be conducive to encouraging increased
15 investment while protecting the interests of the people of the state and
16 the environment;

17 (ii) the status of the oil and gas industry labor pool in
18 the state and the effectiveness of workforce development efforts by the
19 state;

20 (iii) the status of the oil-and-gas-related infrastructure
21 of the state, including a description of infrastructure deficiencies; and

22 (iv) the competitiveness of the state's fiscal oil and gas
23 tax regime when compared to other regions of the world;

24 (B) January 31, 2021, or as soon thereafter as practicable,
25 regarding

26 (i) changes to the state's fiscal regime that would be
27 conducive to increased and ongoing long-term investment in and
28 development of the state's oil and gas resources;

29 (ii) alternative means for increasing the state's ability to
30 attract and maintain investment in and development of the state's oil
31 and gas resources; and

1 (iii) a review of the current effectiveness and future
2 value of any provisions of the state's oil and gas tax laws that are
3 expiring in the next five years.

4 **Sec. 43.98.060. Information to be provided to board.** (a) The commissioner
5 of natural resources, the commissioner of revenue, the commissioner of environmental
6 conservation, and other commissioners and state agencies that have responsibility for
7 and maintain information related to oil and gas investment and activity in the state
8 shall, at the request of the board, provide information required by the board to carry
9 out the duties described in AS 43.98.050.

10 (b) At the request of the board, and except for information that is confidential
11 under AS 40.25.100(a) or AS 43.05.230 and information required to be held
12 confidential by the Alaska Oil and Gas Conservation Commission, a commissioner
13 may disclose to the board information that is otherwise confidential after each member
14 of the board and each staff member for the board with access to the information signs
15 a confidentiality agreement prepared by the commissioner making the disclosure.
16 Information that is confidential under AS 43.05.230 may not be disclosed to the board.

17 **Sec. 43.98.070. Definition.** In AS 43.98.040 - 43.98.070, "board" means the
18 Oil and Gas Competitiveness Review Board.

19 * **Sec. 31.** AS 43.55.023(m) is repealed.

20 * **Sec. 32.** AS 43.55.020(d), 43.55.023(i), and 43.55.023(p) are repealed January 1, 2014.

21 * **Sec. 33.** AS 43.98.040, 43.98.050, 43.98.060, and 43.98.070 are repealed February 28,
22 2021.

23 * **Sec. 34.** The uncodified law of the State of Alaska is amended by adding a new section to
24 read:

25 APPLICABILITY. (a) Section 7 of this Act and AS 43.55.160(a)(1)(E), as amended
26 by sec. 26 of this Act, apply to oil and gas produced after December 31, 2012.

27 (b) AS 43.55.023(a)(1), as amended by sec. 13 of this Act, and secs. 15 - 18 of this
28 Act apply to expenditures incurred on and after January 1, 2013.

29 * **Sec. 35.** The uncodified law of the State of Alaska is amending by adding a new section to
30 read:

31 TRANSITION: REGULATIONS. The Department of Revenue may adopt regulations

1 to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure
2 Act), but not before the effective date of the respective provision of this Act.

3 * **Sec. 36.** The uncodified law of the State of Alaska is amended by adding a new section to
4 read:

5 TRANSITION: OIL AND GAS COMPETITIVENESS REVIEW BOARD. The
6 governor shall appoint the initial members of the Oil and Gas Competitiveness Review Board,
7 established in sec. 30 of this Act, before November 1, 2014. The initial terms of the members
8 of the board appointed under AS 43.98.040(b)(1) and (3) shall be four years.

9 * **Sec. 37.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 RETROACTIVITY. Sections 7, 15 - 18, 23, and 31 of this Act, AS 43.55.023(a)(1), as
12 amended by sec. 13 of this Act, and AS 43.55.160(a)(1)(E), as amended by sec. 26 of this
13 Act, are retroactive to January 1, 2013.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: HCS CSSB 21(RES)
Fiscal Note Number: 9
(H) Publish Date: 4/8/13

Identifier: SB021HCSCS(RES)-DNR-DOG-4-5-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Resources

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

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

(Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
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

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

The committee substitute adopted by the House Resources Committee makes changes to the third criteria of the Gross Revenue Exclusion and also amends what criteria DNR must utilize to approve an application for the alternative tax credit for oil and gas exploration in "Middle Earth".

Prepared By: William C. Barron
Division: Oil and Gas
Approved By: Daniel S. Sullivan, Commissioner
Department of Natural Resources

Phone: (907)269-8800
Date: 04/05/2013 08:00 AM
Date: 04/05/13

Analysis

HCS CSSB21(RES) reforms the oil and gas production tax system in Alaska. This bill will not result in any procedural changes in how the Division of Oil and Gas operates and therefore the Department of Natural Resources (DNR) does not anticipate any fiscal impact to the Department's operating budget.

HCS CSSB21(RES) proposes to improve Alaska's competitiveness and encourage producers to invest more by simplifying the oil and gas production tax system. First, this bill repeals the progressive tax structure, which will help encourage the type of long-term planning and investment needed to promote new investment in new production in Alaska. Further, this bill attempts to shift incentives away from spending and provides new incentives to reward new production.

This bill also amends AS 43.55.025(a)(6) and (m) to clarify that in order to qualify for the alternative tax credit for oil and gas exploration, DNR must approve based on criteria established in AS 43.55.025(c)(1), (c)(2)(A), and (c)(2)(C) thereby removing the 3-mile exclusion for areas classified in AS 43.55.025(o), known as "Middle Earth".

A new subsection AS 43.55.160(f) provides the gross revenue exclusion (GRE) for 20% of the gross value at the point of production for 10 years following the commencement of production from the well. The GRE applies to production from leases or properties containing land that is north of 68 degrees North latitude and meets one or more of the three criteria: (1) is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced from a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by DNR on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. This section also clarifies that the GRE may not reduce the gross value at the point of production below zero.

At forecasted price ranges, overall government take and marginal tax rates are reduced materially. To the extent that investments are made as a consequence of these changes to the tax regime, royalty revenue may rise. The fiscal impact on royalty revenue is an indeterminate positive.

Analysis Continued

**Differences in Royalty Revenues from
New Production Scenarios in \$Millions***

*Note: These scenarios are based on Department of Revenue modeling.

At Forecasted Production							
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	
\$	120	\$0	\$0	\$0	\$0	\$0	\$0
\$	100	\$0	\$0	\$0	\$0	\$0	\$0
\$	90	\$0	\$0	\$0	\$0	\$0	\$0

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$0	\$0	\$0	\$12	\$24	\$35
\$100	\$0	\$0	\$0	\$10	\$20	\$29
\$90	\$0	\$0	\$0	\$9	\$17	\$26

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of \$500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$57	\$106	\$147	\$181	\$212	\$179
\$100	\$47	\$87	\$120	\$148	\$173	\$146
\$90	\$42	\$77	\$107	\$132	\$154	\$130

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day and declining at a rate of 15% per year. Development costs for each well assumed to be \$20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$111	\$213	\$307	\$433	\$557	\$533
\$100	\$91	\$174	\$251	\$354	\$455	\$435
\$90	\$81	\$155	\$223	\$314	\$404	\$386

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of \$5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new 50-million barrel field.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: HCS CSSB 21(RES)
Fiscal Note Number: 10
(H) Publish Date: 4/8/13

Identifier: SB21HCSCS(RES)-DOR-TAX-04-05-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (H) RES

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
Personal Services							
Travel							
Services	150.0						
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	150.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	150.0						
Total	150.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/14

Why this fiscal note differs from previous version:

This version updates the fiscal note for the House Resources Committee substitute.

Prepared By: Cherie Nienhuis, Ed King and Dan Stickel
Division: Tax Division
Approved By: Bryan D. Butcher, Commissioner
Department of Revenue

Phone: (907)269-1019
Date: 04/05/2013 04:00 PM
Date: 04/05/13

Analysis

Operating expenditures: This bill makes changes to the tax credits under the production tax system. For leases or properties that contain land that is north of 68 degrees North latitude, the following changes are made: (1) Credits for qualified capital expenditures are limited to expenditures incurred before January 1, 2014; (2) Beginning January 1, 2014, the rate for credits earned for net operating losses increases to 33% of the loss. The operating portion of the long-term fiscal plan anticipates an average of \$400 million in refundable credits through 2023. It is anticipated that the changes in this bill would impact those future appropriations, beginning in FY 2015.

The change to the interest rate for delinquent taxes is expected to require changes to the department's tax accounting systems to accommodate the changes, requiring a one-time appropriation of \$100,000 in FY14 for contractor costs.

Regulations: The bill does not direct DOR to adopt new regulations to implement its provisions, but existing regulations may need to be reviewed and amended to conform to changes in audit requirements related to the use of joint interest billings, eligibility for redeemable tax credits, and to account for repeal of some sections. We estimate that the legal services required for this regulatory review and possible changes will require an additional appropriation of approximately \$50,000 in FY14. There may be additional regulations required, but not before January 1, 2014.

*****The revenue impact of this bill is an estimate based on the Fall 2012 Forecast.**

This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed separately below. The effective date of each of the bill's provisions listed below is assumed to be January 1, 2014, with the exception of provision 6, which is effective for expenditures beginning January 1, 2013.

1. The progressive portion of the production tax at AS 43.55.011(g) is repealed. Based on our Fall 2012 forecast, this change decreases production tax revenue over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.
2. The production tax rate under AS 43.55.011(e) has been increased to a tax rate of 33% of production tax value. Based on our Fall 2012 forecast, this change increases production tax revenue over the forecast period analyzed from this portion of the tax. Please see detailed summary table on page 4 of this fiscal note.
3. Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 on leases or properties that contain land north of 68 degrees North latitude. Based on our Fall 2012 forecast, this change increases production tax revenue annually over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.
4. Companies that incur net losses from leases or properties that contain land north of 68 degrees North latitude will earn a credit of 33% of those losses. These losses are transferable and eligible for refund by the state. The impact of this provision is on the operating budget and is expected to increase credit refunds appropriated through the operating budget by approximately \$30 million per year over the amount anticipated under current law.
5. A gross revenue exclusion (GRE) of 20% of the gross value at the point of production is applicable to production from certain areas. The GRE applies to oil or gas production from wells north of 68 degrees North Latitude that meet one or more of the following criteria: (1) is produced within a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced within a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by the Department of Natural Resources on or after January 1, 2014, and the producer demonstrates that the volume of oil or gas produced is from acreage added to an existing participating area. The revenue impact of this provision is expected to be up to -\$50 million per year over the time horizon of this fiscal note. Please see detailed summary table on page 4 of this fiscal note for revenue impacts of this provision.
6. The provision requiring that credits be taken over two years is eliminated. This provision would result in companies using credits earlier than they would without this change, and except for the time value of money impact, it is revenue neutral. This provision applies to expenditures after December 31, 2012.

(Analysis continued on following pages)

Analysis Continued

7. The community revenue sharing fund is amended to allow the legislature to make an appropriation from the state corporate income tax under AS 43.20 as opposed to tying the appropriation to revenue collected under AS 43.55.011(g). This provision has no revenue impact under our Fall 2012 forecast.

8. A credit of \$5 per taxable barrel or a sliding scale credit ranging from zero to \$8 per taxable barrel may be applied against a producer's production tax liability. For oil produced from GRE-eligible areas the credit is \$5 per taxable barrel. For areas not eligible for a GRE, the credit is a per-taxable-barrel sliding scale credit based on the gross value at the point of production of the oil. The sliding scale credit is a dollar-per-taxable-barrel credit ranging from zero dollars per barrel at per-barrel GVPP values greater than \$150 to \$8 per barrel at per-barrel GVPP values less than \$80. Neither of these credits can be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. The credit for areas not eligible for a GRE may not reduce the producer's tax liability to less than the minimum tax established under AS 43.55.011(f). Please see detailed summary table on page 4 of this fiscal note for the revenue impact of this provision.

9. A credit of 10% of qualified oil and gas industry service expenditures may be applied to tax liabilities under AS 43.20 in amounts up to \$10 million per taxpayer per year. The credit applies to qualified oil and gas service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of 3 years or more. The credit is not transferable, however, any amount of the credit that exceeds the taxpayer's liability under AS 43.20 may be carried forward for up to five years. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may be as high as -\$25 million per year. The revenue impact of this provision is indeterminate.

10. The interest rate on delinquent taxes is changed from the greater of 5 percentage points above the annual rate of interest charged by the 12th Federal Reserve District or 11 percent, to 3 percentage points above the annual rate of interest charged by the 12th Federal Reserve District. There will be one-time contractor costs to implement this change in the DOR accounting system. Over the past five fiscal years (FY 2008-FY 2012), interest on delinquent taxes and refunds has resulted in a net positive revenue to the state. The average annual net revenue to the state in these years was \$26 million in revenue to the General Fund and \$71 million in revenue to the Constitutional Budget Reserve Fund. The Department of Revenue does not forecast interest on taxes. Over the time horizon of this fiscal note, this provision is estimated to impact state revenues in amounts up to -\$25 million per year. The impact will increase over time as more delinquent taxes are calculated under the new interest rates established with this provision. Our fiscal impact estimates do not take into account changes in taxpayer behavior as a result of this reduction in interest rate.

11. The 3-mile requirement for frontier basin tax credit under AS 43.55.025(m) is removed. The frontier basin credit is a credit of 80% of eligible expenses up to \$25 million per well for first 4 qualifying wells and a seismic basin credit of \$7.5 million or 80 percent, whichever is less. This bill removes the provision that the 4 qualifying wells must be at least 3 miles from an existing well. This provision has no expected fiscal impact, as the Fall 2012 forecast already assumes spending for the 4 eligible wells will take place and credits will be issued.

12. The small producer credit at AS 43.55.024 is extended to the later of 2022 or the ninth calendar year after the calendar year that the producer first has commercial production. This provision extends the small producer credit six years from the original sunset date of 2016. The revenue impact based on the current revenue forecast ranges from zero to -\$50 million per year over the time horizon of this fiscal note.

13. The Department of Revenue is required to provide a report to the legislature on or before the first day of the 2016 regular session. This report will study various elements of the production tax system and recommend changes to the system. This report will be completed with existing professional staff and has no revenue impact.

14. The Department of Revenue is required to consider Joint Interest Billings in the audit process for production tax and may rely on audits performed by joint interest owners in performing state audits of taxpayers. This provision may lead to slight changes in the department's audit process and has an indeterminate fiscal impact.

15. AIDEA is given bonding authority to finance construction of oil and gas processing facilities. This provision does not have any fiscal impact on the Department of Revenue.

Analysis Continued

Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast (\$millions)¹

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-\$800	-\$1,500	-\$1,700	-\$1,800	-\$1,750	-\$1,650
2. Base tax rate changed to 33% of production tax value	\$450	\$850	\$875	\$850	\$800	\$775
3. Limitation of credits for qualified capital expenditures for North Slope	\$300	\$700	\$650	\$550	\$475	\$400
4. Net operating loss credit rate increased to 33%; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	\$0	-\$25	-\$25	-\$50	-\$25	-\$50
6. Provision requiring credits be taken over 2 years eliminated ²	-\$250					
7. Amendment to the community revenue sharing fund	\$0	\$0	\$0	\$0	\$0	\$0
8. Credit of \$5 per taxable barrel / Sliding scale credit per taxable barrel based on oil price	-\$425	-\$825	-\$775	-\$750	-\$700	-\$675
9. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -\$25 million annually)					
10. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -\$25 million annually, increasing over time)					
11. Removal of 3-mile requirement for frontier basin tax credit	\$0	\$0	\$0	\$0	\$0	\$0
12. Small producer credit extended to 2022	\$0	\$0	\$0	-\$25	-\$25	-\$50
13. 2016 required report to legislature	No fiscal impact					
14. Requirement to consider Joint Interest Billings in audit process	Indeterminate					
15. AIDEA bonding authority to finance oil and gas processing facilities	No Department of Revenue fiscal impact					
Total Revenue Impact	-\$725 to -\$775	-\$800 to -\$850	-\$975 to -\$1025	-\$1200 to -\$1250	-\$1200 to -\$1250	-\$1200 to -\$1250
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-\$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		\$150	\$150	\$150	\$150	\$150
Impact on Operating Budget of increase in Net Operating Loss credits		-\$30	-\$30	-\$30	-\$30	-\$30
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production³	-\$875 to -\$925	-\$680 to -\$730	-\$855 to -\$905	-\$1080 to -\$1130	-\$1080 to -\$1130	-\$1080 to -\$1130

¹The impacts listed are based on production and prices as forecasted in our Fall 2012 revenue forecast. The forecasted oil prices are between \$109.61 and \$118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

²Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is \$400 million, with \$250 million taken against tax liability as a revenue impact and \$150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

³NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

Analysis Continued

**Differences in General Fund Unrestricted Revenue under Proposed Bill
from Current Tax System in \$Millions***

*Note: These hypothetical examples of additional production assess the impacts from the change in tax rates, per barrel credits and gross revenue exclusions only and do not attempt to quantify impacts of other parts of the bill, such as the removal of the credit split, or the impact on the long-range budget from the elimination of QCE credits
Values are generated from a scenario model and may vary slightly from other models.

At Forecasted Production

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$275	-\$325	-\$475	-\$575	-\$600	-\$650
\$100	-\$350	-\$425	-\$600	-\$725	-\$750	-\$750
\$120	-\$725	-\$1,075	-\$1,275	-\$1,400	-\$1,375	-\$1,325

All additional production scenarios below compare additional production under the proposed bill to ACES without the additional production.

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$275	-\$325	-\$475	-\$575	-\$600	-\$625
\$100	-\$350	-\$425	-\$600	-\$700	-\$725	-\$725
\$120	-\$725	-\$1,075	-\$1,275	-\$1,375	-\$1,350	-\$1,275

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of \$500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$225	-\$100	-\$175	-\$225	-\$150	-\$275
\$100	-\$300	-\$150	-\$250	-\$275	-\$200	-\$275
\$120	-\$650	-\$725	-\$775	-\$775	-\$625	-\$675

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day beginning in FY 2014, with a maximum production rate of 60,000 barrels per day for a total of 140 million barrels. Development costs for each well assumed to be \$20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$350	-\$200	-\$200	-\$75	\$500	\$375
\$100	-\$375	-\$200	-\$175	\$0	\$600	\$525
\$120	-\$700	-\$675	-\$550	-\$275	\$475	\$425

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of \$5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new field.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB021CS(RES)-DCCED-AIDEA-04-06-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Resources

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Industrial Development and Export
Authority
Allocation: Alaska Industrial Development and Export
Authority
OMB Component Number: 1234

Expenditures/Revenues

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

(Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
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

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

The House Resources CS of SB 21 included a new provision regarding AIDEA. Previous versions of this bill did not impact AIDEA.

Prepared By: Ted Leonard, Executive Director
Division: Alaska Industrial Development & Export Authority
Approved By: JoEllen Hanrahan, Director
Administrative Services Division

Phone: (907)771-3050
Date: 04/06/2013 11:55 PM
Date: 04/06/13

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. SB 21

Analysis

Section 42 of HCS SB 21 (RES) adds a new section and establishes a new Oil and Gas infrastructure fund in AIDEA. The fund consists of money appropriated to the authority for deposit in the fund and money deposited by the authority. The fund is not an account of AIDEA's revolving fund and AIDEA shall account for it separately. Money in the fund may be used to finance the construction and improvement of an oil or gas processing facility on the North Slope and flow lines and other surface infrastructure for the facility.

Section 47 of the bill provides legislative approval for AIDEA to issue bonds to finance the construction and improvement of an oil or gas processing facility on the North Slope. The principal amount of the bonds may not exceed \$200,000,000. The issuance of bonds under this section does not apply to AIDEA's bond limitation of \$400,000,000 in a 12-month period.

Bond authorization does not imply that AIDEA will issue bonds. Any project financed by AIDEA goes through a project analysis and due-diligence process providing for a series of "go" "no go" decision points concluding with a decision by the AIDEA Board of Directors to execute the project.

No fiscal impact to AIDEA.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB021HCSCS(RES)-DNR-DOG-4-5-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Finance

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
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

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

The committee substitute adopted by the House Resources Committee makes changes to the third criteria of the Gross Revenue Exclusion and also amends what criteria DNR must utilize to approve an application for the alternative tax credit for oil and gas exploration in "Middle Earth".

Prepared By: William C. Barron
Division: Oil and Gas
Approved By: Daniel S. Sullivan, Commissioner
Department of Natural Resources

Phone: (907)269-8800
Date: 04/05/2013 08:00 AM
Date: 04/05/13

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB21(RES)

Analysis

HCS CSSB21(RES) reforms the oil and gas production tax system in Alaska. This bill will not result in any procedural changes in how the Division of Oil and Gas operates and therefore the Department of Natural Resources (DNR) does not anticipate any fiscal impact to the Department's operating budget.

HCS CSSB21(RES) proposes to improve Alaska's competitiveness and encourage producers to invest more by simplifying the oil and gas production tax system. First, this bill repeals the progressive tax structure, which will help encourage the type of long-term planning and investment needed to promote new investment in new production in Alaska. Further, this bill attempts to shift incentives away from spending and provides new incentives to reward new production.

This bill also amends AS 43.55.025(a)(6) and (m) to clarify that in order to qualify for the alternative tax credit for oil and gas exploration, DNR must approve based on criteria established in AS 43.55.025(c)(1), (c)(2)(A), and (c)(2)(C) thereby removing the 3-mile exclusion for areas classified in AS 43.55.025(o), known as "Middle Earth".

A new subsection AS 43.55.160(f) provides the gross revenue exclusion (GRE) for 20% of the gross value at the point of production for 10 years following the commencement of production from the well. The GRE applies to production from leases or properties containing land that is north of 68 degrees North latitude and meets one or more of the three criteria: (1) is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced from a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by DNR on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. This section also clarifies that the GRE may not reduce the gross value at the point of production below zero.

At forecasted price ranges, overall government take and marginal tax rates are reduced materially. To the extent that investments are made as a consequence of these changes to the tax regime, royalty revenue may rise. The fiscal impact on royalty revenue is an indeterminate positive.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB21(RES)

Analysis Continued

**Differences in Royalty Revenues from
New Production Scenarios in \$Millions***

*Note: These scenarios are based on Department of Revenue modeling.

At Forecasted Production							
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	
\$	120	\$0	\$0	\$0	\$0	\$0	\$0
\$	100	\$0	\$0	\$0	\$0	\$0	\$0
\$	90	\$0	\$0	\$0	\$0	\$0	\$0

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$0	\$0	\$0	\$12	\$24	\$35
\$100	\$0	\$0	\$0	\$10	\$20	\$29
\$90	\$0	\$0	\$0	\$9	\$17	\$26

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of \$500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$57	\$106	\$147	\$181	\$212	\$179
\$100	\$47	\$87	\$120	\$148	\$173	\$146
\$90	\$42	\$77	\$107	\$132	\$154	\$130

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day and declining at a rate of 15% per year. Development costs for each well assumed to be \$20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$120	\$111	\$213	\$307	\$433	\$557	\$533
\$100	\$91	\$174	\$251	\$354	\$455	\$435
\$90	\$81	\$155	\$223	\$314	\$404	\$386

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of \$5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new 50-million barrel field.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB21HCSCS(RES)-DOR-TAX-04-05-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (H) FIN

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

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

(Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
Personal Services							
Travel							
Services	150.0						
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	150.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	150.0						
Total	150.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/14

Why this fiscal note differs from previous version:

This version updates the fiscal note for the House Resources Committee substitute.

Prepared By: Cherie Nienhuis, Ed King and Dan Stickel
Division: Tax Division
Approved By: Bryan D. Butcher, Commissioner
Department of Revenue

Phone: (907)269-1019
Date: 04/05/2013 04:00 PM
Date: 04/05/13

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB21(RES)

Analysis

Operating expenditures: This bill makes changes to the tax credits under the production tax system. For leases or properties that contain land that is north of 68 degrees North latitude, the following changes are made: (1) Credits for qualified capital expenditures are limited to expenditures incurred before January 1, 2014; (2) Beginning January 1, 2014, the rate for credits earned for net operating losses increases to 33% of the loss. The operating portion of the long-term fiscal plan anticipates an average of \$400 million in refundable credits through 2023. It is anticipated that the changes in this bill would impact those future appropriations, beginning in FY 2015.

The change to the interest rate for delinquent taxes is expected to require changes to the department's tax accounting systems to accommodate the changes, requiring a one-time appropriation of \$100,000 in FY14 for contractor costs.

Regulations: The bill does not direct DOR to adopt new regulations to implement its provisions, but existing regulations may need to be reviewed and amended to conform to changes in audit requirements related to the use of joint interest billings, eligibility for redeemable tax credits, and to account for repeal of some sections. We estimate that the legal services required for this regulatory review and possible changes will require an additional appropriation of approximately \$50,000 in FY14. There may be additional regulations required, but not before January 1, 2014.

*****The revenue impact of this bill is an estimate based on the Fall 2012 Forecast.**

This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed separately below. The effective date of each of the bill's provisions listed below is assumed to be January 1, 2014, with the exception of provision 6, which is effective for expenditures beginning January 1, 2013.

1. The progressive portion of the production tax at AS 43.55.011(g) is repealed. Based on our Fall 2012 forecast, this change decreases production tax revenue over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

2. The production tax rate under AS 43.55.011(e) has been increased to a tax rate of 33% of production tax value. Based on our Fall 2012 forecast, this change increases production tax revenue over the forecast period analyzed from this portion of the tax. Please see detailed summary table on page 4 of this fiscal note.

3. Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 on leases or properties that contain land north of 68 degrees North latitude. Based on our Fall 2012 forecast, this change increases production tax revenue annually over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

4. Companies that incur net losses from leases or properties that contain land north of 68 degrees North latitude will earn a credit of 33% of those losses. These losses are transferable and eligible for refund by the state. The impact of this provision is on the operating budget and is expected to increase credit refunds appropriated through the operating budget by approximately \$30 million per year over the amount anticipated under current law.

5. A gross revenue exclusion (GRE) of 20% of the gross value at the point of production is applicable to production from certain areas. The GRE applies to oil or gas production from wells north of 68 degrees North Latitude that meet one or more of the following criteria: (1) is produced within a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced within a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by the Department of Natural Resources on or after January 1, 2014, and the producer demonstrates that the volume of oil or gas produced is from acreage added to an existing participating area. The revenue impact of this provision is expected to be up to -\$50 million per year over the time horizon of this fiscal note. Please see detailed summary table on page 4 of this fiscal note for revenue impacts of this provision.

6. The provision requiring that credits be taken over two years is eliminated. This provision would result in companies using credits earlier than they would without this change, and except for the time value of money impact, it is revenue neutral. This provision applies to expenditures after December 31, 2012.

(Analysis continued on following pages)

Analysis Continued

7. The community revenue sharing fund is amended to allow the legislature to make an appropriation from the state corporate income tax under AS 43.20 as opposed to tying the appropriation to revenue collected under AS 43.55.011(g). This provision has no revenue impact under our Fall 2012 forecast.

8. A credit of \$5 per taxable barrel or a sliding scale credit ranging from zero to \$8 per taxable barrel may be applied against a producer's production tax liability. For oil produced from GRE-eligible areas the credit is \$5 per taxable barrel. For areas not eligible for a GRE, the credit is a per-taxable-barrel sliding scale credit based on the gross value at the point of production of the oil. The sliding scale credit is a dollar-per-taxable-barrel credit ranging from zero dollars per barrel at per-barrel GVPP values greater than \$150 to \$8 per barrel at per-barrel GVPP values less than \$80. Neither of these credits can be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. The credit for areas not eligible for a GRE may not reduce the producer's tax liability to less than the minimum tax established under AS 43.55.011(f). Please see detailed summary table on page 4 of this fiscal note for the revenue impact of this provision.

9. A credit of 10% of qualified oil and gas industry service expenditures may be applied to tax liabilities under AS 43.20 in amounts up to \$10 million per taxpayer per year. The credit applies to qualified oil and gas service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of 3 years or more. The credit is not transferable, however, any amount of the credit that exceeds the taxpayer's liability under AS 43.20 may be carried forward for up to five years. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may be as high as -\$25 million per year. The revenue impact of this provision is indeterminate.

10. The interest rate on delinquent taxes is changed from the greater of 5 percentage points above the annual rate of interest charged by the 12th Federal Reserve District or 11 percent, to 3 percentage points above the annual rate of interest charged by the 12th Federal Reserve District. There will be one-time contractor costs to implement this change in the DOR accounting system. Over the past five fiscal years (FY 2008-FY 2012), interest on delinquent taxes and refunds has resulted in a net positive revenue to the state. The average annual net revenue to the state in these years was \$26 million in revenue to the General Fund and \$71 million in revenue to the Constitutional Budget Reserve Fund. The Department of Revenue does not forecast interest on taxes. Over the time horizon of this fiscal note, this provision is estimated to impact state revenues in amounts up to -\$25 million per year. The impact will increase over time as more delinquent taxes are calculated under the new interest rates established with this provision. Our fiscal impact estimates do not take into account changes in taxpayer behavior as a result of this reduction in interest rate.

11. The 3-mile requirement for frontier basin tax credit under AS 43.55.025(m) is removed. The frontier basin credit is a credit of 80% of eligible expenses up to \$25 million per well for first 4 qualifying wells and a seismic basin credit of \$7.5 million or 80 percent, whichever is less. This bill removes the provision that the 4 qualifying wells must be at least 3 miles from an existing well. This provision has no expected fiscal impact, as the Fall 2012 forecast already assumes spending for the 4 eligible wells will take place and credits will be issued.

12. The small producer credit at AS 43.55.024 is extended to the later of 2022 or the ninth calendar year after the calendar year that the producer first has commercial production. This provision extends the small producer credit six years from the original sunset date of 2016. The revenue impact based on the current revenue forecast ranges from zero to -\$50 million per year over the time horizon of this fiscal note.

13. The Department of Revenue is required to provide a report to the legislature on or before the first day of the 2016 regular session. This report will study various elements of the production tax system and recommend changes to the system. This report will be completed with existing professional staff and has no revenue impact.

14. The Department of Revenue is required to consider Joint Interest Billings in the audit process for production tax and may rely on audits performed by joint interest owners in performing state audits of taxpayers. This provision may lead to slight changes in the department's audit process and has an indeterminate fiscal impact.

15. AIDEA is given bonding authority to finance construction of oil and gas processing facilities. This provision does not have any fiscal impact on the Department of Revenue.

Analysis Continued

Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast (\$millions)¹

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-\$800	-\$1,500	-\$1,700	-\$1,800	-\$1,750	-\$1,650
2. Base tax rate changed to 33% of production tax value	\$450	\$850	\$875	\$850	\$800	\$775
3. Limitation of credits for qualified capital expenditures for North Slope	\$300	\$700	\$650	\$550	\$475	\$400
4. Net operating loss credit rate increased to 33%; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	\$0	-\$25	-\$25	-\$50	-\$25	-\$50
6. Provision requiring credits be taken over 2 years eliminated ²	-\$250					
7. Amendment to the community revenue sharing fund	\$0	\$0	\$0	\$0	\$0	\$0
8. Credit of \$5 per taxable barrel / Sliding scale credit per taxable barrel based on oil price	-\$425	-\$825	-\$775	-\$750	-\$700	-\$675
9. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -\$25 million annually)					
10. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -\$25 million annually, increasing over time)					
11. Removal of 3-mile requirement for frontier basin tax credit	\$0	\$0	\$0	\$0	\$0	\$0
12. Small producer credit extended to 2022	\$0	\$0	\$0	-\$25	-\$25	-\$50
13. 2016 required report to legislature	No fiscal impact					
14. Requirement to consider Joint Interest Billings in audit process	Indeterminate					
15. AIDEA bonding authority to finance oil and gas processing facilities	No Department of Revenue fiscal impact					
Total Revenue Impact	-\$725 to -\$775	-\$800 to -\$850	-\$975 to -\$1025	-\$1200 to -\$1250	-\$1200 to -\$1250	-\$1200 to -\$1250
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-\$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		\$150	\$150	\$150	\$150	\$150
Impact on Operating Budget of increase in Net Operating Loss credits		-\$30	-\$30	-\$30	-\$30	-\$30
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production³	-\$875 to -\$925	-\$680 to -\$730	-\$855 to -\$905	-\$1080 to -\$1130	-\$1080 to -\$1130	-\$1080 to -\$1130

¹The impacts listed are based on production and prices as forecasted in our Fall 2012 revenue forecast. The forecasted oil prices are between \$109.61 and \$118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

²Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is \$400 million, with \$250 million taken against tax liability as a revenue impact and \$150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

³NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

Analysis Continued

**Differences in General Fund Unrestricted Revenue under Proposed Bill
from Current Tax System in \$Millions***

*Note: These hypothetical examples of additional production assess the impacts from the change in tax rates, per barrel credits and gross revenue exclusions only and do not attempt to quantify impacts of other parts of the bill, such as the removal of the credit split, or the impact on the long-range budget from the elimination of QCE credits
Values are generated from a scenario model and may vary slightly from other models.

At Forecasted Production

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$275	-\$325	-\$475	-\$575	-\$600	-\$650
\$100	-\$350	-\$425	-\$600	-\$725	-\$750	-\$750
\$120	-\$725	-\$1,075	-\$1,275	-\$1,400	-\$1,375	-\$1,325

All additional production scenarios below compare additional production under the proposed bill to ACES without the additional production.

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$275	-\$325	-\$475	-\$575	-\$600	-\$625
\$100	-\$350	-\$425	-\$600	-\$700	-\$725	-\$725
\$120	-\$725	-\$1,075	-\$1,275	-\$1,375	-\$1,350	-\$1,275

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of \$500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$225	-\$100	-\$175	-\$225	-\$150	-\$275
\$100	-\$300	-\$150	-\$250	-\$275	-\$200	-\$275
\$120	-\$650	-\$725	-\$775	-\$775	-\$625	-\$675

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day beginning in FY 2014, with a maximum production rate of 60,000 barrels per day for a total of 140 million barrels. Development costs for each well assumed to be \$20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$350	-\$200	-\$200	-\$75	\$500	\$375
\$100	-\$375	-\$200	-\$175	\$0	\$600	\$525
\$120	-\$700	-\$675	-\$550	-\$275	\$475	\$425

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of \$5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new field.



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*"Protecting the natural environment
 of the Tongass while supporting the
 development of sustainable
 communities in Southeast Alaska –
 since 1967."*

Speaker of the House Mike Chenault
 State Capitol Room 208
 Juneau, AK 99801

April 4, 2013

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The community of Sitka urges you to vote against Senate Bill 21. We believe this is a **wealth giveaway** to the oil industry with no guarantee they will act in the public's best interest, increase production, or create jobs. If this bill becomes law, savings Alaska has accrued from years of oil tax revenue will move back into the pockets of the world's most profitable corporations. Now is the wrong time: funding for our schools and critical services is being cut. We should not hand out tax breaks at the expense of our future.

Please add this petition to whatever file pertains to the bill, and let it serve as a testament that many in the Sitka community stand firmly against SB 21.

Thank you, Mr. Speaker.

Copied:
 Representative Jonathan Kreiss-Tomkins
 Senator Bert Stedman

Name

Signature

Address

ANDREW THOMS		722 Braska, Sitka AK
LORRAINE INEZ LIL		105 AUSTIN ST SITKA ALASKA
IZABELA PONTUAL THORNE		419 LINCOLN ST SITKA AK 99833
STEVE BRADSHAW		725 Lake St Sitka
CARIN FINEY		716 A Street Sitka
DEY CLEM		SITKA AK. 747.5597



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Signature

Address

STEVE ASH		4014 HPR SITKA, AK
Connie LaPerriere	Connie LaPerriere	705 Lake St Sitka AK
Marcel LaPerriere		705 Lake St Sitka AK
Phyllis Hackett		500 Lincoln #B4 Sitka AK
Linda Waller	Linda Waller	1303 Geeseon Lp Sitka AK
Howard Pendell DON MULLER	 Don Muller	Lot #6 Galanti Ls Sitka 310 Islander Dr., Sitka
Michelle K. Putz	Michelle K Putz	131 Shelikof Way
Charles Bingham		404 Estab Way Apt #1 Sitka AK 99835
Bob Meding	Bob Meding	4270 HPR, Sitka AK 99835
Howard WAYNE		P.O. BOX 1925 SITKA
Cori Schumejda	Cori Schumejda	PO BOX 2182 SITKA
Mim McConnell	Mim McConnell	215 Smith St #G Sitka
Marsh Skeele		507 Katlian St. Sitka



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Name

Signature

Address

Henry Larsen

Henry Larsen

106 B... ..

Lynn Wilbur

Lynn Wilbur

617 Kathian St A7

Coral Creenna

Coral Creenna

3486 HPR

Patrick Creenna

Patrick Creenna

" "

JACK OZMENT

Jack Ozment

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Sheryl Mayo

Sheryl Mayo

2800 SMC, Sitka

L. Spencer Severson

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Name	Signature	Address
ADAM ANDIS		PO Box 3165 SITKA, AK 99835
Clarice Johnson		506 O'Leary, Sitka
Chelsea Andreozzi		121 John Brady Sitka, AK 99835
Sigurd Rutter		310 Tilton St Sitka AK
Peter Williams		PO Box 6233, Sitka AK 99835
Kerry MacLone		PO Box 1665, SITKA AK
Faith Lee		142 waloff sitka
Erin Messinger		PO Box 1864 Sitka
Rosemary Armer		507 Mahine St SITKA



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Name	Signature	Address
Ken Corson	Ken Corson	405 Mills St SITKA, AK
Helen Raschick	[Signature]	PO Box 2893
Paul Rioux	[Signature]	211B Kimsham St
MARJORIE HENNESSY	[Signature]	308 MARINE ST
Courtney Bobbin	[Signature]	105 Monastery St. Apt C
DORRIE FARRELL	Dorrie Farrell	3501 HPR
Erin Fulton	Erin Fulton	PO Box 946
Hilloah Courtney	Hh Courtney	208 Lakeview Dr
Nancy Short	Nancy L Short	144 Wolff Dr
Susan Litman	Susan Litman	Box 1971 SITKA
MICHAEL LITMAN	Michael Litman	Box 1971 SITKA
Donna Donohoe	Donna Donohoe	1315 SMC Rd Sitka
Anthony J. Cuevin	Anthony J. Cuevin	715 SMC Rd Sitka
Karin Mullins	Karin Mullins	1110 HPR Sitka
NORMAN CAMPBELL	[Signature]	106 RANDS DR
MEGAN PASTERNAK	[Signature]	Box 830 SITKA, AK
JUDITH OZMENT	Judith Ozment	2028 HPR SITKA AK 99835
Ray Friedlander	[Signature]	109 Jeff Davis St, Sitka AK 99835



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Name	Signature	Address
WARD ELDRIDGE	<i>Ward Eldridge</i>	2213 SMC SITKA, AK. 99835
<i>John DePalatis</i>	<i>Judith Johnson</i>	2028 1/2 HPR SITKA AK 99835 306 Peterson
Kasuy Davis	Kasuy Davis	505 Hirst St.
Jay Kagnen	<i>Jay K</i>	2216 Sawmill Creek
Manford	Deanna K	3004 Sunflower St Anchorage AK 99508
KEVIN KWOK	<i>Kevin Kwok</i>	320 WACHOSETTS ST
Margaret Gally	<i>Margaret Gally</i>	"



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Name

Signature

Address

Ashia Lane
Kent Barchew

PO Box 6138
Sitka, AK
123 123456 12

4/6/13



House Finance Committee

Alaska Fiscal System Discussion Slides

April 6 2013
Janak Mayer
Manager, Upstream
PFC Energy

PFC Energy

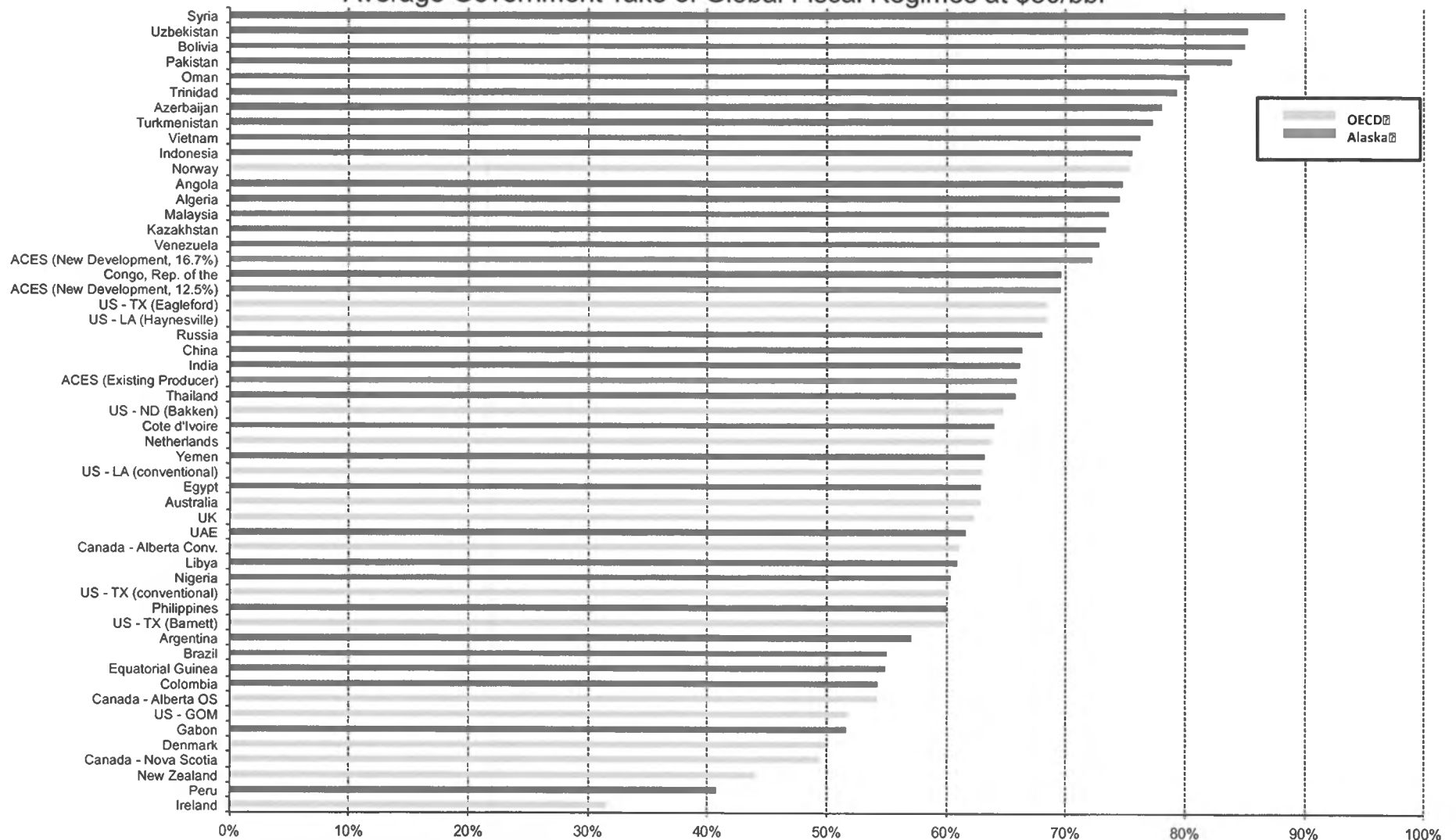
ACES: Key Issues

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- **High Government Take and high degree of progressivity means uncompetitive for investment at current prices**
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- Large scale gas sales would reduce taxes on oil
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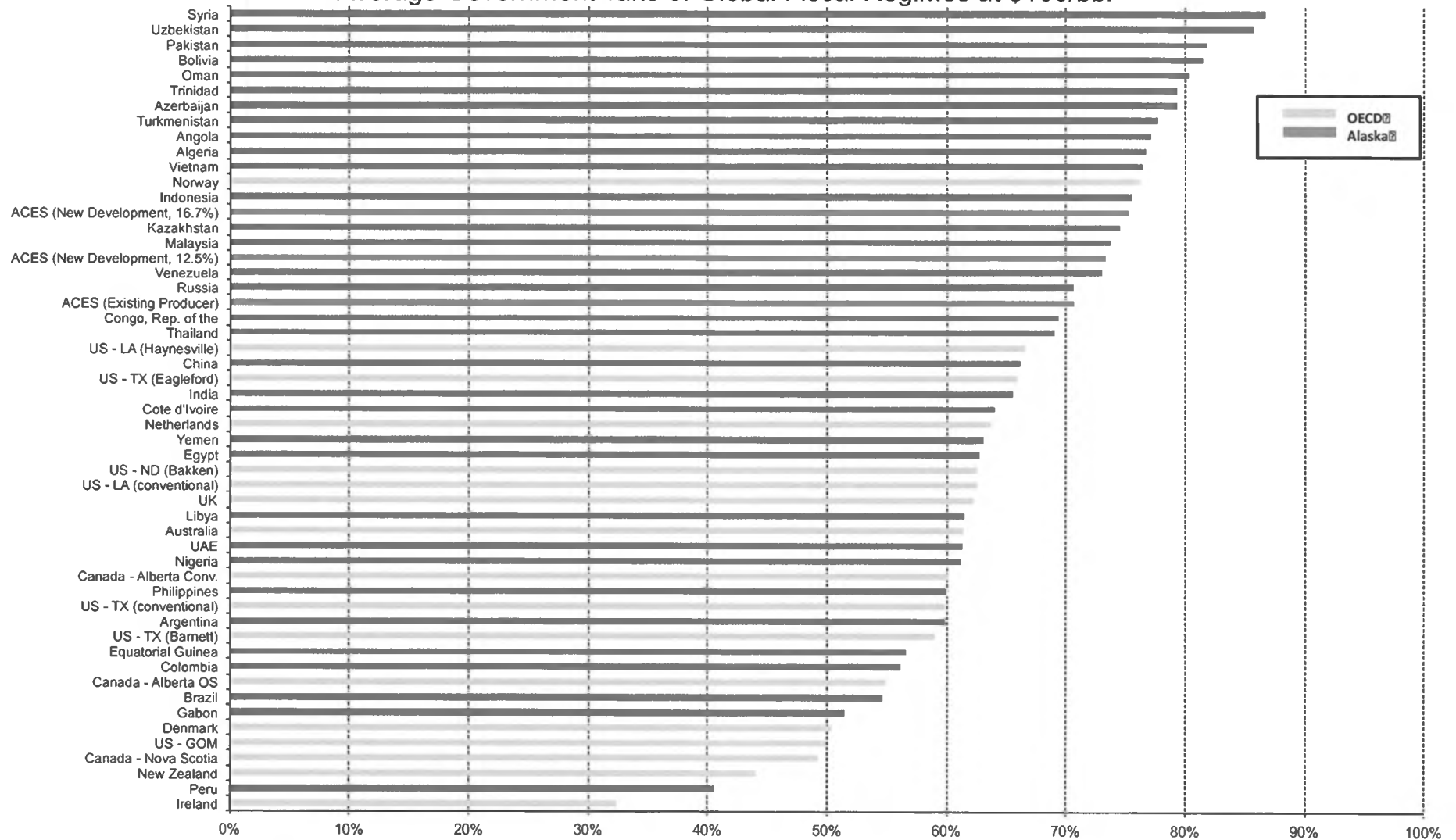
Regime Competitiveness - \$80/bbl

Average Government Take of Global Fiscal Regimes at \$80/bbl



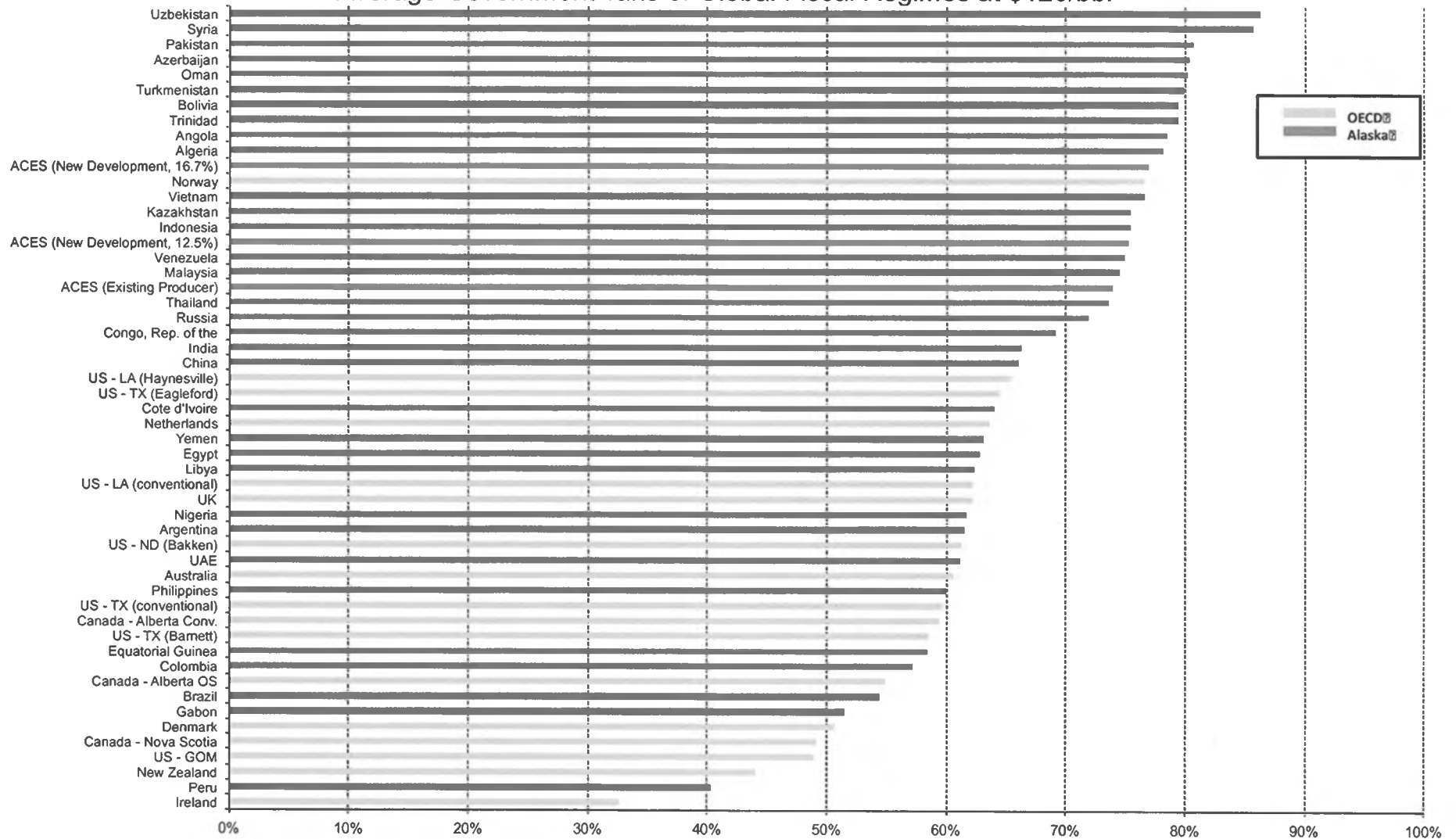
Regime Competitiveness - \$100/bbl

Average Government Take of Global Fiscal Regimes at \$100/bbl

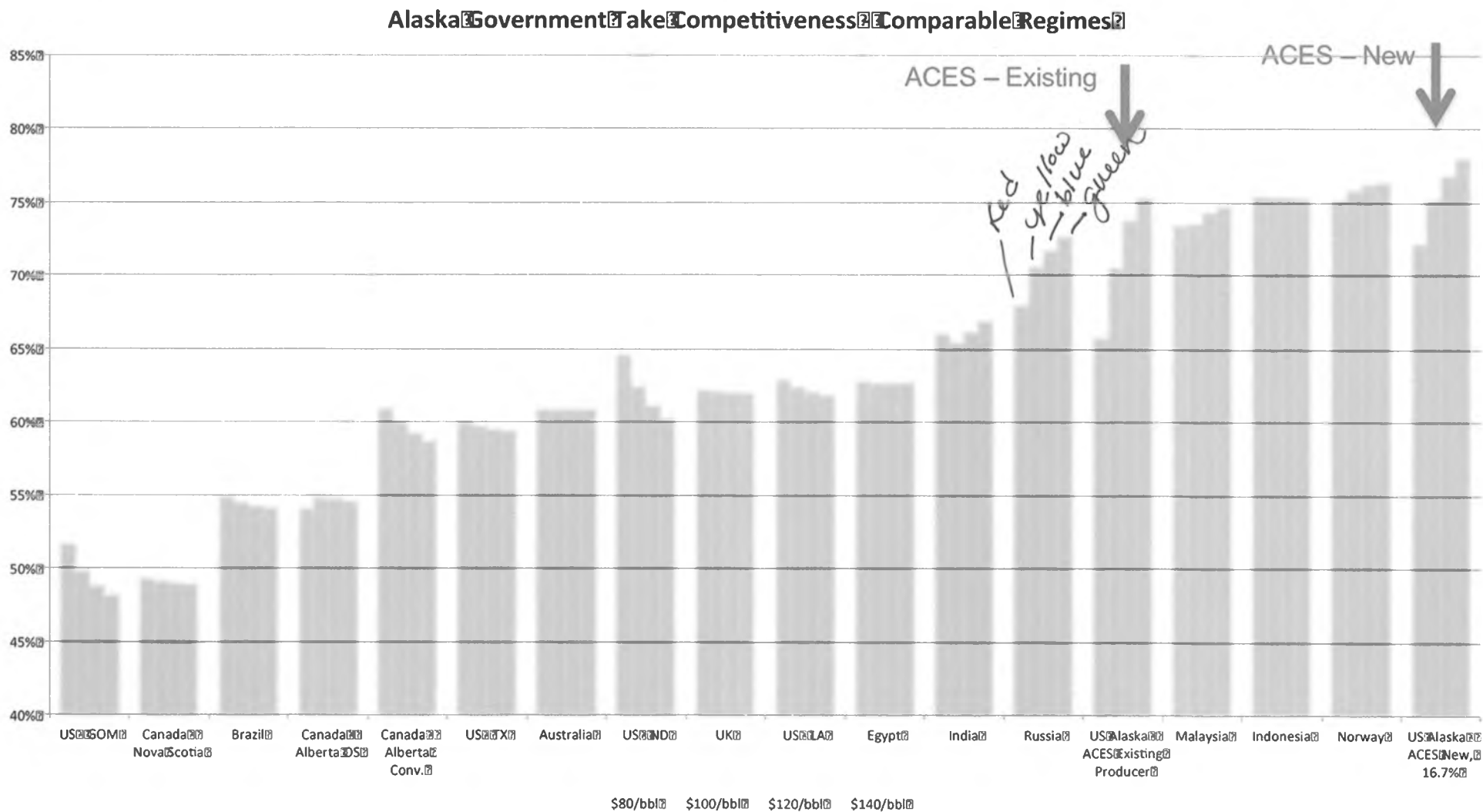


Regime Competitiveness - \$120/bbl

Average Government Take of Global Fiscal Regimes at \$120/bbl



Government Take Competitiveness – Most Relevant Competitor Regimes

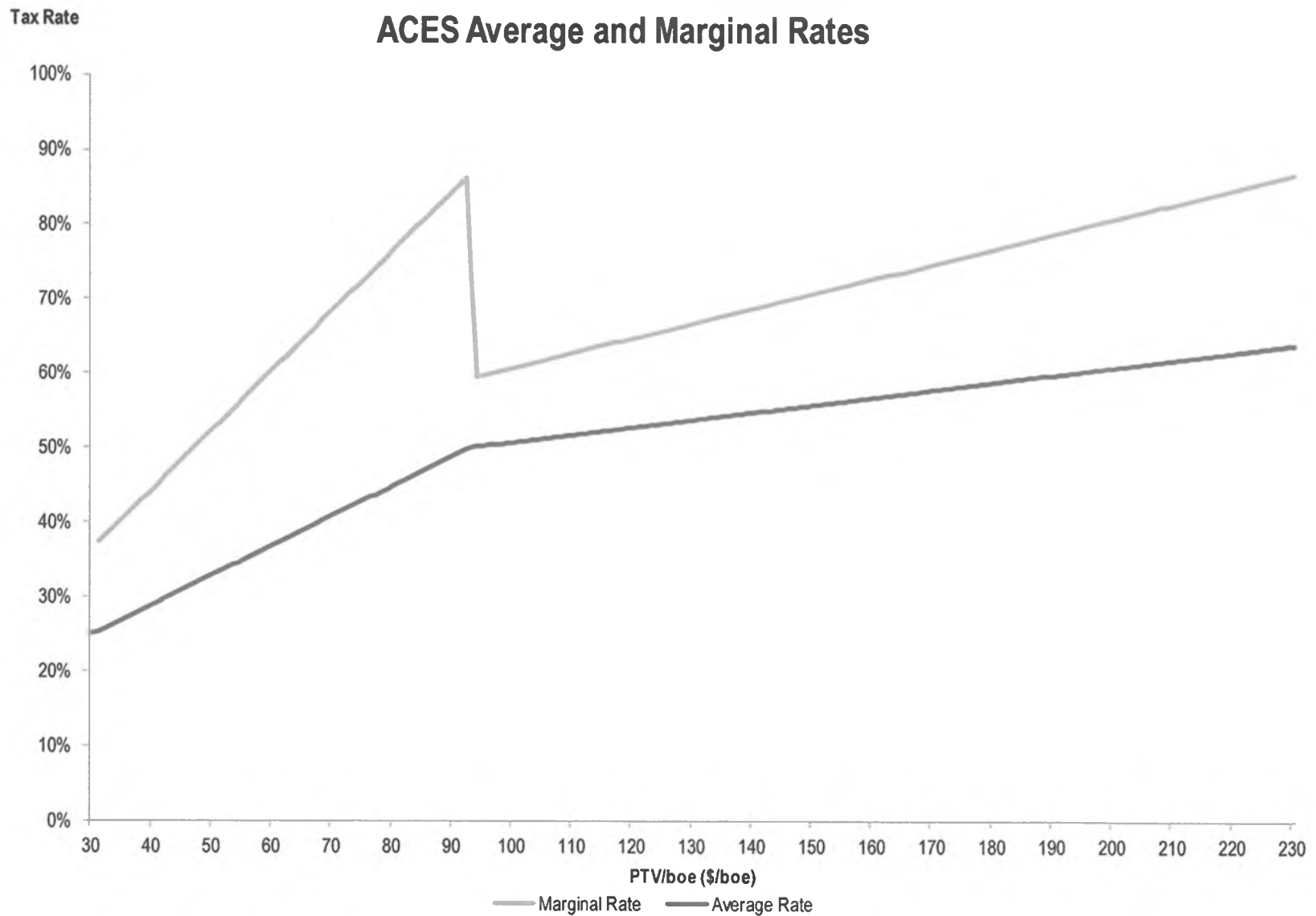


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ACES: Average and Marginal Production Tax Rates



Impact of Spending Under High Marginal Rates



Calculation of ACES Tax: Additional Capital Spending

Annual Taxable Production (Bbls)		50,000,000	50,000,000	50,000,000
Initial Expenditure (\$)		\$1,500,000,000	\$1,500,000,000	\$1,500,000,000
Additional Expenditure (\$)	+	250,000,000	250,000,000	250,000,000
Total Lease Expenditure (\$)		\$1,750,000,000	\$1,750,000,000	\$1,750,000,000
WC ANS Price (\$/Bbl)		\$80.00	\$100.00	\$120.00
Tax Value Prior To Additional Expenditure (\$/Bbl)		\$40.00	\$60.00	\$80.00
Additional Capital Spending Per-Barrel of Existing Production (\$/Bbl)	-	5.00	5.00	5.00
Tax Value After Additional Expenditure (\$/Bbl)	=	\$35.00	\$55.00	\$75.00
Taxes Before Additional Expenditure				
Tax Rate (%)		29.0%	37.0%	45.0%
Production Tax Before Credits (\$)		\$580,000,000	\$1,110,000,000	\$1,800,000,000
Capital Credits (20% x Capital Expenditures) (\$)	-	300,000,000	300,000,000	300,000,000
Production Tax After Credits (\$)	=	\$280,000,000	\$810,000,000	\$1,500,000,000
Taxes After Additional Expenditure				
Tax Rate (%)		27.0%	35.0%	43.0%
Production Tax Before Credits (\$)		\$472,500,000	\$962,500,000	\$1,612,500,000
Capital Credits (20% x Capital Expenditures) (\$)	-	350,000,000	350,000,000	350,000,000
Production Tax After Credits (\$)	=	\$122,500,000	\$612,500,000	\$1,262,500,000
Reduction in Taxes From Additional Expenditure				
Before Credits		\$107,500,000	\$147,500,000	\$187,500,000
Additional Credits	+	50,000,000	50,000,000	50,000,000
Total Reduction in Taxes After Credits	=	\$157,500,000	\$197,500,000	\$237,500,000
Reduction in Tax as % of Expenditure		63%	79%	95%
Due to Change in Taxes (Buy Down Effect)		43%	59%	75%
Due to Additional Credits		20%	20%	20%

Econ One Research

23

Source: Econ One Presentation, February 13 2013

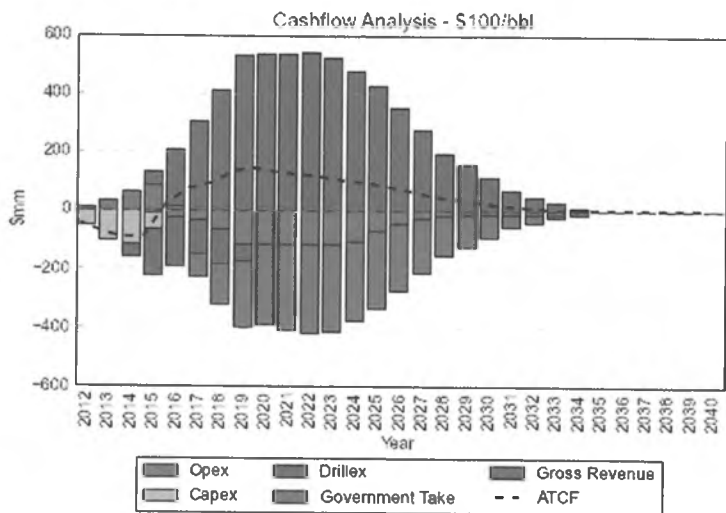
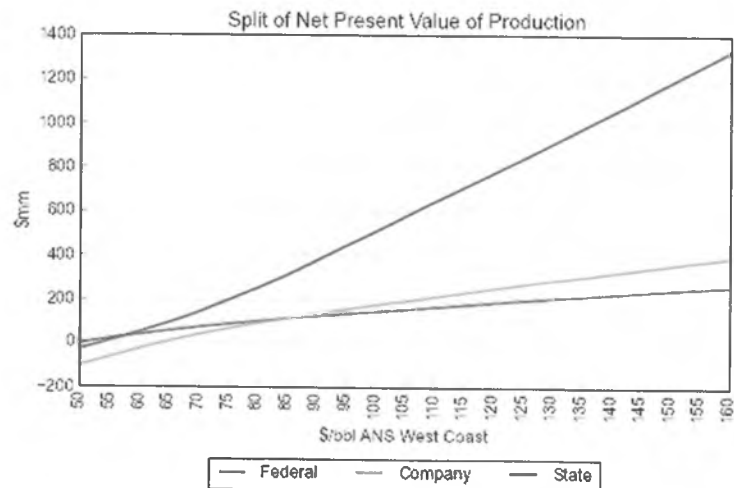
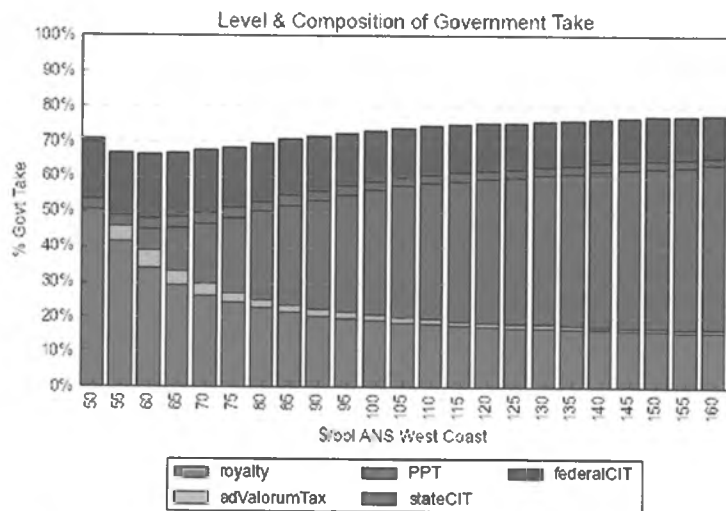
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ACES - \$18/bbl Capex New Development, Standalone

ACES, 12.5% Royalty, \$18/bbl New Development, Standalone



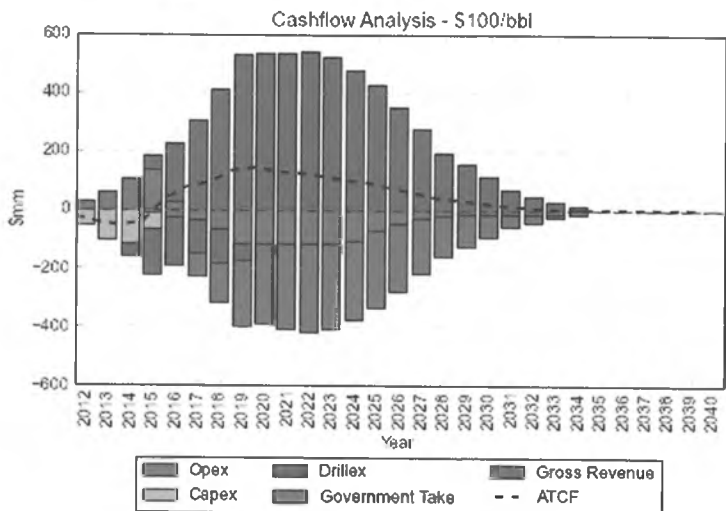
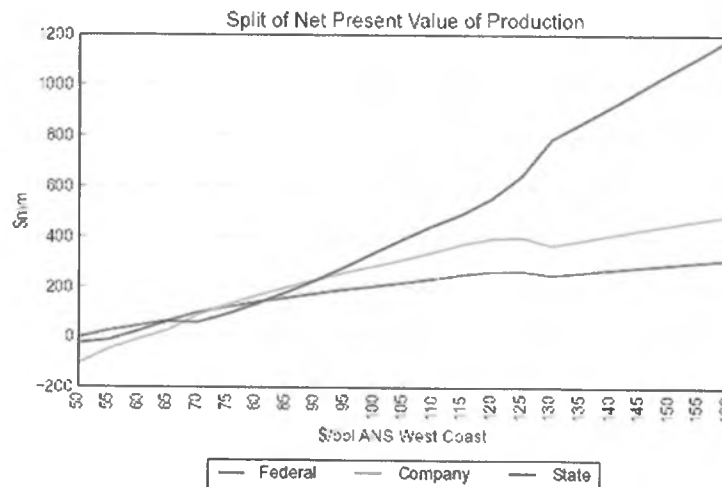
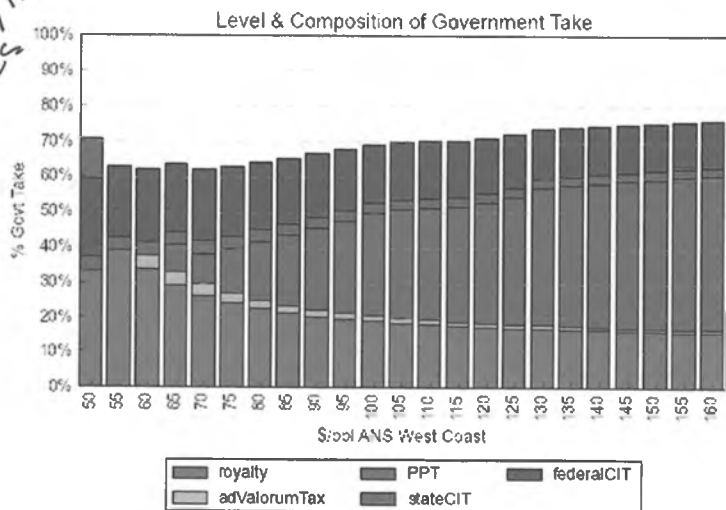
Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	69.59%	1.76	17.21%	21.76
\$100/bbl	73.31%	3.44	21.74%	26.81
\$120/bbl	75.25%	4.99	25.54%	30.93
\$140/bbl	76.63%	6.46	28.80%	35.16

ACES - \$18/bbl Capex New Development, Incremental to Incumbent

*Correction
discussed
7pm 4/6/13 in
minutes*

ACES, 12.5% Royalty, \$18/bbl New Development, Standalone



Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	64.37%	3.29	23.91%	22.05
\$100/bbl	69.43%	5.65	35.22%	27.14
\$120/bbl	71.19%	7.86	48.48%	30.67
\$140/bbl	74.70%	8.18	40.57%	35.21

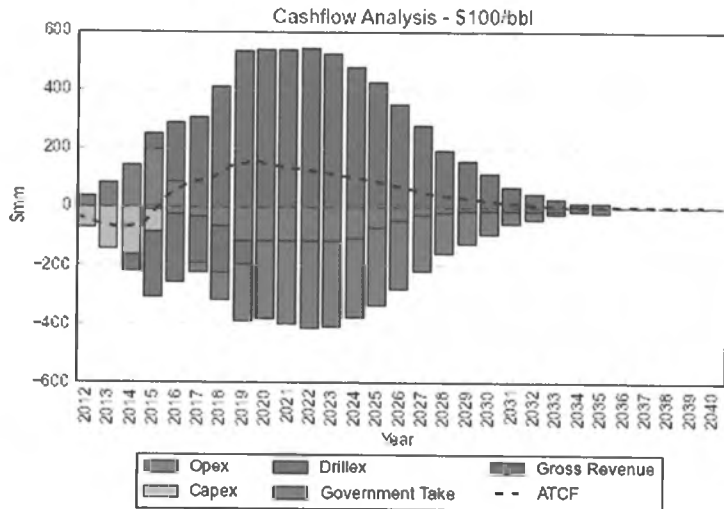
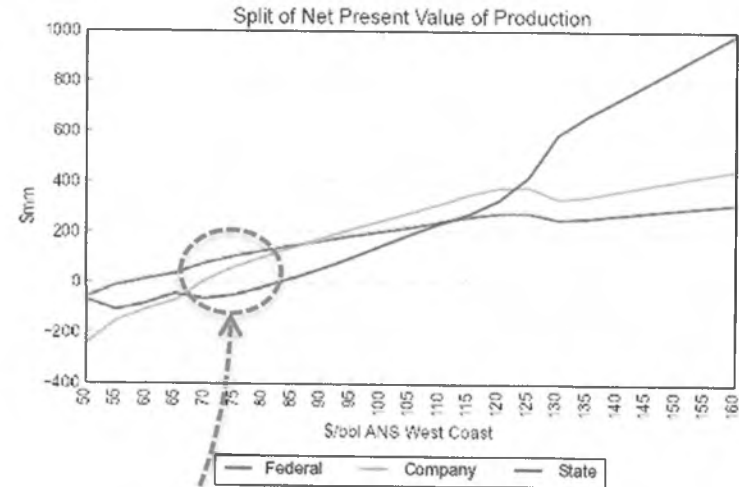
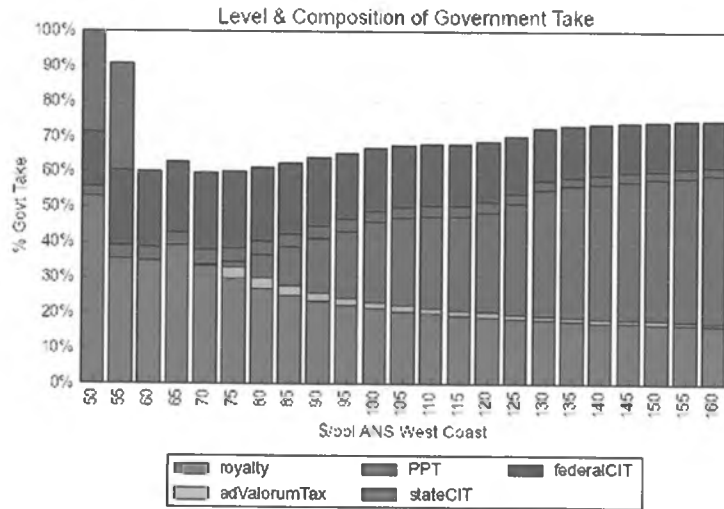
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ACES - \$25/bbl Capex New Development, Incremental to Incumbent

ACES, 12.5% Royalty, \$18/bbl New Development, Standalone



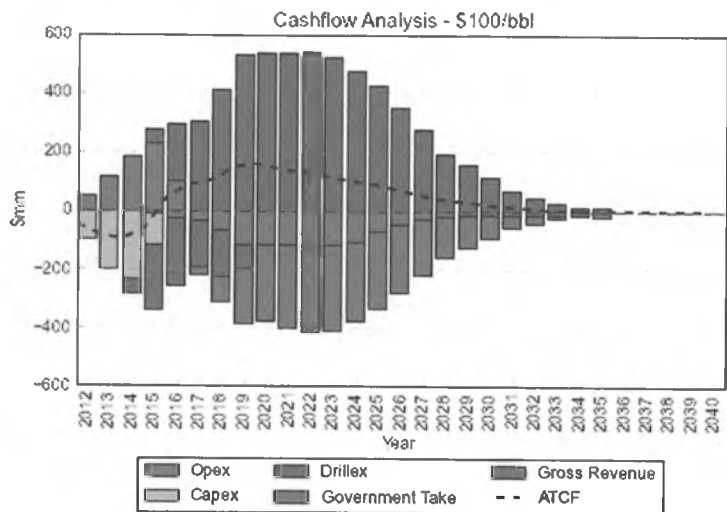
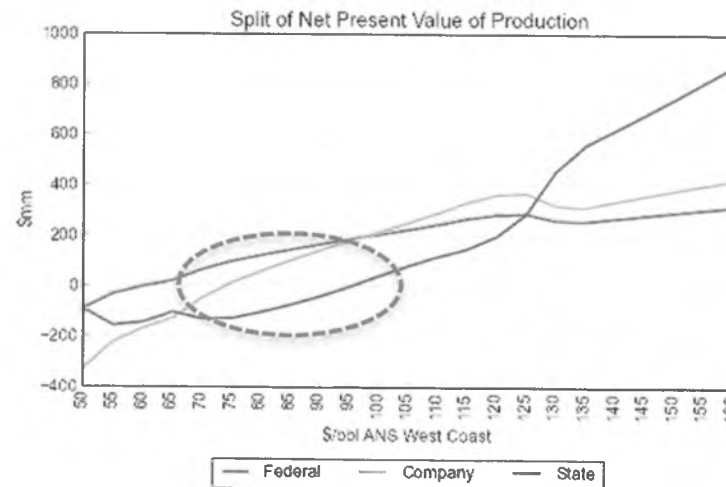
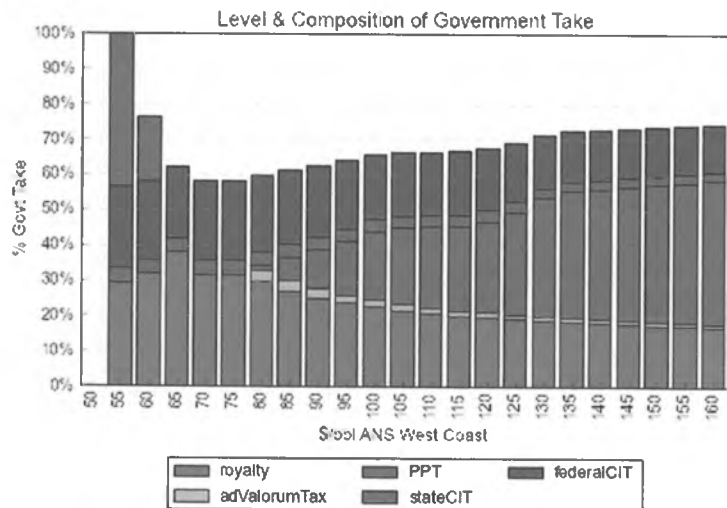
Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	61.48%	1.96	17.63%	22.72
\$100/bbl	67.05%	4.82	27.86%	28.29
\$120/bbl	68.82%	7.49	40.27%	32.15
\$140/bbl	73.74%	7.3	32.69%	36.25

At \$75/bbl oil, the NPV of state spending on credits is higher than the NPV of all state government take for the project. However, the project still generates positive NPV for the company – a major concern for liability to the state.

ACES - \$35/bbl Capex New Development, Incremental to Incumbent

ACES, 12.5% Royalty, \$18/bbl New Development, Standalone



Economic Summary

	GT0	NPV/boe	IRR	Cash Margin
\$80/bbl	59.89%	1.09	14.67%	23.79
\$100/bbl	65.84%	4.23	23.81%	29.36
\$120/bbl	67.62%	7.17	34.96%	33.22
\$140/bbl	73.28%	6.71	28.24%	37.32

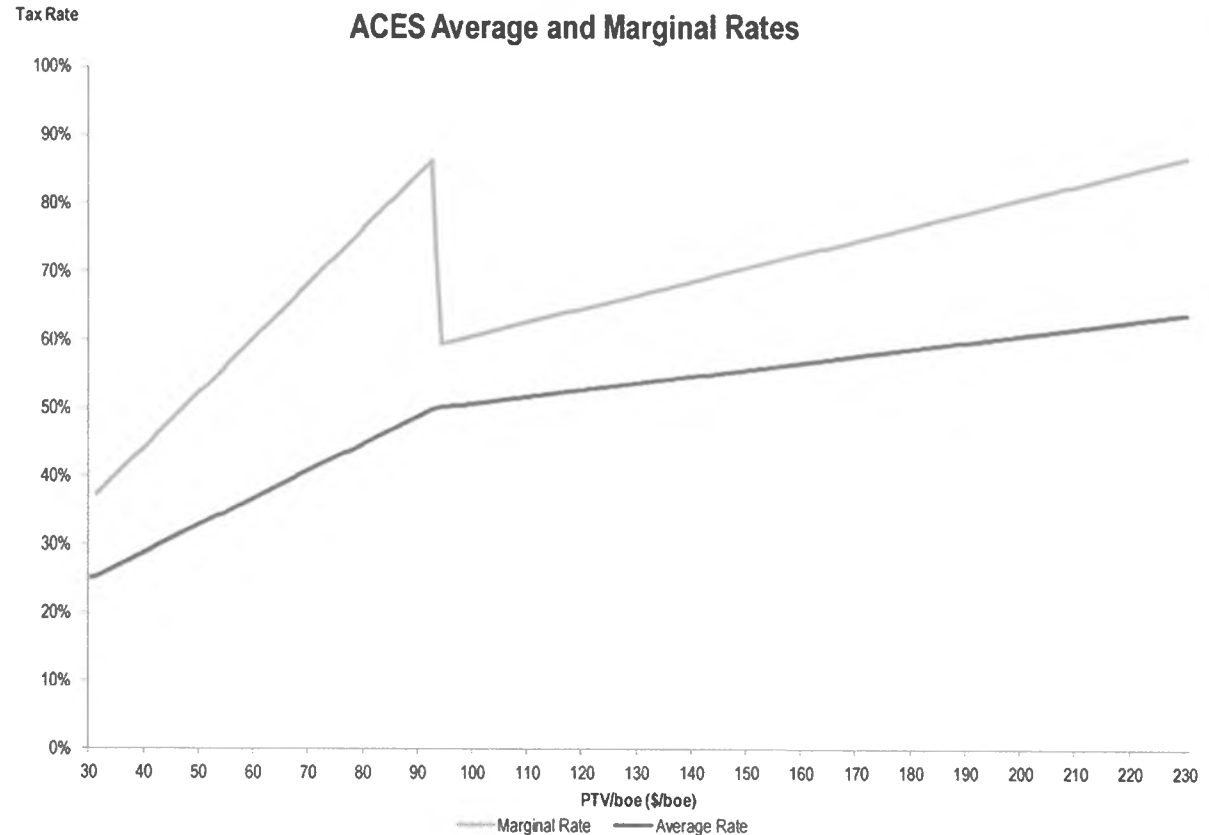
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Impact of Large-Scale Gas Sales on Tax Rates

- Under ACES, production tax value is assessed on a combined BTU-equivalent basis for both oil and gas production
 - So long as no major gas export project is under development, this has no impact
 - In the event of the development of a major gas export project, however, when gas prices are significantly lower than oil prices, this could lead to significant reductions in Government Take



ACES: Key Issues

ACES – Key Issues

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ACES and SB21: Issues and Aims

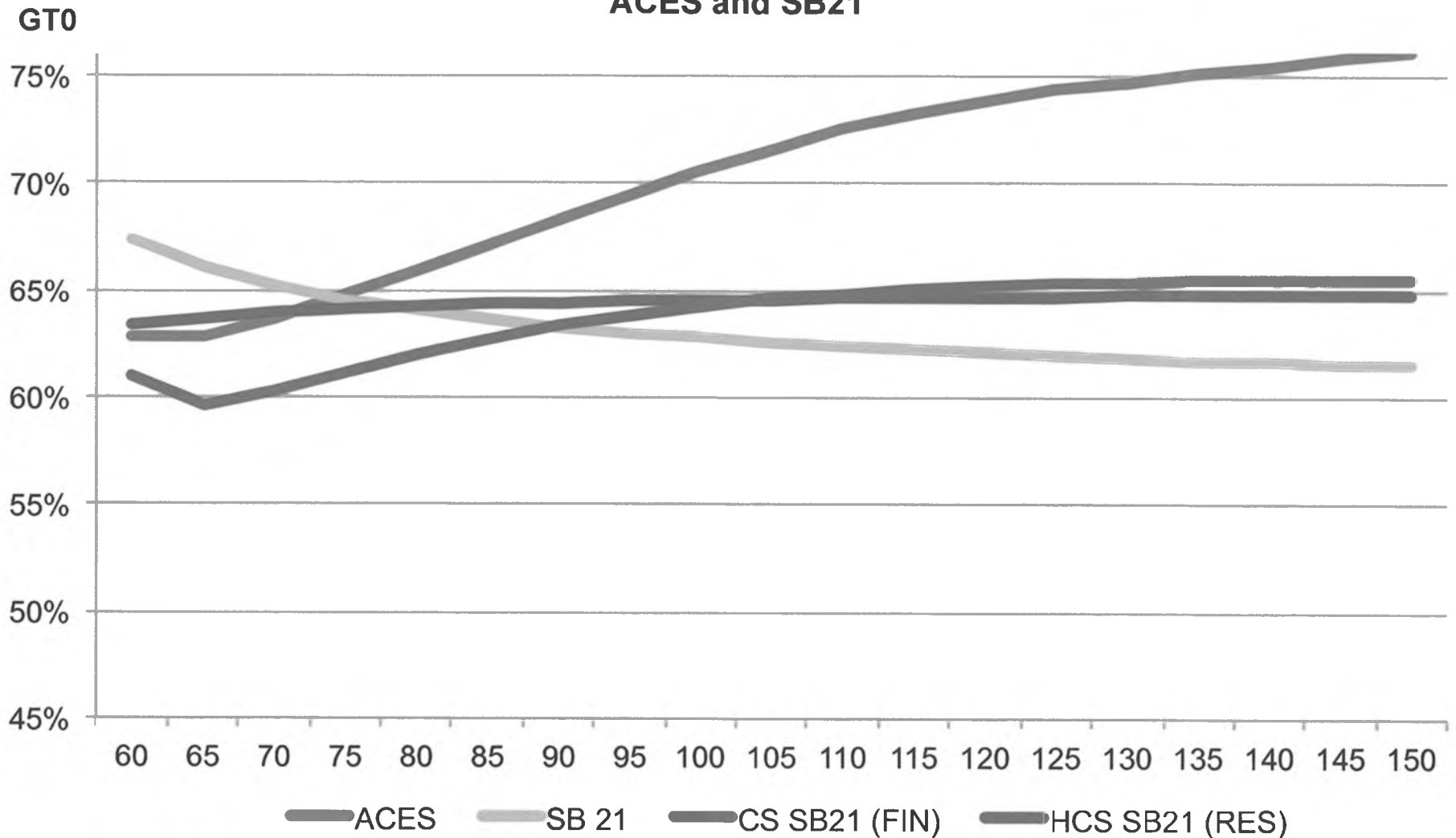
ACES - Issues	SB21 - Aims
<ul style="list-style-type: none"> • High Government Take and high degree of progressivity means uncompetitive for investment at current prices 	<ul style="list-style-type: none"> • Relatively neutral at a competitive level of Government Take, while further improving competitiveness for new projects
<ul style="list-style-type: none"> • Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands 	<ul style="list-style-type: none"> • Limit downside risk to state from credits
<ul style="list-style-type: none"> • “Buydown” effect means incremental and standalone economics very different – with very different impacts for incumbent vs new producer 	<ul style="list-style-type: none"> • Balance system with even impacts for incumbent vs new producer
<ul style="list-style-type: none"> • High marginal rates mean little incentive for producer efficiency 	<ul style="list-style-type: none"> • More neutral regime creates low, constant marginal rates – strong incentive for producer efficiency
<ul style="list-style-type: none"> • Complex system, with often counter-intuitive effects 	<ul style="list-style-type: none"> • Simplify the fiscal system

ACES and SB21: Key Changes

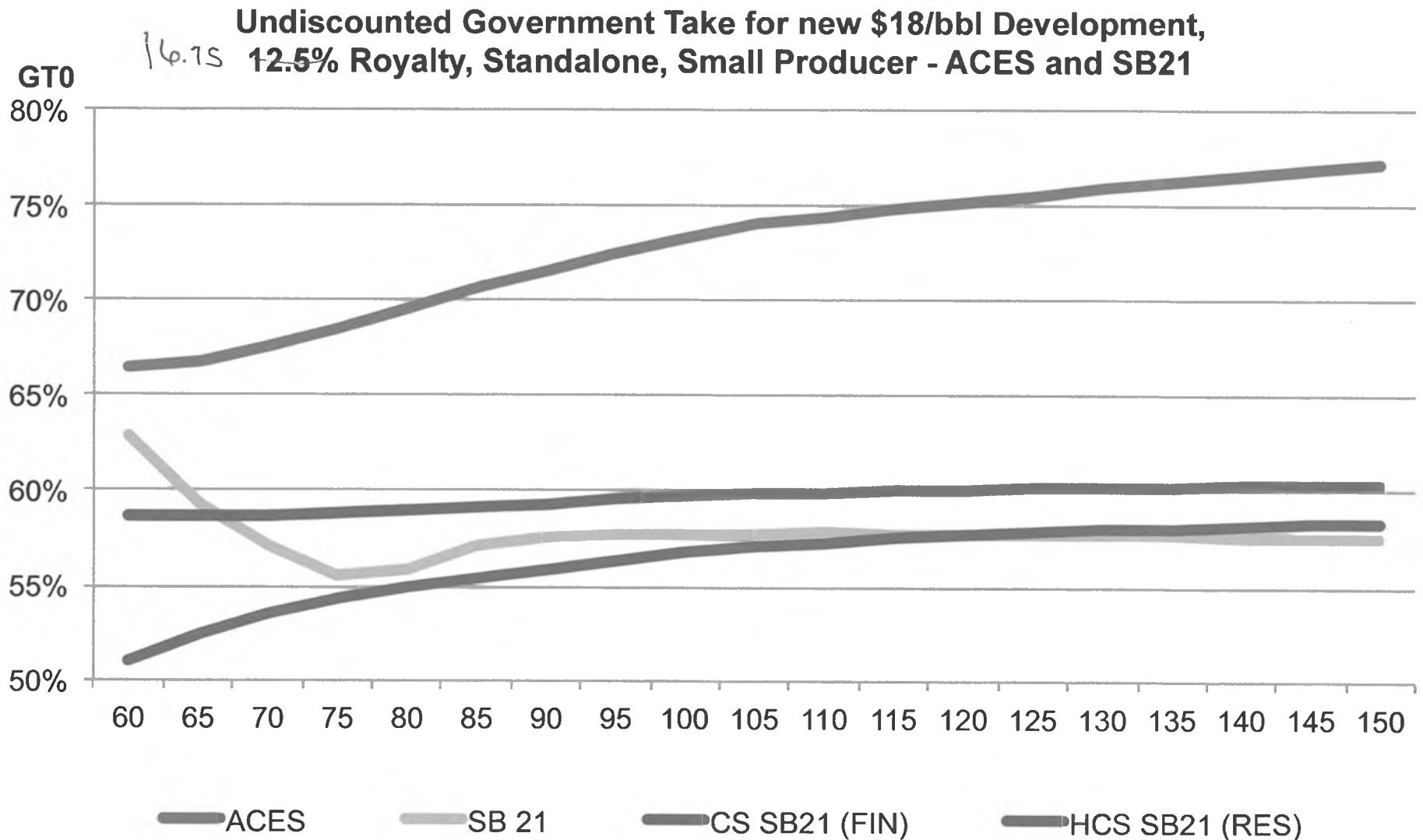
	ACES	HCS SB21 (RES)
Base Tax Rate	25%	33%
Progressivity	0.4 % per dollar of per barrel-PTV from \$30 to \$92.50; 0.1% per dollar of per barrel-PTV above \$92.50	None – although \$/bbl credit creates an implicit ‘reverse’ progressivity that counteracts regressive nature of royalty, leading to overall neutrality – or slight progressivity in case of varying credit
Maximum Tax Rate	75%	33%
Incentives for New Production	None	Gross Revenue Exclusion (GRE): In calculating the PTV, a producer’s 20% of gross revenues from eligible production are excluded. Oil is from new unit, new PA, PA expansions.
\$/bbl Credit	None	\$5 if eligible for GRE, else variable from \$8 to \$0 depending on price
Capital Credit	20% of all qualified capital expenditures	Eliminated after Dec 31 for North Slope
NOL Credit	25% for Carry-Forward Annual Loss Credit, monetizable for small producer over 2 years	35% for Carry-Forward Annual Loss Credit, monetizable for small producer over one year
Small Producer Credit	Expires 2016	Extended to 2022
Exploration Credit	Expires 2016	Expires 2016

ACES and SB21: Government Take Comparison Base Production

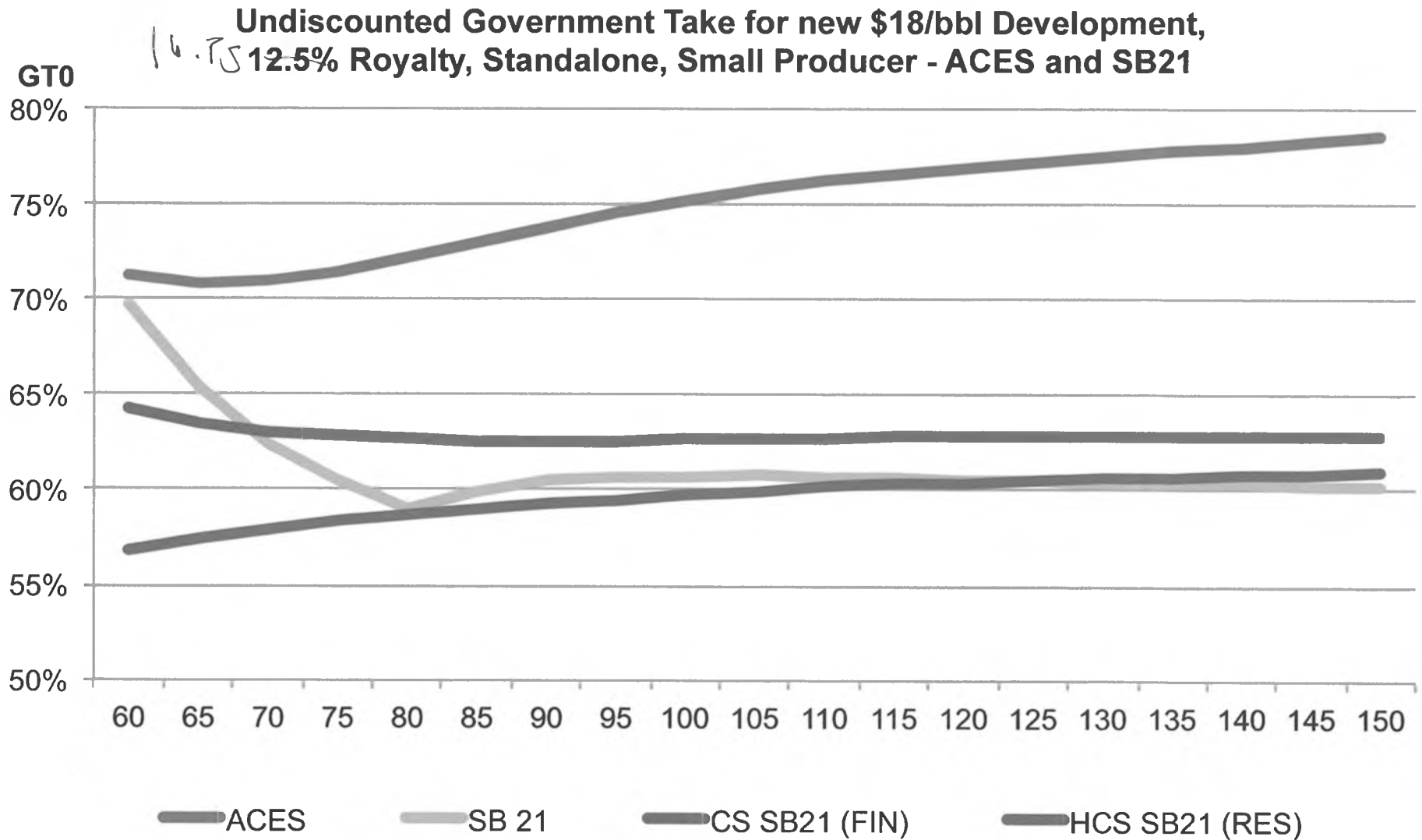
Undiscounted Government Take for Base Production
ACES and SB21



ACES and SB21: Government Take Comparison \$18/bbl New Development, Standalone

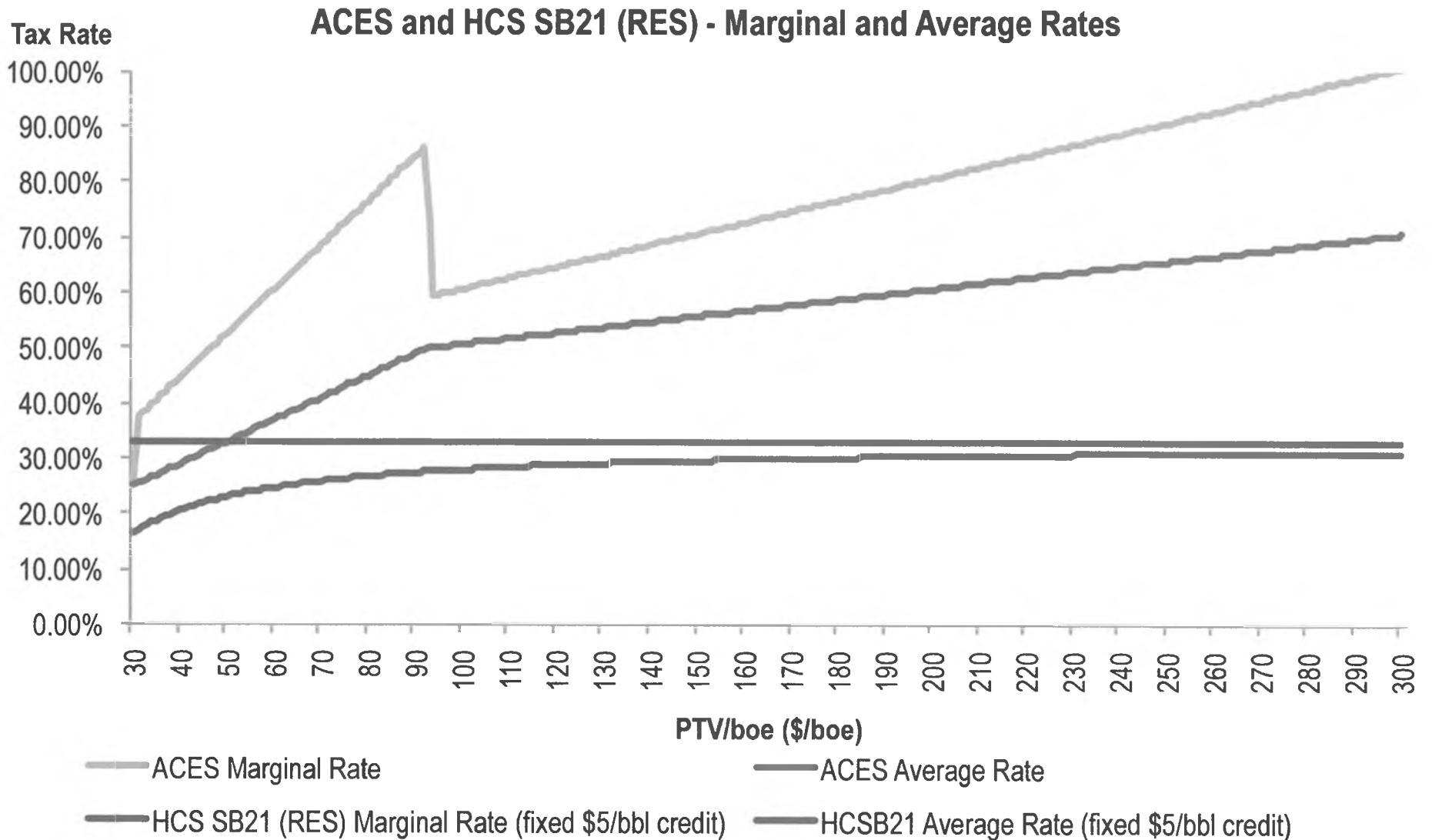


ACES and SB21: Government Take Comparison \$18/bbl New Development, Standalone

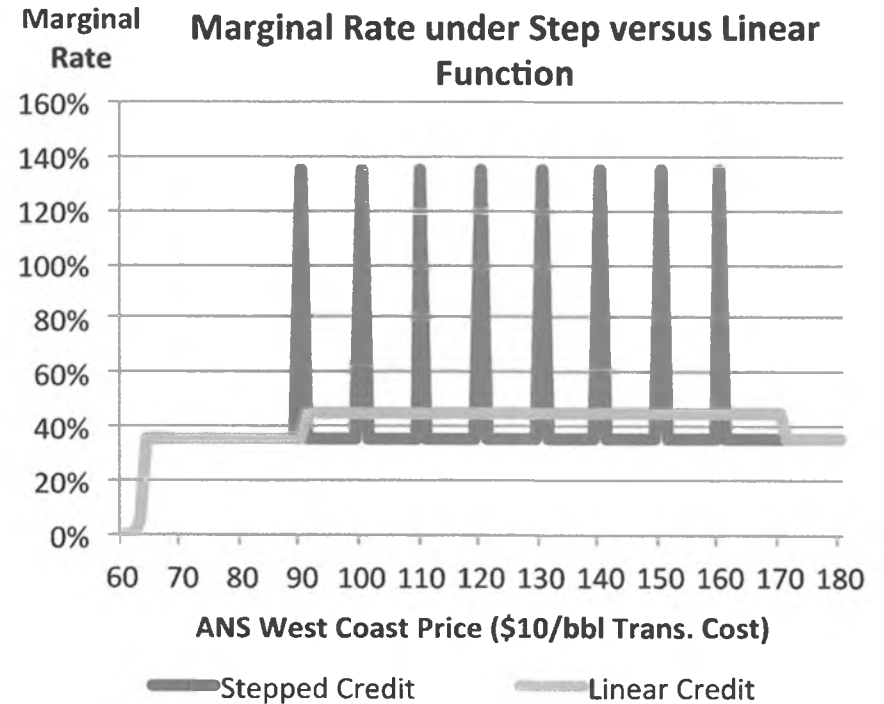
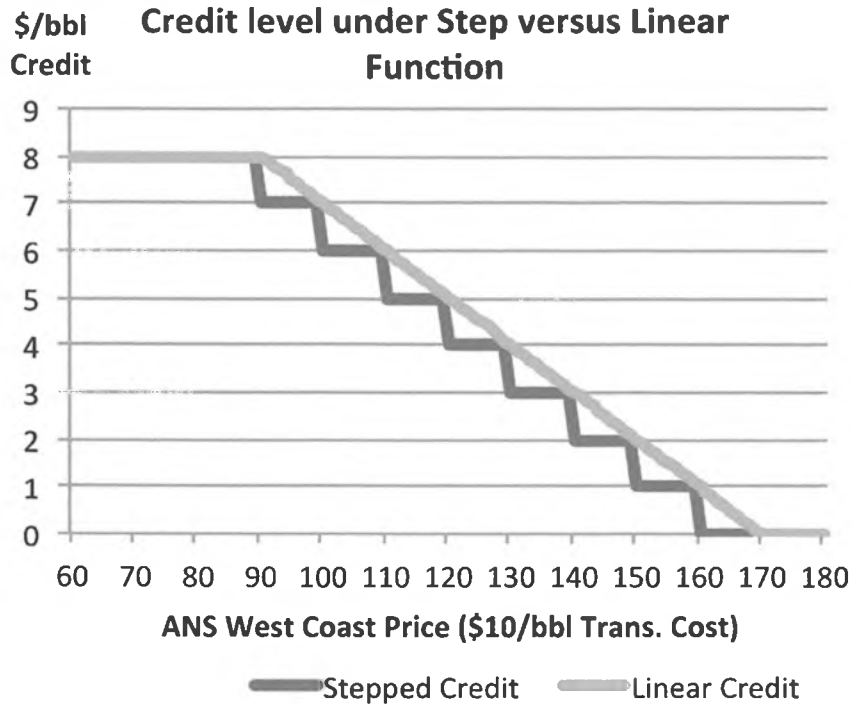


ACES and SB21: Government Take Comparison

\$18/bbl New Development, Standalone



Linear Function for Credit may be preferable to Step Function



GVPP Below	Stepped Credit
\$80	\$8
\$90	\$7
\$100	\$6
\$110	\$5
\$120	\$4
\$130	\$3
\$140	\$2
\$150	\$1
\$160	\$0

Linear Credit Function

$Credit = \text{Max}(0, \text{Min}(8, 16 - (GVPP/10)))$

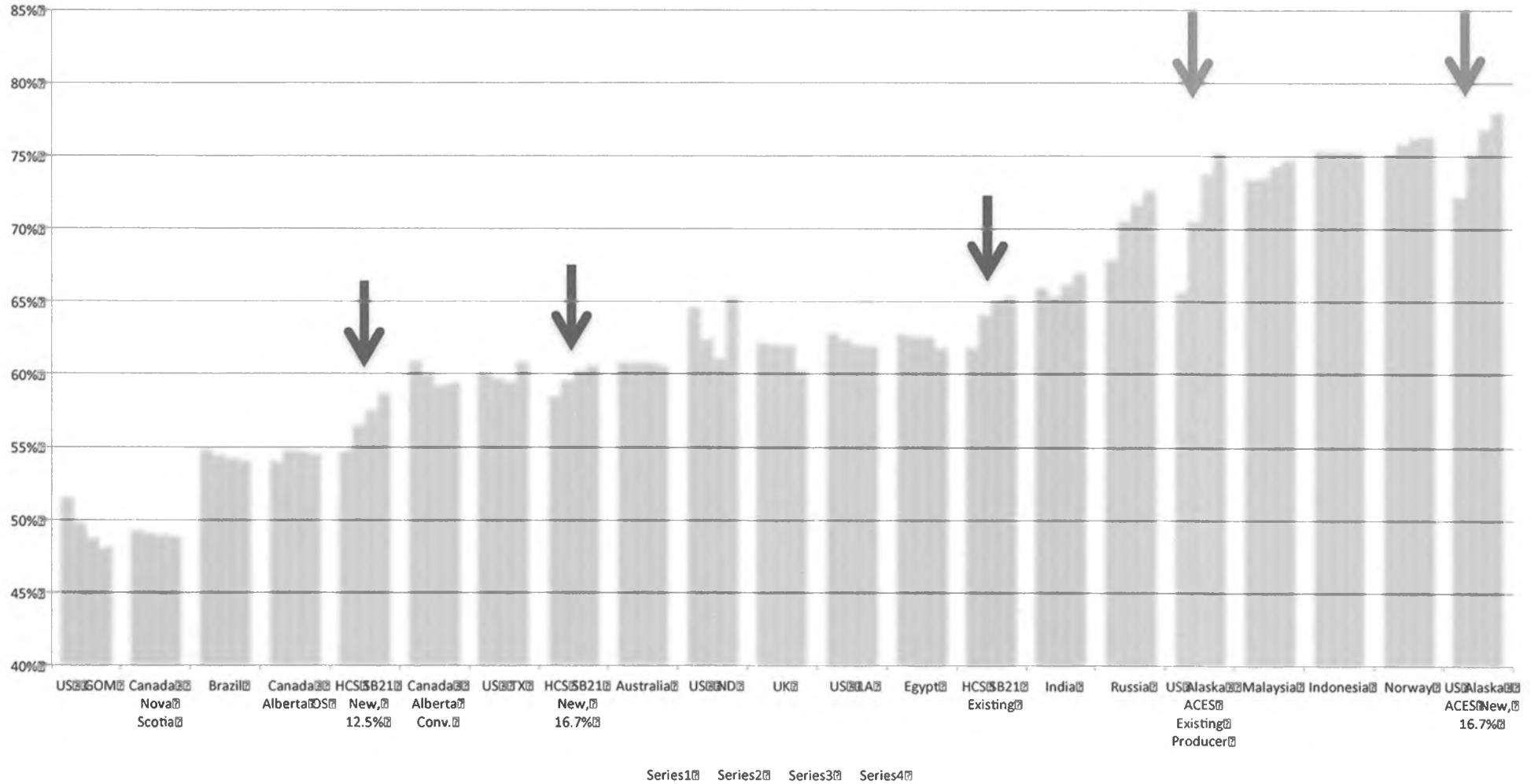
\$16 minus one tenth of the Gross Value of Production; not to exceed \$8 or be below \$0

Credits – NOL, Exploration & Small Producer

- Impact of ACES on project economics is very different for an incumbent vs a new producer
 - At current prices, incumbent experiences impact of ‘buydown’ effect, with new spending reducing tax rate from levels above 25% (plus also impact of capital credit)
 - New producer receives only impact of 25% NOL credit (plus capital credit)
- Fully monetizable NOL credit for small producers evens this playing field
 - All producers receive effective 33% government support for spending, whether new or incumbent
 - Flat, low marginal rate maintains strong incentive for efficiencies and cost control
 - No undue exposure to the state from higher cost projects at low prices
- Aim is to even the playing field and limit the level of support for exploration as well as other forms of spending
 - Allowing the Exploration credit to sunset, but having the fully monetizable 33% NOL credit means 33% government support for exploration spending
 - Again, even impact between incumbent vs new producer
- When the impacts of the system are even between incumbent vs new producer, strong argument that extending ‘small producer’ credit is less warranted
- Overall impact is to significantly simplify the system

Government Take Competitiveness

Alaska Government Take Competitiveness - Comparable Regimes



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PFC Energy has adjusted data where necessary in order to render it comparable among companies and countries, and used estimates where data may be unavailable and or where company or national source reporting methodology does not fit PFC Energy methodology. This has been done in order to render data comparable across all companies and all countries.

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