

**SB**

**21**

**(FILE 1)**

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ADOPTED  
7/14/13

28-GS1647Y  
Bullock  
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**CS FOR SENATE BILL NO. 21(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-EIGHTH LEGISLATURE - FIRST SESSION**

**BY THE SENATE 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; providing a  
3 tax credit against the corporation income tax for qualified oil and gas service industry  
4 expenditures; relating to the oil and gas production tax rate; relating to gas used in the  
5 state; relating to monthly installment payments of the oil and gas production tax;  
6 relating to oil and gas production tax credits for certain losses and expenditures;  
7 relating to oil and gas production tax credit certificates; relating to nontransferable tax  
8 credits based on production; relating to the oil and gas tax credit fund; relating to  
9 annual statements by producers and explorers; making conforming amendments; and  
10 providing for an effective date."

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

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

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

3 \* **Sec. 2.** AS 29.60.850(b) is amended to read:

4 (b) Each fiscal year, the legislature may appropriate an amount to the  
5 community revenue sharing fund [AN AMOUNT EQUAL TO 20 PERCENT OF  
6 THE MONEY RECEIVED BY THE STATE DURING THE PREVIOUS  
7 CALENDAR YEAR UNDER AS 43.55.011(g)]. The amount may not exceed

8 (1) \$60,000,000; or

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

11 \* **Sec. 3.** AS 34.45.470(a) is amended to read:

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

16 \* **Sec. 4.** AS 43.05.225 is amended to read:

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

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

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

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

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

28 \* **Sec. 5.** AS 43.20.046(i) is amended to read:

29 (i) The issuance of a refund under this section does not limit the department's  
30 ability to later audit or adjust the claim if the department determines, as a result of the  
31 audit, that the person that claimed the credit was not entitled to the amount of the

1 credit. The tax liability of the person receiving the credit under this chapter is  
2 increased by the amount of the credit that exceeds that to which the person was  
3 entitled. If the tax liability is increased under this subsection, the increase bears  
4 interest under AS 43.05.225(1) [AS 43.05.225] from the date the refund was issued.

5 \* **Sec. 6.** AS 43.20.047(i) is amended to read:

6 (i) The issuance of a refund under this section does not limit the department's  
7 ability to later audit or adjust the claim if the department determines, as a result of the  
8 audit, that the person that claimed the credit was not entitled to the amount of the  
9 credit. The tax liability of the person receiving the credit under this section is  
10 increased by the amount of the credit that exceeds that to which the person was  
11 entitled. If the tax liability is increased under this subsection, the increase bears  
12 interest at the rate set by AS 43.05.225(1) [AS 43.05.225] from the date the refund  
13 was issued.

14 \* **Sec. 7.** AS 43.20 is amended by adding a new section to read:

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

16 (a) For a tax year beginning after the effective date of this section, a taxpayer may  
17 apply a credit against the tax due under this chapter for a qualified oil and gas service  
18 industry expenditure incurred in the state. The total amount of credit a taxpayer may  
19 receive in a tax year may not exceed the lesser of 10 percent of qualified oil and gas  
20 industry service expenditures incurred in the state during the tax year or \$10,000,000.

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

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

- 30 (1) a deduction against the tax levied under this chapter;  
31 (2) a credit or deduction under another provision of this title; or

1 (3) any federal credit claimed under this title.

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

7 (e) In this section,

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

12 (2) "modification" means an adjustment, equipping, or other alteration  
13 to existing tangible personal property that has a useful life of three years or more and  
14 is for use in the exploration, development, or production of oil or gas deposits;  
15 "modification" does not include minor product alterations or inventory activities;

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

21 \* **Sec. 8.** AS 43.50.570 is amended to read:

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

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

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

29 \* **Sec. 9.** AS 43.55.011(e) is amended to read:

30 (e) There is levied on the producer of oil or gas a tax for all oil and gas  
31 produced each calendar year from each lease or property in the state, less any oil and

1 gas the ownership or right to which is exempt from taxation or constitutes a  
 2 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), (o), and  
 3 (p) of this section, the tax is equal to the annual production tax value of the taxable  
 4 oil and gas as calculated under AS 43.55.160(a) produced during a calendar year

5 [THE SUM OF]

6 (1) before January 1, 2017, [THE ANNUAL PRODUCTION TAX  
 7 VALUE OF THE TAXABLE OIL AND GAS AS CALCULATED UNDER  
 8 AS 43.55.160(a)(1)] multiplied by 35 [25] percent; and

9 (2) after December 31, 2016, multiplied by 33 percent [THE SUM,  
 10 OVER ALL MONTHS OF THE CALENDAR YEAR, OF THE TAX AMOUNTS  
 11 DETERMINED UNDER (g) OF THIS SECTION].

12 \* **Sec. 10.** AS 43.55.011(o) is amended to read:

13 (o) Notwithstanding other provisions of this section, for a calendar year before  
 14 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas  
 15 produced from a lease or property outside the Cook Inlet sedimentary basin and used  
 16 in the state, other than gas subject to (p) of this section, may not exceed the amount  
 17 of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

18 \* **Sec. 11.** AS 43.55.020(a) is amended to read:

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

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

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

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

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

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

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

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

29 (i) zero; or  
30 (ii) the sum of 25 percent and the tax rate calculated for  
31 the month under AS 43.55.011(g) multiplied by the remainder obtained

1 by subtracting 1/12 of the producer's adjusted lease expenditures for the  
2 calendar year of production under AS 43.55.165 and 43.55.170 that are  
3 deductible under AS 43.55.160 for the oil or gas, respectively,  
4 produced from the lease or property from the gross value at the point of  
5 production of the oil or gas, respectively, produced from the lease or  
6 property during the month for which the installment payment is  
7 calculated;

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

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

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

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

22 [PRODUCED FROM A LEASE OR PROPERTY

23 (A)] subject to AS 43.55.011(j), (k), or (o) may not exceed the  
24 product obtained by carrying out the calculation set out in AS 43.55.011(j)(1)  
25 or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1)  
26 or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A)  
27 or 43.55.011(o), as applicable, the amount of taxable gas produced during the  
28 month for the amount of taxable gas produced during the calendar year and  
29 substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of  
30 taxable oil produced during the month for the amount of taxable oil produced  
31 during the calendar year;

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

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

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

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

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

20 \* **Sec. 12.** AS 43.55.020(a), as amended by sec. 11 of this Act, is amended to read:

21 (a) For a calendar year, a producer subject to tax under AS 43.55.011 shall pay  
22 the tax as follows:

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

30 (A) for oil and gas not subject to AS 43.55.011(o) or (p)  
31 produced from leases or properties in the state outside the Cook Inlet

1 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),  
2 the greater of

3 (i) zero; or

4 (ii) the applicable tax rate in AS 43.55.011(e) [THE  
5 SUM OF 25 PERCENT AND THE TAX RATE CALCULATED FOR  
6 THE MONTH UNDER AS 43.55.011(g)] multiplied by the remainder  
7 obtained by subtracting 1/12 of the producer's adjusted lease  
8 expenditures for the calendar year of production under AS 43.55.165  
9 and 43.55.170 that are deductible for the oil and gas under  
10 AS 43.55.160 from the gross value at the point of production of the oil  
11 and gas produced from the leases or properties during the month for  
12 which the installment payment is calculated;

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

15 (i) zero;

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

20 (iii) the applicable tax rate in AS 43.55.011(e) [THE  
21 SUM OF 25 PERCENT AND THE TAX RATE CALCULATED FOR  
22 THE MONTH UNDER AS 43.55.011(g)] multiplied by the remainder  
23 obtained by subtracting 1/12 of the producer's adjusted lease  
24 expenditures for the calendar year of production under AS 43.55.165  
25 and 43.55.170 that are deductible for the oil and gas under  
26 AS 43.55.160 from the gross value at the point of production of the oil  
27 and gas produced from those leases or properties during the month for  
28 which the installment payment is calculated, except that, for the  
29 purposes of this calculation, a 20 percent exclusion from the gross  
30 value at the point of production may apply for oil and gas subject  
31 to AS 43.55.160(f):

1 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for  
2 each lease or property, the greater of

3 (i) zero; or

4 (ii) the applicable tax rate in AS 43.55.011(e) [THE  
5 SUM OF 25 PERCENT AND THE TAX RATE CALCULATED FOR  
6 THE MONTH UNDER AS 43.55.011(g)] multiplied by the remainder  
7 obtained by subtracting 1/12 of the producer's adjusted lease  
8 expenditures for the calendar year of production under AS 43.55.165  
9 and 43.55.170 that are deductible under AS 43.55.160 for the oil or gas,  
10 respectively, produced from the lease or property from the gross value  
11 at the point of production of the oil or gas, respectively, produced from  
12 the lease or property during the month for which the installment  
13 payment is calculated;

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

15 (i) the applicable tax rate in AS 43.55.011(e) [THE  
16 SUM OF 25 PERCENT AND THE TAX RATE CALCULATED FOR  
17 THE MONTH UNDER AS 43.55.011(g)] multiplied by the remainder  
18 obtained by subtracting 1/12 of the producer's adjusted lease  
19 expenditures for the calendar year of production under AS 43.55.165  
20 and 43.55.170 that are deductible for the oil and gas under  
21 AS 43.55.160 from the gross value at the point of production of the oil  
22 and gas produced from the leases or properties during the month for  
23 which the installment payment is calculated, but not less than zero; or

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

27 (2) an amount calculated under (1)(C) of this subsection for oil or gas  
28 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by  
29 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as  
30 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but  
31 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the

1 amount of taxable gas produced during the month for the amount of taxable gas  
2 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or  
3 (2)(A), as applicable, the amount of taxable oil produced during the month for the  
4 amount of taxable oil produced during the calendar year;

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

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

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

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

21 \* **Sec. 13.** AS 43.55.020(d) is amended to read:

22 (d) In making settlement with the royalty owner for oil and gas that is taxable  
23 under AS 43.55.011, the producer may deduct the amount of the tax paid on taxable  
24 royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in value at the  
25 time the tax becomes due to the amount of the tax paid. If the total deductions of  
26 installment payments of estimated tax for a calendar year exceed the actual tax for that  
27 calendar year, the producer shall, before April 1 of the following year, refund the  
28 excess to the royalty owner. Unless otherwise agreed between the producer and the  
29 royalty owner, the amount of the tax paid under AS 43.55.011(e) [AS 43.55.011(e) -  
30 (g)] on taxable royalty oil and gas for a calendar year, other than oil and gas the  
31 ownership or right to which constitutes a landowner's royalty interest, is considered to

1 be the gross value at the point of production of the taxable royalty oil and gas  
2 produced during the calendar year multiplied by a figure that is a quotient, in which

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

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

8 \* **Sec. 14.** AS 43.55.020(g) is amended to read:

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

20 \* **Sec. 15.** AS 43.55.023(a) is amended to read:

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

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

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

1 expenditure incurred in connection with geological or geophysical exploration or in  
2 connection with an exploration well only if the producer or explorer

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

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

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

10 \* Sec. 16. AS 43.55.023(b) is amended to read:

11 (b) A producer or explorer may elect to take a tax credit in the amount of 25  
12 percent of a carried-forward annual loss **for lease expenditures incurred to explore**  
13 **for, develop, or produce oil or gas deposits located south of 68 degrees North**  
14 **latitude, and 35 percent of a carried-forward annual loss based on lease**  
15 **expenditures incurred after December 31, 2013, to explore for, develop, or**  
16 **produce oil or gas deposits located north of 68 degrees North latitude.** A credit  
17 under this subsection may be applied against a tax levied by AS 43.55.011(e). For  
18 purposes of this subsection, a carried-forward annual loss is the amount of a producer's  
19 or explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a  
20 previous calendar year that was not deductible in calculating production tax values for  
21 that calendar year under AS 43.55.160.

22 \* Sec. 17. AS 43.55.023(b), as amended by sec. 16 of this Act, is amended to read:

23 (b) A producer or explorer may elect to take a tax credit in the amount of 25  
24 percent of a carried-forward annual loss for lease expenditures incurred to explore for,  
25 develop, or produce oil or gas deposits located south of 68 degrees North latitude, and  
26 **33** [35] percent of a carried-forward annual loss based on lease expenditures incurred  
27 after December 31, **2016** [2013], to explore for, develop, or produce oil or gas deposits  
28 located north of 68 degrees North latitude. A credit under this subsection may be  
29 applied against a tax levied by AS 43.55.011(e). For purposes of this subsection, a  
30 carried-forward annual loss is the amount of a producer's or explorer's adjusted lease  
31 expenditures under AS 43.55.165 and 43.55.170 for a previous calendar year that was

1 not deductible in calculating production tax values for that calendar year under  
2 AS 43.55.160.

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

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

28 \* **Sec. 19.** AS 43.55.023(d), as amended by sec. 18 of this Act, is amended to read:

29 (d) A [EXCEPT AS LIMITED BY (i) OF THIS SECTION, A] person that is  
30 entitled to take a tax credit under this section that wishes to transfer the unused credit  
31 to another person or obtain a cash payment under AS 43.55.028 may apply to the

1 department for a transferable tax credit certificate. An application under this  
2 subsection must be in a form prescribed by the department and must include  
3 supporting information and documentation that the department reasonably requires.  
4 The department shall grant or deny an application, or grant an application as to a lesser  
5 amount than that claimed and deny it as to the excess, not later than 120 days after the  
6 latest of (1) March 31 of the year following the calendar year in which the qualified  
7 capital expenditure or carried-forward annual loss for which the credit is claimed was  
8 incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for  
9 the calendar year in which the qualified capital expenditure or carried-forward annual  
10 loss for which the credit is claimed was incurred; or (3) the date the application was  
11 received by the department. If, based on the information then available to it, the  
12 department is reasonably satisfied that the applicant is entitled to a credit, the  
13 department shall issue the applicant a transferable tax credit certificate for the amount  
14 of the credit. A certificate issued under this subsection does not expire.

15 \* **Sec. 20.** AS 43.55.023(g) is amended to read:

16 (g) The issuance of a transferable tax credit certificate under (d) 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(1) [AS 43.05.225] from the date the  
27 transferable tax credit certificate was issued. For purposes of this subsection, an  
28 applicant that is an explorer is considered a producer subject to the tax levied by  
29 AS 43.55.011(e).

30 \* **Sec. 21.** AS 43.55.023(n) is amended to read:

31 (n) For the purposes of (l) [AND (m)] of this section, a well lease expenditure

1 incurred in the state south of 68 degrees North latitude is a lease expenditure that is

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

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

13 \* **Sec. 22.** AS 43.55.024(e) is amended to read:

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

22 \* **Sec. 23.** AS 43.55.024 is amended by adding a new subsection to read:

23 (i) A producer may apply a tax credit of \$5 for each barrel of oil taxable under  
24 AS 43.55.011(e) produced during a calendar year against the producer's tax liability  
25 for the calendar year under AS 43.55.011(e). A tax credit authorized by this subsection  
26 may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) to  
27 below zero.

28 \* **Sec. 24.** AS 43.55.028(e) is amended to read:

29 (e) The department, on the written application of a person to whom a  
30 transferable tax credit certificate has been issued under AS 43.55.023(d) or **former**  
31 **AS 43.55.023(m)** [(m)] or to whom a production tax credit certificate has been issued

1 under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to  
2 purchase, in whole or in part, the certificate if the department finds that

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

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

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

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

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

16 \* **Sec. 25.** AS 43.55.028(g) is amended to read:

17 (g) The department may adopt regulations to carry out the purposes of this  
18 section, including standards and procedures to allocate available money among  
19 applications for purchases under this chapter and claims for refunds and payments  
20 under AS 43.20.046 or 43.20.047 when the total amount of the applications for  
21 purchase and claims for refund exceed the amount of available money in the fund. The  
22 regulations adopted by the department may not, when allocating available money in  
23 the fund under this section, distinguish an application for the purchase of a credit  
24 certificate issued under former AS 43.55.023(m) or a claim for a refund or payment  
25 under AS 43.20.046 or 43.20.047.

26 \* **Sec. 26.** AS 43.55.030(e) is amended to read:

27 (e) An explorer or producer that incurs a lease expenditure under  
28 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar  
29 year but does not produce oil or gas from a lease or property in the state during the  
30 calendar year shall file with the department, on March 31 of the following year, a  
31 statement, under oath, in a form prescribed by the department, giving, with other

1 information required, the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

3 (G) oil and gas produced from leases or properties in the  
4 state [A LEASE OR PROPERTY] no part of which is north of 68 degrees  
5 North latitude, other than oil or gas described in (B), (C), (D), (E), or (F) of  
6 this paragraph;

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

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

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

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

31 (D) gas produced during a month from a lease or property in

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

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

13 \* **Sec. 28.** AS 43.55.160(a) is repealed and reenacted to read:

14 (a) Except as provided in (b) and (f) of this section, for the purposes of  
15 AS 43.55.011(e), the annual production tax value of taxable oil, gas, or oil and gas  
16 produced by a producer during a calendar year in a specific category for which a  
17 separate production tax value is required to be calculated under this subsection is equal  
18 to the gross value at the point of production of that oil, gas, or oil and gas,  
19 respectively, taxable under AS 43.55.011(e), less the producer's lease expenditures  
20 under AS 43.55.165 for the calendar year that are applicable to the oil, gas, or oil and  
21 gas, respectively, in that category produced by the producer during the calendar year,  
22 as adjusted under AS 43.55.170. A separate annual production tax value must be  
23 calculated for

24 (1) oil and gas produced from leases or properties in the state that  
25 include land north of 68 degrees North latitude, other than gas produced before 2022  
26 and used in the state;

27 (2) oil and gas produced from leases or properties in the state outside  
28 the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North  
29 latitude, during a calendar year before or during the last calendar year under  
30 AS 43.55.024(b) for which the producer could take a tax credit under  
31 AS 43.55.024(a); this paragraph does not apply to

- 1 (A) gas produced before 2022 and used in the state; or  
2 (B) oil and gas subject to AS 43.55.011(p);  
3 (3) oil produced before 2022 from each lease or property in the Cook  
4 Inlet sedimentary basin;  
5 (4) gas produced before 2022 from each lease or property in the Cook  
6 Inlet sedimentary basin;  
7 (5) gas produced before 2022 from each lease or property in the state  
8 outside the Cook Inlet sedimentary basin and used in the state, other than gas subject  
9 to AS 43.55.011(p);  
10 (6) oil and gas subject to AS 43.55.011(p) produced from leases or  
11 properties in the state;  
12 (7) oil and gas produced from leases or properties in the state no part  
13 of which is north of 68 degrees North latitude, other than oil or gas described in (2),  
14 (3), (4), (5), or (6) of this subsection.

15 \* **Sec. 29.** AS 43.55.160(e) is amended to read:

16 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
17 would otherwise be deductible by a producer in a calendar year but whose deduction  
18 would cause an annual production tax value calculated under (a) [(a)(1)] of this  
19 section of taxable oil or gas produced during the calendar year to be less than zero  
20 may be used to establish a carried-forward annual loss under AS 43.55.023(b).  
21 However, the department shall provide by regulation a method to ensure that, for a  
22 period for which a producer's tax liability is limited by AS 43.55.011(j), (k), (o), or  
23 (p), any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that would  
24 otherwise be deductible by a producer for that period but whose deduction would  
25 cause a production tax value calculated under (a)(3), (4), (5), or (6) [(a)(1)(C), (D),  
26 (E), OR (F)] of this section to be less than zero are accounted for as though the  
27 adjusted lease expenditures had first been used as deductions in calculating the  
28 production tax values of oil or gas subject to any of the limitations under  
29 AS 43.55.011(j), (k), (o), or (p) that have positive production tax values so as to  
30 reduce the tax liability calculated without regard to the limitation to the maximum  
31 amount provided for under the applicable provision of AS 43.55.011(j), (k), (o), or (p).

1 Only the amount of those adjusted lease expenditures remaining after the accounting  
2 provided for under this subsection may be used to establish a carried-forward annual  
3 loss under AS 43.55.023(b). In this subsection, "producer" includes "explorer."

4 \* **Sec. 30.** AS 43.55.160 is amended by adding a new subsection to read:

5 (f) In the calculation of an annual production tax value of a producer under  
6 (a)(1) of this section, the gross value at the point of production of oil or gas meeting  
7 one or more of the following criteria is reduced by 20 percent: (1) the oil or gas is  
8 produced from a lease or property that does not contain a lease that was within a unit  
9 on January 1, 2003; (2) the oil or gas is produced from a participating area established  
10 after December 31, 2011, that is within a unit formed under AS 38.05.180(p) before  
11 January 1, 2003, if the participating area does not contain a reservoir that had  
12 previously been in a participating area established before December 31, 2011; (3) the  
13 oil or gas is produced from a well that has been accurately metered and measured by  
14 the operator to the satisfaction of the commissioner, and the producer demonstrates to  
15 the department that the metered well drains a reservoir or portion of a reservoir that  
16 the Department of Natural Resources has certified was not contributing to production  
17 before January 1, 2013, and the producer demonstrates to the department that the  
18 volume of oil or gas produced from the well was subject to certification by the  
19 Department of Natural Resources. An exclusion under this section may not reduce the  
20 gross value at the point of production below zero. In this subsection, "participating  
21 area" means a reservoir or portion of a reservoir producing or contributing to  
22 production as approved by the Department of Natural Resources.

23 \* **Sec. 31.** AS 43.56.160 is amended to read:

24 **Sec. 43.56.160. Interest and penalty.** When the tax levied by AS 43.56.010(a)  
25 becomes delinquent, a penalty of 10 percent shall be added. Interest on the delinquent  
26 taxes, exclusive of penalty, shall be assessed at the rate specified in AS 43.05.225(1)  
27 [A RATE OF EIGHT PERCENT A YEAR].

28 \* **Sec. 32.** AS 43.77.020(d) is amended to read:

29 (d) A person subject to the tax under this chapter shall make quarterly  
30 payments of the tax estimated to be due for the year, as required under regulations  
31 adopted by the department. A taxpayer will be subject to an estimated tax penalty,

1 determined by applying the interest rate specified in AS 43.05.225(1) [AS 43.05.225]  
2 to the underpayment for each quarter, unless the taxpayer makes estimated tax  
3 payments in equal installments that total either

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

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

8 \* **Sec. 33.** AS 43.90.430 is amended to read:

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

12 \* **Sec. 34.** AS 43.55.023(m) is repealed.

13 \* **Sec. 35.** AS 43.55.011(g), 43.55.023(i), and 43.55.160(c) are repealed January 1, 2014.

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

16 APPLICABILITY. (a) Sections 9, 12, 13, and 28 - 30 of this Act apply to oil and gas  
17 produced after December 31, 2013.

18 (b) Sections 10 and 27 of this Act apply to oil and gas produced after December 31,  
19 2012.

20 (c) Sections 15 and 18 - 21 of this Act and AS 43.55.023(a)(1), as amended by sec. 15  
21 of this Act, apply to expenditures incurred after December 31, 2012.

22 (d) Sections 16, 19, and 24 of this Act apply to expenditures incurred after  
23 December 31, 2013.

24 (e) Section 17 of this Act applies to expenditures incurred after December 31, 2016.

25 \* **Sec. 37.** The uncodified law of the State of Alaska is amending by adding a new section to  
26 read:

27 TRANSITION: REGULATIONS. The Department of Revenue may adopt regulations  
28 to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure  
29 Act), but not before the effective date of the respective provision of this Act.

30 \* **Sec. 38.** The uncodified law of the State of Alaska is amended by adding a new section to  
31 read:

1           RETROACTIVITY. Sections 10, 18, 20, 21, 24, 27, and 34 of this Act and  
2 AS 43.55.023(a)(1), as amended by sec. 15 of this Act, are retroactive to January 1, 2013.

3       \* **Sec. 39.** Sections 1 - 6, 8, 9, 12 - 14, 16, 19, 22, 23, 28 - 33, and 35 of this Act take effect  
4 January 1, 2014.

5       \* **Sec. 40.** Section 17 of this Act takes effect January 1, 2017.

6       \* **Sec. 41.** Except as provided in secs. 39 and 40 of this Act, this Act takes effect  
7 immediately under AS 01.10.070(c).

**CS FOR SENATE BILL NO. 21(RES)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-EIGHTH LEGISLATURE - FIRST SESSION**

**BY THE SENATE RESOURCES COMMITTEE**

**Offered: 2/28/13  
Referred: Finance**

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

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to appropriations from taxes paid under the Alaska Net Income Tax  
2 Act; providing a tax credit against the corporation income tax for qualified oil and gas  
3 service industry expenditures; relating to the oil and gas production tax rate; relating to  
4 gas used in the state; relating to monthly installment payments of the oil and gas  
5 production tax; relating to oil and gas production tax credits for certain losses and  
6 expenditures; relating to oil and gas production tax credit certificates; relating to  
7 nontransferable tax credits based on production; relating to the oil and gas tax credit  
8 fund; relating to annual statements by producers and explorers; relating to the  
9 determination of annual oil and gas production tax value including adjustments based  
10 on a percentage of gross value at the point of production from certain leases or  
11 properties; establishing the Oil and Gas Competitive Review Board; making conforming  
12 amendments; and providing for an effective date."

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

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

3 (b) Each fiscal year, the legislature may appropriate to the community revenue  
4 sharing fund [AN AMOUNT EQUAL TO 20 PERCENT OF THE] money received by  
5 the state during the previous calendar year under AS 43.20.030(c) [AS 43.55.011(g)].  
6 The amount may not exceed

7 (1) \$60,000,000; or

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

10 \* **Sec. 2.** AS 43.20 is amended by adding a new section to read:

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

12 (a) For a tax year ending after the effective date of this section, a taxpayer is entitled to  
13 a credit against the tax due under this chapter in the amount of 10 percent of a  
14 qualified oil and gas service industry expenditure of the taxpayer incurred in the state.  
15 A taxpayer may not, in one tax year, apply more than \$10,000,000 in tax credits  
16 received under this section. A tax credit under this section may not be used to reduce a  
17 tax liability under this chapter below zero.

18 (b) A tax credit under this section may be transferred to a taxpayer subject to  
19 tax under this chapter upon filing notice with the department in a format prescribed by  
20 the department. The department shall issue a certificate in the amount of the tax credit  
21 received under this section. A taxpayer receiving the transfer of a certificate under this  
22 subsection may not apply more than \$10,000,000 in tax credits authorized by this  
23 section in a single tax year and may not use a tax credit authorized by this section to  
24 reduce a tax liability under this chapter below zero. Transfer of a credit does not limit  
25 the ability of the department to audit a tax credit claim and adjust the credit if the  
26 department determines, as a result of the audit, that the taxpayer that incurred the  
27 expenditure that is the basis of the credit was not entitled to the amount of the credit  
28 claimed. If, as a result of the audit, the department determines that the amount of the  
29 credit exceeds the proper amount, the department may, at the time the credit is used,  
30 increase by the amount determined to exceed the proper value of the credit the taxes  
31 calculated under this chapter for the taxpayer whose expenditure was the basis of the

1 credit.

2 (c) A tax credit certificate issued under this section may not be applied against  
3 a tax liability more than seven calendar years after the date the credit is claimed.

4 (d) An expenditure that is the basis of the credit under this section

5 (1) may not be the basis for a credit or reduction in tax liability  
6 claimed under another provision of this title; or

7 (2) may not be the basis for any federal credit claimed under this title.

8 (e) Notwithstanding any contrary provision of AS 40.25.100(a) or  
9 AS 43.05.230(e), for a year that three or more taxpayers claim a tax credit under this  
10 section, the department may publish the total amount of tax credits claimed under this  
11 section and a description of the qualified oil and gas service industry expenditures that  
12 were the basis for a tax credit under this section.

13 (f) In this section,

14 (1) "manufacture" means to perform substantial industrial operations in  
15 the state to transform raw material into tangible personal property with a useful life of  
16 three years or more for use in the exploration, development, or production of oil and  
17 gas;

18 (2) "modification" means an adjustment, equipping, or other alteration  
19 to existing tangible personal property that has a useful life of three years or more and  
20 is for use in the exploration, development, or production of oil and gas reserves;  
21 "modification" does not include minor product alterations or inventory activities;

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

27 \* **Sec. 3.** AS 43.55.011(e) is amended to read:

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

1 (p) of this section, the tax is equal to [THE SUM OF

2 (1)] the annual production tax value of the taxable oil and gas as  
3 calculated under AS 43.55.160(a) [AS 43.55.160(a)(1)] multiplied by 35 [25] percent  
4 [; AND

5 (2) THE SUM, OVER ALL MONTHS OF THE CALENDAR YEAR,  
6 OF THE TAX AMOUNTS DETERMINED UNDER (g) OF THIS SECTION].

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

8 (o) Notwithstanding other provisions of this section, for a calendar year before  
9 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas  
10 produced from a lease or property outside the Cook Inlet sedimentary basin and used  
11 in the state, other than gas subject to (p) of this section, may not exceed the amount  
12 of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

13 \* **Sec. 5.** AS 43.55.020(a) is amended to read:

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

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

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

27 (i) zero; or

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

1 deductible for the oil and gas [LEASES OR PROPERTIES] under  
 2 AS 43.55.160 from the gross value at the point of production of the oil  
 3 and gas produced from the leases or properties during the month for  
 4 which the installment payment is calculated;

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

7 (i) zero;

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

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

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

24 (i) zero; or

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

1 property during the month for which the installment payment is  
2 calculated;

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

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

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

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

17 [PRODUCED FROM A LEASE OR PROPERTY

18 (A)] subject to AS 43.55.011(j), (k), or (o) may not exceed the  
19 product obtained by carrying out the calculation set out in AS 43.55.011(j)(1)  
20 or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1)  
21 or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A)  
22 or 43.55.011(o), as applicable, the amount of taxable gas produced during the  
23 month for the amount of taxable gas produced during the calendar year and  
24 substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of  
25 taxable oil produced during the month for the amount of taxable oil produced  
26 during the calendar year;

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

30 (3) an installment payment of the estimated tax levied by  
31 AS 43.55.011(i) for each lease or property is due for each month of the calendar year

1 on the last day of the following month; the amount of the installment payment is the  
2 sum of

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

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

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

15 \* **Sec. 6.** AS 43.55.020(a), as amended by sec. 5 of this Act, is amended to read:

16 (a) For a calendar year, a producer subject to tax under AS 43.55.011 shall pay  
17 the tax as follows:

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

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

29 (i) zero; or

30 (ii) 35 [THE SUM OF 25] percent of [AND THE TAX  
31 RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g)

1 MULTIPLIED BY] the remainder obtained by subtracting 1/12 of the  
 2 producer's adjusted lease expenditures for the calendar year of  
 3 production under AS 43.55.165 and 43.55.170 that are deductible for  
 4 the oil and gas under AS 43.55.160 from the gross value at the point of  
 5 production of the oil and gas produced from the leases or properties  
 6 during the month for which the installment payment is calculated;

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

9 (i) zero;

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

14 (iii) 35 [THE SUM OF 25] percent of [AND THE TAX  
 15 RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g)  
 16 MULTIPLIED BY] the remainder obtained by subtracting 1/12 of the  
 17 producer's adjusted lease expenditures for the calendar year of  
 18 production under AS 43.55.165 and 43.55.170 that are deductible for  
 19 oil and gas under AS 43.55.160 from the gross value at the point of  
 20 production of the oil and gas produced from those leases or properties  
 21 during the month for which the installment payment is calculated,  
 22 except that, for the purposes of this calculation, the gross value at  
 23 the point of production of oil and gas subject to AS 43.55.160(f) is  
 24 reduced by 30 percent:

25 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for  
 26 each lease or property, the greater of

27 (i) zero; or

28 (ii) 35 [THE SUM OF 25] percent of [AND THE TAX  
 29 RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g)  
 30 MULTIPLIED BY] the remainder obtained by subtracting 1/12 of the  
 31 producer's adjusted lease expenditures for the calendar year of

1 production under AS 43.55.165 and 43.55.170 that are deductible under  
2 AS 43.55.160 for the oil or gas, respectively, produced from the lease  
3 or property from the gross value at the point of production of the oil or  
4 gas, respectively, produced from the lease or property during the month  
5 for which the installment payment is calculated;

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

7 (i) 35 [THE SUM OF 25] percent of [AND THE TAX  
8 RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g)  
9 MULTIPLIED BY] the remainder obtained by subtracting 1/12 of the  
10 producer's adjusted lease expenditures for the calendar year of  
11 production under AS 43.55.165 and 43.55.170 that are deductible for  
12 the oil and gas under AS 43.55.160 from the gross value at the point of  
13 production of the oil and gas produced from the leases or properties  
14 during the month for which the installment payment is calculated, but  
15 not less than zero; or

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

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

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

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

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

9 (4) any amount of tax levied by AS 43.55.011, net of any credits  
 10 applied as allowed by law, that exceeds the total of the amounts due as installment  
 11 payments of estimated tax is due on March 31 of the year following the calendar year  
 12 of production.

13 \* **Sec. 7.** AS 43.55.020(d) is amended to read:

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

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

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

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

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

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

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

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

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

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

21 \* Sec. 9. AS 43.55.023(a), as amended by sec. 8 of this Act, is amended to read:

22 (a) **Except as provided in AS 43.55.025(a), a** [A] producer or explorer may  
23 take a tax credit for a qualified capital expenditure as follows:

24 (1) notwithstanding that a qualified capital expenditure may be a  
25 deductible lease expenditure for purposes of calculating the production tax value of oil  
26 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under  
27 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or  
28 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit  
29 against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that  
30 expenditure;

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

1 expenditure incurred in connection with geological or geophysical exploration or in  
 2 connection with an exploration well only if the producer or explorer

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

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

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

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

11 (b) A producer or explorer may elect to take a tax credit in the amount of 25  
 12 percent of a carried-forward annual loss based on lease expenditures incurred to  
 13 explore for, develop, or produce oil or gas deposits located south of 68 degrees  
 14 North latitude. Except as provided in AS 43.55.025(q), a producer or explorer  
 15 subject to the requirements in (p) - (u) of this section may elect to take a tax  
 16 credit in the amount of 35 percent of a carried-forward annual loss based on  
 17 lease expenditures incurred after December 31, 2013, to explore for, develop, or  
 18 produce oil or gas deposits located north of 68 degrees North latitude. A credit  
 19 under this subsection may be applied against a tax levied by AS 43.55.011(e). For  
 20 purposes of this subsection, a carried-forward annual loss is the amount of a producer's  
 21 or explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a  
 22 previous calendar year that was not deductible in calculating production tax values for  
 23 that calendar year under AS 43.55.160.

24 \* Sec. 11. AS 43.55.023(c) is amended to read:

25 (c) A credit or portion of a credit under this section may not be used to reduce  
 26 a person's tax liability under AS 43.55.011(e) for any calendar year below zero,  
 27 Except as otherwise provided under (p) - (u) of this section, [AND] any unused  
 28 credit or portion of a credit not used under this subsection may be applied in a later  
 29 calendar year.

30 \* Sec. 12. AS 43.55.023(d) is amended to read:

31 (d) Except as limited by (i) of this section, a person that is entitled to take a tax

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

24 \* Sec. 13. AS 43.55.023(d), as amended by sec. 12 of this Act, is amended to read:

25 (d) Except for a tax credit based on a lease expenditure incurred after  
 26 December 31, 2013, to explore for, develop, or produce oil or gas deposits located  
 27 north of 68 degrees North latitude [AS LIMITED BY (i) OF THIS SECTION], a  
 28 person that is entitled to take a tax credit under this section that wishes to transfer the  
 29 unused credit to another person or obtain a cash payment under AS 43.55.028 may  
 30 apply to the department for a transferable tax credit certificate. An application under  
 31 this subsection must be in a form prescribed by the department and must include

1 supporting information and documentation that the department reasonably requires.  
2 The department shall grant or deny an application, or grant an application as to a lesser  
3 amount than that claimed and deny it as to the excess, not later than 120 days after the  
4 latest of (1) March 31 of the year following the calendar year in which the qualified  
5 capital expenditure or carried-forward annual loss for which the credit is claimed was  
6 incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for  
7 the calendar year in which the qualified capital expenditure or carried-forward annual  
8 loss for which the credit is claimed was incurred; or (3) the date the application was  
9 received by the department. If, based on the information then available to it, the  
10 department is reasonably satisfied that the applicant is entitled to a credit, the  
11 department shall issue the applicant a transferable tax credit certificate for the amount  
12 of the credit. A certificate issued under this subsection does not expire.

13 \* **Sec. 14.** AS 43.55.023(g) is amended to read:

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

27 \* **Sec. 15.** AS 43.55.023(n) is amended to read:

28 (n) For the purposes of (l) [AND (m)] of this section, a well lease expenditure  
29 incurred in the state south of 68 degrees North latitude is a lease expenditure that is  
30 (1) directly related to an exploration well, a stratigraphic test well, a  
31 producing well, or an injection well other than a disposal well, located in the state

1 south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure  
2 and an intangible drilling and development cost authorized under 26 U.S.C. (Internal  
3 Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made  
4 under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well  
5 includes an expenditure for well sidetracking, well deepening, well completion or  
6 recompletion, or well workover, regardless of whether the well is or has been a  
7 producing well; or

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

10 \* **Sec. 16.** AS 43.55.023 is amended by adding new subsections to read:

11 (p) A tax credit under (b) of this section that is based on a lease expenditure  
12 incurred after December 31, 2013, to explore for, develop, or produce oil or gas  
13 deposits located north of 68 degrees North latitude may not be applied against a tax  
14 liability for a calendar year that is

15 (1) two or more calendar years later than the calendar year during  
16 which the lease expenditure was incurred, unless the producer has complied with the  
17 requirements of AS 43.55.030(g);

18 (2) more than 10 calendar years later than the calendar year during  
19 which the lease expenditure was incurred.

20 (q) A person may not apply a tax credit under (b) of this section that is based  
21 on a lease expenditure incurred after December 31, 2014, to explore for, develop, or  
22 produce oil or gas deposits located north of 68 degrees North latitude against a  
23 person's tax liability unless the person has applied against the person's tax liability the  
24 entire amount of all available tax credits under (b) of this section that are based on  
25 lease expenditures incurred after December 31, 2013, and before the calendar year in  
26 which the person seeks to apply the credit to explore for, develop, or produce oil or  
27 gas deposits located north of 68 degrees North latitude.

28 (r) Except as otherwise provided under (s) of this section, a tax credit or a  
29 portion of a tax credit subject to (p)(1) of this section that is carried forward in  
30 compliance with AS 43.55.030(g) increases at a rate of 15 percent, compounded  
31 annually, as provided in this subsection. A tax credit or a portion of a tax credit begins

1 to increase under this subsection on January 1 of the second calendar year immediately  
2 following the calendar year during which the lease expenditure on which the credit is  
3 based was incurred, unless that second calendar year is the calendar year for which the  
4 credit or portion of a credit is applied against the person's tax liability. A tax credit or a  
5 portion of a tax credit stops increasing under this subsection on December 31 of the  
6 calendar year immediately preceding the calendar year for which the credit or a  
7 portion of the credit is applied against the person's tax liability. An increase in the  
8 amount of a tax credit under this subsection has no value except as applied against the  
9 person's tax liability within the time period described in (p)(2) of this section.

10 (s) A tax credit or a portion of a tax credit subject to (p)(1) of this section does  
11 not increase under (r) of this section for a period during or after a calendar year for  
12 which the credit or portion of the credit could have been applied against a person's tax  
13 liability. For purposes of this subsection, the portion of a tax credit subject to (p)(1) of  
14 this section that could have been applied against a person's tax liability for a calendar  
15 year is determined by performing the following calculation, as applicable:

16 (1) subtract the amount, if any, of the person's tax credits under  
17 AS 43.55.019 and 43.55.024 that has been applied against the person's tax liability for  
18 the calendar year under AS 43.55.011(e) from the amount, if any, of that tax; if the  
19 remainder is less than zero, the portion of the tax credit subject to (p)(1) of this section  
20 that could have been applied against a person's tax liability for the calendar year is  
21 zero;

22 (2) if the remainder obtained under (1) of this subsection is greater  
23 than zero, subtract that remainder from the total amount of the person's tax credits  
24 under (b) of this section that are based on lease expenditures incurred after  
25 December 31, 2013, to explore for, develop, or produce oil or gas deposits located  
26 north of 68 degrees North latitude that was available, without regard to the limitation  
27 under (q) of this section, to be applied against the person's tax liability for the calendar  
28 year under AS 43.55.011(e), including any increase in the amount of the tax credits  
29 under (r) of this section through December 31 of the previous calendar year; if the  
30 remainder is less than zero, the portion of the tax credit is considered to be equal to  
31 zero for purposes of this paragraph;

1 (3) subtract the remainder obtained under (2) of this subsection from  
2 the amount, if any, of the person's tax credits under (b) of this section that are based on  
3 lease expenditures incurred after December 31, 2013, to explore for, develop, or  
4 produce oil or gas deposits located north of 68 degrees North latitude that was  
5 available, without regard to the limitation under (q) of this section, to be applied  
6 against the tax levied on the person for the calendar year under AS 43.55.011(e),  
7 including any increase in the amount of the tax credits under (r) of this section through  
8 December 31 of the previous calendar year, but that was not applied against that tax;  
9 the remainder is the portion of a tax credit subject to (p)(1) of this section that could  
10 have been applied against the person's tax liability for the calendar year.

11 (t) A tax credit under (b) of this section based on a lease expenditure incurred  
12 after December 31, 2013, to explore for, develop, or produce oil or gas deposits  
13 located north of 68 degrees North latitude is not transferable except as provided in this  
14 subsection. A person that is entitled to take a tax credit under (b) of this section based  
15 on a lease expenditure incurred after December 31, 2013, to explore for, develop, or  
16 produce oil or gas deposits located north of 68 degrees North latitude may transfer the  
17 tax credit to another person that acquires from the transferor an operating right,  
18 operating interest, or working interest in a lease or property in the state that includes  
19 land north of 68 degrees North latitude in which the transferor owned an operating  
20 right, operating interest, or working interest at the time the lease expenditure was  
21 incurred. A transferee may transfer the tax credit to another person that acquires from  
22 the transferee an operating right, operating interest, or working interest in that lease or  
23 property. A transferee's use of a tax credit is subject to the provisions of (u) of this  
24 section. A transfer is conditioned on the filing with the department by the transferor  
25 and transferee of notices or a joint notice in a form and manner prescribed by the  
26 department and the providing of information and certifications required by the  
27 department by regulation. A transferee's application of a tax credit against the  
28 transferee's production tax liability is subject to audit by the department to the same  
29 extent as a tax credit that has not been transferred.

30 (u) The provisions of this subsection apply to a tax credit under (b) of this  
31 section based on a lease expenditure incurred after December 31, 2013, to explore for,

1 develop, or produce oil or gas deposits located north of 68 degrees North latitude  
 2 when the tax credit is used by a producer to which the tax credit has been transferred  
 3 under (t) of this section, by a producer or the successor of a producer that has acquired  
 4 the person that incurred the lease expenditure on which the tax credit is based, or by a  
 5 producer or the successor of a producer created by the merger of the person that  
 6 incurred the lease expenditures on which the tax credit is based with another person.  
 7 The total amount of a producer's tax credits subject to this subsection that may be  
 8 applied against the producer's tax liability under AS 43.55.011(e) for a calendar year  
 9 may not exceed 20 percent of the sum of the amounts calculated by applying the  
 10 following formula for each lease or property in the state that includes land north of 68  
 11 degrees North latitude from which the producer produces oil or gas during the  
 12 calendar year and in which the person that incurred the lease expenditure on which the  
 13 tax credit is based had owned an operating right, operating interest, or working interest  
 14 when the lease expenditure was incurred:

$$GV \times OS$$

15  
 16 where GV = the gross value at the point of production of the oil and gas taxable under  
 17 AS 43.55.011(e) produced by the producer during the calendar year from the lease or  
 18 property; and OS = the percentage operating right, operating interest, or working interest in  
 19 the lease or property that had been owned by the person that incurred the lease expenditure on  
 20 which the tax credit is based when the lease expenditure was incurred.

21 \* **Sec. 17.** AS 43.55.024(d) is amended to read:

22 (d) A producer may not take a tax credit under (c) of this section for any  
 23 calendar year after the later of

24 (1) 2022 [2016]; or

25 (2) if the producer did not have commercial oil or gas production from  
 26 a lease or property in the state before April 1, 2006, the ninth calendar year after the  
 27 calendar year during which the producer first has commercial oil or gas production  
 28 before May 1, 2022 [2016], from at least one lease or property in the state.

29 \* **Sec. 18.** AS 43.55.024(e) is amended to read:

30 (e) On written application by a producer that includes any information the  
 31 department may require, the department shall determine whether the producer

1 qualifies for a calendar year under (a) and (c) of this section. To qualify under (a) and  
2 (c) of this section, a producer must demonstrate that its operation in the state or its  
3 ownership of an interest in a lease or property in the state as a distinct producer would  
4 not result in the division among multiple producer entities of any production tax  
5 liability under AS 43.55.011(e) that reasonably would be expected to be attributed to a  
6 single producer if the tax credit provisions of (a) or (c) of this section did not exist.

7 \* **Sec. 19.** AS 43.55.024 is amended by adding a new subsection to read:

8 (i) A producer may apply a tax credit of \$5 for each barrel of oil taxable under  
9 AS 43.55.011(e) produced during a calendar year against the producer's tax liability  
10 for the calendar year under AS 43.55.011(e). A tax credit authorized by this subsection  
11 may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) to  
12 below zero.

13 \* **Sec. 20.** AS 43.55.025(b) is amended to read:

14 (b) To qualify for the production tax credit under (a) of this section, an  
15 exploration expenditure must be incurred for work performed after June 30, 2008, and  
16 before July 1, 2022 [2016], and

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

19 (2) if for an exploration well,

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

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

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

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

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

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

11 \* **Sec. 21.** AS 43.55.025(c) is amended to read:

12 (c) To be eligible for a production tax credit authorized by (a)(1), (3), or (6) of  
13 this section, exploration expenditures must

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

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

16 (A) before the well is spudded,

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

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

1 access to tangible material; and

2 (iii) the commissioner of natural resources must make  
3 an affirmative determination as to whether the geological objective of  
4 the well is a potential oil or gas trap that is distinctly separate from any  
5 trap that has been tested by a preexisting well and what information  
6 under (ii) of this subparagraph must be submitted by the explorer after  
7 completion, abandonment, or suspension under AS 31.05.030; the  
8 commissioner of natural resources shall make that determination within  
9 60 days after receiving all the necessary information from the explorer  
10 based on the information received and on other information the  
11 commissioner of natural resources considers relevant;

12 (B) [FOR AN EXPLORATION WELL OTHER THAN A  
13 WELL TO EXPLORE A COOK INLET PROSPECT, THE WELL MUST BE  
14 LOCATED AND DRILLED IN SUCH A MANNER THAT THE BOTTOM  
15 HOLE IS LOCATED NOT LESS THAN THREE MILES AWAY FROM  
16 THE BOTTOM HOLE OF A PREEXISTING WELL DRILLED FOR OIL  
17 OR GAS, IRRESPECTIVE OF WHETHER THE PREEXISTING WELL  
18 HAS BEEN COMPLETED, SUSPENDED, OR ABANDONED;

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

23 \* **Sec. 22.** AS 43.55.025 is amended by adding a new subsection to read:

24 (q) An exploration expenditure incurred after December 31, 2013, to explore  
25 for oil or gas located north of 68 degrees North latitude that is the basis for a credit  
26 under (a)(1), (2), or (3) of this section may not also be the basis for a credit claimed  
27 under AS 43.55.023 or this section.

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

29 (e) The department, on the written application of a person to whom a  
30 transferable tax credit certificate has been issued under AS 43.55.023(d) or **former**  
31 **AS 43.55.023(m)** [(m)] or to whom a production tax credit certificate has been issued

1 under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to  
2 purchase, in whole or in part, the certificate if the department finds that

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

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

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

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

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

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

17 (g) The department may adopt regulations to carry out the purposes of this  
18 section, including standards and procedures to allocate available money among  
19 applications for purchases under this chapter and claims for refunds and payments  
20 under AS 43.20.046 or 43.20.047 when the total amount of the applications for  
21 purchase and claims for refund exceed the amount of available money in the fund. The  
22 regulations adopted by the department may not, when allocating available money in  
23 the fund under this section, distinguish an application for the purchase of a credit  
24 certificate issued under former AS 43.55.023(m) or a claim for a refund or payment  
25 under AS 43.20.046 or 43.20.047 [AS 43.20.047].

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

27 (e) An explorer or producer that incurs a lease expenditure under  
28 AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar  
29 year but does not produce oil or gas from a lease or property in the state during the  
30 calendar year shall file with the department, on March 31 of the following year, a  
31 statement, under oath, in a form prescribed by the department, giving, with other

1 information required, the following:

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

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

8 \* **Sec. 26.** AS 43.55.030 is amended by adding a new subsection to read:

9 (g) A person that intends to carry forward a tax credit subject to  
10 AS 43.55.023(p)(1) so that the credit will be available to be applied against the  
11 person's tax liability for a calendar year that is two or more calendar years later than  
12 the calendar year during which the lease expenditure on which the credit is based was  
13 incurred, subject to the limitation of AS 43.55.023(p)(2), shall file with the department  
14 a statement, under oath, in a form prescribed by the department, on March 31 of the  
15 year immediately following the calendar year during which the lease expenditure on  
16 which the credit is based was incurred, and on March 31 of each subsequent year,  
17 including the last calendar year for which the credit or a portion of the credit is applied  
18 against the person's tax liability. The statement must include

19 (1) documentation of the nature and amount of adjusted lease  
20 expenditures for which a credit is claimed and intended to be carried forward, unless  
21 provided in a previously filed statement under this subsection;

22 (2) calculation of the amount of the claimed credit, unless provided in  
23 a previously filed statement under this subsection, and of any increase in an amount of  
24 credit under AS 43.55.023(r) and documentation of compliance with the limitations  
25 provided in AS 43.55.023(s);

26 (3) identification of the portion of the credit that was applied against  
27 the person's tax liability for the calendar year preceding the year for which the  
28 statement is due and of the amount of the credit that continues to be carried forward;

29 (4) other information required by the department.

30 \* **Sec. 27.** AS 43.55.160(a) is amended to read:

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

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

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

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

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

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

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

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

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

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

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

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

29 (A) oil and gas produced during a month from leases or  
30 properties in the state that include land north of 68 degrees North latitude is the  
31 gross value at the point of production of the oil and gas taxable under

1 AS 43.55.011(e) and produced by the producer from those leases or properties,  
2 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the  
3 calendar year applicable to the oil and gas produced by the producer from  
4 those leases or properties, as adjusted under AS 43.55.170; this subparagraph  
5 does not apply to gas subject to AS 43.55.011(o);

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

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

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

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

1 applicable to that gas produced by the producer from that lease or property, as  
2 adjusted under AS 43.55.170.

3 \* **Sec. 28.** AS 43.55.160(a) is repealed and reenacted to read:

4 (a) Except as provided in (b) and (f) of this section, for the purposes of  
5 AS 43.55.011(e), the annual production tax value of taxable oil, gas, or oil and gas  
6 produced by a producer during a calendar year in a specific category for which a  
7 separate production tax value is required to be calculated under this subsection is equal  
8 to the gross value at the point of production of that oil, gas, or oil and gas,  
9 respectively, taxable under AS 43.55.011(e), less the producer's lease expenditures  
10 under AS 43.55.165 for the calendar year that are applicable to the oil, gas, or oil and  
11 gas, respectively, in that category produced by the producer during the calendar year,  
12 as adjusted under AS 43.55.170. A separate annual production tax value must be  
13 calculated for

14 (1) oil and gas produced from leases or properties in the state that  
15 include land north of 68 degrees North latitude, other than gas produced before 2022  
16 and used in the state;

17 (2) oil and gas produced from leases or properties in the state outside  
18 the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North  
19 latitude, during a calendar year before or during the last calendar year under  
20 AS 43.55.024(b) for which the producer could take a tax credit under  
21 AS 43.55.024(a); this paragraph does not apply to

22 (A) gas produced before 2022 and used in the state; or

23 (B) oil and gas subject to AS 43.55.011(p);

24 (3) oil produced before 2022 from each lease or property in the Cook  
25 Inlet sedimentary basin;

26 (4) gas produced before 2022 from each lease or property in the Cook  
27 Inlet sedimentary basin;

28 (5) gas produced before 2022 from each lease or property in the state  
29 outside the Cook Inlet sedimentary basin and used in the state, other than gas subject  
30 to AS 43.55.011(p);

31 (6) oil and gas subject to AS 43.55.011(p) produced from leases or

1 properties in the state;

2 (7) oil and gas produced from a lease or property in the state no part of  
3 which is north of 68 degrees North latitude, other than oil or gas described in (2), (3),  
4 (4), (5), or (6) of this subsection.

5 \* **Sec. 29.** AS 43.55.160(e) is amended to read:

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

25 \* **Sec. 30.** AS 43.55.160 is amended by adding a new subsection to read:

26 (f) In the calculation of an annual production tax value of a producer under  
27 (a)(1) of this section, the gross value at the point of production of oil or gas meeting  
28 one or more of the following criteria is reduced by 30 percent: (1) the oil or gas is  
29 produced from a lease or property that does not contain a lease that was within a unit  
30 on January 1, 2003; (2) the oil or gas is produced from a participating area established  
31 after December 31, 2011, that is within a unit formed under AS 38:05.180(p) before

1 January 1, 2003, if the participating area does not contain a reservoir that had  
 2 previously been in a participating area established before December 31, 2011; (3) the  
 3 oil or gas is produced from acreage that was not in a participating area before  
 4 December 31, 2011, but was added to an existing participating area by the Department  
 5 of Natural Resources after December 31, 2011, and the producer demonstrates to the  
 6 department that the volume of oil and gas produced is from acreage added to an  
 7 existing participating area. A reduction in gross value at the point of production under  
 8 this subsection may not reduce the production tax value of a producer below zero. In  
 9 this subsection, "participating area" means a reservoir or portion of a reservoir  
 10 contributing to production approved by the Department of Natural Resources.

11 \* **Sec. 31.** AS 43.98 is amended by adding new sections to read:

12 **Article 2. Oil and Gas Competitiveness Review Board.**

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

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

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

19 (2) the chair of the Alaska Oil and Gas Conservation Commission;

20 (3) three members of the public appointed by the governor, including  
 21 at least one member who is a petroleum engineer, one member who is a geologist, and  
 22 one member who is an economist, each of whom has at least three years of experience  
 23 in the member's field;

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

26 (5) the commissioner of natural resources or the commissioner's  
 27 designee; and

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

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

31 (d) Members of the board appointed under (b)(1) and (b)(3) of this section

1 serve for six years. An individual who has served on the board may be reappointed.

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

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

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

9 (h) The board may enter into contracts for professional services and may  
10 employ staff for administrative support for the board.

11 (i) The board shall meet at least four times each calendar year.

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

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

16 (2) evaluate and suggest changes to state laws and regulations  
17 governing the oil and gas industry;

18 (3) review historical, current, and potential levels of investment in the  
19 state's oil and gas sector;

20 (4) identify factors that affect investment in oil and gas exploration,  
21 development, and production in the state, including tax structure, rates, and credits;  
22 royalty requirements; infrastructure; workforce availability; and regulatory  
23 requirements;

24 (5) review the competitive position of the state to attract and maintain  
25 investment in the oil and gas sector in the state as compared to the competitive  
26 position of other regions with oil and gas resources;

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

31 (7) make written findings and recommendations, together with

1 suggested legislation, to the Alaska State Legislature before December 1 of each year,  
2 or as soon thereafter as practicable, regarding

3 (A) changes to the state's regulatory environment that would be  
4 conducive to encouraging increased investment while protecting the interests  
5 of the people of the state and the environment;

6 (B) changes to the state's fiscal regime that would be conducive  
7 to increased and ongoing long-term investment in and development of the  
8 state's oil and gas resources; and

9 (C) alternative means for increasing the state's ability to attract  
10 and maintain investment in and development of the state's oil and gas  
11 resources.

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

18 (b) At the request of the board, and except for information that is confidential  
19 under AS 40.25.100(a) or AS 43.05.230, a commissioner may disclose to the board  
20 information that is otherwise confidential after each member of the board and each  
21 staff member for the board with access to the information signs a confidentiality  
22 agreement prepared by the commissioner making the disclosure. Information that is  
23 confidential under AS 43.05.230 may not be disclosed to the board.

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

26 \* **Sec. 32.** AS 43.55.023(m) is repealed.

27 \* **Sec. 33.** AS 43.55.011(g), 43.55.023(i), and 43.55.160(c) are repealed January 1, 2014.

28 \* **Sec. 34.** AS 43.98.040, 43.98.050, 43.98.060, and 43.98.070 are repealed December 31,  
29 2022.

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

1 APPLICABILITY. (a) Sections 3, 6, 7, and 28 - 30 of this Act apply to oil and gas  
2 produced after December 31, 2013.

3 (b) Sections 4 and 27 of this Act apply to oil and gas produced after December 31,  
4 2012.

5 (c) Sections 8, 12, 13, 14, and 15 of this Act and AS 43.55.023(a)(1), as amended by  
6 sec. 8 of this Act, apply to expenditures incurred after December 31, 2012.

7 (d) Sections 9 - 11, 13, 16, 21 - 23, and 26 of this Act apply to expenditures incurred  
8 after December 31, 2013.

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

11 **TRANSITION: OIL AND GAS COMPETITIVENESS REVIEW BOARD.** The  
12 governor shall appoint the initial members of the Oil and Gas Competitive Review Board,  
13 established in sec. 31 of this Act, before January 1, 2014, or as soon thereafter as is  
14 practicable. The initial terms of the members of the board appointed under  
15 AS 43.98.040(b)(1) and (b)(3) shall be set by the governor and staggered so that one member  
16 serves one year, two members serve four years, and two members serve six years. The first  
17 written findings and recommendations, together with suggested legislation, shall be delivered  
18 to the Alaska State Legislature on December 1, 2015, or as soon thereafter as is practicable.

19 \* **Sec. 37.** The uncodified law of the State of Alaska is amending by adding a new section to  
20 read:

21 **TRANSITION: REGULATIONS.** The Department of Revenue may adopt regulations  
22 to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure  
23 Act), but not before the effective date of the respective provision of this Act.

24 \* **Sec. 38.** The uncodified law of the State of Alaska is amended by adding a new section to  
25 read:

26 **RETROACTIVITY.** Sections 4, 12, 14, 15, 23, 27, and 32 of this Act and  
27 AS 43.55.023(a)(1), as amended by sec. 8 of this Act, are retroactive to January 1, 2013.

28 \* **Sec. 39.** Sections 1, 3, 6, 7, 9 - 11, 13, 16, 18, 19, 21, 22, 26, and 28 - 30 of this Act take  
29 effect January 1, 2014.

30 \* **Sec. 40.** Except as provided in sec. 39 of this Act, this Act takes effect immediately under  
31 AS 01.10.070(c).

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/28/13

FURTHER: Rules

DATE TURNED IN TO OFFICE: 3/18/13

**Finance Committee** considered SENATE BILL NO. 21

## SB 21-OIL AND GAS PRODUCTION TAX

"An Act relating to appropriations from taxes paid under the Alaska Net Income Tax Act; 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; relating to the determination of annual oil and gas production tax values including adjustments based on a percentage of gross value at the point of production from certain leases or properties; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with CS SB 21 (FIN) [ ] Same Title  New Title
- [ ] adopt previous CS \_\_\_\_\_ (\_\_\_\_\_) [ ] Same Title [ ] New Title
- [ ] attached amendment(s)
- [ ] adopt \_\_\_\_\_ Letter of Intent
- [ ] further referral to \_\_\_\_\_ Committee

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

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
REV	✓			6
REV	✓			7
DNR		✓		8

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

[ ] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Hoffman		✓		
	Dunbeavy FAIRCLOUGH			✓	✓
	BISHOP				✓
	<del>Co-Chair</del>				✓
CO-CHAIR:	Kelly	✓			
CO-CHAIR:	Meyer	✓			

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/28/13

FURTHER:

DATE TURNED  
IN TO OFFICE: \_\_\_\_\_

Finance Committee considered SENATE BILL NO. 21

## SB 21-OIL AND GAS PRODUCTION TAX

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and recommends:

- be replaced with CS SB 21 (FIN) [ ] Same Title [X] New Title
- [ ] adopt previous CS \_\_\_\_\_ (\_\_\_\_\_) [ ] Same Title [ ] New Title
- [ ] attached amendment(s)
- [ ] adopt \_\_\_\_\_ Letter of Intent
- [ ] further referral to \_\_\_\_\_ Committee

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

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
REV	✓			
REV	✓			
DNR		✓		

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

[ ] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	DO NOT PASS	No REC	AMEND
	Hoffman	✓			
	Dunheavy				✓
Anna Fairclough	FAIRCLOUGH			✓	
Clair Bishop	Bishop				✓
	Kelly	✓			✓
CO-CHAIR:	Meyer	✓			

# **SECTIONAL ANALYSIS**

**Committee Substitute for Senate Bill 21 (RES)**  
**28 -GS1647C**  
**February 28, 2013**  
**SECTION ANALYSIS**

**Section 1:** AS 29.60.850, relating to certain appropriations to the general fund is amended to allow the legislature to make appropriations based on taxes paid during the previous calendar year under the Alaska Net Income Tax Act, AS 43.20, to conform to the repeal of AS 43.55.011(g) in section 26 of the bill.

**Section 2:** Amends AS 43.20, the Alaska Net Income Tax Act, by adding a new section, AS 43.55.049, relating to the new qualified oil and gas service industry expenditure tax credit, to be effective for a tax year ending after the date of this act. A taxpayer may apply a tax credit for 10 percent of the taxpayer's qualified oil and gas service industry expenditure incurred in the state, limited to not more \$10,000,000 in a tax year. The credit may be transferred; the transferee may apply up to \$10,000,000 of a transferred credit in a tax year, and may not apply the credit more than seven calendar years after the tax credit is claimed.

Subsection (e) provides that the Department of Revenue may publish the total amount of tax credits claimed under this section along with a description of the expenditures that were the basis of the tax credits in a year that three or more taxpayers claim a tax credit under this section.

Subsection (f) provides definitions of "manufacture", "modification" and "qualified oil and gas service industry expenditure."

**Section 3:** AS 43.55.011(e), relating to the levy of the oil and gas production tax, is amended to eliminate the reference to AS 43.55.011(g), the monthly progressivity tax, which is repealed in the bill. Beginning January 1, 2014, AS 43.55.011(e) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 percent (instead of the current 25 percent) of the production tax value of taxable oil and gas produced from each lease or property in the state. No change is made to current tax ceilings that apply to Cook Inlet oil and gas, gas produced outside the Cook Inlet basin and used in the state, and oil and gas produced from new fields outside the Cook Inlet basin and south of the North Slope.

**Section 4:** Amends AS 43.55.011(o), relating to gas used in the state, to clarify that the tax ceiling applicable to gas used in the state does not apply to gas subject to AS 43.55.011(p) (the seven year tax limitation of four percent of gross value at the point of production for oil and gas first produced commercially outside of the Cook Inlet basin and south of 68 degrees North latitude after December 31, 2012, and before January 1, 2022).

**Section 5:** Amends AS 43.55.020(a), monthly installment payments of estimated tax, to clarify payment provisions relating to the determination of tax due for oil and gas subject to AS 43.55.011(p) and makes other minor clarifying amendments.

**Section 6:** Amends AS 43.55.020(a), monthly installment payments of estimated tax, for oil and gas produced after January 1, 2014, to conform to the repeal of AS 43.55.011(g), to apply the new base rate of 35 percent, and to account for the gross revenue exclusion in new subsection (f), AS 43.55.160, in the bill.

**Section 7:** AS 43.55.020(d), related to payment by a producer to a private royalty owner, is amended to refer to the tax levied by AS 43.55.011(e) instead of AS 43.55.011(e)-(g). This amendment does not change the substance or effect of AS 43.55.020(d) although to avoid confusion, the amendment is made effective the same date as the repeal of AS 43.55.011(g).

**Section 8:** Amends AS 43.55.023(a) to eliminate the current restrictions on use of a tax credit for qualified capital expenditures and allow the full amount of a tax credit to be applied in a single calendar year beginning January 1, 2013 for expenditures after December 31, 2012. This amendment adds a new subsection to limit the 20 percent tax credit for qualified capital expenditures incurred north of 68 degrees North latitude (North Slope) to expenditures incurred before January 1, 2014. Tax credits under AS 43.55.023(a) based on expenditures to explore for, develop, or produce oil and gas deposits south of the North Slope are not affected.

**Section 9:** Amends AS 43.55.023(a) to refer to the AS 43.55.025(q), related to carried forward loss credit for exploration expenses on the North Slope.

**Section 10:** Amends AS 43.55.023(b) to provide that the carried-forward annual loss credit will be in the amount of 35 percent based on expenditures incurred after December 31, 2013, to explore for, develop, or produce oil and gas deposits located on the North Slope. Carried-forward annual loss tax credits in the amount of 25 percent based on expenditures incurred to explore for, develop, or produce oil or gas deposits located south of the North Slope are not affected.

**Section 11:** Amends AS 43.55.023(c) to conform with new subsections (p)-(u) setting out the provisions that will apply to a tax credit for carried-forward losses incurred for expenditures related to North Slope activities.

**Section 12:** Amends AS 43.55.023(d), issuance of transferable and redeemable tax credit certificates for qualified capital expenditures, to conform to the amendments to AS 43.55.023(a) authorizing the Department of Revenue to issue one tax credit certificate for the full amount of a transferable tax credit.

**Section 13:** Amends AS 43.55.023(d), issuance of transferable and redeemable tax credit certificates for qualified capital expenditures, so that tax credits certificates based on lease expenditures incurred after December 31, 2013 to explore for, develop, or produce oil and gas deposits on the North Slope are no longer redeemable for cash; nor are the tax credits transferable except in limited circumstances. The reference to AS 43.55.023(i), the transitional expenditure credit, is deleted to conform to the repeal of AS 43.55.023(i). Tax credits based on lease expenditures to explore for, develop, or produce oil and gas deposits south of the North Slope are still transferable and redeemable for cash from the oil and gas tax credit fund.

**Section 14:** Amends AS 43.55.023(g), issuance of tax credit certificates, to conform to the repeal of AS 43.55.023(m).

**Section 15:** Amends AS 43.55.023(n), issuance of tax credit certificates, to conform to the repeal of AS 43.55.023(m).

**Section 16:** Amends AS 43.55.023 by adding new subsections (p)–(u), effective January 1, 2014 relating to tax credits for carried-forward annual losses based on adjusted lease expenditures incurred to explore for, develop, or produce oil or gas deposits located on the North Slope.

Subsection (p) limits application of a North Slope carried-forward loss credit to tax liability two or more calendar years after the expenditures on which the credit is based were incurred, but the credit may not be applied later than 10 years after the expenditures were incurred.

Subsection (q) establishes a “first earned, first used” rule by requiring that available North Slope carried-forward loss tax credits must be applied in order of the year the expenditures were incurred, with the earliest year first, against tax liability under AS 43.55.011(e).

Subsection (r) provides an annual 15 percent increase in the amount of a North Slope carried-forward loss tax credit subject to compliance with subsections (p), (q) and (s). An amount of a tax credit subject to this subsection begins to increase on January 1 of the second calendar year immediately following the year the expenditures on which the credit is based were incurred, unless that second calendar year is the year for which the credit is applied. The credit stops increasing on December 31 of the year preceding the year against which the credit is applied against the person’s tax liability. The increase under this subsection has no value except as applied against a person’s tax liability, and the credit expires if not used within the 10 year period in AS 43.55.023(p) of this section.

Subsection (s) provides that a tax credit will not increase under section (r) if the credit could have been applied to a producer's tax liability and provides the order in which credits must be applied and calculations for the determination of when a tax credit could be applied against a person's tax liability.

Subsection (t) provides that a North Slope carried-forward loss tax credit is not transferable except to another person that acquires an interest in the lease or property owned by the transferee at the time the lease expenditures on which the credit is based were incurred. A transferee's use of the credit is subject to the provisions of (u) of this section, and includes filing information on the transfer with the Department of Revenue. The transferee's use of the credit against its tax liability is subject to audit by the Department of Revenue to the same extent as a tax credit that has not been transferred.

Subsection (u) sets out limitations for use of a North Slope carried-forward loss tax credit where a tax credit is used by a producer to whom a tax credit has been transferred through acquisition of leases or properties, or by a producer that has acquired the person that holds the tax credit. The transferee or successor may use the amount of the tax credit specified in this subsection, but the amount of the credit that may be applied against the transferee's or successor's tax liability under AS 43.55.011(e) for a calendar year may not exceed 20 percent of the sum obtained by an equation based on the taxable gross value at the point of production from the lease or property in a calendar year multiplied by the percentage interest in the lease or property owned by the person that incurred the expenditures on which the tax credit is based.

**Section 17:** Amends AS 43.55.024(d) to extend for 6 years the time that a producer may take a tax credit under AS 43.55.024(c), the small producer credit. Qualifying producers would have until 2022 (instead of 2016) to take the nontransferable small producer tax credit.

**Section 18:** Amends AS 43.55.024(e) to reference only subsections (a) (the new area credit) and (c) (the small producer credit) to conform to the new credit in section 19.

**Section 19:** Amends AS 43.55.024 to add a new provision for a non-transferable tax credit of \$5 for each barrel of oil taxable under AS 43.55.011(e) produced in a calendar year. This section applies to oil produced after December 31, 2013.

**Section 20:** Amends AS 43.55.025 (b), the alternate tax credit for oil and gas exploration, to extend the current sunset date from July 1, 2016 to July 1, 2022.

**Section 21:** Amends AS 43.55.025(c), production tax credits of 30 percent for an exploration well, to remove the requirement that an exploration well must be no less than three miles away from a preexisting well in order to receive credit.

**Section 22:** Amends AS 43.55.025 to add a new subsection (q) to provide that an expenditure for an exploration well on the North Slope incurred after December 31, 2013 that is the basis for a credit under AS 43.55.025 may not also be the basis for a credit claimed under AS 43.55.023 or another provision of AS 43.55.025.

**Section 23:** Amends AS 43.55.028(e) to conform to the repeal of AS 43.55.023(m) in section 32 of the bill.

**Section 24:** Amends AS 43.55.028(g) to conform to the repeal of AS 43.55.023(m) in section 32 of the bill.

**Section 25:** Amends AS 43.55.030(e) (1), annual statements of qualified capital expenditures, to clarify current practice that both explorers and producers must file statements reporting qualified capital expenditures and other information required under AS 43.55.030(e).

**Section 26:** Amends AS 43.55.030 by adding new subsection (g) which requires an explorer or producer claiming a North Slope loss tax credit subject to AS 43.55.023(p)–(u) to file an annual statement with the Department of Revenue reporting the nature and amount of the expenditures on which the North Slope carried-forward loss credit is based, the amount the person intends to carry forward, any increase in the amount of the credit, and other information required by the Department of Revenue.

**Section 27:** Amends AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the provisions of AS 43.55.011(p).

**Section 28:** AS 43.55.160(a), calculation of annual production tax values, is repealed and reenacted to conform to the repeal of the monthly progressivity tax in bill section 33. For oil and gas produced after January 1, 2014, a producer of oil and gas will no longer need to calculate monthly production tax values for oil and for purposes of AS 43.55.011(g), the progressivity tax. Other clarifying amendments are made setting out the categories for which a separate annual production tax value must be calculated, but the method of calculating annual production tax value is not affected.

**Section 29:** Amends AS 43.55.160(e) to conform to the amendments related to amendments to AS 43.55.160(a), calculation of annual production tax values.

**Section 30:** Amends AS 43.55.160 by adding new subsection (f) which provides that in calculating the annual production tax value for oil and gas produced north of 68 degrees North latitude the gross value at the point of production of the oil or gas meeting one or more of the following criteria is reduced by 30 percent if (1) produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) produced from a participating area established after December 31, 2011, that is within a

unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before January 1, 2012, or (3) the oil or gas is produced from an acreage that was not in a participating area before December 31, 2011, but was added to an existing participating area by the Department of Natural Resources and the producer demonstrates to the Department of Revenue the volumes of oil and gas produced from the expanded participating area. A reduction in gross value at the point of production may not reduce the production tax value below zero.

**Section 31:** Amends AS 43.98 to establish an Oil and Gas Competitiveness Review Board in the Department of Revenue. The board includes designated commissioners and members of the public appointed by the Governor. The Board meets four times a year to evaluate and suggest changes, identify factors, and other matters related to oil and gas exploration, development and production in the state. The Board reports recommendations to the Legislature annually on suggested changes to the state's regulatory environment, fiscal regime, and alternate means for attracting and maintaining investment and development in oil and gas resources. These provisions establishing the Board are repealed as of December 31, 2022.

**Section 32:** Repeals AS 43.55.023(m) relating to tax credit certificates issued for expenditures based on activities south of 68 degrees North latitude.

**Section 33:** Repeals AS 43.55.011(g), 43.55.023(i) and 43.55.160(c).

**Section 34:** Repeals provisions related to Oil and Gas Competitiveness Review Board as of December 31, 2022.

**Section 35:** Applicability sections for sections that apply to oil and gas produced after a certain date and for expenditures incurred after a certain date.

**Section 36:** Transition provisions related to terms of members of the Oil and Gas Competitiveness Review Board.

**Section 37:** Transition provision providing the Department of Revenue's authority to adopt regulations, to be effective not before the date of the effective date of the provisions of this bill.

**Section 38:** Provisions related to retroactive application of certain sections.

**Section 39:** Sets out provisions effective January 1, 2014.

**Section 40:** Except as provided in section 30, the remaining sections of the bill will take effect immediately under AS 01.10.070(c).

**Departments of Revenue and Law:**

**Sectional Review**

**CSSB 21(RES)**

**28-GS1647\C**

**February 28, 2013**

**Senate Finance Committee**

# Main Provisions

- **Corporate Tax Credit for Qualified Oil and Gas Service Industry Expenditures**

- **Production Tax Rate : 35% flat rate, no progressivity**

- **Tax Credits**

- Eliminates current 20% capital expenditure tax credit for North Slope activities but establishes a North Slope tax credit applicable to production tax liabilities.
- Extends the small producer tax credit and provides a \$5 per barrel of oil tax credit.
- Expands the exploration well tax credit.

- **Gross Value Reduction**

- Establishes 30 percent reduction from the gross value at the point of production for oil and gas produced from new units, new participating areas, and expanded portions of participating areas.

- **Oil and Gas Competitive Review Board**

- **Hold Cook Inlet and Middle Earth harmless**

## **Sec. 2 - Qualified Oil and Gas Industry Service Expenditure Tax Credit**

- Amends AS 43.20, the Alaska Net Income Tax Act, by adding a new section.
- Provides a 10 percent tax credit for qualified oil and gas industry service expenditures incurred in the state.
- A taxpayer may not apply more than \$10,000,000 in tax credits under this section for a tax year regardless of whether the taxpayer earned the tax credit or received the tax credit by transfer.
- Expires if not used against a tax liability within seven calendar years.
- Qualified oil and gas service industry expenditure must be directly attributable to in-state manufacture or modification of tangible personal property that has a useful life of three years or more used in the exploration, development, or production of oil or gas.

## Sec. 3 - Tax Rate

- AS 43.55.011(e) is amended to levy an annual flat tax rate of 35%.
- AS 43.55.011(g), the monthly progressivity tax, is repealed.
- This change applies to oil and gas produced after December 31, 2013.
- Effective date of January 1, 2014.

## **Sec. 1- Community Revenue Sharing Fund**

- Amends AS 29.60.850(b) to change the source of revenue that funds the community revenue sharing fund to AS 43.20.030(c), the Alaska Net Income Tax Act, from progressivity under AS 43.55.011(g) (repealed in this bill).
- Effective date of January 1, 2014

## **Sec. 8 - Qualified Capital Expenditure Tax Credit**

- AS 43.55.023(a)(3) is a new provision limiting the 20% qualified capital expenditure tax credit for expenditures incurred to explore for, develop, or produce oil and gas deposits on the North Slope to expenditures incurred before January 1, 2014.
- Tax credits for expenditures incurred to explore for, develop, or produce oil and gas deposits south of the North Slope are not impacted.
- The full amount of a tax credit certificate may be issued in a single year.

## Sec. 9 - Carried-Forward Tax Credit AS 43.55.023(b)

- Amends AS 43.55.023(b) to retain a tax credit of 25% for a carried-forward annual loss for adjusted lease expenditures incurred **outside of the North Slope**.
- Provides a tax credit of 35% for a carried-forward annual loss for adjusted lease expenditures incurred after December 31, 2013 **on the North Slope**, subject to the requirements in new subsections (p)-(u).

# Sec. 16 - North Slope Carried-Forward Tax Credit

## AS 43.55.023(p) – (u)

- **Key characteristics:**
  - 10 year time limit on use.
  - Must be applied on a first-earned, first used basis.
  - Reporting requirements to the Department of Revenue.
  - May only be used to reduce production tax liability under AS 43.55.011(e), limited transferability, not redeemable for cash.
  - May apply a 15 % annual increase to the 35% tax credit base.
- . **AS 43.55.023(p)** requires producers to file an annual statement with the Department of Revenue under new subsection AS 43.55.030(g) to use the tax credit two years after incurring expenditures. The tax credit may not be used more than 10 calendar years later than the date the expenditures were incurred

## **Sec. 16 - North Slope Carried-Forward Tax Credit : AS 43.55.023(q)**

- “First earned, first used” rule.
- Applies to expenditures after December 31, 2014.
- Assures credits earned in earlier calendar years are used up before later earned credits.

## Sec. 16 - North Slope Carried Forward Tax Credit: AS 43.55.023(r)

- Increases at 15% annually *if* compliance with new AS 43.55.030(g).
- Increase begins January 1<sup>st</sup> of the second calendar year after credit earned.
- Increase stops December 31<sup>st</sup> of calendar year before credit used.
- Increase has *no value except as applied to 43.55 taxes*
- 2015 → 2017 (Increase begins January 1, 2017 *unless* used against 2016 or 2017 taxes).

## **Sec. 16 -North Slope Carried-Forward Tax Credit: AS 43.55.023(s)**

- Implements subsections (p)(1) and (r).
- (s)(1): first apply education tax credit, small producer tax credit, and \$5 per oil barrel tax credit in the new AS 43.55.024(i) .
- (s)(2): subtract positive remainder from tax credits.
- (s)(3): rule to determine if all available tax credits were applied.
- No increase in amount of a tax credit if the producer failed to apply available tax credits.

## **Sec. 16 - North Slope Carried-Forward Tax Credit: AS 43.55.023(t)**

AS 43.55.023(t) provides exceptions to allow for the limited transfer of the tax credit:

- Transfer is limited to a person that acquires an interest in the lease or property upon which the credit is based.
- Transferee's use of credit subject to rules in subsection (u).
- The Department of Revenue must be notified of the transfer.
- Transferee subject to audit by the Department of Revenue.

# Sec. 16 - North Slope Carried-Forward Tax Credit

## AS 43.55.023(u)

- Limits applicable to transferee or successor Company created by acquisition or merger.
- The “total amount” of tax credits “may not exceed 20 percent” of a sum based on
  - $GV \times OS$ 
    - Gross value at the point of production taxable oil and gas produced from the lease or property, and
    - The percentage interest in the lease or property previously owned by the person that incurred the expenditures.

## **Sec. 17 - Small Producer Tax Credit**

- Amends AS 43.55.024(d) to extend the tax credit for small producers (under 50,000 a day average BTU equivalent barrels) by six years, the later of either 2022 or the ninth calendar year after production for production before May 1, 2022.
- The tax credit is not transferable and any unused portion may not be carried forward for use in a later calendar year.

## **Sec. 19 - \$5 Per Oil Barrel Tax Credit**

- Amends AS 43.55.024 by adding a new a tax credit of \$5 for each barrel of oil subject to tax under AS 43.55.011(e) applicable to the producer's tax liability for the year the oil was produced.
- The tax credit is not transferable, any unused portion may not be carried forward for use in a later calendar year and it may not be applied to reduce the producer's tax liability to below zero.

## **Sec. 20 - Alternative Tax Credit for Oil and Gas Exploration**

- The sunset provision in AS 43.55.025(b) is extended from July 1, 2016 to July 1, 2022.
- AS 43.55.025(c), relating to exploration wells, is amended by deleting the 3 mile distance requirement for exploration wells outside Cook Inlet in AS 43.55.025(c)(2)(B).
- New subsection (q) provides expenditures claimed for a tax credit under AS 43.55.025 may not also be claimed for a tax credit under AS 43.55.023 or another provision of AS 43.55.025.

## **Sec. 30 - Gross Revenue Exclusion for North Slope Oil and Gas**

- Provides that for the determination of the annual production tax value of oil and gas produced north of 68 degrees North latitude, that the gross value at the point of production is reduced by 30 percent for the oil or gas:
  - 1) Produced from a lease or property that does not contain a lease that was within a unit as of January 1, 2003;
  - 2) Produced from a participating area established after December 31, 2011 that was within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir previously established in a participating area;
  - 3) Produced from the expanded acreage of an existing participating area that was expanded by the Department of Natural Resources after December 31, 2011 provided the producer demonstrates to the Department of Revenue the volumes of oil and gas produced from the expanded acreage.

# **Oil and Gas Competitiveness Review Board**

## **AS 43.98.040-070**

- AS 43.98.040 Establishes a 9 member board
- Governor designates chair every two years. Governor may replace and remove members.
- Members serve 6 year terms, may be reappointed.
- The Board meets four times a year to review investment, fiscal systems and to identify factors that affect oil and gas investment.
- The Board reports annually to the Legislature with recommendations.
- The Board sunsets December 31, 2022.

# **FISCAL NOTES**

# Fiscal Note

State of Alaska  
2013 Legislative Session

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

Identifier: SB021CS(FIN)-DOR-COMM-03-14-13  
Title: OIL AND GAS PRODUCTION TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Senate Resources

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

**Fund Source (Operating Only)**

1004 Gen Fund	34.6	157.8	182.4	182.4	182.4	182.4	182.4	182.4
<b>Total</b>	<b>34.6</b>	<b>157.8</b>	<b>182.4</b>	<b>182.4</b>	<b>182.4</b>	<b>182.4</b>	<b>182.4</b>	<b>182.4</b>

**Positions**

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

<b>Change in Revenues</b>							
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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:**

Senate Finance Committee Substitute added language requiring an updated fiscal note from Revenue.

Prepared By:	Jerry Burnett, Director	Phone:	(907)465-2312
Division	Administrative Services	Date:	03/14/2013 09:15 AM
Approved By:	Bryan D. Butcher, Commissioner	Date:	03/14/13
	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. SB 21 CS (FIN)

**Analysis**

The bill establishes a nine member Oil and Gas Competitiveness Review Board, in the Department of Revenue, which is charged with 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; evaluating and suggesting changes to state laws and regulations reviewing historical, current, and potential levels of investment in the state's oil and gas sector; 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; 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 required to meet once per year to provide a report by December 1 of each year regarding means for increasing the state's ability to attract and maintain investment in, and development of, the state's oil and gas resources.

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: SB021CS(FIN)-DOR-TAX-03-14-13  
Title: OIL AND GAS PRODUCTION TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Senate 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 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	
<b>OPERATING EXPENDITURES</b>	<b>FY 2014</b>	<b>FY 2014</b>						
Personal Services								
Travel								
Services	100.0							
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

1004 Gen Fund	100.0							
<b>Total</b>	<b>100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time								
Part-time								
Temporary								

<b>Change in Revenues</b>	***	***	***	***	***	***	***	***
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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:**

The Senate Finance Committee substitute made numerous amendments to the previous version, the details of which require lengthy explanation.

Prepared By:	Cherie Nienhuis, Ed King and Dan Stickel	Phone:	(907)269-1019
Division	Tax Division	Date:	03/14/2013 12:10 PM
Approved By:	Bryan D. Butcher, Commissioner	Date:	03/14/13
	Department of Revenue		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB 21(FIN)

### Analysis

**Operating expenditures:** This bill limits the provision that the State of Alaska purchase transferable tax credit certificates for credits earned from leases or properties that contain land that is north of 68 degrees North latitude to credits based on expenditures incurred before January 1, 2014. 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 limitation of this provision would reduce those future appropriations, beginning in FY 2015.

The change to the interest rate for delinquent taxes are expected to require changes to our tax accounting systems to accommodate the changes. We estimate that this change will require 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 amended to conform to changes in eligibility for redeemable tax credits, and to account for repeal of some sections. There may be additional regulations required, but not before January 1, 2014.

**\*\*\*The revenue impact of this bill is an estimate based on 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 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 35% of production tax value for calendar years 2014 - 2016, and then to 33% of production tax value for calendar years 2017 on.** 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 35% of those losses for calendar years 2014 - 2016, and a credit of 33% of those losses for calendar year 2017 and beyond.** 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 \$30 to \$40 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; or (3) is produced from a well that has been accurately metered and measured and the producer demonstrates to the department that the metered well drains a reservoir or portion of a reservoir that DNR has certified was not contributing to production before January 1, 2013. Please see detailed summary table on page 4 of this fiscal note for revenue impacts of this provision.

(Analysis continued on following pages)

**Analysis Continued**

**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.

**7. The community revenue sharing fund is amended to allow the legislature to make an appropriation from any source 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 may be applied against a producer's production tax liability.** The credit is not transferable, cannot be carried forward, and cannot reduce the producer's tax liability to less than zero. The credit is applicable statewide, but we expect that over the time horizon of this fiscal note, the revenue impact will be limited to the North Slope. 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 our 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.

Analysis Continued

Provisions in CSSB21(FIN) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast (\$millions)<sup>1</sup>

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 35% of production tax value for CY14-16, 33% of production tax value for CY17 on	\$550	\$1,075	\$1,100	\$950	\$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 35% for CY14-16, 33% for CY17 on; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
	\$0 to	-\$25 to	-\$25 to	-\$50 to	-\$25 to	-\$50 to
5. Gross revenue exclusion for certain areas and certain new wells	-\$50	-\$175	-\$225	-\$250	-\$225	-\$250
6. Provision requiring credits be taken over 2 years eliminated <sup>2</sup>	-\$250					
7. Amendment to the community revenue sharing fund	\$0	\$0	\$0	\$0	\$0	\$0
8. Allowance of \$5 per taxable barrel	-\$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)					
	Indeterminate (possibly up to -\$25 million annually, increasing over time)					
10. Reduced interest rate for late payments and assessments on most taxes	-\$625 to	-\$575 to	-\$750 to	-\$1100 to	-\$1200 to	-\$1200 to
<b>Total Revenue Impact</b>	<b>-\$725</b>	<b>-\$775</b>	<b>-\$1000</b>	<b>-\$1350</b>	<b>-\$1450</b>	<b>-\$1450</b>
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		-\$40	-\$40	\$40	\$30	\$30
<b>Total Fiscal Impact - does not include potential revenue impacts from potential increases in production<sup>3</sup></b>	<b>-\$775 to</b> <b>-\$875</b>	<b>-\$465 to</b> <b>-\$665</b>	<b>-\$640 to</b> <b>-\$890</b>	<b>-\$990 to</b> <b>-\$1240</b>	<b>-\$1080 to</b> <b>-\$1330</b>	<b>-\$1080 to</b> <b>-\$1330</b>

<sup>1</sup>The 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.

<sup>2</sup>Provision 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.

<sup>3</sup>NOTE: "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. CSSB 21(FIN)**

**Analysis Continued**

**Differences in General Fund Unrestricted Revenue under CSSB21(FIN) 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	\$75	\$325	\$250	\$25	-\$150	-\$150
\$100	-\$100	\$50	-\$50	-\$300	-\$450	-\$425
\$120	-\$625	-\$925	-\$975	-\$1,250	-\$1,375	-\$1,300

**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	\$75	\$325	\$250	\$25	-\$125	-\$125
\$100	-\$100	\$50	-\$50	-\$275	-\$425	-\$400
\$120	-\$625	-\$925	-\$975	-\$1,250	-\$1,375	-\$1,250

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	\$100	\$450	\$475	\$325	\$325	\$250
\$100	-\$50	\$225	\$250	\$75	\$100	\$25
\$120	-\$550	-\$650	-\$575	-\$750	-\$700	-\$700

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. One half of this oil is assumed to qualify for the GRE under the provisions of the CS (FIN)

**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
\$90	\$0	\$300	\$425	\$425	\$900	\$825
\$100	-\$150	\$100	\$250	\$250	\$775	\$700
\$120	-\$625	-\$700	-\$475	-\$400	\$200	\$200

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, all 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.

# Fiscal Note

State of Alaska  
2013 Legislative Session

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

Identifier: SB021CS(FIN)-DNR-DOG-3-12-13  
Title: OIL AND GAS PRODUCTION TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Senate 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
<b>OPERATING EXPENDITURES</b>	<b>FY 2014</b>	<b>FY 2014</b>					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

<b>Change in Revenues</b>	***	***	***	***	***	***	***
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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:**

A committee substitute was adopted by the Senate Finance Committee and this analysis contains changes pertinent to the Department of Natural Resources. Section 37 amends the gross revenue exclusion from 30% of the gross value at the point of production to 20% of the gross value at the point of production for 10 years following the commencement of production from the well. CSSB21(FIN) also amends the criteria and further discussion follows in the analysis section below.

Prepared By:	William C. Barron	Phone:	(907)269-8800
Division	Oil and Gas	Date:	03/12/2013 05:00 PM
Approved By:	Daniel S. Sullivan, Commissioner	Date:	03/12/13
	Department of Natural Resources		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB21(FIN)

### Analysis

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.

CSSB21(FIN) 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.

Section 30 amends the gross revenue exclusion (GRE) from 30% of the gross value at the point of production to 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 a well that has been accurately metered and measured by the operator to the satisfaction of the commissioner, and the producer demonstrates to DNR that the well drains a reservoir or portion of a reservoir that DNR has certified was not contributing to production before January 1, 2013 and the producer demonstrates that the volume produced was subject to certification by DNR. 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. 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: CSSB 21(RES)  
Fiscal Note Number: 3  
(S) Publish Date: 2/28/13

Identifier: SB021CS(RES)-DOR-COMM-02-26-13  
Title: OIL AND GAS PRODUCTION TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Senate Resources

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 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates					
			FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
<b>OPERATING EXPENDITURES</b>								
Personal Services		157.8	157.8	157.8	157.8	157.8	157.8	157.8
Travel	18.6		36.7	36.7	36.7	36.7	36.7	36.7
Services	835.0		835.0	835.0	835.0	835.0	835.0	835.0
Commodities	50.0		20.0	20.0	20.0	20.0	20.0	20.0
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>903.6</b>	<b>157.8</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>

**Fund Source (Operating Only)**

1004 Gen Fund	903.6	157.8	1,049.5	1,049.5	1,049.5	1,049.5	1,049.5	1,049.5
<b>Total</b>	<b>903.6</b>	<b>157.8</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>	<b>1,049.5</b>

**Positions**

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

<b>Change in Revenues</b>							
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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:**

Initial version. Committee substitute added language requiring an additional fiscal note from Revenue.
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Prepared By: Jerry Burnett, Director  
Division: Administrative Services  
Approved By: Bryan D. Butcher, Commissioner  
Department of Revenue

Phone: (907)465-2312  
Date: 02/26/2013 09:15 AM  
Date: 02/26/13

FISCAL NOTE ANALYSIS #3

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB 21(RES)

**Analysis**

The bill establishes a nine member Oil and Gas Competitiveness Review Board, in the Department of Revenue, which is charged with 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; evaluating and suggesting changes to state laws and regulations reviewing historical, current, and potential levels of investment in the state's oil and gas sector; 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; 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 required to meet at least four times per year and to provide a report by December 1 of each year regarding means for increasing the state's ability to attract and maintain investment in and development of the state's oil and gas resources.

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 and funding for professional services contracts.

The fiscal note assumes four board meetings per year, two in Anchorage, one each in Juneau and Fairbanks.

Professional service costs are estimated based on previous consulting contracts for oil and gas related issues that have been executed by the Department of Revenue.

# Fiscal Note

State of Alaska  
2013 Legislative Session

Bill Version: CSSB 21(RES)  
Fiscal Note Number: 4  
(S) Publish Date: 2/28/13

Identifier: SB021CS(RES)-DOR-TAX-02-26-13  
Title: OIL AND GAS PRODUCTION TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Senate Resources

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

**Fund Source (Operating Only)**

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time								
Part-time								
Temporary								

<b>Change in Revenues</b>	***	***	***	***	***	***	***	***
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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:**

Version N. Committee substitute made amendments to the previous version, the details of which require lengthy explanation.

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: 02/26/2013 08:00 AM  
Date: 02/26/13

FISCAL NOTE ANALYSIS #4

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB 21(RES)

Analysis

**Operating expenditures:** This bill limits the provision that the State of Alaska purchase transferable tax credit certificates for credits earned from leases or properties that contain land that is north of 68 degrees North latitude to credits based on expenditures incurred before January 1, 2014. 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 limitation of this provision would reduce those future appropriations, beginning in FY 2015.

**Regulations:** The bill does not direct DOR to adopt new regulations to implement its provisions, but existing regulations may need to be amended to conform to changes in eligibility for redeemable tax credits, and to account for repeal of some sections. There may be additional regulations required, but not before January 1, 2014.

**\*\*\*The revenue impact of this bill is an estimate based on 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 January 1, 2014, with the exception of provision 7, 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 35% 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 35% of those losses to be carried forward for a maximum period of ten years. These net loss carry-forwards will increase at an annual rate of 15% beginning on January 1 of the second calendar year following the year of the loss.** The revenue impact of this provision is confidential under our forecast, however, the impact is expected to be minimal.
- 5. A gross revenue exclusion (GRE) of 30% of the gross value at the point of production is applicable to production from certain areas.** 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 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 been in a participating area established before December 31, 2011; or (3) is produced from an area not in a participating area prior to December 31, 2011 and added to an existing participating area DNR after December 31, 2011. This provision is intended to incentivize future production and the revenue impact of this provision based on the current production forecast is indeterminate.
- 6. 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 is minimal.
- 7. 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)

FISCAL NOTE ANALYSIS #4

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB 21(RES)

**Analysis Continued**

**8. The community revenue sharing fund is amended to allow the legislature to make appropriations from the tax revenue collected under AS 43.20, as opposed to revenue collected under AS 43.55.011(g).** The impact of this provision is indeterminate.

**9. An allowance of \$5 per taxable barrel may be applied against a producer's production tax liability.** The allowance is not transferable, cannot be carried forward, and cannot 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.

**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. Any amount of the credit that exceeds the taxpayer's liability under AS 43.20 may be carried forward for up to seven years or transferred. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may range from -\$50 million to -\$100 million annually. The revenue impact of this provision is indeterminate.

**11. 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 annually on proposed changes to the state's oil and gas fiscal regime.

**12. The exploration incentive credit at AS 43.55.025(b) has been extended to 2022 and the requirements regarding proximity to other wells has been repealed.** We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may range up to -\$100 million annually. The revenue impact of this provision is indeterminate.

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

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 35% of production tax value	\$550	\$1,075	\$1,100	\$1,075	\$1,025	\$975
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 35%, carried forward and increased at 15% per year	Indeterminate up to -\$50 million annually under Fall 2012 forecast					
5. Gross revenue exclusion for certain areas						
6. Small producer credit extended to 2022	\$0	\$0	\$0	-\$25	-\$25	-\$50
7. Provision requiring credits be taken over 2 year eliminated <sup>2</sup>	-\$250	\$0	\$0	\$0	\$0	\$0
8. Amendment to the community revenue sharing fund	Indeterminate					
9. Allowance of \$5 per taxable barrel	-\$425	-\$825	-\$775	-\$750	-\$700	-\$675
10. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly -\$50 million to -\$100 million annually)					
11. Oil and Gas Competitiveness Review Board	\$0	\$0	\$0	\$0	\$0	\$0
12. Exploration incentive credit extended to 2022; requirements changed <sup>3</sup>	Indeterminate (possibly up to -\$100 million annually)					
<b>Total Revenue Impact</b>	<b>-\$650 to -\$750</b>	<b>-\$600 to -\$800</b>	<b>-\$775 to -\$975</b>	<b>-\$1000 to -\$1200</b>	<b>-\$1025 to -\$1225</b>	<b>-\$1050 to -\$1250</b>
Impact on Operating Budget of Limitation of qualified capital expenditures for North Slope <sup>4</sup>	-\$150	\$250	\$250	\$250	\$250	\$250
<b>Total Fiscal Impact<sup>4</sup></b>	<b>-\$800 to -\$900</b>	<b>-\$350 to -\$550</b>	<b>-\$525 to -\$725</b>	<b>-\$750 to -\$950</b>	<b>-\$775 to -\$975</b>	<b>-\$800 to -\$1000</b>

<sup>1</sup>The 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.

<sup>2</sup>Provision 7 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.

<sup>3</sup>Provision 12 above, which extends and changes requirements for exploration incentive credits, would increase both credits applied against tax liability and credits available for refund. To simplify presentation, the entire impact is shown here as a revenue impact.

<sup>4</sup>"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.

FISCAL NOTE ANALYSIS #4

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB 21(RES)

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 impact from the **change in tax rates, capital and NOL credits, and per-barrel allowance only** and do not attempt to quantify impacts of other parts of the bill, such as the removal of the credit split, the impact on the long-range budget, changes to exploration credits, or the new service industry credit. **All estimates shown here are produced using a scenario model that may provide slightly different numbers than the full revenue model, although all numbers fall within reasonable bounds of acceptable error.**

**At Forecasted Production**

Oil Price in \$/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	\$25	\$275	\$225	\$125	\$0	\$0
\$100	-\$125	-\$25	-\$50	-\$175	-\$275	-\$250
\$120	-\$675	-\$975	-\$1,025	-\$1,125	-\$1,150	-\$1,075

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	\$25	\$275	\$225	\$125	\$25	\$25
\$100	-\$125	-\$25	-\$50	-\$175	-\$250	-\$225
\$120	-\$675	-\$975	-\$1,025	-\$1,100	-\$1,125	-\$1,050

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
\$90	\$75	\$450	\$500	\$475	\$550	\$475
\$100	-\$75	\$200	\$275	\$275	\$375	\$300
\$120	-\$600	-\$700	-\$575	-\$525	-\$325	-\$400

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day declining at 9% 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

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
\$90	-\$25	\$350	\$525	\$700	\$1,325	\$1,225
\$100	-\$150	\$150	\$375	\$575	\$1,250	\$1,175
\$120	-\$650	-\$650	-\$325	-\$25	\$825	\$750

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: CSSB 21(RES)  
Fiscal Note Number: 5  
(S) Publish Date: 2/28/13

Identifier: SB021CS(RES)-DNR-DOG-2-27-13  
Title: OIL AND GAS PRODUCTION TAX  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Senate 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 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates					
			FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time								
Part-time								
Temporary								

<b>Change in Revenues</b>	***	***	***	***	***	***	***	***
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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:**

A committee substitute was adopted by the Senate Resources Committee. Sections 19 and 20 were added that modify AS43.55.025 relating to the Exploration Incentive Credit.

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

Phone: (907)269-8800  
Date: 02/27/2013 10:00 AM  
Date: 02/27/13

FISCAL NOTE ANALYSIS #5

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB 21(RES)

**Analysis**

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.

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.

Section 19 of CSSB21(RES) extends the sunset date of the exploration incentive credit from 2016 to 2022. Section 20 eliminates the 3 mile exclusion zone around pre-existing wells and the Division of Oil and Gas would be responsible for assessing whether or not the wells drilled are in a separate trap. DNR anticipates that there will be more wells that would qualify for the 30 percent or 40 percent credit with the removal of this 3 mile zone.

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 #5

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. CSSB 21(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

## Slides – CSSB21(RES)

*For Presentation to the  
Senate Finance Committee*

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*March 1, 2013*



# Introduction



1. 12 key provisions analyzed
2. Total fiscal impact under Fall 2012 forecast
3. Hypothetical additional production scenarios



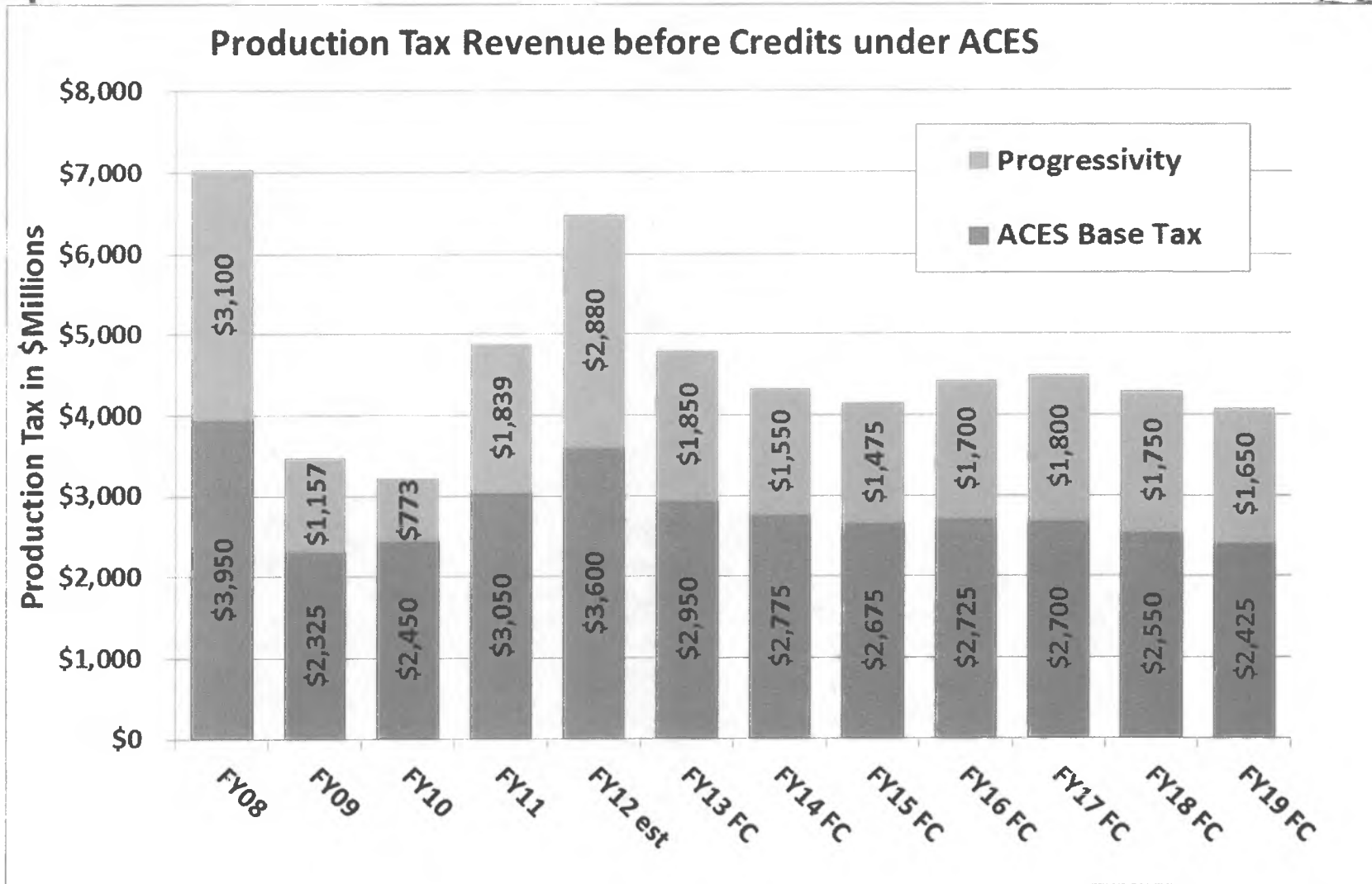
# 1. Repeals progressive surcharge



- Progressive surcharge at AS 43.55.023(g) repealed
- Progressive surcharge is an additional tax that is added to base tax
- Progressive surcharge increases tax rate at production tax values of greater than \$30 / barrel
- Progressive surcharge may add up to 50% to the total tax rate at very high prices for a maximum total tax rate of 75%
- Fiscal Impact = varies by fiscal year, up to \$1.8 billion per year under our Fall 2012 forecast



# Impact of Progressive Surcharge





## 2. Increases base production tax rate



- Base tax rate increased to 35% from 25% under ACES
- Base tax rate of 35% applied to production tax value
- The higher base tax rate increases revenue from the base tax
- The higher base tax rate provides greater protection to the state at low oil prices
- Fiscal Impact = varies by fiscal year, up to \$1.1 billion per year under our Fall 2012 forecast



### 3. Limitations on capital credits



- Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 for the North Slope
- 20% capital credit eliminated for North Slope after 1/1/2014 (replaced with new mechanisms that incentivize production, not spending).
- ACES provisions are unchanged for Cook Inlet and Middle Earth and they retain 20% capital credit
- Since capital credits are taken against liability or refunded, fiscal impact is on both revenue and budget
- Likely fiscal impact is summarized on next slide



## 4. Changes to Net Operating Loss credit



- Companies that incur net losses from leases or properties on the North Slope will earn a credit of 35% of those losses.
  - May be carried forward for a 10-year maximum period.
  - Net loss carry-forwards will increase at an annual rate of 15% beginning on January 1 of the second calendar year following the year of the loss.
  - Taxpayer must have production and tax liability to use credit – not refundable
- The revenue impact of this provision is confidential under our forecast, however,
  - Impact is expected to be minimal.
- In an increased development or low price scenario, protects state because NOLs can't be refunded.



# Estimated Fiscal Impact for limitations on credits as compared to Fall 2012 Forecast (\$millions)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
NS capital credits against tax liability	\$300	\$700	\$650	\$550	\$475	\$400
NS credits for refund	\$0	\$250	\$250	\$250	\$250	\$250
<b>Total Fiscal Impact</b>	<b>\$300</b>	<b>\$950</b>	<b>\$900</b>	<b>\$800</b>	<b>\$725</b>	<b>\$650</b>

Note: these are positive fiscal impacts. NS credits for refund includes both capital and NOL credits refunded.



## 5. Establishes Gross Revenue Exclusions



- Excludes a 30% of gross revenue, from taxable value for qualifying production
- Cannot reduce tax liability below zero
- Qualifying production is any of the following:
  - Land was not in a unit on 1/1/2003
  - New PA, in units formed before 1/1/2003
  - Area added to an existing PA after 12/31/2011
- CSSB21(RES) increased GRE from 20% to 30%, and added the expansion of an existing PA to qualifying production
- Fiscal Impact = Indeterminate, under \$50 million / year under Fall 2012 forecast
- GRE benefit would apply almost entirely to “New Production” not currently in our forecast



## 6. Extends small producer credit



- 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 to 2022.
- The revenue impact based on the current revenue forecast is minimal.



## 7. Eliminates requirement that credits be taken over two years



- Capital credits and Net Operating Loss credits earned had to be split across two years under ACES
- This provision allows credits to be used in the year they were earned
- This provision aligns credit treatment on the North Slope with credit treatment in all other parts of the state
- Fiscal impact is neutral – simply shifts a future obligation to FY14.
- \$400 million total obligation shifted to FY14: \$250 million revenue impact; \$150 million operating budget impact



## 8. Changes funding for community revenue sharing



- The community revenue sharing fund is amended to allow the legislature to make appropriations from the tax revenue collected under AS 43.20, as opposed to revenue collected under the provision that is proposed to be repealed - AS 43.55.011(g).
- Corporate income tax revenue under AS 43.20 is adequate to provide the maximum annual appropriation of \$60 million or the amount to bring the fund up to \$180 million.
  - Corporate income tax has exceeded \$500 million every year for the last 8 years.
- Provision substitutes eliminated revenue source for appropriations, with another adequate source.



## 9. Establishes per oil barrel tax credit



- \$5 credit against tax liability for each taxable oil barrel produced
  - Ties credit to production
  - Cannot be saved, does not accrue interest, is not transferable
  - Removes regressive nature of tax system
  - Specifies barrel of “oil”
- Likely fiscal impact is summarized on next slide



# Estimated Fiscal Impact for \$5 per oil barrel allowance as compared to Fall 2012 Forecast (\$millions)



<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>-\$425</b>	<b>-\$825</b>	<b>-\$775</b>	<b>-\$750</b>	<b>-\$700</b>	<b>-\$675</b>



## 10. Creates service industry expenditures credit



- New Corporate Income Tax Credit for oil and gas service companies
- Credit is 10% of qualifying in-state expenditures:
  - Manufacturing of oil and gas equipment
  - Modification of oil and gas equipment
  - For in-state spending only
- Maximum \$10 million per taxpayer per year, transferrable
- This provision was added in CSSB21(RES)
  
- Fiscal Impact = Indeterminate
- Difficult to estimate due to lack of data
- If \$500 million to \$1 billion of qualifies ...
- Impact could be \$50 to \$100 million / year



## 11. Establishes Competitiveness Review Board



- New state board within DOR
- 9 member board, 4 meetings per year
- Tasked with collecting and evaluating data on oil and gas development, and providing annual report to Legislature on proposed changes to fiscal system
- Fiscal Impact = Estimated at \$1.05 million / year
- Not included in Tax fiscal note – separate Commissioner’s office fiscal note
- Represents costs for travel, use of existing staff, and engaging an oil and gas consultant on an ongoing basis



## 12. Extends and expands exploration credit



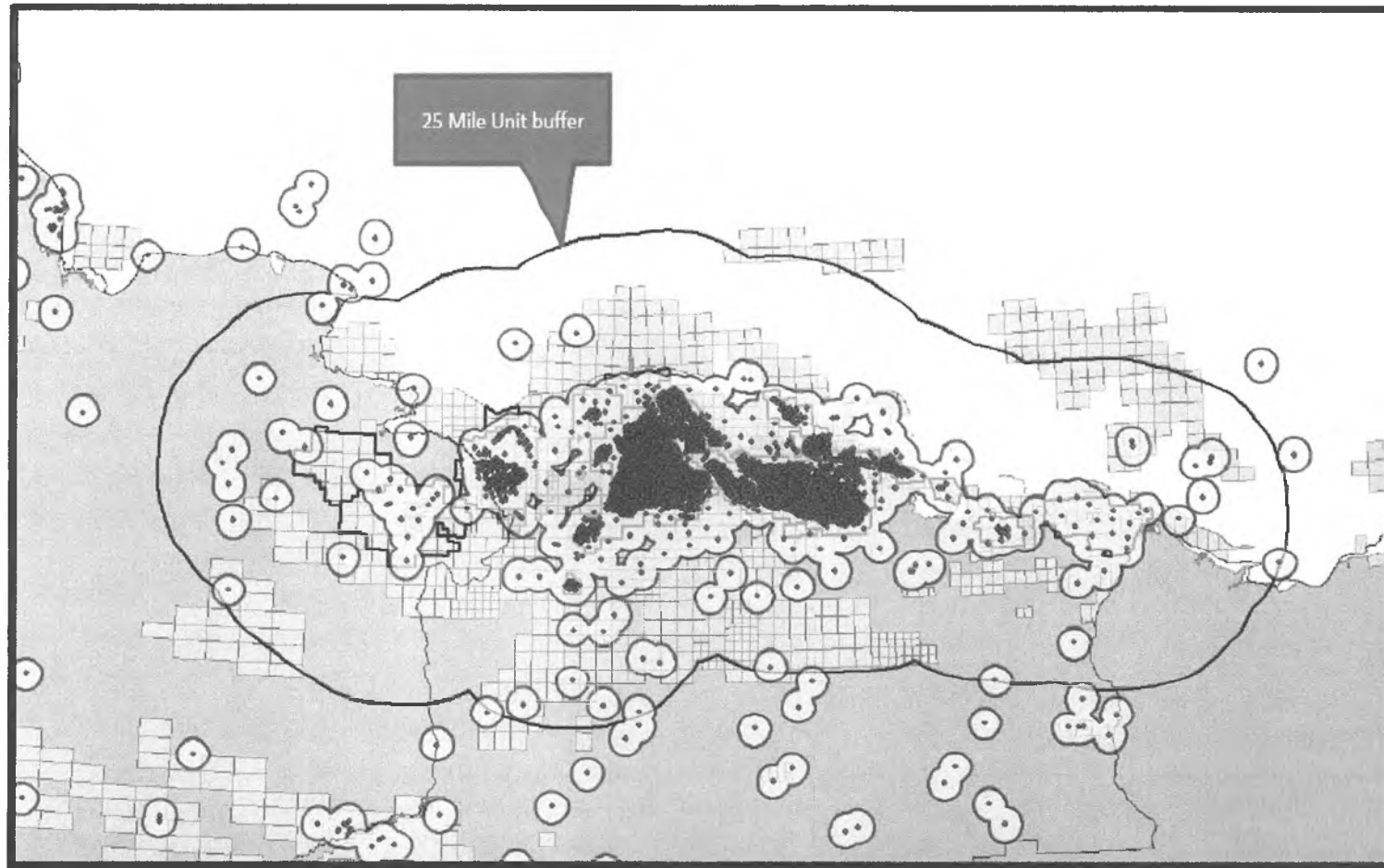
- Explanation:
  - Removes requirement that well be 3 miles from existing well to qualify for credit
  - New exploration can earn 30% of expenses if within 25 miles of existing unit
    - Must be a new target pre-approved by DNR
    - 40% of expenses if 25 miles outside existing unit
  - Credit is transferable
  - Cannot take this credit along with NOL credit
- Fiscal Impact = Indeterminate (up to \$100M per year in current forecast)



# Expanded exploration credit allows additional wells to qualify



AS 43.55.025 Limitations - 25 Mile Unit Buffer With 3 Mile Well Buffer



**Provisions in CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast (\$millions)<sup>1</sup>**

<b>Brief Description of Provision</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>1. Elimination of progressive portion of tax</b>	-\$800	-\$1,500	-\$1,700	-\$1,800	-\$1,750	-\$1,650
2. Base tax rate changed to 35% of production tax value	\$550	\$1,075	\$1,100	\$1,075	\$1,025	\$975
<b>3. Limitation of credits for qualified capital expenditures for North Slope</b>	\$300	\$700	\$650	\$550	\$475	\$400
4. Net operating loss credit rate increased to 35%, carried forward and increased at 15% per year	Indeterminate up to -\$50 million annually under Fall 2012 forecast					
5. Gross revenue exclusion for certain areas						
<b>6. Small producer credit extended to 2022</b>	\$0	\$0	\$0	-\$25	-\$25	-\$50
<b>7. Provision requiring credits be taken over 2 year eliminated<sup>2</sup></b>	-\$250	\$0	\$0	\$0	\$0	\$0
<b>8. Amendment to the community revenue sharing fund</b>	Indeterminate					
9. Allowance of \$5 per taxable barrel	-\$425	-\$825	-\$775	-\$750	-\$700	-\$675
10. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly -\$50 million to -\$100 million annually)					
11. Oil and Gas Competitiveness Review Board	\$0	\$0	\$0	\$0	\$0	\$0
12. Exploration incentive credit extended to 2022; requirements changed <sup>3</sup>	Indeterminate (possibly up to -\$100 million annually)					
<b>Total Revenue Impact</b>	-\$650 to -\$750	-\$600 to -\$800	-\$775 to -\$975	-\$1000 to -\$1200	-\$1025 to -\$1225	-\$1050 to -\$1250
<b>Impact on Operating Budget of Limitation of qualified capital expenditures for North Slope<sup>4</sup></b>	-\$150	\$250	\$250	\$250	\$250	\$250
<b>Total Fiscal Impact<sup>4</sup></b>	-\$800 to -\$900	-\$350 to -\$550	-\$525 to -\$725	-\$750 to -\$950	-\$775 to -\$975	-\$800 to -\$1000

Gray shading indicates provisions that were unchanged from SB21 as introduced.

<sup>1</sup>The 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.

<sup>2</sup>Provision 7 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.

<sup>3</sup>Provision 12 above, which extends and changes requirements for exploration incentive credits, would increase both credits applied against tax liability and credits available for refund. To simplify presentation, the entire impact is shown here as a revenue impact.

<sup>4</sup>"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.



# Production Scenarios



## Scenario A:

- New 50 Million barrel field developed by small producer without tax liability
- Peak production = 10,000 bbls/day
- Development costs = \$500,000,000
- Qualifies for GRE and NOL



# Production Scenarios



## Scenario B:

- Operators of existing units add 4 drill rigs to current plans
- Each rig adds 4,000 bbls/day in new production each year
  - Which each then decline at 15% per year
- Does not qualify for GRE



## Production Scenarios



### Scenario C:

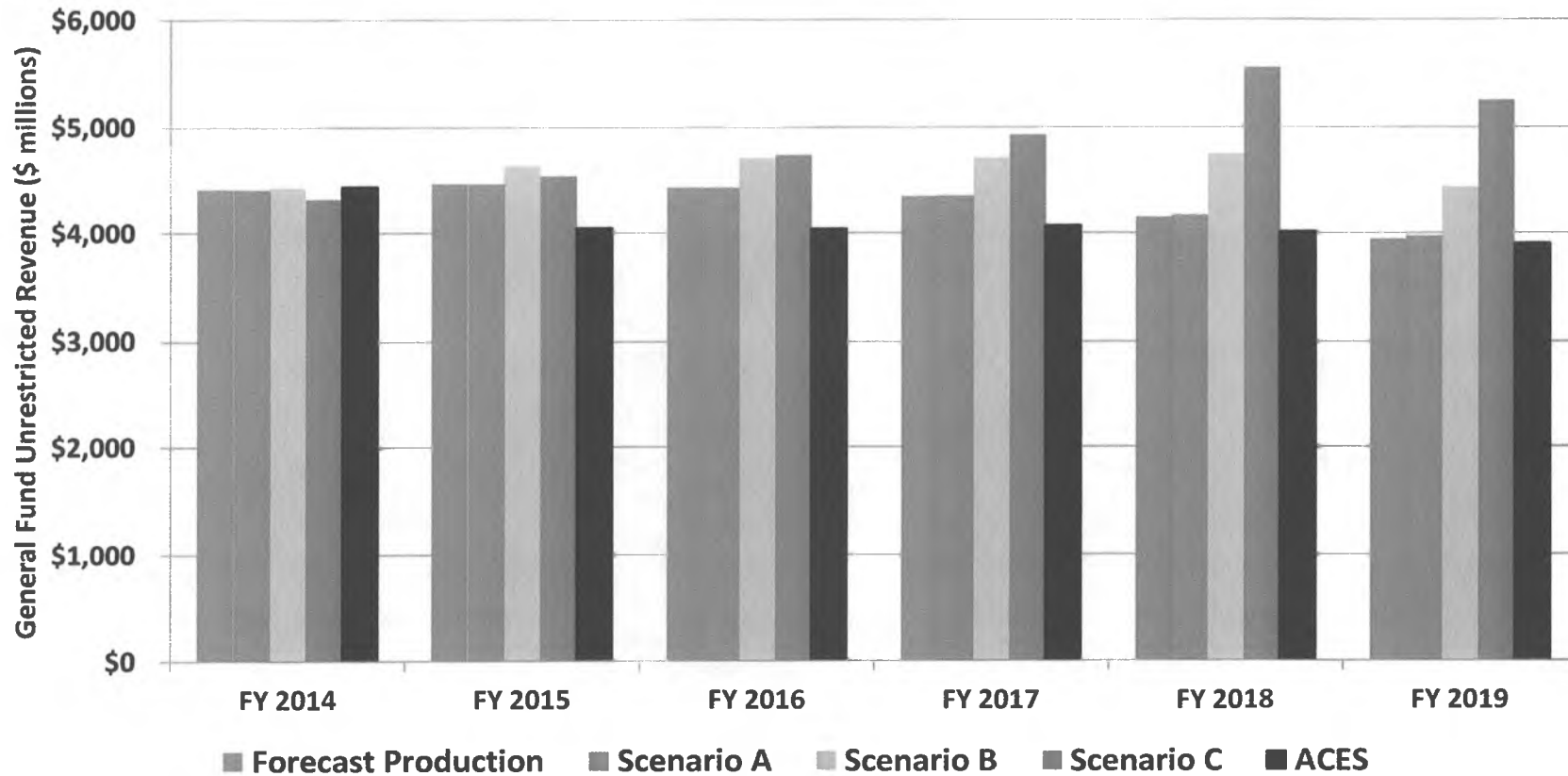
- Operator of existing legacy unit builds new drill pad
- Development cost = \$5 billion
- Adds 15,000 bbls/day in 2014 increasing to peak rate of 90,000 bbls/day in 2018
- Does not qualify for GRE



# Projected revenues under production scenarios – at \$90 / barrel ANS



At \$90



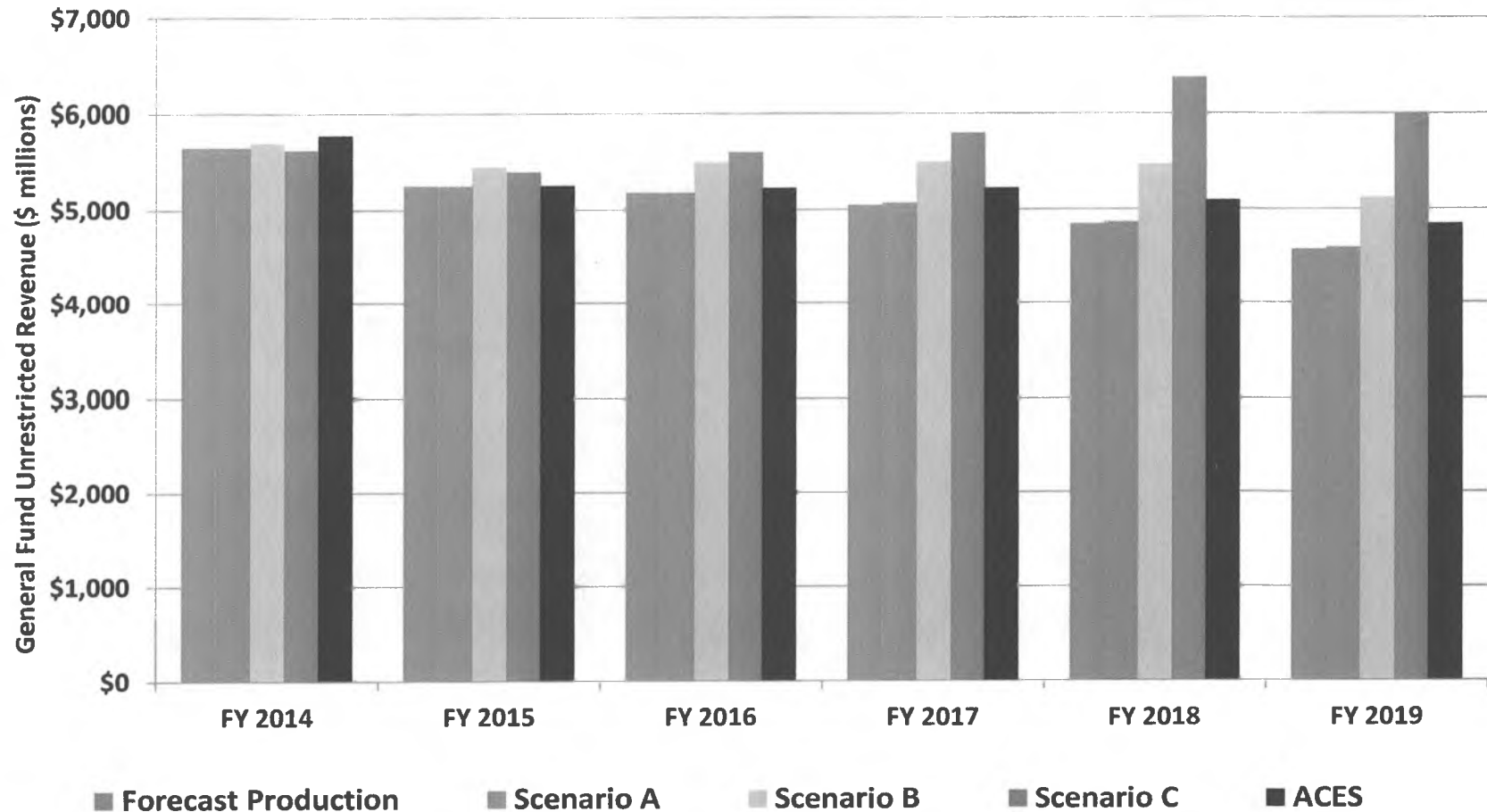
Note: Compares CSSB21(RES) under several production scenarios, to ACES under forecast production.



# Projected revenues under production scenarios – at \$100 / barrel ANS



At \$100



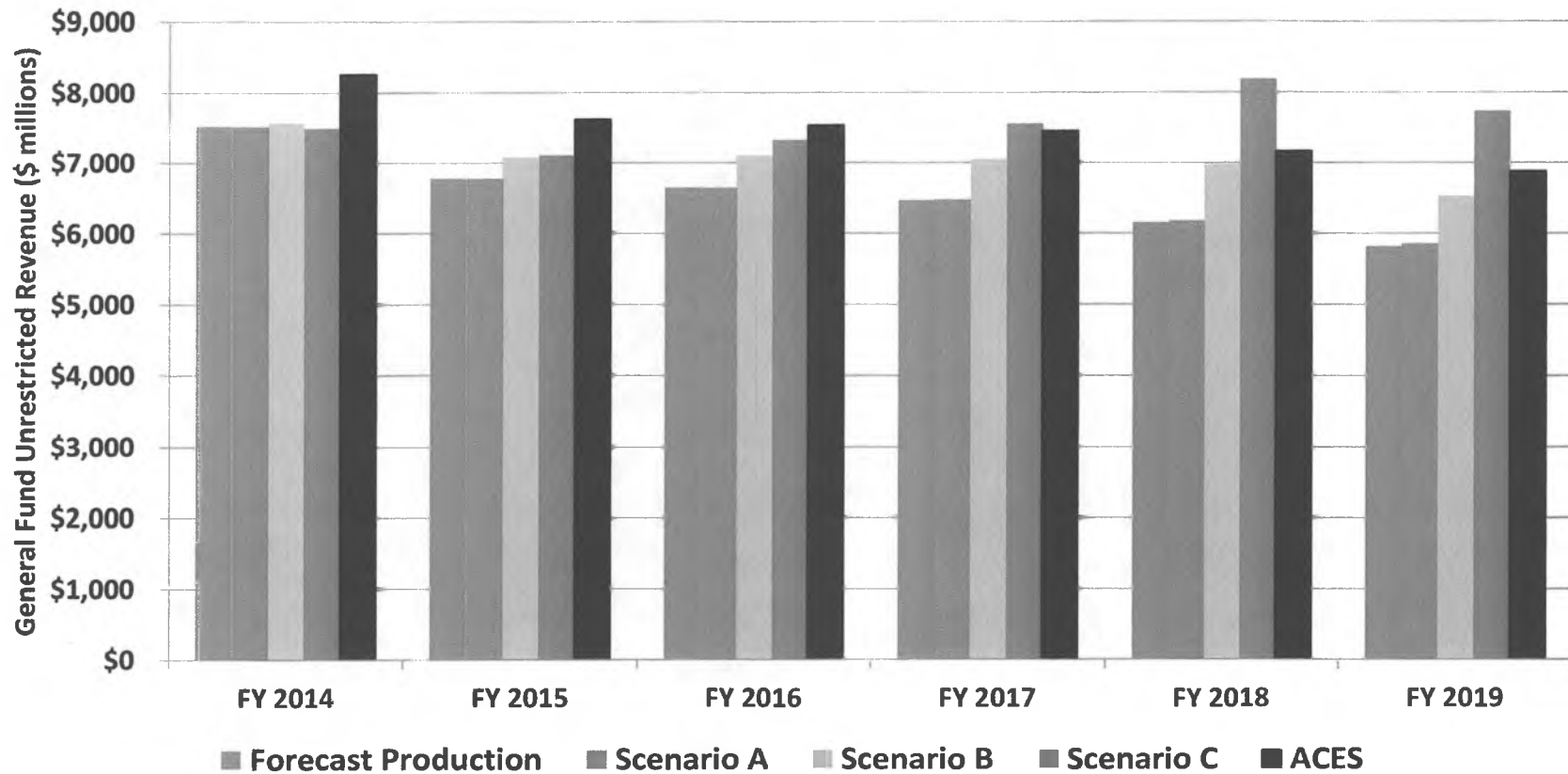
Note: Compares CSSB21(RES) under several production scenarios, to ACES under forecast production.



# Projected revenues under production scenarios – at \$120 / barrel ANS



At \$120



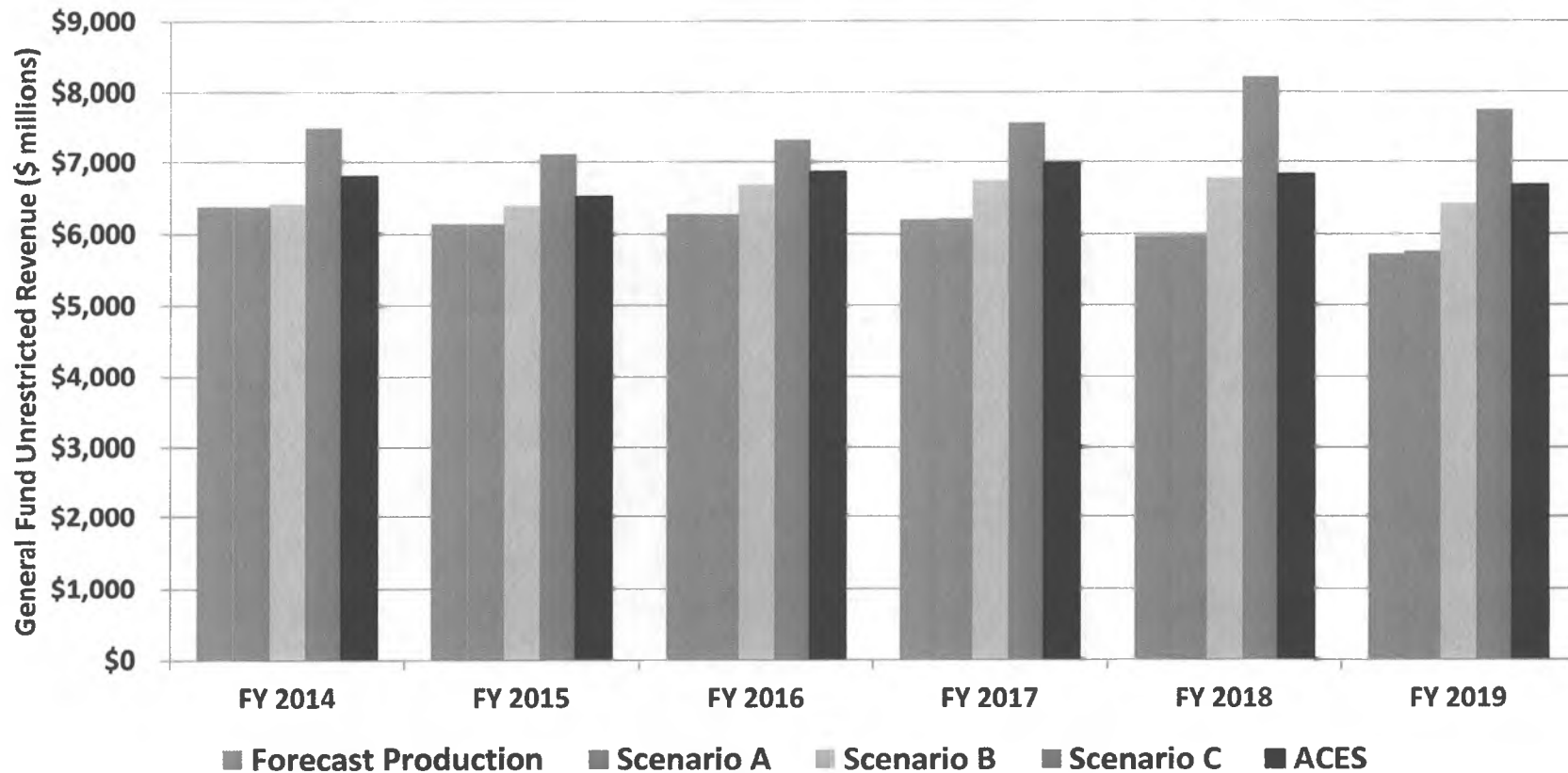
Note: Compares CSSB21(RES) under several production scenarios, to ACES under forecast production.



# Projected revenues under production scenarios – at forecast ANS price



At Forecast Price



Note: Compares CSSB21(RES) under several production scenarios, to ACES under forecast production.



# Thank You

# **LETTERS/SUPPORT**

3521 Andree Drive  
Anchorage, AK 99517

March 6, 2013

**RE: Testimony to Senate Finance Committee on CS for SB 21**

Madame Chair and Senators of the Finance Committee:

My name is Peter J. Stokes a professional petroleum engineer working for Petrotechnical Resources of Alaska. I serve on the Board of the Alliance and Chair of the UAF's CEM Advisory and Development Council.

I live and work in Anchorage.

I am testifying on behalf of myself, my wife, and the future of my 3 offspring who work in Anchorage and my 2 grandsons.

Thank you for your service and for letting me and others of the public testify on this important piece of oil tax reform that is needed to increase investment and new production in Alaska.

I grew up on the Kenai Peninsula, went to college in Fairbanks and have worked in oil and gas, starting in Alaska, with jobs in other states and overseas and working for the last 10 years in Anchorage.

I support the Governor's concepts to make Alaska more competitive in attracting increase investments to increase Alaska North Slope production and I urge passage of legislation to make meaningful reforms this year.

In 2007, ACES was passed and it resulted in extracting much higher taxes. At these high tax rates, we all have seen that it made the state very uncompetitive for attracting new investment and thus has increased annual declines through the pipeline.

CS for Senate Bill 21 is a good start to achieve this goal, especially the elimination of progressivity but modifications should include:

- 1) Design tax rate with GRE and credits to allow for a 62-63% government take for all price ranges to make Alaska investments attractive. I think PFC Energy and Roger Marks can work with Econ One and the departments of Revenue and Natural Resources to design this system.
- 2) Be sure to incentivize development for new production within existing PA's that won't be recovered without new investments. These existing PA's are the areas that can bring the quickest and largest increases in new production.
- 3) Keep the exploration credit modification in place that allows new explorers to continue to explore.

In summary, I applaud you in your efforts to allow Alaska to become more competitive in investments for new oil production for both explorers and existing producers. Without new exploration and the continued development of new production within existing PA's, the efforts to lower or flatten production decline will likely not occur.

Madame Chair and Senators, thank you again for all of your efforts.

## Doniece Gott

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**From:** LIO Anchorage  
**Sent:** Thursday, March 07, 2013 9:37 AM  
**To:** Senate Finance Committee  
**Cc:** chrisosowski@msn.com  
**Subject:** FW: Please revise ACES... and "stimulate meaningful new production" efforts

---

**From:** Chris Osowski [<mailto:chrisosowski@msn.com>]  
**Sent:** Thursday, March 07, 2013 9:32 AM  
**To:** [anchorage\\_lio@legis.state.ak.us](mailto:anchorage_lio@legis.state.ak.us)  
**Subject:** Please revise ACES... and "stimulate meaningful new production" efforts

Hello,

My name is Chris Osowski and I am as "Alaskan" as they come. I love the environment, I love the wilderness, and 4 generations of my family live here. I was raised on a family income provided by responsible north slope oil production. I've raised my family on the same. I, and the people I work with at ConocoPhillips care about being good neighbors, good stewards of the environment, and good-faith business partners with the State of Alaska.

I know loud and clear the vast amount of money necessary to provide modern services and opportunities for our rural residents and that nearly 100% of the states income is from production royalties and tax. And I konw first and that the facility I work at only 10 years ago had to run four shipping pumps to keep up with our oil production and today can easily get by with only one.

I also see the oil companies trend in seeking oil in federal waters, partly (I believe) because at this point, dealing with the federal govt is hardly any worse than dealing with the state.

We need to encourage them to produce off lands we will get our royalty from... We all know ACES was passed with a far more punitive structure than even originally proposed, a punishment due to atrocities committed by a contractor to the major oil companies... yet the reasonable ones among us know that the man similarly took advantage of our company too. Punishing the major oil companies was the wrong answer, a fair tax would have continued to stimulate their investment, AND generated MORE income for the State in the long run, than this flash in the pan, overly punitive, restrictive structure we passed under such emotional influences.

Please fix ACES, please show we Alaskans believe "Fair and Equitable" works both ways in honorable business relationships, show the world that "mutually beneficial business relationships" can and do work.

Thanks,

Chris Osowski  
12821 Nora Drive  
Anchorage, Alaska 99515  
907-250-1235



**Repsol E&P USA Inc.**

**Statement on Proposed Alaska Senate Bill CS SB 21 (RES.)**

**To the Senate Finance Committee**

**March 6, 2013**

Repsol E&P USA Inc. is the US upstream operating subsidiary of Repsol S.A., an integrated international oil and gas company headquartered in Madrid, Spain, with exploration and production activities in 31 countries worldwide. It is now the 15th largest petroleum refining company in the world according to the Fortune Global 500 list, and employs over 25,000 people worldwide.

Repsol strongly supports Governor Parnell's efforts to improve the investment climate for the North Slope and endorses CS SB 21 (RES.) (the "Bill"). We welcome the opportunity to present this statement of our views and opinions of CS SB 21 (RES.). This statement reflects the specific views of Repsol based on its own perspective as a new entrant to the North Slope that is engaged in the discovery and development of new fields in Alaska.

The most salient aspect in our view, and one that is shared with our co-members of AOGA and much of the rest of Alaska, is the undeniable decline in production from Alaska's North Slope and the negative impact that this will have on the continued viability of what is arguably currently one of Alaska's main assets, TAPS, the Trans-Alaska Pipeline System. Regardless of one's view of how long TAPS can continue to operate without action to increase production, the tremendous negative impact of the loss of TAPS cannot be denied. The State must actively seek ways to encourage additional production.

*Repsol E&P USA Inc.  
2001 Timberloch Suite 3000  
The Woodlands, TX 77380  
Tel: 832-442-1000  
[www.repsol.com](http://www.repsol.com)*

Repsol is a new player on the North Slope. We came to the North Slope in 2011, after many years of reviewing numerous opportunities and turning them down. We considered the North Slope to be an especially promising area that has shown to be oil rich and with lower exploratory risk than other regions. It is an area that met Repsol's objectives to balance our exploration portfolio with lower risk, in onshore oil opportunities in a stable environment, preferably in OECD countries. Offsetting these positive aspects were the extreme climate, and a short exploration season in a remote, expensive and environmentally sensitive area with little established infrastructure. The biggest negative factor, however, was a tax system that did not encourage long-term investment. Repsol has invested in offshore Alaska, both in the federal waters of the Beaufort Sea where we have interests in 71 blocks and the Chukchi Sea where we have 93 blocks. However, with regards to investment in onshore state lands, we found that in all but the best scenarios, the progressive nature of the ACES petroleum tax structure did not allow for returns that were competitive with opportunities in the lower forty-eight states or other parts of the world.

This view changed in early 2011 when it appeared that serious reform of the ACES tax structure would be enacted. House Bill 110 was introduced on the 18th of January, 2011. Repsol viewed the terms of the proposed HB 110 favorably and we were convinced that the State of Alaska was serious about providing the necessary incentives for new investment. We were also convinced that if we waited for meaningful tax reform to be enacted, we would risk being lost in the rush of companies to Alaska to invest in North Slope exploration and development projects. By the 7th of March, 2011, Repsol completed negotiations to secure its North Slope position and announced its entry into the State of Alaska lands through a partnership with Armstrong Oil and Gas and GMT Exploration.

The process of meaningful oil and gas tax reform has continued over the last two years. Repsol firmly believes that Governor Parnell's new proposal now before the Senate Finance Committee as CS SB 21 (RES.), addresses many of the

shortcomings of ACES that were causing Alaska to be uncompetitive in attracting oil and gas investment. First and foremost, it proposes to remove the progressive nature of ACES which is what deterred investments in Alaska at the very time that investment was being stimulated in other states by rising oil prices. It is counterintuitive that Alaskans would want investment to leave their state and go to North Dakota, Texas, California or Oklahoma as oil prices increased, yet that is exactly what ACES encourages. Repsol believes that Alaska should reap the benefits of higher oil prices, but that the increase should be shared fairly and that investors should be encouraged to invest more, rather than less, as prices increase. Repsol and other companies have long argued that the current progressive tax structure is detrimental to new investment in Alaska and we endorse the repeal of progressivity that is proposed in CS SB 21 (RES.).

Repsol and other companies look to benefit from several tax credits, namely the Qualified Capital Expenditure Credit, or QCE credit, the Small Producer Credit and the Exploration Credit. These credits have encouraged newcomers like Repsol to come to Alaska in what would otherwise be an unattractive investment climate. The credits have the effect of reducing our initial capital investments in the early phases of investment, especially during the exploration phase. With these credits, Alaska was subsidizing our initial investment in return for a larger piece of future production revenues for Alaska, if any. In essence, the taxpayers of Alaska were partially insuring and mitigating our potential losses from an unsuccessful exploration program in order to stimulate more exploration and to develop marginal fields that might otherwise be uneconomical to develop. The credits have certainly encouraged Repsol and its partners to enter into a robust exploration program that will result in total investments of some half billion dollars in our North Slope leases by year end of 2013. The credits do not, however, encourage long term developments of any discovery when those developments must compete against developments in states with more favorable tax regimes. These credits help to reduce the cost of coming to Alaska, but we invest in exploration with the expectation that we can have a long term, economical development of any discovery. Oil companies must consider the full life cycle

economics of a project when making investment decisions, not just the early economics of exploration. While the credits have encouraged exploration, in most cases they are not enough to offset the negative aspects of progressivity when considering the full life cycle economics of development and production, which are the stages where more intensive investment and job creation occur. We are encouraged that the Bill proposes the extension of the Small Producer Credit and the Exploration Credit. These credits will continue to motivate new players and new exploration. We would like to see the continuation of the QCE in some form, at least for the near term, but we recognize the tradeoff that is offered by the Bill. We must acknowledge that there are scenarios in which the terms of the Bill are less favorable to new developments. Those scenarios occur when oil prices are low. The threshold value will vary somewhat between companies, depending on their individual circumstances. While we would prefer that the Qualified Capital Expenditure Credits continue, we view that the value from elimination of the progressivity at higher oil prices will offset the protection offered at lower oil prices by the QCE credit.

Our analysis in the preceding paragraph is based on Repsol's individual circumstances. We understand that there could be situations besides low oil prices in which the continuation of the QCE will be more attractive for some investments than the elimination of progressivity will be. Some companies with limited access to capital, or those that are investing in marginally economic projects, may find that the QCE credit is preferable to the elimination of progressivity. This is not Repsol's case.

Repsol makes investment plans on a multi-year cycle, looking ahead more than one year at a time. Major investment decisions are based on full life cycle economics, as was our decision to invest in onshore North Slope exploration. Future investment decisions to develop any discovery will also be based on full life cycle economics that result from a number of assumptions including, among others, our forecast of the future price of oil. Our major investment decisions are based on our long term outlook for oil prices, capital costs, operating costs,

availability of investment capital and other major factors. We do not change those investment decisions based on short term price fluctuations, but only if our long term projections change. With Repsol's current forecasts, the provisions of the Bill are more favorable to Repsol for future investments and will encourage more investment than under the current terms of ACES.

Repsol views the "carry-forward annual loss" tax credit, with compounding interest rate, as a positive step to address the loss of the buy-back of QCE credits by the State. However, Repsol has concerns about the proposed 10 year "shelf life" of the carry-forward annual loss, especially given that we will no longer be allowed to transfer those credits to other companies. In many cases, it may take an oil company more than 10 years from initial investment in exploration until significant production revenues are earned to claim the credits. Repsol views the 10 year limitation on use of the credits as too restrictive and strongly encourages the legislature to increase the period of time that an investing company may use these credits to 15 years or to allow transfer or sale of the unused credits to other taxpayers.

As stated earlier, the positions in this statement represent the views of a newcomer to the North Slope. While Repsol has a favorable opinion of the Bill, we must not forget that new production is not the only contributor to TAPS throughput. We have not attempted to analyze the Bill from the perspective of the established producers. We encourage and support the State to continue its efforts to incentivize increased production from the existing legacy fields. This production is vital to maintaining sufficient oil volumes in the pipeline. Legacy producers, new explorers such as Repsol, and all Alaskans need and want the same thing – increased production in TAPS.

Repsol is pleased that Governor Parnell has taken steps to address many of the concerns that Repsol has with the Alaska tax structure under ACES. While we believe that there is still substantial room for improvement, overall the proposed bill is a viable cornerstone for tax reform that we consider significant and meaningful in returning Alaska's competitiveness for investment opportunities.

The proposed reform is fair to Alaskans and will encourage more production as well as investment. The proposed Bill goes a long way to simplify what was a very complex tax regime and it will restore a balance in which the State and the companies investing in Alaska will both benefit from in the longer term. Alaskans will see more investment in the North Slope if CS SB 21(RES.) is passed and signed into law. This additional investment can only lead to more oil in TAPS, and in the long term, more revenue for Alaska and more high paying jobs for Alaskans. Our hope is that the legislature and all Alaskans will see the wisdom in this approach to North Slope investment.

Thank you.

# **LETTERS/OPPOSITION**



# Alaska State Legislature

Please enter into the record my testimony to the \_\_\_\_\_ SFIN \_\_\_\_\_  
Committee name

Committee on \_\_\_\_\_ sb21 \_\_\_\_\_, dated \_\_\_\_\_ 3/11/13 \_\_\_\_\_  
Bill/Subject

Dear Sir,

Big Oil wants regressive taxes like Sumitomo Trading Co of Japan, enjoys at the Pogo Gold Mine

Today, Alaska is being taken advantage of, by the Foreign Companies, just like the Spanish did long ago, in the 1400's-1600's era, plundering the gold and silver from the Inca's and Aztec's civilizations.

Till reforms of the Commodities Futures Trading Commission and Wall St Banking, are taken by the US Congress, we need some tax progressivity on Oil and other Natural Resources. So Alaska can participate in the windfall profits, created by the traders and bankers, speculating. This is artificial manipulation of the marketplace, not normal supply and demand.

Just witness the dizzy speed at which gas pump prices change electronically. When I order home heating fuel delivery, I ask beforehand, what the price will be, because one time they changed the price while the truck was en route.

Sincerely, Art Wettanen  
Talkeetna

Signed: \_\_\_\_\_  
Testifier

\_\_\_\_\_  
Representing (Optional)

\_\_\_\_\_  
Address PO Box 509 Talkeetna 99676

Alaska State Senate  
Senate Finance Committee  
Co-Chair Senator Meyer; Co-Chair Senator Kelly;  
Vice-Chair Senator Fairclough;  
Senator Dunleavy; Senator Bishop; Senator Olson; Senator Hoffman

Public Testimony on Senate Bill 21 - March 6, 2013

Dear Senators,

With all due respect, my 6 points of testimony are these:

- 1) Consider the source. Whenever debating the merits of a change or argument, it is always prudent to consider the source. Deals that originate with a party tend to benefit that party. If this bill was coming from someone who had not been "in bed" politically with one of the main benefactors of this legislation, it might seem less blatant than it does. There is the "elephant in the room" factor to consider here. Please, let us not ignore the fact that it comes from the Governor's office, from the man who once left Public service to go and work prominently for the main company who will profit more handsomely from this. Further, the fact that the source of this legislation once left public office to go work for that other paymaster is information, which should remind us of his record of not being completely steadfast in his interest in serving the Public.
- 2) The "public debate" about Alaska's oil tax policy is grossly unbalanced. You should factor in the brainwashing effect of oil company ads, in whatever percentages you are getting from your constituents. This inundation of ads is coincidentally once again, largely presented by the governor's former employer, who call themselves "Alaska's Oil and Gas Company". That declaration sounds somewhat patriotic, but is patently false. For one thing, it would be a nice touch if they were Alaskan, and actually based here in Alaska. And for another, Alaska doesn't have an oil company - even though they may have had our governor officially at their service in recent history. We have oil - and should get the best deal for it. Furthermore, there is more than one oil company here, and there will be for some time. And we should not have to get all tarted-up like a cheap tramp, at Conoco's suggestion, on their terms, to make ourselves look more "attractive".
- 3) Bear in mind we already have some of the best drilling and exploration incentives there are.
- 4) With the Federal government damn near on the skids financially, it will be prudent to maintain ourselves as much like a sovereign nation as possible financially. The bottom could drop out of the huge economic impact of the US military in Alaska, and other Federal "stimulus" input to our economy. We need to act like wise stewards of our oil resource for the future, and not be rushed or scared into an inappropriate deal. Oil companies are already profiting handsomely here. Progressive taxation makes sense. The extra incidental market profits of our oil resource arguably belong as much here, if not more so, than to fat-cat investors living over the horizon.
- 5) We will lose many jobs if we lose ACES. ACES has given us the prosperity, to make us one of the envied states in the union. We have more people moving here now than in many years, and this is verbatim from the Governor. That is because there are jobs. The ACES act provides more financing for more diverse public works and projects, and the jobs that are created thereby.
- 6) Respect the work of the many Alaskans that went into creating ACES. It was not a naive accident created by fools. It was the result of Alaskans of both parties coming together in a deliberate process to create a wise act which was then signed into law by a Republican governor. My hat is still off to Sarah Palin for that; and the hat of every one in this room should be off to her for that, too!

Thanking you for hearing this testimony,

Sincerely,

Tony Tengs  
139 W. 2nd St.  
Juneau, Alaska 99801

ttengs@ak.net

Testimony of Andrew M. Keller  
P.O. Box 84235  
Fairbanks, AK 99708  
907-455-7083  
amkeller@alaska.edu

I am very concerned about changes to ACES. Surveys from other states indicate that the link between tax breaks and industrial development is poor at best. It is questionable whether giving multinational oil companies tax breaks will increase production. Where is the evidence?

The relationship that Alaskans have with the oil companies is a business partnership. Therefore, if we give up something, just like in any business deal, we should get something in return. Alaskans have plenty of reason to be suspicious of big oil. These are the folks that claim that safety measures are in place, and then we get world class oil spills and a reluctance to reimburse the fishing community. I remind the legislature that oil interests bribed your own membership and some were sent to jail-over the passage of just such oil taxation issues.

Every time I have explained "progressivity" to others in Fairbanks, they have said, "that makes sense."

Thank you for the opportunity to comment.

Written testimony on SB 21 by Karl Westgard

**Alan Marasigan**

---

**From:** Karl Westgard <hungry.ocean@hotmail.com>  
**Sent:** Monday, February 25, 2013 11:15 PM  
**To:** Alan Marasigan  
**Subject:** SB-21 please respond with conformation

Okay let me see if I have this right. The wells pumping on the slope have been pumping for a long time. The flow contributing to the oil in the line is diminishing because it has been pumping for a long time. There has not been any sizable investment to increase the flow of oil to date? And what has increased the flow will pay extra dividends to oil companies?

There has been lots of money made over these decades. I'm sure if I say more than enough money to cover the investments over these decades would only insight those to say a modest return on the investment has been made.

So let's move on to the rise in taxes known as ACES. Yes it does pay the state high taxes at times of high prices. So by reason the oil companies make back there investment and a reasonable return on investment at low oil prices. Better yet under the current tax structure under low prices the state carries all the risk in cost. High prices are a bonus right? And the economy raises prices not oil companies' right? When prices for fuel are high this state in particular pays high prices just to do business. What I am getting at is we have a lot of real estate and it takes fuel to navigate, survive and thrive in it. These higher prices are paid by the citizens of the state of Alaska just to go through the motions of life. We're not going to get regular rebates to offset this cost so let use our states natural resources to run our government and remove that burden form our backs. After all it's our oil right? Why should the state not reap a bonus as well for the loss of a non renewable resource? ACES was overdue.

Like every developing state Alaska was raped for its natural resources and the rapists benefited greatly.

I would like to encourage our senators to stand tall and say when you invest you reap benefits and not before. If the current oil companies do not develop it another one will.

The slope is a proven producing oil field and the oil companies working it make a great deal of money from it and those funds contribute to a major portion of their flow of money.

I understand North Dakota has lower taxes but it won't be forever. As time moves on the citizens of that state will demand a greater share for the resources being extracted. And the same game will play over and over again as the oil companies play one site against another. To give away taxes for no return should be criminal.

For lack of a better plan if our misguided senators give back taxes without guarantees of increased production; they should reduce the states spending penny for penny not leave the burden on future generations to pay the price of their short sightedness.

Let's see if our senators have what it takes to be a representative of this state or should they move to North Dakota?

Karl Westgard

**I am opposed to Senate Bill 21. It doesn't require any specific TAPS throughput increase or investment to qualify for tax breaks. What evidence do we have that lowering tax rates will increase TAPS throughput.** To the contrary, from 1996 to 2006, the throughput from Kuparuk decreased at about 7% per year as the tax rate went down from 12% to 1%. If we just look at those data, we would conclude that, since lowering tax rate decreases throughput, we should increase tax rate to increase throughput.

Gov. Parnell has bet that lowering taxes by more than 20% will increase throughput by greater than 20%. This is needed to make up for the loss of tax income to the state due to the tax rate decreasing. Where is the analysis to back this up? I urge the Senate to assess how much extra drilling successes is needed to recoup the losses from reduced tax rates and the likelihood that industry will make the necessary investment.

Obviously, increasing throughput by itself will not benefit the state of Alaska if the net result is a lowering of income to the state from what we are now receiving or would receive under the present tax structure if the throughput rate in the future continues its present decline. There is also the time value of money. If we give up, say, \$10 billion over the next 5 to 10 years because of reduced tax rates, will we get back more than that, say, starting 10 years from now to make up for the near-term loss?

I urge you to keep some progressivity and to not give the producers in the legacy fields tax breaks for any oil produced under the current decline curve. We should only give a tax reduction for oil produced in excess of the projected decline rate.

I am a retired engineering faculty member from the University of Alaska.

Ron Johnson, 2113 Jack St., Fairbanks, AK

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