

SB

138

(FILE 1)

<TARGET><BILL>SB 138</BILL><SUBJECT>SB 138 (FILE
1)</SUBJECT><COMM>SRES28</COMM></TARGET>

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 1/24/14

FURTHER: Finance

Date of 5-Day Notice: 1/30/14
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 2/24/14

Resources Committee considered SENATE BILL NO. 138

SB 138-GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

"An Act relating to the purposes of the Alaska Gasline Development Corporation to advance to develop a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; establishing the large-diameter natural gas pipeline project fund; creating a subsidiary related to a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; relating to the authority of the commissioner of natural resources to negotiate contracts related to North Slope natural gas projects, to enter into confidentiality agreements in support of contract negotiations and implementation, and to take custody of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the sale, exchange, or disposal of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the duties of the commissioner of revenue to direct the disposition of revenues received from gas delivered to the state in kind and to consult with the commissioner of natural resources on the custody and disposition of gas delivered to the state in kind; relating to the authority of the commissioner of natural resources to propose modifications to existing state oil and gas leases; making certain information provided to the Department of Natural Resources and the Department of Revenue exempt from inspection as a public record; making certain tax information related to an election to pay the oil and gas production tax in kind exempt from tax confidentiality provisions; relating to establishing under the oil and gas production tax a gross tax rate for gas after 2021; making the alternate minimum tax on oil and gas produced north of 68 degrees North latitude after 2021 apply only to oil; relating to apportionment factors of the Alaska Net Income Tax Act; authorizing a producer's election to pay the oil and gas production tax in kind for certain gas and relating to the authorization; relating to monthly installment payments of the oil and gas production tax; relating to interest payments on monthly installment payments of the oil and gas production tax; relating to settlements between producers and royalty owners for oil and gas production tax; relating to annual statements by producers and explorers; relating to annual production tax values; relating to lease expenditures; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; adding definitions related to natural gas terms; clarifying that credit may not be taken against the in-kind levy of the oil and gas production tax for gas for purposes of the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with CS SB 138 (RES) [] Same Title [] New Title
- [] adopt previous CS SCS/CS- Forthcoming [] 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 #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
CED	✓			1
CED	✓			2
DNR	✓			3
REV	✓			4

[] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	French			✓	
	MICCICHE			✓	
	Bishop			✓	
	DYSON				✓
	McClure	✓			
Anna L. Fairclough	FAIRCLOUGH			✓	
CHAIR:	GIESSEL	✓			

AMENDMENT

OFFERED IN THE SENATE
TO: SB 138

BY SENATOR FRENCH

1 Page 15, line 13, following "subsection":

2 Insert "; a fixed royalty rate established under this paragraph may not be less than 12.5
3 percent"

4

5 Page 16, line 2, following "subsection":

6 Insert "; a fixed royalty rate established under this paragraph may not be less than 12.5
7 percent"

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR FRENCH

TO: SB 138

1 Page 12, line 1, following "party":

2 Insert

3 "(A) may not include a provision relating to the tax rate
4 applicable to the oil and gas production tax under AS 43.55 as it relates to
5 the production of oil: and

6 (B)"

7

8 Page 13, line 24, following "party":

9 Insert

10 "(A) may not include a provision relating to the tax rate
11 applicable to the oil and gas production tax under AS 43.55 as it relates to the
12 production of oil; and

13 (B)"

14

15 Page 21, line 30, following "project":

16 Insert "; the commissioner shall ensure that a contract negotiated under this
17 paragraph does not include a provision relating to the tax rate applicable to the oil and
18 gas production tax under AS 43.55 as it relates to the production of oil"

19

20 Page 23, line 7, following "project":

21 Insert "; the commissioner shall ensure that a contract negotiated under this paragraph
22 does not include a provision relating to the tax rate applicable to the oil and gas production tax
23 under AS 43.55 as it relates to the production of oil"

AMENDMENT

OFFERED IN THE SENATE
TO: SB 138

BY SENATOR FRENCH

1 Page 12, line 1, following "party":

2 Insert

3 "(A) must include a provision that requires the parties to
4 the contract to negotiate, before construction, a project labor agreement
5 to the maximum extent permitted by law; in this subparagraph. "project
6 labor agreement" means a comprehensive collective bargaining agreement
7 between the licensee or its agent and the appropriate labor representatives
8 to ensure expedited construction with labor stability for the project by
9 qualified residents of the state;

10 (B)"

11

12 Page 13, line 24, following "party":

13 Insert

14 "(A) must include a provision that requires the parties to the
15 contract to negotiate, before construction, a project labor agreement to the
16 maximum extent permitted by law; in this subparagraph, "project labor
17 agreement" means a comprehensive collective bargaining agreement between
18 the licensee or its agent and the appropriate labor representatives to ensure
19 expedited construction with labor stability for the project by qualified residents
20 of the state;

21 (B)"

AMENDMENT

OFFERED IN THE SENATE
TO: SB 138

BY SENATOR FRENCH

1 Page 21, line 30, following "project":

2 Insert "; the commissioner shall ensure that a contract negotiated under this
3 paragraph does not authorize a payment to a municipality in lieu of a tax levied by the
4 municipality"

5

6 Page 23, line 7, following "project":

7 Insert "; the commissioner shall ensure that a contract negotiated under this paragraph
8 does not authorize a payment to a municipality in lieu of a tax levied by the municipality"

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR FRENCH

TO: SB 138

1 Page 24, line 25:

2 Delete "10.5"

3 Insert "12.5"

4

5 Page 26, line 24:

6 Delete "10.5"

7 Insert "12.5"

8

9 Page 26, line 27:

10 Delete "10.5"

11 Insert "12.5"

12

13 Page 34, line 26:

14 Delete "10.5"

15 Insert "12.5"

16

17 Page 35, line 10:

18 Delete "10.5"

19 Insert "12.5"

AMENDMENT

OFFERED IN THE SENATE
TO: SB 138

BY SENATOR FRENCH

1 Page 11, line 31, following "project":

2 Insert "the licensee receiving the license issued under AS 43.90 or an affiliate of
3 the licensee that received the license under AS 43.90 may not, without competitive
4 bidding, be a party to a contract under this paragraph that takes effect after the
5 effective date of this paragraph and provides for the state to acquire an equity interest
6 in a North Slope natural gas project or for the transportation of natural gas received by
7 the state as royalty-in-kind or under AS 43.55.014:"

8

9 Page 13, line 23, following "project;":

10 Insert "the licensee receiving the license issued under AS 43.90 or an affiliate of the
11 licensee that received the license under AS 43.90 may not, without competitive bidding, be a
12 party to a contract under this paragraph that takes effect after the effective date of this
13 paragraph and provides for the state to acquire an equity interest in a North Slope natural gas
14 project or for the transportation of natural gas received by the state as royalty-in-kind or under
15 AS 43.55.014;"

A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR BISHOP

TO: SB 138

1 Page 12, line 1, following "paragraph":

2 Insert "(A)"

3

4 Page 12, line 2, following "contract":

5 Insert "and

6 (B) may not alter or otherwise change the taxation of
7 property taxable under AS 29.45 or AS 43.56 by making a change to the
8 description of property subject to tax, the tax rate, or the determination of
9 full and true value"

10

11 Page 13, line 24, following "paragraph":

12 Insert "(A)"

13

14 Page 13, line 25, following "contract;":

15 Insert "and

16 (B) may not alter or otherwise change the taxation of property
17 taxable under AS 29.45 or AS 43.56 by making a change to the description of
18 property subject to tax, the tax rate, or the determination of full and true value"

Senator Bishop

43.90.130 AGIA language possible as amendment to SB138

(15) to the maximum extent permitted by law, commit to

(A) hire qualified residents from throughout the state for management, engineering, construction, operations, maintenance, and other positions on the proposed project;

(B) contract with businesses located in the state;

(C) establish hiring facilities or use existing hiring facilities in the state; and

(D) use, as far as is practicable, the job centers and associated services operated by the Department of Labor and Workforce Development and an Internet-based labor exchange system operated by the state;

(16) waive the right to appeal the rejection of the application as incomplete, the issuance of a license to another applicant, or the determination under AS 43.90.180 (b) that no application merits the issuance of a license;

(17) commit to negotiate, before construction, a project labor agreement to the maximum extent permitted by law; in this paragraph, "project labor agreement" means a comprehensive collective bargaining agreement between the licensee or its agent and the appropriate labor representatives to ensure expedited construction with labor stability for the project by qualified residents of the state;

AMENDMENT

OFFERED IN THE SENATE

TO: SB 138

1 Page 15, line 13, following "subsection":

2 Insert "; a fixed royalty rate established under this paragraph may not be less than 12.5
3 percent"

4

5 Page 16, line 2, following "subsection":

6 Insert "; a fixed royalty rate established under this paragraph may not be less than 12.5
7 percent"

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR

TO: SB 138

Page 15, line 11:

Following "market":

Delete "and"

Page 15, line 31:

Following "market":

Delete "and"

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR

TO: SB 138

Page 1, line 9:

Delete "**kind**"

Insert "**gas**"

Page 1, line 11,

Delete "**kind**"

Insert "**gas**"

Page 1, line 12:

Delete "**in kind**"

Page 2, line 2:

Delete "**in kind**"

Page 2, line 6:

Delete "**kind**"

Insert "**gas**"

Page 2, line 11:

Delete "**kind**"

Insert "**gas**"

Page 2, line 19:

Delete **"in-kind"**

Page 2, line 19:

Following **"for gas"**:

Insert **"paid in gas"**

Page 26, line 18:

Delete **"kind"**

Insert **"gas"**

Page 26, line 22:

Following **"pay"**:

Insert **"in gas the"**

Delete **"in kind"**

Delete "a" following "in gas the"

Page 26, line 24:

Delete **"in kind is"**

Following **"section"**:

Insert **"is"**

Page 26, line 27:

Delete **"kind"**

Insert **"gas"**

Page 26, line 28

Delete **"entrance of the transportation facility specified by the state"**

Insert **"point of production"**

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR MCGUIRE

TO: SB 138

1 Page 2, line 21, following "**credit**";:

2 Insert "**requiring the commissioner of revenue to develop a plan and suggest**
3 **legislation for residents of the state to acquire ownership interests in a North Slope**
4 **natural gas pipeline project;**"

5

6 Page 49, following line 8:

7 Insert a new bill section to read:

8 "*** Sec. 48.** The uncodified law of the State of Alaska is amended by adding a new section to
9 read:

10 DEVELOPMENT OF A PLAN FOR RESIDENTS TO PARTICIPATE IN THE
11 OWNERSHIP OF A NORTH SLOPE NATURAL GAS PIPELINE. (a) At the time the
12 commissioner of natural resources submits the first contract to the legislature for approval
13 under AS 38.05.020(b)(11), enacted by sec. 10 of this Act, the commissioner of revenue shall
14 present a plan and suggested legislation to allow a resident of the state to participate as a co-
15 owner in a North Slope natural gas pipeline. The plan must include the recommendations of
16 the commissioner as to

17 (1) the means by which a resident may invest in the North Slope natural gas
18 pipeline that may include providing an option for a resident to designate an amount of a
19 permanent fund dividend to be deducted for the investment;

20 (2) whether the ownership interest in a North Slope natural gas pipeline should
21 be acquired from the portion of a North Slope natural gas pipeline acquired by the state,
22 through the purchase of stock in a publicly traded corporation that invests in a North Slope
23 natural gas pipeline, or some other means;

1 (3) the means for providing notice to a resident receiving an ownership
2 interest that explains the type of ownership interest and the rights and obligations related to
3 that ownership interest;

4 (4) whether the ownership interest received by a resident may be transferred or
5 assigned to another person and the means for transferring the interest;

6 (5) the means by which the proportional share of a dividend or other income
7 may be distributed to a resident or transferee of an interest if a resident receives an ownership
8 interest acquired by the state in a North Slope natural gas pipeline and the state receives a
9 dividend or other income from its ownership interest, and whether the payment should be
10 subject to interest if not timely distributed;

11 (6) the means by which the commissioner may identify a publicly traded
12 corporation that has an ownership interest in a North Slope natural gas pipeline that is subject
13 to investment by an individual under the proposed plan; and

14 (7) the means by which an individual may qualify as a resident for purposes of
15 investing in an ownership interest.

16 (b) In this section, "North Slope natural gas pipeline" means a natural gas pipeline
17 project that transports natural gas produced in the state north of 68 degrees North latitude to a
18 market in the state or to tidewater for export from the state including a facility in the state for
19 liquefying natural gas for transport."

20
21 Renumber the following bill sections accordingly.

22
23 Page 49, line 20:

24 Delete "47, and 48"

25 Insert "and 47 - 49"

26
27 Page 49, line 22:

28 Delete "sec. 50"

29 Insert "sec. 51"

28-GS2806\C
Bullock
2/24/14

CS FOR SENATE BILL NO. 138(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES 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 purposes of the Alaska Gasline Development Corporation to**
2 **advance to develop a large-diameter natural gas pipeline project, including treatment**
3 **and liquefaction facilities; establishing the large-diameter natural gas pipeline project**
4 **fund; creating a subsidiary related to a large-diameter natural gas pipeline project,**
5 **including treatment and liquefaction facilities; relating to the authority of the**
6 **commissioner of natural resources to negotiate contracts related to North Slope natural**
7 **gas projects, to enter into confidentiality agreements in support of contract negotiations**
8 **and implementation, and to take custody of gas delivered to the state under an election**
9 **to pay the gas production tax in gas; relating to the sale, exchange, or disposal of gas**
10 **delivered to the state under an election to pay the gas production tax in gas; relating to**
11 **the tax on oil production; relating to the tax on gas production; relating to the duties of**
12 **the commissioner of revenue to direct the disposition of revenues received from gas**

1 delivered to the state and to consult with the commissioner of natural resources on the
2 custody and disposition of gas delivered to the state; relating to the authority of the
3 commissioner of natural resources to propose modifications to existing state oil and gas
4 leases; making certain information provided to the Department of Natural Resources
5 and the Department of Revenue exempt from inspection as a public record; making
6 certain tax information related to an election to pay the gas production tax in gas
7 exempt from tax confidentiality provisions; relating to establishing under the oil and gas
8 production tax a gross tax rate for the production of gas after 2021; making the
9 alternate minimum tax on oil and gas produced north of 68 degrees North latitude after
10 2021 apply only to oil; relating to apportionment factors of the Alaska Net Income Tax
11 Act; authorizing a producer's election to pay the gas production tax in gas for certain
12 gas and relating to the authorization; relating to monthly installment payments of the oil
13 and gas production tax; relating to interest payments on monthly installment payments
14 of the oil and gas production tax; relating to settlements between producers and royalty
15 owners for oil and gas production tax; relating to annual statements by producers and
16 explorers; relating to annual production tax values; relating to lease expenditures;
17 amending the definition of gross value at the 'point of production' for gas for purposes
18 of the oil and gas production tax; adding definitions related to natural gas terms;
19 clarifying that credit may not be taken against the levy of the gas production tax for gas
20 paid in gas for purposes of the exploration incentive credit, the oil or gas producer
21 education credit, and the film production tax credit; requiring the commissioner of
22 revenue to develop a plan and suggest legislation for residents of the state to acquire
23 ownership interests in a North Slope natural gas pipeline project; making conforming
24 amendments; and providing for an effective date."

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

2 * **Section 1.** AS 31.25.005 is amended to read:

3 **Sec. 31.25.005. Purpose.** The corporation shall, for the benefit of the state, to
4 the fullest extent possible,

5 (1) advance an in-state natural gas pipeline as described in the July 1,
6 2011, project plan prepared under former AS 38.34.040 by the corporation while a
7 subsidiary of the Alaska Housing Finance Corporation, with modifications determined
8 by the corporation to be appropriate to develop, finance, construct, and operate an in-
9 state natural gas pipeline in a safe, prudent, economical, and efficient manner, for the
10 purpose of making natural gas, including propane and other hydrocarbons associated
11 with natural gas other than oil, available to Fairbanks, the Southcentral region of the
12 state, and other communities in the state at the lowest rates possible;

13 (2) endeavor to develop natural gas pipelines and other transportation
14 mechanisms to deliver natural gas, including propane and other hydrocarbons
15 associated with natural gas other than oil, to public utility and industrial customers in
16 areas of the state to which the natural gas, including propane and other hydrocarbons
17 associated with natural gas other than oil, may be delivered at commercially
18 reasonable rates; and

19 (3) endeavor to develop natural gas pipelines and other transportation
20 mechanisms that offer commercially reasonable rates for shippers and access for
21 shippers who produce natural gas, including propane and other hydrocarbons
22 associated with natural gas other than oil, in the state;

23 (4) advance to develop a large-diameter natural gas pipeline
24 project other than the in-state natural gas pipeline described in (1) of this section
25 by acquiring an equity interest in a large-diameter natural gas pipeline project
26 through the subsidiary under AS 31.25.122;

27 (5) advance to develop, finance, construct, and operate facilities
28 for liquefaction and treatment in connection with a large-diameter natural gas
29 pipeline project other than the in-state natural gas pipeline described in (1) of
30 this section through the subsidiary under AS 31.25.122.

31 * **Sec. 2.** AS 31.25.010 is amended to read:

1 **Sec. 31.25.010. Structure.** The Alaska Gasline Development Corporation is a
2 public corporation and government instrumentality located for administrative purposes
3 in the Department of Commerce, Community, and Economic Development, but
4 having a legal existence independent of and separate from the state. The corporation
5 may not be terminated as long as it has bonds, notes, or other obligations outstanding.
6 The corporation may dissolve when no bonds, notes, or other obligations of the
7 corporation or a subsidiary of the corporation are outstanding and the corporation or a
8 subsidiary of the corporation is no longer engaged in the development, financing,
9 construction, or operation of an in-state natural gas pipeline or a large-diameter
10 natural gas pipeline project. Upon termination of the corporation, its rights and
11 property pass to the state.

12 * **Sec. 3.** AS 31.25.080(f) is amended to read:

13 (f) The corporation shall, to the maximum extent practicable without delaying
14 the progress of developing the [AN] in-state natural gas pipeline project described in
15 AS 31.25.005(1) and without causing the in-state natural gas pipeline project
16 described in AS 31.25.005(1) to become a competing natural gas pipeline project for
17 purposes of AS 43.90.440, coordinate with and accommodate the developers of a
18 large-diameter [IN-STATE] natural gas pipeline project by planning for the
19 development and use of [COMMON] pipeline facilities from the North Slope to [THE
20 LIVENGOOD AREA OR TO ANOTHER POINT FROM WHICH A LARGE-
21 DIAMETER IN-STATE NATURAL GAS PIPELINE MAY BE CONSTRUCTED
22 SOUTH TO] tidewater in either the Prince William Sound or Cook Inlet area. The
23 corporation may use money appropriated to the large-diameter natural gas
24 pipeline project fund created in AS 31.25.110 for the purposes described in this
25 subsection and may not use money appropriated to the in-state natural gas
26 pipeline fund created in AS 31.25.100 for the purposes described in this
27 subsection [IN THIS SUBSECTION, "LARGE-DIAMETER IN-STATE NATURAL
28 GAS PIPELINE" MEANS A PIPELINE IN THE STATE WITH A DIAMETER OF
29 42 INCHES OR MORE].

30 * **Sec. 4.** AS 31.25.100 is amended to read:

31 **Sec. 31.25.100. In-state natural gas pipeline fund.** The in-state natural gas

1 pipeline fund is established in the corporation and consists of money appropriated to
2 it. The corporation shall determine fund management and may contract with the
3 Department of Revenue for fund management. Unless otherwise provided by law,
4 money appropriated to the fund lapses into the general fund on the day this section is
5 repealed. Interest and other income received on money in the fund shall be separately
6 accounted for and may be appropriated to the fund. The corporation may use money
7 appropriated to the fund without further appropriation solely for the cost of managing
8 the fund and for the planning, financing, development, acquisition, maintenance,
9 construction, and operation of the [AN] in-state natural gas pipeline described in
10 AS 31.25.005(1) and may not use money appropriated to the fund for any other
11 purpose, including the purposes described in AS 31.25.005(4) and (5) and
12 31.25.080(f).

13 * **Sec. 5.** AS 31.25 is amended by adding a new section to read:

14 **Sec. 31.25.110. Large-diameter natural gas pipeline project fund.** The
15 large-diameter natural gas pipeline project fund is established in the subsidiary and
16 consists of money appropriated to it. The subsidiary shall determine fund management
17 and may contract with the Department of Revenue for fund management. Interest and
18 other income received on money in the fund shall be separately accounted for and may
19 be appropriated to the fund. The subsidiary may use money appropriated to the fund
20 without further appropriation for the purpose of managing the fund and for the
21 planning, financing, acquisition, maintenance, construction, and operation of a large-
22 diameter natural gas pipeline project, including treatment and liquefaction facilities,
23 and may not use the money appropriated to the fund for the purpose described in
24 AS 31.25.005(1). If money is appropriated to the fund to finance the cost of a large-
25 diameter natural gas pipeline project described in AS 31.25.005(4) and (5), the
26 subsidiary shall create an account in the fund for that purpose and shall hold the
27 money appropriated for that purpose in that account. In this section, "subsidiary"
28 means a subsidiary established under AS 31.25.122.

29 * **Sec. 6.** AS 31.25.120 is amended to read:

30 **Sec. 31.25.120. Creation of subsidiaries for an in-state natural gas pipeline**
31 **project.** The corporation may create subsidiary corporations for the purpose of

1 developing, constructing, operating, and financing in-state natural gas pipeline
2 projects or other transportation mechanisms; for the purpose of aiding in the
3 development, construction, operation, and financing of in-state natural gas pipeline
4 projects; or for the purpose of acquiring the state's royalty share of natural gas, natural
5 gas from the North Slope, and natural gas from other regions of the state, including the
6 state's outer continental shelf, and making that natural gas available to markets in the
7 state, including the delivery of natural gas, including propane and other hydrocarbons
8 associated with natural gas other than oil, to coastal communities in the state, or for
9 export. A subsidiary corporation created under this section may be incorporated under
10 AS 10.20.146 - 10.20.166. Except as provided in AS 31.25.110, the [THE]
11 corporation may transfer assets of the corporation to a subsidiary created under this
12 section. A subsidiary created under this section may borrow money and issue bonds as
13 evidence of that borrowing and has all the powers of the corporation that the
14 corporation grants to it. Unless otherwise provided by the corporation, the debts,
15 liabilities, and obligations of a subsidiary corporation created under this section are not
16 the debts, liabilities, or obligations of the corporation. A subsidiary corporation
17 created under this section may use money appropriated under AS 31.25.100 and
18 may not use money appropriated under AS 31.25.110.

19 * **Sec. 7.** AS 31.25 is amended by adding a new section to read:

20 **Sec. 31.25.122. Creation of a subsidiary for a large-diameter natural gas**
21 **pipeline project.** (a) To maximize the economic recovery and value of the state's
22 natural gas royalties and gas tax revenues for the benefit of the people of the state, a
23 subsidiary of the corporation is established as a public corporation and government
24 instrumentality for administrative purposes of the corporation, but having a legal
25 existence independent of and separate from the state and the corporation, for the
26 purposes of acquiring a state equity interest in a large-diameter natural gas pipeline
27 project, in natural gas treatment facilities, in liquefaction facilities, and in marine
28 terminal facilities related to a large-diameter natural gas project, and in entities that are
29 developing, constructing, and operating such facilities; for the purposes of financing
30 the acquisition, capital costs and operating costs related to the state equity interests;
31 for the purposes of supporting in the development, construction, operation, and

1 financing a large-diameter natural gas pipeline project in which the subsidiary has an
2 equity interest; and for the purposes of transferring net revenues received by the
3 subsidiary related to equity interests acquired to the permanent fund and the general
4 fund as determined by the commissioner of natural resources in consultation with the
5 commissioner of revenue. The subsidiary created under this section may use money
6 appropriated under AS 31.25.110 and may not use money appropriated under
7 AS 31.25.100.

8 (b) The subsidiary created under this section shall be governed by a board of
9 directors consisting of

- 10 (1) the chair of the corporation;
- 11 (2) the commissioner of natural resources;
- 12 (3) the commissioner of revenue; and
- 13 (4) four public members, one of whom is a public member of the board
14 of directors under AS 31.25.030(a)(1).

15 (c) Public members of the subsidiary board shall be appointed by the
16 governor. Subsidiary board members appointed under (b)(4) of this section shall be
17 compensated as provided in AS 31.25.020(d). Public members of the subsidiary
18 board serve five-year terms. A public member serves at the pleasure of the
19 governor. The provisions of AS 31.25.030, 31.25.035, and 31.25.040 apply to the
20 board of the subsidiary.

21 (d) In addition to other powers granted in this section, the subsidiary may

22 (1) determine the form of ownership and the operating structure of a
23 large-diameter natural gas pipeline project developed by the subsidiary and may enter
24 into agreements with other persons for joint ownership, joint operation, or both, of a
25 large-diameter natural gas pipeline project;

26 (2) plan, finance, construct, develop, acquire, maintain, and operate a
27 pipeline system and other transportation mechanism, including pipelines, treatment
28 and liquefaction facilities, marine terminals, compressors, storage facilities, and other
29 related facilities, equipment, and works of public improvement in the state to facilitate
30 production, transportation, and delivery of natural gas or other related natural
31 resources to the point of consumption or to the point of distribution for consumption;

- 1 (3) lease or rent facilities, structures, and properties;
- 2 (4) exercise the power of eminent domain and file a declaration of
3 taking under AS 09.55.240 - 09.55.460 to acquire land or an interest in land that is
4 necessary for a large-diameter natural gas pipeline project; the exercise of powers by
5 the subsidiary under this paragraph may not exceed the permissible exercise of the
6 powers by the state;
- 7 (5) acquire, by purchase, lease, or gift, land, structures, real or personal
8 property, an interest in property, a right-of-way, a franchise, an easement, or other
9 interest in land, or an interest in or right to capacity in a pipeline system determined to
10 be necessary or convenient for the development, financing, construction, or operation
11 of a large-diameter natural gas pipeline project;
- 12 (6) transfer or otherwise dispose of all or part of a large-diameter
13 natural gas pipeline project developed by the subsidiary or transfer or otherwise
14 dispose of an interest in an asset of the subsidiary;
- 15 (7) elect to provide transportation of natural gas as a contract carrier,
16 common carrier, or otherwise;
- 17 (8) provide light, water, security, and other services for property of the
18 subsidiary;
- 19 (9) conduct hearings to gather and develop data consistent with the
20 purpose and powers of the subsidiary;
- 21 (10) advocate for new capacity in the project before regulatory
22 agencies;
- 23 (11) make and execute agreements, contracts, and other instruments
24 necessary or convenient in the exercise of the powers and functions of the subsidiary
25 under this section, including a contract with a person, firm, corporation, governmental
26 agency, or other entity;
- 27 (12) sue and be sued in its own name;
- 28 (13) adopt an official seal;
- 29 (14) adopt bylaws for the regulation of its affairs and the conduct of its
30 business and adopt regulations and policies in connection with the performance of its
31 functions and duties;

1 (15) employ fiscal consultants, engineers, attorneys, appraisers, and
2 other consultants and employees that may, in the judgment of the subsidiary, be
3 required and fix and pay their compensation from funds available to the subsidiary;

4 (16) procure insurance against a loss in connection with its operation;

5 (17) borrow money as provided in this chapter to carry out its
6 corporate purposes and issue its obligations as evidence of borrowing;

7 (18) include in a borrowing the amounts necessary to pay financing
8 charges, to pay interest on the obligations, and to pay the interest, consultant, advisory,
9 and legal fees, and other expenses that are necessary or incident to the borrowing;

10 (19) receive, administer, and comply with the conditions and
11 requirements of an appropriation, gift, grant, or donation of property or money;

12 (20) do all acts and things necessary, convenient, or desirable to carry
13 out the powers expressly granted or necessarily implied in this section;

14 (21) invest or reinvest, subject to its contracts with noteholders and
15 bondholders, money or funds held by the subsidiary, including funds in the large-
16 diameter natural gas project pipeline fund (AS 31.25.110), in obligations or other
17 securities or investments in which banks or trust companies in the state may legally
18 invest funds held in reserves or sinking funds or funds not required for immediate
19 disbursement, and in certificates of deposit or time deposits secured by obligations of,
20 or guaranteed by, the state or the United States;

21 (22) enter into, as it determines to be necessary or appropriate, any
22 swap or hedge, cap, or other contract providing for payments based on levels of or
23 changes in interest rates or indices or in the cost or price of any commodity, supply, or
24 expense expected to be used or incurred in connection with the acquisition,
25 construction, or operation of any facility or property owned, leased, or operated by the
26 subsidiary, or an option with respect to any of the foregoing.

27 (e) Except as provided in AS 31.25.100, the corporation may transfer assets to
28 the subsidiary. The provisions of AS 31.25.090, 31.25.130, 31.25.140, 31.25.160,
29 31.25.170, 31.25.180, 31.25.190, 31.25.200, 31.25.210, 31.25.220, 31.25.230,
30 31.25.240, 31.25.250, 31.25.260, 31.25.270, and 31.25.390 apply to the subsidiary
31 created under this section for a large-diameter natural gas pipeline project, and

1 references in those sections to

2 (1) "the corporation" shall refer to the subsidiary created under this
3 section; and

4 (2) "in-state natural gas pipeline" shall refer to a large-diameter natural
5 gas pipeline project as described in AS 31.25.005(4) and (5).

6 (f) The subsidiary under this section shall employ a project coordinator, who
7 may not be a member of the board. The project coordinator shall be appointed by the
8 subsidiary board and serves at the pleasure of the subsidiary board. The subsidiary
9 board may engage professional and technical advisers as independent contractors. The
10 project coordinator may hire employees for the subsidiary and engage professional and
11 technical advisers as independent contractors upon approval of the subsidiary board.
12 Employees of the subsidiary created under this section are state employees in the
13 exempt service under AS 39.25.110. The subsidiary board shall prescribe the duties
14 and compensation of subsidiary personnel, including the project coordinator.

15 (g) The subsidiary may not be terminated as long as it has bonds, notes, or
16 other obligations outstanding. Upon termination of the subsidiary, its rights and
17 property pass to the state.

18 * **Sec. 8.** AS 31.25.390(5) is amended to read:

19 (5) "in-state natural gas pipeline" means a natural gas pipeline for
20 transporting natural gas in the state **as described in AS 31.25.005(1)**;

21 * **Sec. 9.** AS 31.25.390 is amended by adding new paragraphs to read:

22 (7) "large-diameter natural gas pipeline project" means a natural gas
23 pipeline project as described in AS 31.25.005(4) and (5) that includes facilities for
24 treatment and liquefaction of natural gas, including any marine terminal facilities;

25 (8) "subsidiary board" means the governing board of a subsidiary
26 created under AS 31.25.122.

27 * **Sec. 10.** AS 38.05.020(b) is amended to read:

28 (b) The commissioner may

29 (1) establish reasonable procedures and adopt reasonable regulations
30 necessary to carry out this chapter and, whenever necessary, issue directives or orders
31 to the director to carry out specific functions and duties; regulations adopted by the

1 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
2 orders by the commissioner classifying land, issued after January 3, 1959, are not
3 required to be adopted under AS 44.62 (Administrative Procedure Act);

4 (2) enter into agreements considered necessary to carry out the
5 purposes of this chapter, including agreements with federal and state agencies;

6 (3) review any order or action of the director;

7 (4) exercise the powers and do the acts necessary to carry out the
8 provisions and objectives of this chapter;

9 (5) notwithstanding the provisions of any other section of this chapter,
10 grant an extension of the time within which payments due on any exploration license,
11 lease, or sale of state land, minerals, or materials may be made, including payment of
12 rental and royalties, on a finding that compliance with the requirements is or was
13 prevented by reason of war, riots, or acts of God;

14 (6) classify tracts for agricultural uses;

15 (7) after consulting with the Board of Agriculture and Conservation
16 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
17 of a contract for the sale of agricultural land if

18 (A) the land is inaccessible by road; or

19 (B) transportation, marketing, and development costs render
20 the required development uneconomic;

21 (8) reconvey or relinquish land or an interest in land to the federal
22 government if

23 (A) the land is described in an amended application for an
24 allotment under 43 U.S.C. 1617; and

25 (B) the reconveyance or relinquishment is

26 (i) for the purposes provided in 43 U.S.C. 1617; and

27 (ii) in the best interests of the state;

28 (9) lead and coordinate all matters relating to the state's review and
29 authorization of resource development projects;

30 (10) **enter into commercial agreements with a duration of not more**
31 **than two years for project services related to a North Slope natural gas project;**

1 (11) in consultation with the commissioner of revenue, participate
2 in the negotiation of contracts and development of terms for inclusion in
3 proposed contracts associated with a North Slope natural gas project; a contract
4 negotiated under this paragraph to which the state is a party is not effective
5 unless the legislature authorizes the governor to execute the contract;

6 (12) enter into confidentiality agreements to maintain the
7 confidentiality of information related to contract negotiations and contract
8 implementation associated with a North Slope natural gas project; information
9 under those confidentiality agreements is not subject to AS 40.25 (Alaska Public
10 Records Act), except that

11 (A) the terms of a proposed contract that the commissioner
12 presents to the legislature for the purpose of obtaining authorization for
13 the governor to execute is not confidential; and

14 (B) confidential information obtained under this paragraph
15 shall be shared with the legislature only in committees held in executive
16 session or under confidentiality agreements;

17 (13) exercise the powers and do the acts necessary to carry out the
18 provisions and objectives of AS 43.90 that relate to this chapter.

19 * **Sec. 11.** AS 38.05.020(b), as amended by sec. 10 of this Act, is amended to read:

20 (b) The commissioner may

21 (1) establish reasonable procedures and adopt reasonable regulations
22 necessary to carry out this chapter and, whenever necessary, issue directives or orders
23 to the director to carry out specific functions and duties; regulations adopted by the
24 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
25 orders by the commissioner classifying land, issued after January 3, 1959, are not
26 required to be adopted under AS 44.62 (Administrative Procedure Act);

27 (2) enter into agreements considered necessary to carry out the
28 purposes of this chapter, including agreements with federal and state agencies;

29 (3) review any order or action of the director;

30 (4) exercise the powers and do the acts necessary to carry out the
31 provisions and objectives of this chapter;

1 (5) notwithstanding the provisions of any other section of this chapter,
2 grant an extension of the time within which payments due on any exploration license,
3 lease, or sale of state land, minerals, or materials may be made, including payment of
4 rental and royalties, on a finding that compliance with the requirements is or was
5 prevented by reason of war, riots, or acts of God;

6 (6) classify tracts for agricultural uses;

7 (7) after consulting with the Board of Agriculture and Conservation
8 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
9 of a contract for the sale of agricultural land if

10 (A) the land is inaccessible by road; or

11 (B) transportation, marketing, and development costs render
12 the required development uneconomic;

13 (8) reconvey or relinquish land or an interest in land to the federal
14 government if

15 (A) the land is described in an amended application for an
16 allotment under 43 U.S.C. 1617; and

17 (B) the reconveyance or relinquishment is

18 (i) for the purposes provided in 43 U.S.C. 1617; and

19 (ii) in the best interests of the state;

20 (9) lead and coordinate all matters relating to the state's review and
21 authorization of resource development projects;

22 (10) enter into commercial agreements with a duration of not more
23 than two years for project services related to a North Slope natural gas project;

24 (11) in consultation with the commissioner of revenue, participate in
25 the negotiation of contracts and development of terms for inclusion in proposed
26 contracts associated with a North Slope natural gas project; a contract negotiated
27 under this paragraph to which the state is a party is not effective unless the legislature
28 authorizes the governor to execute the contract;

29 (12) enter into confidentiality agreements to maintain the
30 confidentiality of information related to contract negotiations and contract
31 implementation associated with a North Slope natural gas project; information under

1 those confidentiality agreements is not subject to AS 40.25 (Alaska Public Records
2 Act), except that

3 (A) the terms of a proposed contract that the commissioner
4 presents to the legislature for the purpose of obtaining authorization for the
5 governor to execute is not confidential; and

6 (B) confidential information obtained under this paragraph
7 shall be shared with the legislature only in committees held in executive
8 session or under confidentiality agreements;

9 (13) in consultation with the commissioner of revenue, take
10 custody of gas delivered to the state under AS 43.55.014(b) and manage the
11 project services and disposition and sale of that gas;

12 (14) exercise the powers and do the acts necessary to carry out the
13 provisions and objectives of AS 43.90 that relate to this chapter.

14 * **Sec. 12.** AS 38.05.180(i) is amended to read:

15 (i) The commissioner may provide for the establishment of an exploration
16 incentive credit system under which a lessee of state land drilling an exploratory well
17 on that land may earn credits based upon the footage drilled and the region in which
18 the well is situated. The commissioner may also provide for credits to be earned by
19 persons performing geophysical work on state land, if that work is performed during
20 the two seasons immediately preceding an announced lease sale and on land included
21 within the sale area and the geophysical information is made public following the sale.
22 Credits may not exceed 50 percent of the cost of the drilling or geophysical work.
23 Credits may be used during a limited period established by the commissioner and may
24 be assigned during that period. Credits may be applied against (1) royalty and rental
25 payments for oil and gas or for gas only payable to the state or (2) taxes payable under
26 AS 43.55.011 [AS 43.55]. A credit may not exceed 50 percent of the payment toward
27 which it is being applied. Amounts due the Alaska permanent fund (AS 37.13.010)
28 shall be calculated before the application of credits under this subsection.

29 * **Sec. 13.** AS 38.05.180 is amended by adding a new subsection to read:

30 (hh) Notwithstanding any other provisions of this chapter, if the commissioner
31 makes a written determination that a North Slope natural gas project has sufficient

1 financial commitment for a work plan and budget necessary to support major permits
2 and regulatory filings required by state and federal agencies, and sufficient
3 commitment of gas by lessees, the commissioner may propose modifications to
4 existing leases that relate to

5 (1) switching between taking the state's royalty gas in value and in
6 kind to ensure that the state's actions do not unreasonably

7 (A) cause the lessee or other person to bear disproportionate
8 transportation costs with respect to the state's royalty gas; or

9 (B) interfere with long-term marketing of natural gas by the
10 lessee or other person;

11 (2) providing a method for establishing a fair market value for each
12 component of the state's royalty gas and using appropriate adjustments to reflect fair
13 market value deductions for actual and reasonable transportation and processing costs
14 for the state's royalty gas from the North Slope to the first destination market;

15 (3) establishing fixed royalty rates and modifying net profit shares
16 under leases subject to this subsection; a fixed royalty rate established under this
17 paragraph may not be less than 12.5 percent.

18 * **Sec. 14.** AS 38.05.180(hh), as enacted in sec. 13 of this Act, is amended to read:

19 (hh) Notwithstanding any other provisions of this chapter, if the commissioner
20 makes a written determination that a North Slope natural gas project has sufficient
21 financial commitment for a work plan and budget necessary to support major permits
22 and regulatory filings required by state and federal agencies, and sufficient
23 commitment of gas by lessees, the commissioner may propose modifications to
24 existing leases that relate to

25 (1) switching between taking the state's royalty gas in value and in
26 kind to ensure that the state's actions do not unreasonably

27 (A) cause the lessee or other person to bear disproportionate
28 transportation costs with respect to the state's royalty gas or gas delivered to
29 the state under AS 43.55.014(b); or

30 (B) interfere with long-term marketing of natural gas by the
31 lessee or other person;

1 (2) providing a method for establishing a fair market value for each
2 component of the state's royalty gas and using appropriate adjustments to reflect fair
3 market value deductions for actual and reasonable transportation and processing costs
4 for the state's royalty gas from the North Slope to the first destination market;

5 (3) establishing fixed royalty rates and modifying net profit shares
6 under leases subject to this subsection; a fixed royalty rate established under this
7 paragraph may not be less than 12.5 percent.

8 * **Sec. 15.** AS 38.05.183(a) is amended to read:

9 (a) The sale, exchange, or other disposal of a mineral obtained by the state as a
10 royalty under AS 38.05.182, [OR] the sale, exchange, or other disposal in whole or in
11 part of a right to receive future mineral production under a state lease under this
12 chapter, or the sale, exchange, or other disposal of gas delivered to the state under
13 AS 43.55.014(b) shall be by competitive bid and the sale, exchange, or other disposal
14 made to the highest responsible bidder, except that competitive bidding is not required
15 when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas
16 Development Advisory Board under AS 38.06.050, determines that the best interest of
17 the state does not require it or that no competition exists.

18 * **Sec. 16.** AS 38.05.183(c) is amended to read:

19 (c) If the commissioner determines that a sale, exchange, or other disposal of a
20 mineral obtained by the state as a royalty under AS 38.05.182, [OR] of a right to
21 receive future mineral production under a state lease under this chapter, or of gas
22 delivered to the state under AS 43.55.014(b) shall be made otherwise than by
23 competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board
24 has been notified in writing of that determination, the commissioner shall make public
25 in writing the specific findings and conclusions upon which that determination is
26 based.

27 * **Sec. 17.** AS 38.05.183(d) is amended to read:

28 (d) Oil or gas taken in kind by the state as its royalty share or gas delivered to
29 the state under AS 43.55.014(b) may not be sold or otherwise disposed of for export
30 from the state until the commissioner determines that the [ROYALTY-IN-KIND] oil
31 or gas is surplus to the present and projected intrastate domestic and industrial needs.

1 The commissioner shall make public, in writing, the specific findings and reasons on
2 which the determination is based.

3 * **Sec. 18.** AS 38.05.183(e) is amended to read:

4 (e) When a sale, exchange, or other disposal of oil or gas taken in kind by the
5 state as its royalty share, or a sale, exchange, or other disposal in whole or in part of a
6 right to receive future royalty oil or gas, under a state lease under this chapter is made
7 other than by competitive bid, or when a sale, exchange, or other disposal of gas
8 delivered to the state under AS 43.55.014(b) is made other than by competitive
9 bid, the sale, exchange, or other disposal shall be awarded by the commissioner to the
10 prospective buyer whose proposal offers the maximum benefits to citizens of the state.
11 The commissioner shall consider

12 (1) the cash value offered;

13 (2) the projected effects of the sale, exchange, or other disposal on the
14 economy of the state;

15 (3) the projected benefits of refining or processing the oil or gas in the
16 state;

17 (4) the ability of the prospective buyer to provide refined products or
18 by-products for distribution and sale in the state with price or supply benefits to the
19 citizens of the state; and

20 (5) the criteria listed in AS 38.06.070(a).

21 * **Sec. 19.** AS 38.05.965 is amended by adding new paragraphs to read:

22 (26) "North Slope natural gas project" means a project to produce
23 natural gas from state oil and gas leases that include land north of 68 degrees North
24 latitude for transport in a gaseous state from the North Slope;

25 (27) "project services" means services provided by a gas treatment
26 plant, pipeline, liquefaction facility, or marine terminal, marine transportation
27 services, or other services necessary to take natural gas to market.

28 * **Sec. 20.** AS 40.25.100(a) is amended to read:

29 (a) Information in the possession of the Department of Revenue that discloses
30 the particulars of the business or affairs of a taxpayer or other person, including
31 information under AS 38.05.020(b)(11) that is subject to a confidentiality

1 agreement under AS 38.05.020(b)(12), is not a matter of public record, except as
2 provided in AS 43.05.230(i) or for purposes of investigation and law enforcement. The
3 information shall be kept confidential except when its production is required in an
4 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
5 court proceeding. These restrictions do not prohibit the publication of statistics
6 presented in a manner that prevents the identification of particular reports and items,
7 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
8 and relevant information that may assist in the collection of delinquent taxes, or
9 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
10 43.05.499.

11 * **Sec. 21.** AS 40.25.100, as amended by sec. 20 of this Act, is amended to read:

12 (a) Information in the possession of the Department of Revenue that discloses
13 the particulars of the business or affairs of a taxpayer or other person, including
14 information under AS 38.05.020(b)(11) that is subject to a confidentiality agreement
15 under AS 38.05.020(b)(12), is not a matter of public record, except as provided in
16 AS 43.05.230(i) or (k) or for purposes of investigation and law enforcement. The
17 information shall be kept confidential except when its production is required in an
18 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
19 court proceeding. These restrictions do not prohibit the publication of statistics
20 presented in a manner that prevents the identification of particular reports and items,
21 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
22 and relevant information that may assist in the collection of delinquent taxes, or
23 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
24 43.05.499.

25 * **Sec. 22.** AS 40.25.120(a) is amended to read:

26 (a) Every person has a right to inspect a public record in the state, including
27 public records in recorders' offices, except

28 (1) records of vital statistics and adoption proceedings, which shall be
29 treated in the manner required by AS 18.50;

30 (2) records pertaining to juveniles unless disclosure is authorized by
31 law;

- 1 (3) medical and related public health records;
- 2 (4) records required to be kept confidential by a federal law or
3 regulation or by state law;
- 4 (5) to the extent the records are required to be kept confidential under
5 20 U.S.C. 1232g and the regulations adopted under 20 U.S.C. 1232g in order to secure
6 or retain federal assistance;
- 7 (6) records or information compiled for law enforcement purposes, but
8 only to the extent that the production of the law enforcement records or information
- 9 (A) could reasonably be expected to interfere with enforcement
10 proceedings;
- 11 (B) would deprive a person of a right to a fair trial or an
12 impartial adjudication;
- 13 (C) could reasonably be expected to constitute an unwarranted
14 invasion of the personal privacy of a suspect, defendant, victim, or witness;
- 15 (D) could reasonably be expected to disclose the identity of a
16 confidential source;
- 17 (E) would disclose confidential techniques and procedures for
18 law enforcement investigations or prosecutions;
- 19 (F) would disclose guidelines for law enforcement
20 investigations or prosecutions if the disclosure could reasonably be expected to
21 risk circumvention of the law; or
- 22 (G) could reasonably be expected to endanger the life or
23 physical safety of an individual;
- 24 (7) names, addresses, and other information identifying a person as a
25 participant in the Alaska Higher Education Savings Trust under AS 14.40.802 or the
26 advance college tuition savings program under AS 14.40.803 - 14.40.817;
- 27 (8) public records containing information that would disclose or might
28 lead to the disclosure of a component in the process used to execute or adopt an
29 electronic signature if the disclosure would or might cause the electronic signature to
30 cease being under the sole control of the person using it;
- 31 (9) reports submitted under AS 05.25.030 concerning certain

1 collisions, accidents, or other casualties involving boats;

2 (10) records or information pertaining to a plan, program, or
3 procedures for establishing, maintaining, or restoring security in the state, or to a
4 detailed description or evaluation of systems, facilities, or infrastructure in the state,
5 but only to the extent that the production of the records or information

6 (A) could reasonably be expected to interfere with the
7 implementation or enforcement of the security plan, program, or procedures;

8 (B) would disclose confidential guidelines for investigations or
9 enforcement and the disclosure could reasonably be expected to risk
10 circumvention of the law; or

11 (C) could reasonably be expected to endanger the life or
12 physical safety of an individual or to present a real and substantial risk to the
13 public health and welfare;

14 (11) the written notification regarding a proposed regulation provided
15 under AS 24.20.105 to the Department of Law and the affected state agency and
16 communications between the Legislative Affairs Agency, the Department of Law, and
17 the affected state agency under AS 24.20.105;

18 (12) records that are

19 (A) proprietary, privileged, or a trade secret in accordance with
20 AS 43.90.150 or 43.90.220(e);

21 (B) applications that are received under AS 43.90 until notice is
22 published under AS 43.90.160;

23 (13) information of the Alaska Gasline Development Corporation
24 created under AS 31.25.010 or a subsidiary of the Alaska Gasline Development
25 Corporation that is confidential by law or under a valid confidentiality agreement;

26 (14) information under AS 38.05.020(b)(11) that is subject to a
27 confidentiality agreement under AS 38.05.020(b)(12).

28 * **Sec. 23.** AS 43.05.010 is amended to read:

29 **Sec. 43.05.010. Duties of commissioner.** The commissioner of revenue shall

30 (1) exercise general supervision and direct the activities of the
31 Department of Revenue;

- 1 (2) supervise the fiscal affairs and responsibilities of the department;
- 2 (3) prescribe uniform rules for investigations and hearings;
- 3 (4) keep a record of all departmental proceedings, record and file all
- 4 bonds, and assume custody of returns, reports, papers, and documents of the
- 5 department;
- 6 (5) adopt a seal and affix it to each order, process, or certificate issued
- 7 by the commissioner;
- 8 (6) keep a record of each order, process, and certificate issued by the
- 9 commissioner, and keep the record open to public inspection at all reasonable times;
- 10 (7) hold hearings and investigations necessary for the administration of
- 11 state tax and revenue laws;
- 12 (8) except as provided in AS 43.05.405 - 43.05.499 and in
- 13 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
- 14 Department of Revenue and enter orders on the appeals that are final unless reversed
- 15 or modified by the courts;
- 16 (9) issue subpoenas to require the attendance of witnesses and the
- 17 production of necessary books, papers, documents, correspondence, and other things;
- 18 (10) order the taking of depositions before a person competent to
- 19 administer oaths;
- 20 (11) administer oaths and take acknowledgments;
- 21 (12) request the attorney general for rulings on the interpretation of the
- 22 tax and revenue laws administered by the department;
- 23 (13) call upon the attorney general to institute actions for recovery of
- 24 unpaid taxes, fees, excises, additions to tax, penalties, and interest;
- 25 (14) issue warrants for the collection of unpaid tax penalties and
- 26 interest and take all steps necessary and proper to enforce full and complete
- 27 compliance with the tax, license, excise, and other revenue laws of the state;
- 28 (15) report to the legislature before February 15 of each year the total
- 29 amount of contributions reported and the total amount of credit claimed during the
- 30 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
- 31 AS 43.65.018, AS 43.75.018, and AS 43.77.045;

1 (16) consult with the commissioner of natural resources on
2 negotiation of contracts and development of terms for inclusion in proposed
3 contracts associated with a North Slope natural gas project.

4 * **Sec. 24.** AS 43.05.010, as amended by sec. 23 of this Act, is amended to read:

5 **Sec. 43.05.010. Duties of commissioner.** The commissioner of revenue shall

6 (1) exercise general supervision and direct the activities of the
7 Department of Revenue;

8 (2) supervise the fiscal affairs and responsibilities of the department;

9 (3) prescribe uniform rules for investigations and hearings;

10 (4) keep a record of all departmental proceedings, record and file all
11 bonds, and assume custody of returns, reports, papers, and documents of the
12 department;

13 (5) adopt a seal and affix it to each order, process, or certificate issued
14 by the commissioner;

15 (6) keep a record of each order, process, and certificate issued by the
16 commissioner, and keep the record open to public inspection at all reasonable times;

17 (7) hold hearings and investigations necessary for the administration of
18 state tax and revenue laws;

19 (8) except as provided in AS 43.05.405 - 43.05.499 and in
20 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
21 Department of Revenue and enter orders on the appeals that are final unless reversed
22 or modified by the courts;

23 (9) issue subpoenas to require the attendance of witnesses and the
24 production of necessary books, papers, documents, correspondence, and other things;

25 (10) order the taking of depositions before a person competent to
26 administer oaths;

27 (11) administer oaths and take acknowledgments;

28 (12) request the attorney general for rulings on the interpretation of the
29 tax and revenue laws administered by the department;

30 (13) call upon the attorney general to institute actions for recovery of
31 unpaid taxes, fees, excises, additions to tax, penalties, and interest;

1 (14) issue warrants for the collection of unpaid tax penalties and
2 interest and take all steps necessary and proper to enforce full and complete
3 compliance with the tax, license, excise, and other revenue laws of the state;

4 (15) report to the legislature before February 15 of each year the total
5 amount of contributions reported and the total amount of credit claimed during the
6 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
7 AS 43.65.018, AS 43.75.018, and AS 43.77.045;

8 (16) consult with the commissioner of natural resources on negotiation
9 of contracts and development of terms for inclusion in proposed contracts associated
10 with a North Slope natural gas project;

11 **(17) direct the disposition of revenues received from gas delivered**
12 **to the state under AS 43.55.014(b) by entering into agreements with the**
13 **commissioner of natural resources related to the management of the custody and**
14 **disposition of gas delivered to the state under AS 43.55.014(b).**

15 * **Sec. 25.** AS 43.05.230 is amended by adding a new subsection to read:

16 (k) The name of each person that the department has allowed to make an
17 election under AS 43.55.014(a) and the amount of gas produced from each lease or
18 property to which an effective election under AS 43.55.014 applies is public
19 information.

20 * **Sec. 26.** AS 43.20.144(f) is amended to read:

21 (f) The extraction factor of a taxpayer subject to this section is a fraction,

22 (1) the numerator of which is the sum of the following for the tax
23 period:

24 (A) the number of barrels of the taxpayer's oil (net of royalty to
25 an unrelated party) produced from or allocated to leases or properties of the
26 taxpayer in this state; and

27 (B) one-sixth of the number of Mcf of the taxpayer's gas,
28 **including gas subject to an election under AS 43.55.014,** (net of royalty to
29 an unrelated party) produced from or allocated to leases or properties of the
30 taxpayer in this state, excluding reinjected gas; and

31 (2) the denominator of which is the sum of the following for the tax

1 period:

2 (A) the number of barrels of oil of the taxpayer's consolidated
3 business (net of royalty to an unrelated party) produced from or allocated to
4 leases or properties of the taxpayer's consolidated business everywhere; and

5 (B) one-sixth of the number of Mcf of gas, including gas
6 subject to an election under AS 43.55.014, of the taxpayer's consolidated
7 business (net of royalty to an unrelated party) produced from or allocated to
8 leases or properties of the taxpayer's consolidated business everywhere,
9 excluding reinjected gas.

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

11 (e) There is levied on the producer of oil or gas a tax for all oil and gas
12 produced each calendar year from each lease or property in the state, less any oil and
13 gas the ownership or right to which is exempt from taxation or constitutes a
14 landowner's royalty interest or for which a tax is levied by AS 43.55.014. Except as
15 otherwise provided under (f), (j), (k), (o), and (p) of this section, for oil and gas
16 produced

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

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

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

22 (2) on and after January 1, 2014, and before January 1, 2022, the tax
23 is equal to the annual production tax value of the taxable oil and gas as calculated
24 under AS 43.55.160(a)(1) multiplied by 35 percent;

25 (3) on and after January 1, 2022, the tax for

26 (A) oil is equal to the annual production tax value of the
27 taxable oil as calculated under AS 43.55.160(h) multiplied by 35 percent;

28 (B) gas is equal to 10.5 percent of the gross value at the
29 point of production of the taxable gas; if the gross value at the point of
30 production of gas produced from a lease or property is less than zero, that
31 gross value at the point of production is considered zero for purposes of

this subparagraph.

* **Sec. 28.** AS 43.55.011(f) is amended to read:

(f) The levy of tax under **(e)** of this section for

(1) oil and gas produced **before January 1, 2022, from leases or properties that include land** north of 68 degrees North latitude, other than [OIL AND GAS PRODUCTION SUBJECT TO (i) OF THIS SECTION AND] gas subject to (o) of this section, may not be less than

(A) [(1)] four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than \$25;

(B) [(2)] three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$20 but not over \$25;

(C) [(3)] two percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$17.50 but not over \$20;

(D) [(4)] one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$15 but not over \$17.50; or

(E) [(5)] zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is \$15 or less; **and**

(2) oil produced on and after January 1, 2022, from leases or properties that include land north of 68 degrees North latitude, may not be less than

(A) four percent of the gross value at the point of

1 production when the average price per barrel for Alaska North Slope
2 crude oil for sale on the United States West Coast during the calendar
3 year for which the tax is due is more than \$25;

4 (B) three percent of the gross value at the point of
5 production when the average price per barrel for Alaska North Slope
6 crude oil for sale on the United States West Coast during the calendar
7 year for which the tax is due is over \$20 but not over \$25;

8 (C) two percent of the gross value at the point of production
9 when the average price per barrel for Alaska North Slope crude oil for
10 sale on the United States West Coast during the calendar year for which
11 the tax is due is over \$17.50 but not over \$20;

12 (D) one percent of the gross value at the point of production
13 when the average price per barrel for Alaska North Slope crude oil for
14 sale on the United States West Coast during the calendar year for which
15 the tax is due is over \$15 but not over \$17.50; or

16 (E) zero percent of the gross value at the point of
17 production when the average price per barrel for Alaska North Slope
18 crude oil for sale on the United States West Coast during the calendar
19 year for which the tax is due is \$15 or less.

20 * **Sec. 29.** AS 43.55 is amended by adding a new section to read:

21 **Sec. 43.55.014. Payment in gas of tax for gas.** (a) For gas produced on and
22 after January 1, 2022, from oil and gas leases that have been modified under
23 AS 38.05.180(hh), other than gas described in (e) of this section, the department may
24 allow a producer to make an irrevocable election, under regulations adopted by the
25 department, to pay in gas the production tax levied by this section in lieu of the tax
26 otherwise levied for the gas by AS 43.55.011(e).

27 (b) A production tax levied by this section is equal to 10.5 percent of the gas
28 otherwise taxable under AS 43.55.011(e)(3) produced from each lease or property to
29 which an effective election under (a) of this section applies, when and as that gas is
30 produced. The producer shall pay the tax in gas by delivering that 10.5 percent of the
31 gas to the state at the point of production.

1 (c) The Department of Natural Resources shall manage under
2 AS 38.05.020(b)(13) the custody and disposition of gas delivered to the state under (b)
3 of this section.

4 (d) If a deficiency in a tax levied by this section is assessed, or if a provision
5 of this title providing for interest or a penalty based on a percentage of a tax liability or
6 tax deficiency applies to gas for which a tax is levied by this section, the amount of the
7 deficiency and the tax amount on which the interest or penalty percentage is calculated
8 is treated for the purpose only of that calculation as having been levied by
9 AS 43.55.011(e) rather than this section.

10 (e) This section does not apply to gas

11 (1) flared, released, or allowed to escape upstream of the point of
12 production of gas; or

13 (2) used in the operation of a lease or property in the state for drilling
14 for or producing oil or gas, or for repressuring a reservoir.

15 * **Sec. 30.** AS 43.55.019(a) is amended to read:

16 (a) A producer of oil or gas is allowed a credit against the tax levied by
17 AS 43.55.011(e) [DUE UNDER THIS CHAPTER] for cash contributions accepted for

18 (1) direct instruction, research, and educational support purposes,
19 including library and museum acquisitions, and contributions to endowment, by an
20 Alaska university foundation or by a nonprofit, public or private, Alaska two-year or
21 four-year college accredited by a regional accreditation association;

22 (2) secondary school level vocational education courses, programs, and
23 facilities by a school district in the state;

24 (3) vocational education courses, programs, and facilities by a state-
25 operated vocational technical education and training school;

26 (4) a facility or an annual intercollegiate sports tournament by a
27 nonprofit, public or private, Alaska two-year or four-year college accredited by a
28 regional accreditation association;

29 (5) Alaska Native cultural or heritage programs and educational
30 support, including mentoring and tutoring, provided by a nonprofit agency for public
31 school staff and for students who are in grades kindergarten through 12 in the state;

1 (6) education, research, rehabilitation, and facilities by an institution
2 that is located in the state and that qualifies as a coastal ecosystem learning center
3 under the Coastal America Partnership established by the federal government; and

4 (7) the Alaska higher education investment fund under AS 37.14.750.

5 * **Sec. 31.** AS 43.55.019(e) is amended to read:

6 (e) The credit under this section may not reduce a person's tax liability under
7 AS 43.55.011(e) [THIS CHAPTER] to below zero for any tax year. An unused credit
8 or portion of a credit not used under this section for a tax year may not be sold, traded,
9 transferred, or applied in a subsequent tax year.

10 * **Sec. 32.** AS 43.55.020(a) is amended to read:

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

13 (1) for oil and gas produced before January 1, 2014, an installment
14 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
15 as allowed by law, is due for each month of the calendar year on the last day of the
16 following month; except as otherwise provided under (2) of this subsection, the
17 amount of the installment payment is the sum of the following amounts, less 1/12 of
18 the tax credits that are allowed by law to be applied against the tax levied by
19 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
20 not be less than zero:

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

25 (i) zero; or

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

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

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

5 (i) zero;

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

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

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

20 (i) zero; or

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

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

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

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

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

11 (2) an amount calculated under (1)(C) of this subsection for oil or gas
12 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
13 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
14 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
15 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
16 amount of taxable gas produced during the month for the amount of taxable gas
17 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
18 (2)(A), as applicable, the amount of taxable oil produced during the month for the
19 amount of taxable oil produced during the calendar year;

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

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

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

1 (4) any amount of tax levied by AS 43.55.011, net of any credits
2 applied as allowed by law, that exceeds the total of the amounts due as installment
3 payments of estimated tax is due on March 31 of the year following the calendar year
4 of production;

5 (5) **for oil and gas produced** on and after January 1, 2014, **and before**
6 **January 1, 2022,** an installment payment of the estimated tax levied by
7 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
8 month of the calendar year on the last day of the following month; except as otherwise
9 provided under (6) of this subsection, the amount of the installment payment is the
10 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be
11 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
12 of the installment payment may not be less than zero:

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

17 (i) zero; or

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

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

27 (i) zero;

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

1 (iii) 35 percent multiplied by the remainder obtained by
2 subtracting 1/12 of the producer's adjusted lease expenditures for the
3 calendar year of production under AS 43.55.165 and 43.55.170 that are
4 deductible for the oil and gas under AS 43.55.160 from the gross value
5 at the point of production of the oil and gas produced from those leases
6 or properties during the month for which the installment payment is
7 calculated, except that, for the purposes of this calculation, a reduction
8 from the gross value at the point of production may apply for oil and
9 gas subject to AS 43.55.160(f) or (g);

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

12 (i) zero; or

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

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

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

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

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

10 (7) for oil and gas produced on or after January 1, 2022, an
11 installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax
12 credits applied as allowed by law, is due for each month of the calendar year on
13 the last day of the following month; the amount of the installment payment is the
14 sum of the following amounts, less 1/12 of the tax credits that are allowed by law
15 to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but
16 the amount of the installment payment may not be less than zero:

17 (A) for oil produced from leases or properties that include
18 land north of 68 degrees North latitude, the greatest of

19 (i) zero;

20 (ii) zero percent, one percent, two percent, three
21 percent, or four percent, as applicable, of the gross value at the
22 point of production of the oil produced from the leases or
23 properties during the month for which the installment payment is
24 calculated; or

25 (iii) 35 percent multiplied by the remainder obtained
26 by subtracting 1/12 of the producer's adjusted lease expenditures
27 for the calendar year of production under AS 43.55.165 and
28 43.55.170 that are deductible for the oil under AS 43.55.160(h)(1)
29 from the gross value at the point of production of the oil produced
30 from those leases or properties during the month for which the
31 installment payment is calculated, except that, for the purposes of

1 this calculation, a reduction from the gross value at the point of
2 production may apply for oil subject to AS 43.55.160(f) or
3 43.55.160(f) and (g):

4 (B) for oil produced before or during the last calendar year
5 under AS 43.55.024(b) for which the producer could take a tax credit
6 under AS 43.55.024(a), from leases or properties in the state outside the
7 Cook Inlet sedimentary basin, no part of which is north of 68 degrees
8 North latitude, other than leases or properties subject to AS 43.55.011(p),
9 the greater of

10 (i) zero; or

11 (ii) 35 percent multiplied by the remainder obtained
12 by subtracting 1/12 of the producer's adjusted lease expenditures
13 for the calendar year of production under AS 43.55.165 and
14 43.55.170 that are deductible for the oil under AS 43.55.160(h)(2)
15 from the gross value at the point of production of the oil produced
16 from the leases or properties during the month for which the
17 installment payment is calculated;

18 (C) for oil and gas produced from leases or properties
19 subject to AS 43.55.011(p), except as otherwise provided under (8) of this
20 subsection, the sum of

21 (i) 35 percent multiplied by the remainder obtained
22 by subtracting 1/12 of the producer's adjusted lease expenditures
23 for the calendar year of production under AS 43.55.165 and
24 43.55.170 that are deductible for the oil under AS 43.55.160(h)(3)
25 from the gross value at the point of production of the oil produced
26 from the leases or properties during the month for which the
27 installment payment is calculated, but not less than zero; and

28 (ii) 10.5 percent of the gross value at the point of
29 production of the gas produced from the leases or properties
30 during the month, but not less than zero;

31 (D) for oil produced from leases or properties in the state,

1 no part of which is north of 68 degrees North latitude, other than leases or
2 properties subject to (B) or (C) of this paragraph, the greater of

3 (i) zero; or

4 (ii) 35 percent multiplied by the remainder obtained
5 by subtracting 1/12 of the producer's adjusted lease expenditures
6 for the calendar year of production under AS 43.55.165 and
7 43.55.170 that are deductible for the oil under AS 43.55.160(h)(4)
8 from the gross value at the point of production of the oil produced
9 from the leases or properties during the month for which the
10 installment payment is calculated;

11 (E) for gas produced from each lease or property in the
12 state, other than a lease or property subject to AS 43.55.011(p), 10.5
13 percent of the gross value at the point of production of the gas produced
14 from the lease or property during the month for which the installment
15 payment is calculated, but not less than zero;

16 (8) an amount calculated under (7)(C) of this subsection may not
17 exceed four percent of the gross value at the point of production of the oil and gas
18 produced from leases or properties subject to AS 43.55.011(p) during the month
19 for which the installment payment is calculated;

20 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
21 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the
22 point of production is determined under AS 43.55.011(f)(1) or (2) but substituting
23 the phrase "month for which the installment payment is calculated" in
24 AS 43.55.011(f)(1) and (2) for the phrase "calendar year for which the tax is
25 due."

26 * Sec. 33. AS 43.55.020(g) is amended to read:

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

28 (1) before January 1, 2014, an unpaid amount of an installment
29 payment required under (a)(1) - (3) of this section that is not paid when due bears
30 interest (A) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal
31 Revenue Code), as amended, compounded daily, from the date the installment

1 payment is due until March 31 following the calendar year of production, and (B) as
2 provided for a delinquent tax under AS 43.05.225 after that March 31; interest accrued
3 under (A) of this paragraph that remains unpaid after that March 31 is treated as an
4 addition to tax that bears interest under (B) of this paragraph; an unpaid amount of tax
5 due under (a)(4) of this section that is not paid when due bears interest as provided for
6 a delinquent tax under AS 43.05.225;

7 (2) on and after January 1, 2014, an unpaid amount of an installment
8 payment required under (a)(3), (5), [OR] (6), or (7) of this section that is not paid
9 when due bears interest (A) at the rate provided for an underpayment under 26 U.S.C.
10 6621 (Internal Revenue Code), as amended, compounded daily, from the date the
11 installment payment is due until March 31 following the calendar year of production,
12 and (B) as provided for a delinquent tax under AS 43.05.225 after that March 31;
13 interest accrued under (A) of this paragraph that remains unpaid after that March 31 is
14 treated as an addition to tax that bears interest under (B) of this paragraph; an unpaid
15 amount of tax due under (a)(4) of this section that is not paid when due bears interest
16 as provided for a delinquent tax under AS 43.05.225.

17 * **Sec. 34.** AS 43.55.020(h) is amended to read:

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

19 (1) an overpayment of an installment payment required under (a)(1),
20 (2), (3), (5), (6), or (7) [(a)(1) - (3), (5) OR (6)] of this section bears interest at the rate
21 provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as
22 amended, compounded daily, from the later of the date the installment payment is due
23 or the date the overpayment is made, until the earlier of

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

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

26 (2) except as provided under (1) of this subsection, interest with
27 respect to an overpayment is allowed only on any net overpayment of the payments
28 required under (a) of this section that remains after the later of March 31 following the
29 calendar year of production or the date that the statement required under
30 AS 43.55.030(a) is filed;

31 (3) interest is allowed under (2) of this subsection only from a date that

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

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

6 * **Sec. 35.** AS 43.55.020(*l*) is amended to read:

7 (l) **For oil and gas produced on** [ON] and after January 1, 2014, **and before**
8 **January 1, 2022**, in making settlement with the royalty owner for oil and gas that is
9 taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on
10 taxable royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in
11 value at the time the tax becomes due to the amount of the tax paid. If the total
12 deductions of installment payments of estimated tax for a calendar year exceed the
13 actual tax for that calendar year, the producer shall, before April 1 of the following
14 year, refund the excess to the royalty owner. Unless otherwise agreed between the
15 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
16 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
17 right to which constitutes a landowner's royalty interest, is considered to be the gross
18 value at the point of production of the taxable royalty oil and gas produced during the
19 calendar year multiplied by a figure that is a quotient, in which

20 (1) the numerator is the producer's total tax liability under
21 **AS 43.55.011(e)(2)** [AS 43.55.011(e)] for the calendar year of production; and

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

25 * **Sec. 36.** AS 43.55.020 is amended by adding a new subsection to read:

26 (m) For oil and gas produced on and after January 1, 2022, in making
27 settlement with the royalty owner for oil and gas that is taxable under AS 43.55.011,
28 the producer may deduct the amount of the tax paid on taxable royalty oil and gas, or
29 may deduct taxable royalty oil or gas equivalent in value at the time the tax becomes
30 due to the amount of the tax paid. If the total deductions of installment payments of
31 estimated tax for a calendar year exceed the actual tax for that calendar year, the

1 producer shall, before April 1 of the following year, refund the excess to the royalty
2 owner. In making settlement with the royalty owner for gas that is taxable under
3 AS 43.55.014, the producer may deduct the amount of the gas paid as in kind tax on
4 taxable royalty gas or may deduct the gross value at the point of production of the gas
5 paid as in-kind tax on taxable royalty gas. Unless otherwise agreed between the
6 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
7 taxable royalty oil for a calendar year, other than oil the ownership or right to which
8 constitutes a landowner's royalty interest, is considered to be the gross value at the
9 point of production of the taxable royalty oil produced during the calendar year
10 multiplied by a figure that is a quotient, in which

11 (1) the numerator is the producer's total tax liability under
12 AS 43.55.011(e)(3)(A) for the calendar year of production; and

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

16 * **Sec. 37.** AS 43.55.030(a) is amended to read:

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

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

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

27 (3) the gross amount of oil and the gross amount of gas produced from
28 each lease or property, separately identifying the gross amount of gas produced
29 from each lease or property to which an effective election under AS 43.55.014(a)
30 applies, the amount of gas delivered to the state under AS 43.55.014(b), and the
31 percentage of the gross amount of oil and gas owned by the producer;

1 (4) the gross value at the point of production of the oil and of the gas
2 produced from each lease or property owned by the producer and the costs of
3 transportation of the oil and gas;

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

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

10 (7) the production tax values of the oil and gas under AS 43.55.160(a)
11 or of the oil under AS 43.55.160(h), as applicable [AS 43.55.160];

12 (8) any claims for tax credits to be applied; and

13 (9) calculations showing the amounts, if any, that were or are due
14 under AS 43.55.020(a) and interest on any underpayment or overpayment.

15 * **Sec. 38.** AS 43.55.160(a) is amended to read:

16 (a) **For oil and gas produced before January 1, 2022, except** [EXCEPT] as
17 provided in (b), (f), and (g) of this section, for the purposes of

18 (1) **AS 43.55.011(e)(1) and (2)** [AS 43.55.011(e)], the annual
19 production tax value of taxable oil, gas, or oil and gas produced during a calendar year
20 in a category for which a separate annual production tax value is required to be
21 calculated under this paragraph is the gross value at the point of production of that oil,
22 gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease
23 expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil
24 and gas in that category produced by the producer during the calendar year, as
25 adjusted under AS 43.55.170; a separate annual production tax value shall be
26 calculated for

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

30 (B) oil and gas produced from leases or properties in the state
31 outside the Cook Inlet sedimentary basin, no part of which is north of 68

1 degrees North latitude and that qualifies for a tax credit under AS 43.55.024(a)
2 and (b); this subparagraph does not apply to

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

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

5 (C) oil produced before 2022 from each lease or property in the
6 Cook Inlet sedimentary basin;

7 (D) gas produced before 2022 from each lease or property in
8 the Cook Inlet sedimentary basin;

9 (E) gas produced before 2022 from each lease or property in
10 the state outside the Cook Inlet sedimentary basin and used in the state, other
11 than gas subject to AS 43.55.011(p);

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

14 (G) oil and gas produced from leases or properties in the state
15 no part of which is north of 68 degrees North latitude, other than oil or gas
16 described in (B), (C), (D), (E), or (F) of this paragraph;

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

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

27 (B) oil and gas produced during a month from leases or
28 properties in the state outside the Cook Inlet sedimentary basin, no part of
29 which is north of 68 degrees North latitude, is the gross value at the point of
30 production of the oil and gas taxable under AS 43.55.011(e) and produced by
31 the producer from those leases or properties, less 1/12 of the producer's lease

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

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

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

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

24 * **Sec. 39.** AS 43.55.160(e) is amended to read:

25 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
26 would otherwise be deductible by a producer in a calendar year but whose deduction
27 would cause an annual production tax value calculated under (a)(1) or (h) of this
28 section of taxable oil or gas produced during the calendar year to be less than zero
29 may be used to establish a carried-forward annual loss under AS 43.55.023(b).
30 However, the department shall provide by regulation a method to ensure that, for a
31 period for which a producer's tax liability is limited by AS 43.55.011(j), (k), (o), or

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

13 * **Sec. 40.** AS 43.55.160(f) is amended to read:

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

1 * **Sec. 41.** AS 43.55.160(g) is amended to read:

2 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
3 section, in the calculation of an annual production tax value of a producer under
4 (a)(1)(A) or (h)(1) [(a)(1)] of this section, the gross value at the point of production of
5 oil or gas produced from a lease or property north of 68 degrees North latitude that
6 does not contain a lease that was within a unit on January 1, 2003, is reduced by 10
7 percent if the oil or gas is produced from a unit made up solely of leases that have a
8 royalty share of more than 12.5 percent in amount or value of the production removed
9 or sold from the lease as determined under AS 38.05.180(f). This subsection does not
10 apply if the royalty obligation for one or more of the leases in the unit has been
11 reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of the calendar
12 year for which the annual production tax value is calculated. This subsection does not
13 apply to gas produced before 2022 that is used in the state or to gas produced on and
14 after January 1, 2022. A reduction under this subsection may not reduce the gross
15 value at the point of production below zero.

16 * **Sec. 42.** AS 43.55.160 is amended by adding a new subsection to read:

17 (h) For oil produced on and after January 1, 2022, except as provided in (b),
18 (f), and (g) of this section, for the purposes of AS 43.55.011(e)(3), the annual
19 production tax value of oil taxable under AS 43.55.011(e) produced by a producer
20 during a calendar year

21 (1) from leases or properties in the state that include land north of 68
22 degrees North latitude is the gross value at the point of production of that oil, less the
23 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
24 explore for, develop, or produce oil or gas deposits located in the state north of 68
25 degrees North latitude or located in leases or properties in the state that include land
26 north of 68 degrees North latitude, as adjusted under AS 43.55.170;

27 (2) before or during the last calendar year under AS 43.55.024(b) for
28 which the producer could take a tax credit under AS 43.55.024(a), from leases or
29 properties in the state outside the Cook Inlet sedimentary basin, no part of which is
30 north of 68 degrees North latitude, other than leases or properties subject to
31 AS 43.55.011(p), is the gross value at the point of production of that oil, less the

1 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
2 explore for, develop, or produce oil or gas deposits located in the state outside the
3 Cook Inlet sedimentary basin and south of 68 degrees North latitude, other than oil or
4 gas deposits located in a lease or property that includes land north of 68 degrees North
5 latitude or that is subject to AS 43.55.011(p) or, before January 1, 2027, from which
6 commercial production has not begun, as adjusted under AS 43.55.170;

7 (3) from leases or properties subject to AS 43.55.011(p) is the gross
8 value at the point of production of that oil, less the producer's lease expenditures under
9 AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil or
10 gas deposits located in leases or properties subject to AS 43.55.011(p) or, before
11 January 1, 2027, located in leases or properties in the state outside the Cook Inlet
12 sedimentary basin, no part of which is north of 68 degrees North latitude from which
13 commercial production has not begun, as adjusted under AS 43.55.170;

14 (4) from leases or properties in the state no part of which is north of 68
15 degrees North latitude, other than leases or properties subject to (2) or (3) of this
16 subsection, is the gross value at the point of production of that oil less the producer's
17 lease expenditures under AS 43.55.165 for the calendar year incurred to explore for,
18 develop, or produce oil or gas deposits located in the state south of 68 degrees North
19 latitude, other than oil or gas deposits located in a lease or property in the state that
20 includes land north of 68 degrees North latitude, and excluding lease expenditures that
21 are deductible under (2) or (3) of this subsection or would be deductible under (2) or
22 (3) of this subsection if not prohibited by (b) of this section, as adjusted under
23 AS 43.55.170.

24 * **Sec. 43.** AS 43.55.165(e) is amended to read:

25 (e) For purposes of this section, lease expenditures do not include

26 (1) depreciation, depletion, or amortization;

27 (2) oil or gas royalty payments, production payments, lease profit
28 shares, or other payments or distributions of a share of oil or gas production, profit, or
29 revenue, except that a producer's lease expenditures applicable to oil and gas produced
30 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
31 profit paid to the state under that lease;

- 1 (3) taxes based on or measured by net income;
- 2 (4) interest or other financing charges or costs of raising equity or debt
- 3 capital;
- 4 (5) acquisition costs for a lease or property or exploration license;
- 5 (6) costs arising from fraud, wilful misconduct, gross negligence,
- 6 violation of law, or failure to comply with an obligation under a lease, permit, or
- 7 license issued by the state or federal government;
- 8 (7) fines or penalties imposed by law;
- 9 (8) costs of arbitration, litigation, or other dispute resolution activities
- 10 that involve the state or concern the rights or obligations among owners of interests in,
- 11 or rights to production from, one or more leases or properties or a unit;
- 12 (9) costs incurred in organizing a partnership, joint venture, or other
- 13 business entity or arrangement;
- 14 (10) amounts paid to indemnify the state; the exclusion provided by
- 15 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
- 16 a third-party insurer or surety;
- 17 (11) surcharges levied under AS 43.55.201 or 43.55.300;
- 18 (12) an expenditure otherwise deductible under (b) of this section that
- 19 is a result of an internal transfer, a transaction with an affiliate, or a transaction
- 20 between related parties, or is otherwise not an arm's length transaction, unless the
- 21 producer establishes to the satisfaction of the department that the amount of the
- 22 expenditure does not exceed the fair market value of the expenditure;
- 23 (13) an expenditure incurred to purchase an interest in any corporation,
- 24 partnership, limited liability company, business trust, or any other business entity,
- 25 whether or not the transaction is treated as an asset sale for federal income tax
- 26 purposes;
- 27 (14) a tax levied under AS 43.55.011 or 43.55.014;
- 28 (15) costs incurred for dismantlement, removal, surrender, or
- 29 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
- 30 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
- 31 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not

1 excluded under this paragraph if the dismantlement, removal, surrender, or
2 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
3 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

4 (16) costs incurred for containment, control, cleanup, or removal in
5 connection with any unpermitted release of oil or a hazardous substance and any
6 liability for damages imposed on the producer or explorer for that unpermitted release;
7 this paragraph does not apply to the cost of developing and maintaining an oil
8 discharge prevention and contingency plan under AS 46.04.030;

9 (17) costs incurred to satisfy a work commitment under an exploration
10 license under AS 38.05.132;

11 (18) that portion of expenditures, that would otherwise be qualified
12 capital expenditures, as defined in AS 43.55.023, incurred during a calendar year that
13 are less than the product of \$0.30 multiplied by the total taxable production from each
14 lease or property, in BTU equivalent barrels, during that calendar year, except that,
15 when a portion of a calendar year is subject to this provision, the expenditures and
16 volumes shall be prorated within that calendar year;

17 (19) costs incurred for repair, replacement, or deferred maintenance of
18 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
19 undertaken in response to a failure, problem, or event that results in an unscheduled
20 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
21 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
22 equipment, other than a well, that is undertaken in response to, or is otherwise
23 associated with, an unpermitted release of a hazardous substance or of gas; however,
24 costs under this paragraph that would otherwise constitute lease expenditures under (a)
25 and (b) of this section may be treated as lease expenditures if the department
26 determines that the repair or replacement is solely necessitated by an act of war, by an
27 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
28 inevitable, and irresistible character, the effects of which could not have been
29 prevented or avoided by the exercise of due care or foresight, or by an intentional or
30 negligent act or omission of a third party, other than a party or its agents in privity of
31 contract with, or employed by, the producer or an operator acting for the producer, but

1 only if the producer or operator, as applicable, exercised due care in operating and
2 maintaining the facility, pipeline, structure, or equipment, and took reasonable
3 precautions against the act or omission of the third party and against the consequences
4 of the act or omission; in this paragraph,

5 (A) "costs incurred for repair, replacement, or deferred
6 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
7 to dismantle and remove the facility, pipeline, structure, or equipment that is
8 being replaced;

9 (B) "hazardous substance" has the meaning given in
10 AS 46.03.826;

11 (C) "replacement" includes renovation or improvement;

12 (20) costs incurred to construct, acquire, or operate a refinery or crude
13 oil topping plant, regardless of whether the products of the refinery or topping plant
14 are used in oil or gas exploration, development, or production operations; however, if
15 a producer owns a refinery or crude oil topping plant that is located on or near the
16 premises of the producer's lease or property in the state and that processes the
17 producer's oil produced from that lease or property into a product that the producer
18 uses in the operation of the lease or property in drilling for or producing oil or gas, the
19 producer's lease expenditures include the amount calculated by subtracting from the
20 fair market value of the product used the prevailing value, as determined under
21 AS 43.55.020(f), of the oil that is processed;

22 (21) costs of lobbying, public relations, public relations advertising, or
23 policy advocacy.

24 * **Sec. 44.** AS 43.55.900(10) is amended to read:

25 (10) "gas processing plant" means a facility that

26 (A) extracts and recovers liquid hydrocarbons from a gaseous
27 mixture of hydrocarbons by gas processing; and

28 (B) is located upstream of the inlet of any pipeline
29 transporting gas to a gas treatment plant and upstream of the inlet of any gas
30 pipeline system transporting gas to a market;

31 * **Sec. 45.** AS 43.55.900(20) is amended to read:

1 (20) "point of production" means

2 (A) for oil, the automatic custody transfer meter or device
3 through which the oil enters into the facilities of a carrier pipeline or other
4 transportation carrier in a condition of pipeline quality; in the absence of an
5 automatic custody transfer meter or device, "point of production" means the
6 mechanism or device to measure the quantity of oil that has been approved by
7 the department for that purpose, through which the oil is tendered and accepted
8 in a condition of pipeline quality into the facilities of a carrier pipeline or other
9 transportation carrier or into a field topping plant;

10 (B) for gas [, OTHER THAN GAS DESCRIBED IN (C) OF
11 THIS PARAGRAPH,] that is

12 (i) not subjected to or recovered by mechanical
13 separation or run through a gas processing plant, the **furthest**
14 **upstream of the** first point where the gas is accurately metered, **the**
15 **inlet of any pipeline transporting the gas to a gas treatment plant,**
16 **or the inlet of any gas pipeline system transporting gas to a market;**

17 (ii) subjected to or recovered by mechanical separation
18 but not run through a gas processing plant, the **furthest upstream of**
19 **the** first point where the gas is accurately metered after completion of
20 mechanical separation, **the inlet of any pipeline transporting the gas**
21 **to a gas treatment plant, or the inlet of any gas pipeline system**
22 **transporting gas to a market;**

23 (iii) run through a gas processing plant, the **furthest**
24 **upstream of the** first point where the gas is accurately metered
25 downstream of the plant, **the inlet of any pipeline transporting the**
26 **gas to a gas treatment plant, or the inlet of any gas pipeline system**
27 **transporting gas to a market;**

28 [(C) FOR GAS RUN THROUGH AN INTEGRATED GAS
29 PROCESSING PLANT AND GAS TREATMENT FACILITY THAT DOES
30 NOT ACCURATELY METER THE GAS AFTER THE GAS PROCESSING
31 AND BEFORE THE GAS TREATMENT, THE FIRST POINT WHERE GAS

1 PROCESSING IS COMPLETED OR WHERE GAS TREATMENT BEGINS,
2 WHICHEVER IS FURTHER UPSTREAM;]

3 * **Sec. 46.** AS 43.55.900 is amended by adding a new paragraph to read:

4 (25) "gas treatment plant" means a facility that performs gas treatment,
5 regardless of whether the facility also performs gas processing.

6 * **Sec. 47.** AS 43.98.030(c) is amended to read:

7 (c) A taxpayer acquiring a transferable tax credit certificate may use the credit
8 or a portion of the credit to offset taxes imposed under AS 21.09.210, AS 21.66.110,
9 AS 43.20, AS 43.55.011 [AS 43.55], AS 43.56, AS 43.65, AS 43.75, and AS 43.77.
10 Except as provided in (e) of this section, any portion of the credit not used may be
11 used at a later period or transferred under (b) of this section.

12 * **Sec. 48.** The uncodified law of the State of Alaska is amended by adding a new section to
13 read:

14 DEVELOPMENT OF A PLAN FOR RESIDENTS TO PARTICIPATE IN THE
15 OWNERSHIP OF A NORTH SLOPE NATURAL GAS PIPELINE. (a) At the time the
16 commissioner of natural resources submits the first contract to the legislature for approval
17 under AS 38.05.020(b)(11), enacted by sec. 10 of this Act, the commissioner of revenue shall
18 present a plan and suggested legislation to allow a resident of the state to participate as a co-
19 owner in a North Slope natural gas pipeline. The plan must include the recommendations of
20 the commissioner as to

21 (1) the means by which a resident may invest in the North Slope natural gas
22 pipeline that may include providing an option for a resident to designate an amount of a
23 permanent fund dividend to be deducted for the investment;

24 (2) whether the ownership interest in a North Slope natural gas pipeline should
25 be acquired from the portion of a North Slope natural gas pipeline acquired by the state,
26 through the purchase of stock in a publicly traded corporation that invests in a North Slope
27 natural gas pipeline, or some other means;

28 (3) the means for providing notice to a resident receiving an ownership
29 interest that explains the type of ownership interest and the rights and obligations related to
30 that ownership interest;

31 (4) whether the ownership interest received by a resident may be transferred or

1 assigned to another person and the means for transferring the interest;

2 (5) the means by which the proportional share of a dividend or other income
3 may be distributed to a resident or transferee of an interest if a resident receives an ownership
4 interest acquired by the state in a North Slope natural gas pipeline and the state receives a
5 dividend or other income from its ownership interest, and whether the payment should be
6 subject to interest if not timely distributed;

7 (6) the means by which the commissioner may identify a publicly traded
8 corporation that has an ownership interest in a North Slope natural gas pipeline that is subject
9 to investment by an individual under the proposed plan; and

10 (7) the means by which an individual may qualify as a resident for purposes of
11 investing in an ownership interest.

12 (b) In this section, "North Slope natural gas pipeline" means a natural gas pipeline
13 project that transports natural gas produced in the state north of 68 degrees North latitude to a
14 market in the state or to tidewater for export from the state including a facility in the state for
15 liquefying natural gas for transport.

16 * **Sec. 49.** The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 TRANSITION: REGULATIONS. The Department of Revenue and the Department of
19 Natural Resources may adopt regulations to implement this Act. The regulations take effect
20 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the
21 provisions of this Act being implemented.

22 * **Sec. 50.** The uncodified law of the State of Alaska is amended by adding a new section to
23 read:

24 REVISOR'S INSTRUCTION. The revisor of statutes is instructed to change the catch
25 line of AS 38.05.183 from "Sale of royalty" to "Sale of royalty and of gas delivered to the
26 state under AS 43.55.014(b)."

27 * **Sec. 51.** Sections 1 - 10, 12, 13, 19, 20, 22, 23, 30, 31, and 47 - 49 of this Act take effect
28 immediately under AS 01.10.070(c).

29 * **Sec. 52.** Except as provided in sec. 51 of this Act, this Act takes effect January 1, 2015.

LEGAL SERVICES

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MEMORANDUM

February 19, 2014

SUBJECT: Problems with the title of the bill - CSSB 138(RES)
(Work Order No. 28-GS2806U)

TO: Senator Cathy Giessel
Chair of the Senate Resources Committee
Attn: Lindsay Williams

FROM: Donald M. Bullock
Legislative Counsel

Enclosed is a draft committee substitute you requested that includes the amendments you provided. At your request, this draft has not been edited to conform with the *Manual of Legislative Drafting* (2013).

A number of the changes in this draft related to the gas production tax that would be levied under AS 43.55.014 in sec. 29 of this draft and the bill as introduced. AS 43.55.014(a) begins with the phrase, "For gas produced on and after January 1, 2022 . . ." As I read AS 43.55.014, the tax that may be paid in the form of gas rather than dollars is the tax on gas production. For production after 2021 under AS 43.55.011(e), as amended in sec. 27 of this draft and the bill as introduced, the tax in gas production would be paid in dollars under AS 43.55.011(e)(3)(B) or be paid in the form of gas if an election is made under AS 43.55.014.

Article II, sec. 13, Constitution of the State of Alaska requires, "The subject of each bill shall be expressed in the title." One part of our bill review is to ensure that the title matches the subjects of the bill.¹ A bill title may be quite general by expressing one general single subject that is addressed by all sections of the bill, or as here, attempt to narrowly and individually list every subject. The more specific a bill title, such as the title of SB 138, the greater the risk that a subject may be missed or misstated.

The amendments you provided for inclusion in the CS changed "in-kind" to "gas" in a number of places, including the title. After making the changes, I read the title of the bill for conformity. The titles refer to an "election to pay the oil and gas production tax" in-kind (in SB 138) or gas (in the enclosed CS). However, the language of the bill does

¹ *Manual of Legislative Drafting*, pp. 10 - 11.

Senator Cathy Giessel

February 19, 2014

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not permit tax on oil production to be paid in gas; an election under AS 43.55.014 only allows the tax on gas production to be as gas.

Accordingly, the title should be changed to reflect the subjects in AS 43.55.011(e)(3) in sec. 27, and AS 43.55.014 in sec. 29 of this draft.²

Please advise whether you would like the next version of the CS edited as necessary to conform to the *Manual of Legislative Drafting* and for internal consistency.

DMB:lem
14-083.lem

Enclosure

² The title could simply state, "relating to the oil and gas production tax" and thereby express the subject of the provisions in the bill that relate to AS 43.55.

28-GS2806U
Bullock
2/19/14

CS FOR SENATE BILL NO. 138(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES 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 purposes of the Alaska Gasline Development Corporation to
2 advance to develop a large-diameter natural gas pipeline project, including treatment
3 and liquefaction facilities; establishing the large-diameter natural gas pipeline project
4 fund; creating a subsidiary related to a large-diameter natural gas pipeline project,
5 including treatment and liquefaction facilities; relating to the authority of the
6 commissioner of natural resources to negotiate contracts related to North Slope natural
7 gas projects, to enter into confidentiality agreements in support of contract negotiations
8 and implementation, and to take custody of gas delivered to the state under an election
9 to pay the oil and gas production tax in gas; relating to the sale, exchange, or disposal of
10 gas delivered to the state under an election to pay the oil and gas production tax in gas;
11 relating to the duties of the commissioner of revenue to direct the disposition of revenues
12 received from gas delivered to the state and to consult with the commissioner of natural

1 resources on the custody and disposition of gas delivered to the state; relating to the
2 authority of the commissioner of natural resources to propose modifications to existing
3 state oil and gas leases; making certain information provided to the Department of
4 Natural Resources and the Department of Revenue exempt from inspection as a public
5 record; making certain tax information related to an election to pay the oil and gas
6 production tax in gas exempt from tax confidentiality provisions; relating to establishing
7 under the oil and gas production tax a gross tax rate for gas after 2021; making the
8 alternate minimum tax on oil and gas produced north of 68 degrees North latitude after
9 2021 apply only to oil; relating to apportionment factors of the Alaska Net Income Tax
10 Act; authorizing a producer's election to pay the oil and gas production tax in gas for
11 certain gas and relating to the authorization; relating to monthly installment payments
12 of the oil and gas production tax; relating to interest payments on monthly installment
13 payments of the oil and gas production tax; relating to settlements between producers
14 and royalty owners for oil and gas production tax; relating to annual statements by
15 producers and explorers; relating to annual production tax values; relating to lease
16 expenditures; amending the definition of gross value at the 'point of production' for gas
17 for purposes of the oil and gas production tax; adding definitions related to natural gas
18 terms; clarifying that credit may not be taken against the levy of the oil and gas
19 production tax for gas paid in gas for purposes of the exploration incentive credit, the oil
20 or gas producer education credit, and the film production tax credit; requiring the
21 commissioner of revenue to develop a plan and suggest legislation for residents of the
22 state to acquire ownership interests in a North Slope natural gas pipeline project;
23 making conforming amendments; and providing for an effective date."

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

2 * **Section 1.** AS 31.25.005 is amended to read:

3 **Sec. 31.25.005. Purpose.** The corporation shall, for the benefit of the state, to
4 the fullest extent possible,

5 (1) advance an in-state natural gas pipeline as described in the July 1,
6 2011, project plan prepared under former AS 38.34.040 by the corporation while a
7 subsidiary of the Alaska Housing Finance Corporation, with modifications determined
8 by the corporation to be appropriate to develop, finance, construct, and operate an in-
9 state natural gas pipeline in a safe, prudent, economical, and efficient manner, for the
10 purpose of making natural gas, including propane and other hydrocarbons associated
11 with natural gas other than oil, available to Fairbanks, the Southcentral region of the
12 state, and other communities in the state at the lowest rates possible;

13 (2) endeavor to develop natural gas pipelines and other transportation
14 mechanisms to deliver natural gas, including propane and other hydrocarbons
15 associated with natural gas other than oil, to public utility and industrial customers in
16 areas of the state to which the natural gas, including propane and other hydrocarbons
17 associated with natural gas other than oil, may be delivered at commercially
18 reasonable rates; and

19 (3) endeavor to develop natural gas pipelines and other transportation
20 mechanisms that offer commercially reasonable rates for shippers and access for
21 shippers who produce natural gas, including propane and other hydrocarbons
22 associated with natural gas other than oil, in the state;

23 (4) advance to develop a large-diameter natural gas pipeline
24 project other than the in-state natural gas pipeline described in (1) of this section
25 by acquiring an equity interest in a large-diameter natural gas pipeline project
26 through the subsidiary under AS 31.25.122;

27 (5) advance to develop, finance, construct, and operate facilities
28 for liquefaction and treatment in connection with a large-diameter natural gas
29 pipeline project other than the in-state natural gas pipeline described in (1) of
30 this section through the subsidiary under AS 31.25.122.

31 * **Sec. 2.** AS 31.25.010 is amended to read:

1 **Sec. 31.25.010. Structure.** The Alaska Gasline Development Corporation is a
2 public corporation and government instrumentality located for administrative purposes
3 in the Department of Commerce, Community, and Economic Development, but
4 having a legal existence independent of and separate from the state. The corporation
5 may not be terminated as long as it has bonds, notes, or other obligations outstanding.
6 The corporation may dissolve when no bonds, notes, or other obligations of the
7 corporation or a subsidiary of the corporation are outstanding and the corporation or a
8 subsidiary of the corporation is no longer engaged in the development, financing,
9 construction, or operation of an in-state natural gas pipeline or a large-diameter
10 natural gas pipeline project. Upon termination of the corporation, its rights and
11 property pass to the state.

12 * **Sec. 3.** AS 31.25.080(f) is amended to read:

13 (f) The corporation shall, to the maximum extent practicable without delaying
14 the progress of developing the [AN] in-state natural gas pipeline project described in
15 AS 31.25.005(1) and without causing the in-state natural gas pipeline project
16 described in AS 31.25.005(1) to become a competing natural gas pipeline project for
17 purposes of AS 43.90.440, coordinate with and accommodate the developers of a
18 large-diameter [IN-STATE] natural gas pipeline project by planning for the
19 development and use of [COMMON] pipeline facilities from the North Slope to [THE
20 LIVENGOOD AREA OR TO ANOTHER POINT FROM WHICH A LARGE-
21 DIAMETER IN-STATE NATURAL GAS PIPELINE MAY BE CONSTRUCTED
22 SOUTH TO] tidewater in either the Prince William Sound or Cook Inlet area. The
23 corporation may use money appropriated to the large-diameter natural gas
24 pipeline project fund created in AS 31.25.110 for the purposes described in this
25 subsection and may not use money appropriated to the in-state natural gas
26 pipeline fund created in AS 31.25.100 for the purposes described in this
27 subsection [IN THIS SUBSECTION, "LARGE-DIAMETER IN-STATE NATURAL
28 GAS PIPELINE" MEANS A PIPELINE IN THE STATE WITH A DIAMETER OF
29 42 INCHES OR MORE].

30 * **Sec. 4.** AS 31.25.100 is amended to read:

31 **Sec. 31.25.100. In-state natural gas pipeline fund.** The in-state natural gas

1 pipeline fund is established in the corporation and consists of money appropriated to
2 it. The corporation shall determine fund management and may contract with the
3 Department of Revenue for fund management. Unless otherwise provided by law,
4 money appropriated to the fund lapses into the general fund on the day this section is
5 repealed. Interest and other income received on money in the fund shall be separately
6 accounted for and may be appropriated to the fund. The corporation may use money
7 appropriated to the fund without further appropriation solely for the cost of managing
8 the fund and for the planning, financing, development, acquisition, maintenance,
9 construction, and operation of the [AN] in-state natural gas pipeline described in
10 AS 31.25.005(1) and may not use money appropriated to the fund for any other
11 purpose, including the purposes described in AS 31.25.005(4) and (5) and
12 31.25.080(f).

13 * **Sec. 5.** AS 31.25 is amended by adding a new section to read:

14 **Sec. 31.25.110. Large-diameter natural gas pipeline project fund.** The
15 large-diameter natural gas pipeline project fund is established in the subsidiary and
16 consists of money appropriated to it. The subsidiary shall determine fund management
17 and may contract with the Department of Revenue for fund management. Interest and
18 other income received on money in the fund shall be separately accounted for and may
19 be appropriated to the fund. The subsidiary may use money appropriated to the fund
20 without further appropriation for the purpose of managing the fund and for the
21 planning, financing, acquisition, maintenance, construction, and operation of a large-
22 diameter natural gas pipeline project, including treatment and liquefaction facilities,
23 and may not use the money appropriated to the fund for the purpose described in
24 AS 31.25.005(1). If money is appropriated to the fund to finance the cost of a large-
25 diameter natural gas pipeline project described in AS 31.25.005(4) and (5), the
26 subsidiary shall create an account in the fund for that purpose and shall hold the
27 money appropriated for that purpose in that account. In this section, "subsidiary"
28 means a subsidiary established under AS 31.25.122.

29 * **Sec. 6.** AS 31.25.120 is amended to read:

30 **Sec. 31.25.120. Creation of subsidiaries for an in-state natural gas pipeline**
31 **project.** The corporation may create subsidiary corporations for the purpose of

1 developing, constructing, operating, and financing in-state natural gas pipeline
2 projects or other transportation mechanisms; for the purpose of aiding in the
3 development, construction, operation, and financing of in-state natural gas pipeline
4 projects; or for the purpose of acquiring the state's royalty share of natural gas, natural
5 gas from the North Slope, and natural gas from other regions of the state, including the
6 state's outer continental shelf, and making that natural gas available to markets in the
7 state, including the delivery of natural gas, including propane and other hydrocarbons
8 associated with natural gas other than oil, to coastal communities in the state, or for
9 export. A subsidiary corporation created under this section may be incorporated under
10 AS 10.20.146 - 10.20.166. Except as provided in AS 31.25.110, the [THE]
11 corporation may transfer assets of the corporation to a subsidiary created under this
12 section. A subsidiary created under this section may borrow money and issue bonds as
13 evidence of that borrowing and has all the powers of the corporation that the
14 corporation grants to it. Unless otherwise provided by the corporation, the debts,
15 liabilities, and obligations of a subsidiary corporation created under this section are not
16 the debts, liabilities, or obligations of the corporation. A subsidiary corporation
17 created under this section may use money appropriated under AS 31.25.100 and
18 may not use money appropriated under AS 31.25.110.

19 * **Sec. 7.** AS 31.25 is amended by adding a new section to read:

20 **Sec. 31.25.122. Creation of a subsidiary for a large-diameter natural gas**
21 **pipeline project.** (a) To maximize the economic recovery and value of the state's
22 natural gas royalties and gas tax revenues for the benefit of the people of the state, a
23 subsidiary of the corporation is established as a public corporation and government
24 instrumentality for administrative purposes of the corporation, but having a legal
25 existence independent of and separate from the state and the corporation, for the
26 purposes of acquiring a state equity interest in a large-diameter natural gas pipeline
27 project, in natural gas treatment facilities, in liquefaction facilities, and in marine
28 terminal facilities related to a large-diameter natural gas project, and in entities that are
29 developing, constructing, and operating such facilities; for the purposes of financing
30 the acquisition, capital costs and operating costs related to the state equity interests;
31 for the purposes of supporting in the development, construction, operation, and

1 financing a large-diameter natural gas pipeline project in which the subsidiary has an
2 equity interest; and for the purposes of transferring net revenues received by the
3 subsidiary related to equity interests acquired to the permanent fund and the general
4 fund as determined by the commissioner of natural resources in consultation with the
5 commissioner of revenue. The subsidiary created under this section may use money
6 appropriated under AS 31.25.110 and may not use money appropriated under
7 AS 31.25.100.

8 (b) The subsidiary created under this section shall be governed by a board of
9 directors consisting of

- 10 (1) the chair of the corporation;
- 11 (2) the commissioner of natural resources;
- 12 (3) the commissioner of revenue; and
- 13 (4) four public members, one of whom is a public member of the board
14 of directors under AS 31.25.030(a)(1).

15 (c) Public members of the subsidiary board shall be appointed by the
16 governor. Subsidiary board members appointed under (b)(4) of this section shall be
17 compensated as provided in AS 31.25.020(d). Public members of the subsidiary
18 board serve five-year terms. A public member serves at the pleasure of the
19 governor. The provisions of AS 31.25.030, 31.25.035, and 31.25.040 apply to the
20 board of the subsidiary.

21 (d) In addition to other powers granted in this section, the subsidiary may

22 (1) determine the form of ownership and the operating structure of a
23 large-diameter natural gas pipeline project developed by the subsidiary and may enter
24 into agreements with other persons for joint ownership, joint operation, or both, of a
25 large-diameter natural gas pipeline project;

26 (2) plan, finance, construct, develop, acquire, maintain, and operate a
27 pipeline system and other transportation mechanism, including pipelines, treatment
28 and liquefaction facilities, marine terminals, compressors, storage facilities, and other
29 related facilities, equipment, and works of public improvement in the state to facilitate
30 production, transportation, and delivery of natural gas or other related natural
31 resources to the point of consumption or to the point of distribution for consumption;

1 (3) lease or rent facilities, structures, and properties;

2 (4) exercise the power of eminent domain and file a declaration of
3 taking under AS 09.55.240 - 09.55.460 to acquire land or an interest in land that is
4 necessary for a large-diameter natural gas pipeline project; the exercise of powers by
5 the subsidiary under this paragraph may not exceed the permissible exercise of the
6 powers by the state;

7 (5) acquire, by purchase, lease, or gift, land, structures, real or personal
8 property, an interest in property, a right-of-way, a franchise, an easement, or other
9 interest in land, or an interest in or right to capacity in a pipeline system determined to
10 be necessary or convenient for the development, financing, construction, or operation
11 of a large-diameter natural gas pipeline project;

12 (6) transfer or otherwise dispose of all or part of a large-diameter
13 natural gas pipeline project developed by the subsidiary or transfer or otherwise
14 dispose of an interest in an asset of the subsidiary;

15 (7) elect to provide transportation of natural gas as a contract carrier,
16 common carrier, or otherwise;

17 (8) provide light, water, security, and other services for property of the
18 subsidiary;

19 (9) conduct hearings to gather and develop data consistent with the
20 purpose and powers of the subsidiary;

21 (10) advocate for new capacity in the project before regulatory
22 agencies;

23 (11) make and execute agreements, contracts, and other instruments
24 necessary or convenient in the exercise of the powers and functions of the subsidiary
25 under this section, including a contract with a person, firm, corporation, governmental
26 agency, or other entity;

27 (12) sue and be sued in its own name;

28 (13) adopt an official seal;

29 (14) adopt bylaws for the regulation of its affairs and the conduct of its
30 business and adopt regulations and policies in connection with the performance of its
31 functions and duties;

1 (15) employ fiscal consultants, engineers, attorneys, appraisers, and
2 other consultants and employees that may, in the judgment of the subsidiary, be
3 required and fix and pay their compensation from funds available to the subsidiary;

4 (16) procure insurance against a loss in connection with its operation;

5 (17) borrow money as provided in this chapter to carry out its
6 corporate purposes and issue its obligations as evidence of borrowing;

7 (18) include in a borrowing the amounts necessary to pay financing
8 charges, to pay interest on the obligations, and to pay the interest, consultant, advisory,
9 and legal fees, and other expenses that are necessary or incident to the borrowing;

10 (19) receive, administer, and comply with the conditions and
11 requirements of an appropriation, gift, grant, or donation of property or money;

12 (20) do all acts and things necessary, convenient, or desirable to carry
13 out the powers expressly granted or necessarily implied in this section;

14 (21) invest or reinvest, subject to its contracts with noteholders and
15 bondholders, money or funds held by the subsidiary, including funds in the large-
16 diameter natural gas project pipeline fund (AS 31.25.110), in obligations or other
17 securities or investments in which banks or trust companies in the state may legally
18 invest funds held in reserves or sinking funds or funds not required for immediate
19 disbursement, and in certificates of deposit or time deposits secured by obligations of,
20 or guaranteed by, the state or the United States;

21 (22) enter into, as it determines to be necessary or appropriate, any
22 swap or hedge, cap, or other contract providing for payments based on levels of or
23 changes in interest rates or indices or in the cost or price of any commodity, supply, or
24 expense expected to be used or incurred in connection with the acquisition,
25 construction, or operation of any facility or property owned, leased, or operated by the
26 subsidiary, or an option with respect to any of the foregoing.

27 (e) Except as provided in AS 31.25.100, the corporation may transfer assets to
28 the subsidiary. The provisions of AS 31.25.090, 31.25.130, 31.25.140, 31.25.160,
29 31.25.170, 31.25.180, 31.25.190, 31.25.200, 31.25.210, 31.25.220, 31.25.230,
30 31.25.240, 31.25.250, 31.25.260, 31.25.270, and 31.25.390 apply to the subsidiary
31 created under this section for a large-diameter natural gas pipeline project, and

1 references in those sections to

2 (1) "the corporation" shall refer to the subsidiary created under this
3 section; and

4 (2) "in-state natural gas pipeline" shall refer to a large-diameter natural
5 gas pipeline project as described in AS 31.25.005(4) and (5).

6 (f) The subsidiary under this section shall employ a project coordinator, who
7 may not be a member of the board. The project coordinator shall be appointed by the
8 subsidiary board and serves at the pleasure of the subsidiary board. The subsidiary
9 board may engage professional and technical advisers as independent contractors. The
10 project coordinator may hire employees for the subsidiary and engage professional and
11 technical advisers as independent contractors upon approval of the subsidiary board.
12 Employees of the subsidiary created under this section are state employees in the
13 exempt service under AS 39.25.110. The subsidiary board shall prescribe the duties
14 and compensation of subsidiary personnel, including the project coordinator.

15 (g) The subsidiary may not be terminated as long as it has bonds, notes, or
16 other obligations outstanding. Upon termination of the subsidiary, its rights and
17 property pass to the state.

18 * **Sec. 8.** AS 31.25.390(5) is amended to read:

19 (5) "in-state natural gas pipeline" means a natural gas pipeline for
20 transporting natural gas in the state **as described in AS 31.25.005(1)**;

21 * **Sec. 9.** AS 31.25.390 is amended by adding new paragraphs to read:

22 (7) "large-diameter natural gas pipeline project" means a natural gas
23 pipeline project as described in AS 31.25.005(4) and (5) that includes facilities for
24 treatment and liquefaction of natural gas, including any marine terminal facilities;

25 (8) "subsidiary board" means the governing board of a subsidiary
26 created under AS 31.25.122.

27 * **Sec. 10.** AS 38.05.020(b) is amended to read:

28 (b) The commissioner may

29 (1) establish reasonable procedures and adopt reasonable regulations
30 necessary to carry out this chapter and, whenever necessary, issue directives or orders
31 to the director to carry out specific functions and duties; regulations adopted by the

1 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
2 orders by the commissioner classifying land, issued after January 3, 1959, are not
3 required to be adopted under AS 44.62 (Administrative Procedure Act);

4 (2) enter into agreements considered necessary to carry out the
5 purposes of this chapter, including agreements with federal and state agencies;

6 (3) review any order or action of the director;

7 (4) exercise the powers and do the acts necessary to carry out the
8 provisions and objectives of this chapter;

9 (5) notwithstanding the provisions of any other section of this chapter,
10 grant an extension of the time within which payments due on any exploration license,
11 lease, or sale of state land, minerals, or materials may be made, including payment of
12 rental and royalties, on a finding that compliance with the requirements is or was
13 prevented by reason of war, riots, or acts of God;

14 (6) classify tracts for agricultural uses;

15 (7) after consulting with the Board of Agriculture and Conservation
16 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
17 of a contract for the sale of agricultural land if

18 (A) the land is inaccessible by road; or

19 (B) transportation, marketing, and development costs render
20 the required development uneconomic;

21 (8) reconvey or relinquish land or an interest in land to the federal
22 government if

23 (A) the land is described in an amended application for an
24 allotment under 43 U.S.C. 1617; and

25 (B) the reconveyance or relinquishment is

26 (i) for the purposes provided in 43 U.S.C. 1617; and

27 (ii) in the best interests of the state;

28 (9) lead and coordinate all matters relating to the state's review and
29 authorization of resource development projects;

30 (10) **enter into commercial agreements with a duration of not more**
31 **than two years for project services related to a North Slope natural gas project;**

1 (11) in consultation with the commissioner of revenue, participate
2 in the negotiation of contracts and development of terms for inclusion in
3 proposed contracts associated with a North Slope natural gas project; a contract
4 negotiated under this paragraph to which the state is a party is not effective
5 unless the legislature authorizes the governor to execute the contract;

6 (12) enter into confidentiality agreements to maintain the
7 confidentiality of information related to contract negotiations and contract
8 implementation associated with a North Slope natural gas project; information
9 under those confidentiality agreements is not subject to AS 40.25 (Alaska Public
10 Records Act), except that

11 (A) the terms of a proposed contract that the commissioner
12 presents to the legislature for the purpose of obtaining authorization for
13 the governor to execute is not confidential; and

14 (B) confidential information obtained under this paragraph
15 shall be shared with the legislature only in committees held in executive
16 session or under confidentiality agreements;

17 (13) exercise the powers and do the acts necessary to carry out the
18 provisions and objectives of AS 43.90 that relate to this chapter.

19 * Sec. 11. AS 38.05.020(b), as amended by sec. 10 of this Act, is amended to read:

20 (b) The commissioner may

21 (1) establish reasonable procedures and adopt reasonable regulations
22 necessary to carry out this chapter and, whenever necessary, issue directives or orders
23 to the director to carry out specific functions and duties; regulations adopted by the
24 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
25 orders by the commissioner classifying land, issued after January 3, 1959, are not
26 required to be adopted under AS 44.62 (Administrative Procedure Act);

27 (2) enter into agreements considered necessary to carry out the
28 purposes of this chapter, including agreements with federal and state agencies;

29 (3) review any order or action of the director;

30 (4) exercise the powers and do the acts necessary to carry out the
31 provisions and objectives of this chapter;

1 (5) notwithstanding the provisions of any other section of this chapter,
2 grant an extension of the time within which payments due on any exploration license,
3 lease, or sale of state land, minerals, or materials may be made, including payment of
4 rental and royalties, on a finding that compliance with the requirements is or was
5 prevented by reason of war, riots, or acts of God;

6 (6) classify tracts for agricultural uses;

7 (7) after consulting with the Board of Agriculture and Conservation
8 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
9 of a contract for the sale of agricultural land if

10 (A) the land is inaccessible by road; or

11 (B) transportation, marketing, and development costs render
12 the required development uneconomic;

13 (8) reconvey or relinquish land or an interest in land to the federal
14 government if

15 (A) the land is described in an amended application for an
16 allotment under 43 U.S.C. 1617; and

17 (B) the reconveyance or relinquishment is

18 (i) for the purposes provided in 43 U.S.C. 1617; and

19 (ii) in the best interests of the state;

20 (9) lead and coordinate all matters relating to the state's review and
21 authorization of resource development projects;

22 (10) enter into commercial agreements with a duration of not more
23 than two years for project services related to a North Slope natural gas project;

24 (11) in consultation with the commissioner of revenue, participate in
25 the negotiation of contracts and development of terms for inclusion in proposed
26 contracts associated with a North Slope natural gas project; a contract negotiated
27 under this paragraph to which the state is a party is not effective unless the legislature
28 authorizes the governor to execute the contract;

29 (12) enter into confidentiality agreements to maintain the
30 confidentiality of information related to contract negotiations and contract
31 implementation associated with a North Slope natural gas project; information under

1 those confidentiality agreements is not subject to AS 40.25 (Alaska Public Records
2 Act), except that

3 (A) the terms of a proposed contract that the commissioner
4 presents to the legislature for the purpose of obtaining authorization for the
5 governor to execute is not confidential; and

6 (B) confidential information obtained under this paragraph
7 shall be shared with the legislature only in committees held in executive
8 session or under confidentiality agreements;

9 (13) in consultation with the commissioner of revenue, take
10 custody of gas delivered to the state under AS 43.55.014(b) and manage the
11 project services and disposition and sale of that gas;

12 (14) exercise the powers and do the acts necessary to carry out the
13 provisions and objectives of AS 43.90 that relate to this chapter.

14 * **Sec. 12.** AS 38.05.180(i) is amended to read:

15 (i) The commissioner may provide for the establishment of an exploration
16 incentive credit system under which a lessee of state land drilling an exploratory well
17 on that land may earn credits based upon the footage drilled and the region in which
18 the well is situated. The commissioner may also provide for credits to be earned by
19 persons performing geophysical work on state land, if that work is performed during
20 the two seasons immediately preceding an announced lease sale and on land included
21 within the sale area and the geophysical information is made public following the sale.
22 Credits may not exceed 50 percent of the cost of the drilling or geophysical work.
23 Credits may be used during a limited period established by the commissioner and may
24 be assigned during that period. Credits may be applied against (1) royalty and rental
25 payments for oil and gas or for gas only payable to the state or (2) taxes payable under
26 AS 43.55.011 [AS 43.55]. A credit may not exceed 50 percent of the payment toward
27 which it is being applied. Amounts due the Alaska permanent fund (AS 37.13.010)
28 shall be calculated before the application of credits under this subsection.

29 * **Sec. 13.** AS 38.05.180 is amended by adding a new subsection to read:

30 (hh) Notwithstanding any other provisions of this chapter, if the commissioner
31 makes a written determination that a North Slope natural gas project has sufficient

1 financial commitment for a work plan and budget necessary to support major permits
2 and regulatory filings required by state and federal agencies, and sufficient
3 commitment of gas by lessees, the commissioner may propose modifications to
4 existing leases that relate to

5 (1) switching between taking the state's royalty gas in value and in
6 kind to ensure that the state's actions do not unreasonably

7 (A) cause the lessee or other person to bear disproportionate
8 transportation costs with respect to the state's royalty gas; or

9 (B) interfere with long-term marketing of natural gas by the
10 lessee or other person;

11 (2) providing a method for establishing a fair market value for each
12 component of the state's royalty gas and using appropriate adjustments to reflect fair
13 market value deductions for actual and reasonable transportation and processing costs
14 for the state's royalty gas from the North Slope to the first destination market;

15 (3) establishing fixed royalty rates and modifying net profit shares
16 under leases subject to this subsection; a fixed royalty rate established under this
17 paragraph may not be less than 12.5 percent.

18 * **Sec. 14.** AS 38.05.180(hh), as enacted in sec. 13 of this Act, is amended to read:

19 (hh) Notwithstanding any other provisions of this chapter, if the commissioner
20 makes a written determination that a North Slope natural gas project has sufficient
21 financial commitment for a work plan and budget necessary to support major permits
22 and regulatory filings required by state and federal agencies, and sufficient
23 commitment of gas by lessees, the commissioner may propose modifications to
24 existing leases that relate to

25 (1) switching between taking the state's royalty gas in value and in
26 kind to ensure that the state's actions do not unreasonably

27 (A) cause the lessee or other person to bear disproportionate
28 transportation costs with respect to the state's royalty gas or gas delivered to
29 the state under AS 43.55.014(b); or

30 (B) interfere with long-term marketing of natural gas by the
31 lessee or other person;

1 (2) providing a method for establishing a fair market value for each
2 component of the state's royalty gas and using appropriate adjustments to reflect fair
3 market value deductions for actual and reasonable transportation and processing costs
4 for the state's royalty gas from the North Slope to the first destination market;

5 (3) establishing fixed royalty rates and modifying net profit shares
6 under leases subject to this subsection; a fixed royalty rate established under this
7 paragraph may not be less than 12.5 percent.

8 * **Sec. 15.** AS 38.05.183(a) is amended to read:

9 (a) The sale, exchange, or other disposal of a mineral obtained by the state as a
10 royalty under AS 38.05.182, [OR] the sale, exchange, or other disposal in whole or in
11 part of a right to receive future mineral production under a state lease under this
12 chapter, **or the sale, exchange, or other disposal of gas delivered to the state under**
13 **AS 43.55.014(b)** shall be by competitive bid and the sale, exchange, or other disposal
14 made to the highest responsible bidder, except that competitive bidding is not required
15 when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas
16 Development Advisory Board under AS 38.06.050, determines that the best interest of
17 the state does not require it or that no competition exists.

18 * **Sec. 16.** AS 38.05.183(c) is amended to read:

19 (c) If the commissioner determines that a sale, exchange, or other disposal of a
20 mineral obtained by the state as a royalty under AS 38.05.182, [OR] of a right to
21 receive future mineral production under a state lease under this chapter, **or of gas**
22 **delivered to the state under AS 43.55.014(b)** shall be made otherwise than by
23 competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board
24 has been notified in writing of that determination, the commissioner shall make public
25 in writing the specific findings and conclusions upon which that determination is
26 based.

27 * **Sec. 17.** AS 38.05.183(d) is amended to read:

28 (d) Oil or gas taken in kind by the state as its royalty share **or gas delivered to**
29 **the state under AS 43.55.014(b)** may not be sold or otherwise disposed of for export
30 from the state until the commissioner determines that the [ROYALTY-IN-KIND] oil
31 or gas is surplus to the present and projected intrastate domestic and industrial needs.

1 The commissioner shall make public, in writing, the specific findings and reasons on
2 which the determination is based.

3 * **Sec. 18.** AS 38.05.183(e) is amended to read:

4 (e) When a sale, exchange, or other disposal of oil or gas taken in kind by the
5 state as its royalty share, or a sale, exchange, or other disposal in whole or in part of a
6 right to receive future royalty oil or gas, under a state lease under this chapter is made
7 other than by competitive bid, or when a sale, exchange, or other disposal of gas
8 delivered to the state under AS 43.55.014(b) is made other than by competitive
9 bid, the sale, exchange, or other disposal shall be awarded by the commissioner to the
10 prospective buyer whose proposal offers the maximum benefits to citizens of the state.

11 The commissioner shall consider

12 (1) the cash value offered;

13 (2) the projected effects of the sale, exchange, or other disposal on the
14 economy of the state;

15 (3) the projected benefits of refining or processing the oil or gas in the
16 state;

17 (4) the ability of the prospective buyer to provide refined products or
18 by-products for distribution and sale in the state with price or supply benefits to the
19 citizens of the state; and

20 (5) the criteria listed in AS 38.06.070(a).

21 * **Sec. 19.** AS 38.05.965 is amended by adding new paragraphs to read:

22 (26) "North Slope natural gas project" means a project to produce
23 natural gas from state oil and gas leases that include land north of 68 degrees North
24 latitude for transport in a gaseous state from the North Slope;

25 (27) "project services" means services provided by a gas treatment
26 plant, pipeline, liquefaction facility, or marine terminal, marine transportation
27 services, or other services necessary to take natural gas to market.

28 * **Sec. 20.** AS 40.25.100(a) is amended to read:

29 (a) Information in the possession of the Department of Revenue that discloses
30 the particulars of the business or affairs of a taxpayer or other person, including
31 information under AS 38.05.020(b)(11) that is subject to a confidentiality

1 agreement under AS 38.05.020(b)(12), is not a matter of public record, except as
2 provided in AS 43.05.230(i) or for purposes of investigation and law enforcement. The
3 information shall be kept confidential except when its production is required in an
4 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
5 court proceeding. These restrictions do not prohibit the publication of statistics
6 presented in a manner that prevents the identification of particular reports and items,
7 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
8 and relevant information that may assist in the collection of delinquent taxes, or
9 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
10 43.05.499.

11 * **Sec. 21.** AS 40.25.100, as amended by sec. 20 of this Act, is amended to read:

12 (a) Information in the possession of the Department of Revenue that discloses
13 the particulars of the business or affairs of a taxpayer or other person, including
14 information under AS 38.05.020(b)(11) that is subject to a confidentiality agreement
15 under AS 38.05.020(b)(12), is not a matter of public record, except as provided in
16 AS 43.05.230(i) or (k) or for purposes of investigation and law enforcement. The
17 information shall be kept confidential except when its production is required in an
18 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
19 court proceeding. These restrictions do not prohibit the publication of statistics
20 presented in a manner that prevents the identification of particular reports and items,
21 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
22 and relevant information that may assist in the collection of delinquent taxes, or
23 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
24 43.05.499.

25 * **Sec. 22.** AS 40.25.120(a) is amended to read:

26 (a) Every person has a right to inspect a public record in the state, including
27 public records in recorders' offices, except

28 (1) records of vital statistics and adoption proceedings, which shall be
29 treated in the manner required by AS 18.50;

30 (2) records pertaining to juveniles unless disclosure is authorized by
31 law;

- 1 (3) medical and related public health records;
- 2 (4) records required to be kept confidential by a federal law or
3 regulation or by state law;
- 4 (5) to the extent the records are required to be kept confidential under
5 20 U.S.C. 1232g and the regulations adopted under 20 U.S.C. 1232g in order to secure
6 or retain federal assistance;
- 7 (6) records or information compiled for law enforcement purposes, but
8 only to the extent that the production of the law enforcement records or information
- 9 (A) could reasonably be expected to interfere with enforcement
10 proceedings;
- 11 (B) would deprive a person of a right to a fair trial or an
12 impartial adjudication;
- 13 (C) could reasonably be expected to constitute an unwarranted
14 invasion of the personal privacy of a suspect, defendant, victim, or witness;
- 15 (D) could reasonably be expected to disclose the identity of a
16 confidential source;
- 17 (E) would disclose confidential techniques and procedures for
18 law enforcement investigations or prosecutions;
- 19 (F) would disclose guidelines for law enforcement
20 investigations or prosecutions if the disclosure could reasonably be expected to
21 risk circumvention of the law; or
- 22 (G) could reasonably be expected to endanger the life or
23 physical safety of an individual;
- 24 (7) names, addresses, and other information identifying a person as a
25 participant in the Alaska Higher Education Savings Trust under AS 14.40.802 or the
26 advance college tuition savings program under AS 14.40.803 - 14.40.817;
- 27 (8) public records containing information that would disclose or might
28 lead to the disclosure of a component in the process used to execute or adopt an
29 electronic signature if the disclosure would or might cause the electronic signature to
30 cease being under the sole control of the person using it;
- 31 (9) reports submitted under AS 05.25.030 concerning certain

1 collisions, accidents, or other casualties involving boats;

2 (10) records or information pertaining to a plan, program, or
3 procedures for establishing, maintaining, or restoring security in the state, or to a
4 detailed description or evaluation of systems, facilities, or infrastructure in the state,
5 but only to the extent that the production of the records or information

6 (A) could reasonably be expected to interfere with the
7 implementation or enforcement of the security plan, program, or procedures;

8 (B) would disclose confidential guidelines for investigations or
9 enforcement and the disclosure could reasonably be expected to risk
10 circumvention of the law; or

11 (C) could reasonably be expected to endanger the life or
12 physical safety of an individual or to present a real and substantial risk to the
13 public health and welfare;

14 (11) the written notification regarding a proposed regulation provided
15 under AS 24.20.105 to the Department of Law and the affected state agency and
16 communications between the Legislative Affairs Agency, the Department of Law, and
17 the affected state agency under AS 24.20.105;

18 (12) records that are

19 (A) proprietary, privileged, or a trade secret in accordance with
20 AS 43.90.150 or 43.90.220(e);

21 (B) applications that are received under AS 43.90 until notice is
22 published under AS 43.90.160;

23 (13) information of the Alaska Gasline Development Corporation
24 created under AS 31.25.010 or a subsidiary of the Alaska Gasline Development
25 Corporation that is confidential by law or under a valid confidentiality agreement;

26 **(14) information under AS 38.05.020(b)(11) that is subject to a**
27 **confidentiality agreement under AS 38.05.020(b)(12).**

28 * **Sec. 23.** AS 43.05.010 is amended to read:

29 **Sec. 43.05.010. Duties of commissioner.** The commissioner of revenue shall

30 (1) exercise general supervision and direct the activities of the
31 Department of Revenue;

- 1 (2) supervise the fiscal affairs and responsibilities of the department;
- 2 (3) prescribe uniform rules for investigations and hearings;
- 3 (4) keep a record of all departmental proceedings, record and file all
- 4 bonds, and assume custody of returns, reports, papers, and documents of the
- 5 department;
- 6 (5) adopt a seal and affix it to each order, process, or certificate issued
- 7 by the commissioner;
- 8 (6) keep a record of each order, process, and certificate issued by the
- 9 commissioner, and keep the record open to public inspection at all reasonable times;
- 10 (7) hold hearings and investigations necessary for the administration of
- 11 state tax and revenue laws;
- 12 (8) except as provided in AS 43.05.405 - 43.05.499 and in
- 13 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
- 14 Department of Revenue and enter orders on the appeals that are final unless reversed
- 15 or modified by the courts;
- 16 (9) issue subpoenas to require the attendance of witnesses and the
- 17 production of necessary books, papers, documents, correspondence, and other things;
- 18 (10) order the taking of depositions before a person competent to
- 19 administer oaths;
- 20 (11) administer oaths and take acknowledgments;
- 21 (12) request the attorney general for rulings on the interpretation of the
- 22 tax and revenue laws administered by the department;
- 23 (13) call upon the attorney general to institute actions for recovery of
- 24 unpaid taxes, fees, excises, additions to tax, penalties, and interest;
- 25 (14) issue warrants for the collection of unpaid tax penalties and
- 26 interest and take all steps necessary and proper to enforce full and complete
- 27 compliance with the tax, license, excise, and other revenue laws of the state;
- 28 (15) report to the legislature before February 15 of each year the total
- 29 amount of contributions reported and the total amount of credit claimed during the
- 30 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
- 31 AS 43.65.018, AS 43.75.018, and AS 43.77.045;

(16) consult with the commissioner of natural resources on negotiation of contracts and development of terms for inclusion in proposed contracts associated with a North Slope natural gas project.

* Sec. 24. AS 43.05.010, as amended by sec. 23 of this Act, is amended to read:

Sec. 43.05.010. Duties of commissioner. The commissioner of revenue shall

(1) exercise general supervision and direct the activities of the Department of Revenue;

(2) supervise the fiscal affairs and responsibilities of the department;

(3) prescribe uniform rules for investigations and hearings;

(4) keep a record of all departmental proceedings, record and file all bonds, and assume custody of returns, reports, papers, and documents of the department;

(5) adopt a seal and affix it to each order, process, or certificate issued by the commissioner;

(6) keep a record of each order, process, and certificate issued by the commissioner, and keep the record open to public inspection at all reasonable times;

(7) hold hearings and investigations necessary for the administration of state tax and revenue laws;

(8) except as provided in AS 43.05.405 - 43.05.499 and in AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the Department of Revenue and enter orders on the appeals that are final unless reversed or modified by the courts;

(9) issue subpoenas to require the attendance of witnesses and the production of necessary books, papers, documents, correspondence, and other things;

(10) order the taking of depositions before a person competent to administer oaths;

(11) administer oaths and take acknowledgments;

(12) request the attorney general for rulings on the interpretation of the tax and revenue laws administered by the department;

(13) call upon the attorney general to institute actions for recovery of unpaid taxes, fees, excises, additions to tax, penalties, and interest;

1 (14) issue warrants for the collection of unpaid tax penalties and
2 interest and take all steps necessary and proper to enforce full and complete
3 compliance with the tax, license, excise, and other revenue laws of the state;

4 (15) report to the legislature before February 15 of each year the total
5 amount of contributions reported and the total amount of credit claimed during the
6 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
7 AS 43.65.018, AS 43.75.018, and AS 43.77.045;

8 (16) consult with the commissioner of natural resources on negotiation
9 of contracts and development of terms for inclusion in proposed contracts associated
10 with a North Slope natural gas project;

11 **(17) direct the disposition of revenues received from gas delivered**
12 **to the state under AS 43.55.014(b) by entering into agreements with the**
13 **commissioner of natural resources related to the management of the custody and**
14 **disposition of gas delivered to the state under AS 43.55.014(b).**

15 * **Sec. 25.** AS 43.05.230 is amended by adding a new subsection to read:

16 (k) The name of each person that the department has allowed to make an
17 election under AS 43.55.014(a) and the amount of gas produced from each lease or
18 property to which an effective election under AS 43.55.014 applies is public
19 information.

20 * **Sec. 26.** AS 43.20.144(f) is amended to read:

21 (f) The extraction factor of a taxpayer subject to this section is a fraction,

22 (1) the numerator of which is the sum of the following for the tax
23 period:

24 (A) the number of barrels of the taxpayer's oil (net of royalty to
25 an unrelated party) produced from or allocated to leases or properties of the
26 taxpayer in this state; and

27 (B) one-sixth of the number of Mcf of the taxpayer's gas,
28 **including gas subject to an election under AS 43.55.014,** (net of royalty to
29 an unrelated party) produced from or allocated to leases or properties of the
30 taxpayer in this state, excluding reinjected gas; and

31 (2) the denominator of which is the sum of the following for the tax

1 period:

2 (A) the number of barrels of oil of the taxpayer's consolidated
3 business (net of royalty to an unrelated party) produced from or allocated to
4 leases or properties of the taxpayer's consolidated business everywhere; and

5 (B) one-sixth of the number of Mcf of gas, including gas
6 subject to an election under AS 43.55.014, of the taxpayer's consolidated
7 business (net of royalty to an unrelated party) produced from or allocated to
8 leases or properties of the taxpayer's consolidated business everywhere,
9 excluding reinjected gas.

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

11 (e) There is levied on the producer of oil or gas a tax for all oil and gas
12 produced each calendar year from each lease or property in the state, less any oil and
13 gas the ownership or right to which is exempt from taxation or constitutes a
14 landowner's royalty interest or for which a tax is levied by AS 43.55.014. Except as
15 otherwise provided under (f), (j), (k), (o), and (p) of this section, for oil and gas
16 produced

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

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

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

22 (2) on and after January 1, 2014, and before January 1, 2022, the tax
23 is equal to the annual production tax value of the taxable oil and gas as calculated
24 under AS 43.55.160(a)(1) multiplied by 35 percent;

25 (3) on and after January 1, 2022, the tax for

26 (A) oil is equal to the annual production tax value of the
27 taxable oil as calculated under AS 43.55.160(h) multiplied by 35 percent;

28 (B) gas is equal to 10.5 percent of the gross value at the
29 point of production of the taxable gas; if the gross value at the point of
30 production of gas produced from a lease or property is less than zero, that
31 gross value at the point of production is considered zero for purposes of

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this subparagraph.

* Sec. 28. AS 43.55.011(f) is amended to read:

(f) The levy of tax under (e) of this section for

(1) oil and gas produced before January 1, 2022, from leases or properties that include land north of 68 degrees North latitude, other than [OIL AND GAS PRODUCTION SUBJECT TO (i) OF THIS SECTION AND] gas subject to (o) of this section, may not be less than

(A) [(1)] four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than \$25;

(B) [(2)] three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$20 but not over \$25;

(C) [(3)] two percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$17.50 but not over \$20;

(D) [(4)] one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$15 but not over \$17.50; or

(E) [(5)] zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is \$15 or less; and

(2) oil produced on and after January 1, 2022, from leases or properties that include land north of 68 degrees North latitude, may not be less than

(A) four percent of the gross value at the point of

1 production when the average price per barrel for Alaska North Slope
2 crude oil for sale on the United States West Coast during the calendar
3 year for which the tax is due is more than \$25;

4 (B) three percent of the gross value at the point of
5 production when the average price per barrel for Alaska North Slope
6 crude oil for sale on the United States West Coast during the calendar
7 year for which the tax is due is over \$20 but not over \$25;

8 (C) two percent of the gross value at the point of production
9 when the average price per barrel for Alaska North Slope crude oil for
10 sale on the United States West Coast during the calendar year for which
11 the tax is due is over \$17.50 but not over \$20;

12 (D) one percent of the gross value at the point of production
13 when the average price per barrel for Alaska North Slope crude oil for
14 sale on the United States West Coast during the calendar year for which
15 the tax is due is over \$15 but not over \$17.50; or

16 (E) zero percent of the gross value at the point of
17 production when the average price per barrel for Alaska North Slope
18 crude oil for sale on the United States West Coast during the calendar
19 year for which the tax is due is \$15 or less.

20 * **Sec. 29.** AS 43.55 is amended by adding a new section to read:

21 **Sec. 43.55.014. Payment in gas of tax for gas.** (a) For gas produced on and
22 after January 1, 2022, from oil and gas leases that have been modified under
23 AS 38.05.180(hh), other than gas described in (e) of this section, the department may
24 allow a producer to make an irrevocable election, under regulations adopted by the
25 department, to pay in gas the production tax levied by this section in lieu of the tax
26 otherwise levied for the gas by AS 43.55.011(e).

27 (b) A production tax levied by this section is equal to 10.5 percent of the gas
28 otherwise taxable under AS 43.55.011(e)(3) produced from each lease or property to
29 which an effective election under (a) of this section applies, when and as that gas is
30 produced. The producer shall pay the tax in gas by delivering that 10.5 percent of the
31 gas to the state at the point of production.

1 (c) The Department of Natural Resources shall manage under
2 AS 38.05.020(b)(13) the custody and disposition of gas delivered to the state under (b)
3 of this section.

4 (d) If a deficiency in a tax levied by this section is assessed, or if a provision
5 of this title providing for interest or a penalty based on a percentage of a tax liability or
6 tax deficiency applies to gas for which a tax is levied by this section, the amount of the
7 deficiency and the tax amount on which the interest or penalty percentage is calculated
8 is treated for the purpose only of that calculation as having been levied by
9 AS 43.55.011(e) rather than this section.

10 (e) This section does not apply to gas

11 (1) flared, released, or allowed to escape upstream of the point of
12 production of gas; or

13 (2) used in the operation of a lease or property in the state for drilling
14 for or producing oil or gas, or for repressuring a reservoir.

15 * **Sec. 30.** AS 43.55.019(a) is amended to read:

16 (a) A producer of oil or gas is allowed a credit against the tax **levied by**
17 **AS 43.55.011(e)** [DUE UNDER THIS CHAPTER] for cash contributions accepted for

18 (1) direct instruction, research, and educational support purposes,
19 including library and museum acquisitions, and contributions to endowment, by an
20 Alaska university foundation or by a nonprofit, public or private, Alaska two-year or
21 four-year college accredited by a regional accreditation association;

22 (2) secondary school level vocational education courses, programs, and
23 facilities by a school district in the state;

24 (3) vocational education courses, programs, and facilities by a state-
25 operated vocational technical education and training school;

26 (4) a facility or an annual intercollegiate sports tournament by a
27 nonprofit, public or private, Alaska two-year or four-year college accredited by a
28 regional accreditation association;

29 (5) Alaska Native cultural or heritage programs and educational
30 support, including mentoring and tutoring, provided by a nonprofit agency for public
31 school staff and for students who are in grades kindergarten through 12 in the state;

1 (6) education, research, rehabilitation, and facilities by an institution
2 that is located in the state and that qualifies as a coastal ecosystem learning center
3 under the Coastal America Partnership established by the federal government; and

4 (7) the Alaska higher education investment fund under AS 37.14.750.

5 * **Sec. 31.** AS 43.55.019(e) is amended to read:

6 (e) The credit under this section may not reduce a person's tax liability under
7 AS 43.55.011(e) [THIS CHAPTER] to below zero for any tax year. An unused credit
8 or portion of a credit not used under this section for a tax year may not be sold, traded,
9 transferred, or applied in a subsequent tax year.

10 * **Sec. 32.** AS 43.55.020(a) is amended to read:

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

13 (1) for oil and gas produced before January 1, 2014, an installment
14 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
15 as allowed by law, is due for each month of the calendar year on the last day of the
16 following month; except as otherwise provided under (2) of this subsection, the
17 amount of the installment payment is the sum of the following amounts, less 1/12 of
18 the tax credits that are allowed by law to be applied against the tax levied by
19 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
20 not be less than zero:

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

25 (i) zero; or

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

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

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

5 (i) zero;

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

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

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

20 (i) zero; or

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

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

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

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

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

11 (2) an amount calculated under (1)(C) of this subsection for oil or gas
12 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
13 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
14 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
15 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
16 amount of taxable gas produced during the month for the amount of taxable gas
17 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
18 (2)(A), as applicable, the amount of taxable oil produced during the month for the
19 amount of taxable oil produced during the calendar year;

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

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

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

1 (4) any amount of tax levied by AS 43.55.011, net of any credits
2 applied as allowed by law, that exceeds the total of the amounts due as installment
3 payments of estimated tax is due on March 31 of the year following the calendar year
4 of production;

5 (5) **for oil and gas produced** on and after January 1, 2014, **and before**
6 **January 1, 2022**, an installment payment of the estimated tax levied by
7 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
8 month of the calendar year on the last day of the following month; except as otherwise
9 provided under (6) of this subsection, the amount of the installment payment is the
10 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be
11 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
12 of the installment payment may not be less than zero:

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

17 (i) zero; or

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

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

27 (i) zero;

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

1 (iii) 35 percent multiplied by the remainder obtained by
2 subtracting 1/12 of the producer's adjusted lease expenditures for the
3 calendar year of production under AS 43.55.165 and 43.55.170 that are
4 deductible for the oil and gas under AS 43.55.160 from the gross value
5 at the point of production of the oil and gas produced from those leases
6 or properties during the month for which the installment payment is
7 calculated, except that, for the purposes of this calculation, a reduction
8 from the gross value at the point of production may apply for oil and
9 gas subject to AS 43.55.160(f) or (g);

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

12 (i) zero; or

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

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

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

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

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

10 (7) for oil and gas produced on or after January 1, 2022, an
11 installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax
12 credits applied as allowed by law, is due for each month of the calendar year on
13 the last day of the following month; the amount of the installment payment is the
14 sum of the following amounts, less 1/12 of the tax credits that are allowed by law
15 to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but
16 the amount of the installment payment may not be less than zero:

17 (A) for oil produced from leases or properties that include
18 land north of 68 degrees North latitude, the greatest of

19 (i) zero;

20 (ii) zero percent, one percent, two percent, three
21 percent, or four percent, as applicable, of the gross value at the
22 point of production of the oil produced from the leases or
23 properties during the month for which the installment payment is
24 calculated; or

25 (iii) 35 percent multiplied by the remainder obtained
26 by subtracting 1/12 of the producer's adjusted lease expenditures
27 for the calendar year of production under AS 43.55.165 and
28 43.55.170 that are deductible for the oil under AS 43.55.160(h)(1)
29 from the gross value at the point of production of the oil produced
30 from those leases or properties during the month for which the
31 installment payment is calculated, except that, for the purposes of

1 this calculation, a reduction from the gross value at the point of
2 production may apply for oil subject to AS 43.55.160(f) or
3 43.55.160(f) and (g);

4 (B) for oil produced before or during the last calendar year
5 under AS 43.55.024(b) for which the producer could take a tax credit
6 under AS 43.55.024(a), from leases or properties in the state outside the
7 Cook Inlet sedimentary basin, no part of which is north of 68 degrees
8 North latitude, other than leases or properties subject to AS 43.55.011(p),
9 the greater of

10 (i) zero; or

11 (ii) 35 percent multiplied by the remainder obtained
12 by subtracting 1/12 of the producer's adjusted lease expenditures
13 for the calendar year of production under AS 43.55.165 and
14 43.55.170 that are deductible for the oil under AS 43.55.160(h)(2)
15 from the gross value at the point of production of the oil produced
16 from the leases or properties during the month for which the
17 installment payment is calculated;

18 (C) for oil and gas produced from leases or properties
19 subject to AS 43.55.011(p), except as otherwise provided under (8) of this
20 subsection, the sum of

21 (i) 35 percent multiplied by the remainder obtained
22 by subtracting 1/12 of the producer's adjusted lease expenditures
23 for the calendar year of production under AS 43.55.165 and
24 43.55.170 that are deductible for the oil under AS 43.55.160(h)(3)
25 from the gross value at the point of production of the oil produced
26 from the leases or properties during the month for which the
27 installment payment is calculated, but not less than zero; and

28 (ii) 10.5 percent of the gross value at the point of
29 production of the gas produced from the leases or properties
30 during the month, but not less than zero;

31 (D) for oil produced from leases or properties in the state,

1 no part of which is north of 68 degrees North latitude, other than leases or
2 properties subject to (B) or (C) of this paragraph, the greater of

3 (i) zero; or

4 (ii) 35 percent multiplied by the remainder obtained
5 by subtracting 1/12 of the producer's adjusted lease expenditures
6 for the calendar year of production under AS 43.55.165 and
7 43.55.170 that are deductible for the oil under AS 43.55.160(h)(4)
8 from the gross value at the point of production of the oil produced
9 from the leases or properties during the month for which the
10 installment payment is calculated;

11 (E) for gas produced from each lease or property in the
12 state, other than a lease or property subject to AS 43.55.011(p), 10.5
13 percent of the gross value at the point of production of the gas produced
14 from the lease or property during the month for which the installment
15 payment is calculated, but not less than zero;

16 (8) an amount calculated under (7)(C) of this subsection may not
17 exceed four percent of the gross value at the point of production of the oil and gas
18 produced from leases or properties subject to AS 43.55.011(p) during the month
19 for which the installment payment is calculated;

20 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
21 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the
22 point of production is determined under AS 43.55.011(f)(1) or (2) but substituting
23 the phrase "month for which the installment payment is calculated" in
24 AS 43.55.011(f)(1) and (2) for the phrase "calendar year for which the tax is
25 due."

26 * **Sec. 33.** AS 43.55.020(g) is amended to read:

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

28 (1) before January 1, 2014, an unpaid amount of an installment
29 payment required under (a)(1) - (3) of this section that is not paid when due bears
30 interest (A) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal
31 Revenue Code), as amended, compounded daily, from the date the installment

1 payment is due until March 31 following the calendar year of production, and (B) as
2 provided for a delinquent tax under AS 43.05.225 after that March 31; interest accrued
3 under (A) of this paragraph that remains unpaid after that March 31 is treated as an
4 addition to tax that bears interest under (B) of this paragraph; an unpaid amount of tax
5 due under (a)(4) of this section that is not paid when due bears interest as provided for
6 a delinquent tax under AS 43.05.225;

7 (2) on and after January 1, 2014, an unpaid amount of an installment
8 payment required under (a)(3), (5), [OR] (6), or (7) of this section that is not paid
9 when due bears interest (A) at the rate provided for an underpayment under 26 U.S.C.
10 6621 (Internal Revenue Code), as amended, compounded daily, from the date the
11 installment payment is due until March 31 following the calendar year of production,
12 and (B) as provided for a delinquent tax under AS 43.05.225 after that March 31;
13 interest accrued under (A) of this paragraph that remains unpaid after that March 31 is
14 treated as an addition to tax that bears interest under (B) of this paragraph; an unpaid
15 amount of tax due under (a)(4) of this section that is not paid when due bears interest
16 as provided for a delinquent tax under AS 43.05.225.

17 * **Sec. 34.** AS 43.55.020(h) is amended to read:

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

19 (1) an overpayment of an installment payment required under (a)(1),
20 (2), (3), (5), (6), or (7) [(a)(1) - (3), (5) OR (6)] of this section bears interest at the rate
21 provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as
22 amended, compounded daily, from the later of the date the installment payment is due
23 or the date the overpayment is made, until the earlier of

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

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

26 (2) except as provided under (1) of this subsection, interest with
27 respect to an overpayment is allowed only on any net overpayment of the payments
28 required under (a) of this section that remains after the later of March 31 following the
29 calendar year of production or the date that the statement required under
30 AS 43.55.030(a) is filed;

31 (3) interest is allowed under (2) of this subsection only from a date that

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

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

6 * **Sec. 35.** AS 43.55.020(l) is amended to read:

7 (l) **For oil and gas produced on** [ON] and after January 1, 2014, **and before**
8 **January 1, 2022,** in making settlement with the royalty owner for oil and gas that is
9 taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on
10 taxable royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in
11 value at the time the tax becomes due to the amount of the tax paid. If the total
12 deductions of installment payments of estimated tax for a calendar year exceed the
13 actual tax for that calendar year, the producer shall, before April 1 of the following
14 year, refund the excess to the royalty owner. Unless otherwise agreed between the
15 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
16 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
17 right to which constitutes a landowner's royalty interest, is considered to be the gross
18 value at the point of production of the taxable royalty oil and gas produced during the
19 calendar year multiplied by a figure that is a quotient, in which

20 (1) the numerator is the producer's total tax liability under
21 **AS 43.55.011(e)(2)** [AS 43.55.011(e)] for the calendar year of production; and

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

25 * **Sec. 36.** AS 43.55.020 is amended by adding a new subsection to read:

26 (m) For oil and gas produced on and after January 1, 2022, in making
27 settlement with the royalty owner for oil and gas that is taxable under AS 43.55.011,
28 the producer may deduct the amount of the tax paid on taxable royalty oil and gas, or
29 may deduct taxable royalty oil or gas equivalent in value at the time the tax becomes
30 due to the amount of the tax paid. If the total deductions of installment payments of
31 estimated tax for a calendar year exceed the actual tax for that calendar year, the

1 producer shall, before April 1 of the following year, refund the excess to the royalty
2 owner. In making settlement with the royalty owner for gas that is taxable under
3 AS 43.55.014, the producer may deduct the amount of the gas paid as in kind tax on
4 taxable royalty gas or may deduct the gross value at the point of production of the gas
5 paid as in-kind tax on taxable royalty gas. Unless otherwise agreed between the
6 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
7 taxable royalty oil for a calendar year, other than oil the ownership or right to which
8 constitutes a landowner's royalty interest, is considered to be the gross value at the
9 point of production of the taxable royalty oil produced during the calendar year
10 multiplied by a figure that is a quotient, in which

11 (1) the numerator is the producer's total tax liability under
12 AS 43.55.011(e)(3)(A) for the calendar year of production; and

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

16 * **Sec. 37.** AS 43.55.030(a) is amended to read:

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

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

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

27 (3) the gross amount of oil and the gross amount of gas produced from
28 each lease or property, **separately identifying the gross amount of gas produced**
29 **from each lease or property to which an effective election under AS 43.55.014(a)**
30 **applies, the amount of gas delivered to the state under AS 43.55.014(b),** and the
31 percentage of the gross amount of oil and gas owned by the producer;

1 (4) the gross value at the point of production of the oil and of the gas
2 produced from each lease or property owned by the producer and the costs of
3 transportation of the oil and gas;

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

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

10 (7) the production tax values of the oil and gas under AS 43.55.160(a)
11 or of the oil under AS 43.55.160(h), as applicable [AS 43.55.160];

12 (8) any claims for tax credits to be applied; and

13 (9) calculations showing the amounts, if any, that were or are due
14 under AS 43.55.020(a) and interest on any underpayment or overpayment.

15 * **Sec. 38.** AS 43.55.160(a) is amended to read:

16 (a) For oil and gas produced before January 1, 2022, except [EXCEPT] as
17 provided in (b), (f), and (g) of this section, for the purposes of

18 (1) AS 43.55.011(e)(1) and (2) [AS 43.55.011(e)], the annual
19 production tax value of taxable oil, gas, or oil and gas produced during a calendar year
20 in a category for which a separate annual production tax value is required to be
21 calculated under this paragraph is the gross value at the point of production of that oil,
22 gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease
23 expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil
24 and gas in that category produced by the producer during the calendar year, as
25 adjusted under AS 43.55.170; a separate annual production tax value shall be
26 calculated for

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

30 (B) oil and gas produced from leases or properties in the state
31 outside the Cook Inlet sedimentary basin, no part of which is north of 68

degrees North latitude and that qualifies for a tax credit under AS 43.55.024(a) and (b); this subparagraph does not apply to

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

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

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

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

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

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

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

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

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

(B) oil and gas produced during a month from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease

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

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

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

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

24 * **Sec. 39.** AS 43.55.160(e) is amended to read:

25 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
26 would otherwise be deductible by a producer in a calendar year but whose deduction
27 would cause an annual production tax value calculated under (a)(1) or (h) of this
28 section of taxable oil or gas produced during the calendar year to be less than zero
29 may be used to establish a carried-forward annual loss under AS 43.55.023(b).
30 However, the department shall provide by regulation a method to ensure that, for a
31 period for which a producer's tax liability is limited by AS 43.55.011(j), (k), (o), or

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

13 * **Sec. 40.** AS 43.55.160(f) is amended to read:

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

1 * **Sec. 41.** AS 43.55.160(g) is amended to read:

2 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
3 section, in the calculation of an annual production tax value of a producer under
4 (a)(1)(A) or (h)(1) [(a)(1)] of this section, the gross value at the point of production of
5 oil or gas produced from a lease or property north of 68 degrees North latitude that
6 does not contain a lease that was within a unit on January 1, 2003, is reduced by 10
7 percent if the oil or gas is produced from a unit made up solely of leases that have a
8 royalty share of more than 12.5 percent in amount or value of the production removed
9 or sold from the lease as determined under AS 38.05.180(f). This subsection does not
10 apply if the royalty obligation for one or more of the leases in the unit has been
11 reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of the calendar
12 year for which the annual production tax value is calculated. This subsection does not
13 apply to gas produced before 2022 that is used in the state or to gas produced on and
14 after January 1, 2022. A reduction under this subsection may not reduce the gross
15 value at the point of production below zero.

16 * **Sec. 42.** AS 43.55.160 is amended by adding a new subsection to read:

17 (h) For oil produced on and after January 1, 2022, except as provided in (b),
18 (f), and (g) of this section, for the purposes of AS 43.55.011(e)(3), the annual
19 production tax value of oil taxable under AS 43.55.011(e) produced by a producer
20 during a calendar year

21 (1) from leases or properties in the state that include land north of 68
22 degrees North latitude is the gross value at the point of production of that oil, less the
23 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
24 explore for, develop, or produce oil or gas deposits located in the state north of 68
25 degrees North latitude or located in leases or properties in the state that include land
26 north of 68 degrees North latitude, as adjusted under AS 43.55.170;

27 (2) before or during the last calendar year under AS 43.55.024(b) for
28 which the producer could take a tax credit under AS 43.55.024(a), from leases or
29 properties in the state outside the Cook Inlet sedimentary basin, no part of which is
30 north of 68 degrees North latitude, other than leases or properties subject to
31 AS 43.55.011(p), is the gross value at the point of production of that oil, less the

1 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
2 explore for, develop, or produce oil or gas deposits located in the state outside the
3 Cook Inlet sedimentary basin and south of 68 degrees North latitude, other than oil or
4 gas deposits located in a lease or property that includes land north of 68 degrees North
5 latitude or that is subject to AS 43.55.011(p) or, before January 1, 2027, from which
6 commercial production has not begun, as adjusted under AS 43.55.170;

7 (3) from leases or properties subject to AS 43.55.011(p) is the gross
8 value at the point of production of that oil, less the producer's lease expenditures under
9 AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil or
10 gas deposits located in leases or properties subject to AS 43.55.011(p) or, before
11 January 1, 2027, located in leases or properties in the state outside the Cook Inlet
12 sedimentary basin, no part of which is north of 68 degrees North latitude from which
13 commercial production has not begun, as adjusted under AS 43.55.170;

14 (4) from leases or properties in the state no part of which is north of 68
15 degrees North latitude, other than leases or properties subject to (2) or (3) of this
16 subsection, is the gross value at the point of production of that oil less the producer's
17 lease expenditures under AS 43.55.165 for the calendar year incurred to explore for,
18 develop, or produce oil or gas deposits located in the state south of 68 degrees North
19 latitude, other than oil or gas deposits located in a lease or property in the state that
20 includes land north of 68 degrees North latitude, and excluding lease expenditures that
21 are deductible under (2) or (3) of this subsection or would be deductible under (2) or
22 (3) of this subsection if not prohibited by (b) of this section, as adjusted under
23 AS 43.55.170.

24 * **Sec. 43.** AS 43.55.165(e) is amended to read:

25 (e) For purposes of this section, lease expenditures do not include

26 (1) depreciation, depletion, or amortization;

27 (2) oil or gas royalty payments, production payments, lease profit
28 shares, or other payments or distributions of a share of oil or gas production, profit, or
29 revenue, except that a producer's lease expenditures applicable to oil and gas produced
30 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
31 profit paid to the state under that lease;

- 1 (3) taxes based on or measured by net income;
- 2 (4) interest or other financing charges or costs of raising equity or debt
3 capital;
- 4 (5) acquisition costs for a lease or property or exploration license;
- 5 (6) costs arising from fraud, wilful misconduct, gross negligence,
6 violation of law, or failure to comply with an obligation under a lease, permit, or
7 license issued by the state or federal government;
- 8 (7) fines or penalties imposed by law;
- 9 (8) costs of arbitration, litigation, or other dispute resolution activities
10 that involve the state or concern the rights or obligations among owners of interests in,
11 or rights to production from, one or more leases or properties or a unit;
- 12 (9) costs incurred in organizing a partnership, joint venture, or other
13 business entity or arrangement;
- 14 (10) amounts paid to indemnify the state; the exclusion provided by
15 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
16 a third-party insurer or surety;
- 17 (11) surcharges levied under AS 43.55.201 or 43.55.300;
- 18 (12) an expenditure otherwise deductible under (b) of this section that
19 is a result of an internal transfer, a transaction with an affiliate, or a transaction
20 between related parties, or is otherwise not an arm's length transaction, unless the
21 producer establishes to the satisfaction of the department that the amount of the
22 expenditure does not exceed the fair market value of the expenditure;
- 23 (13) an expenditure incurred to purchase an interest in any corporation,
24 partnership, limited liability company, business trust, or any other business entity,
25 whether or not the transaction is treated as an asset sale for federal income tax
26 purposes;
- 27 (14) a tax levied under AS 43.55.011 or 43.55.014;
- 28 (15) costs incurred for dismantlement, removal, surrender, or
29 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
30 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
31 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not

1 excluded under this paragraph if the dismantlement, removal, surrender, or
2 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
3 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

4 (16) costs incurred for containment, control, cleanup, or removal in
5 connection with any unpermitted release of oil or a hazardous substance and any
6 liability for damages imposed on the producer or explorer for that unpermitted release;
7 this paragraph does not apply to the cost of developing and maintaining an oil
8 discharge prevention and contingency plan under AS 46.04.030;

9 (17) costs incurred to satisfy a work commitment under an exploration
10 license under AS 38.05.132;

11 (18) that portion of expenditures, that would otherwise be qualified
12 capital expenditures, as defined in AS 43.55.023, incurred during a calendar year that
13 are less than the product of \$0.30 multiplied by the total taxable production from each
14 lease or property, in BTU equivalent barrels, during that calendar year, except that,
15 when a portion of a calendar year is subject to this provision, the expenditures and
16 volumes shall be prorated within that calendar year;

17 (19) costs incurred for repair, replacement, or deferred maintenance of
18 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
19 undertaken in response to a failure, problem, or event that results in an unscheduled
20 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
21 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
22 equipment, other than a well, that is undertaken in response to, or is otherwise
23 associated with, an unpermitted release of a hazardous substance or of gas; however,
24 costs under this paragraph that would otherwise constitute lease expenditures under (a)
25 and (b) of this section may be treated as lease expenditures if the department
26 determines that the repair or replacement is solely necessitated by an act of war, by an
27 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
28 inevitable, and irresistible character, the effects of which could not have been
29 prevented or avoided by the exercise of due care or foresight, or by an intentional or
30 negligent act or omission of a third party, other than a party or its agents in privity of
31 contract with, or employed by, the producer or an operator acting for the producer, but

1 only if the producer or operator, as applicable, exercised due care in operating and
2 maintaining the facility, pipeline, structure, or equipment, and took reasonable
3 precautions against the act or omission of the third party and against the consequences
4 of the act or omission; in this paragraph,

5 (A) "costs incurred for repair, replacement, or deferred
6 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
7 to dismantle and remove the facility, pipeline, structure, or equipment that is
8 being replaced;

9 (B) "hazardous substance" has the meaning given in
10 AS 46.03.826;

11 (C) "replacement" includes renovation or improvement;

12 (20) costs incurred to construct, acquire, or operate a refinery or crude
13 oil topping plant, regardless of whether the products of the refinery or topping plant
14 are used in oil or gas exploration, development, or production operations; however, if
15 a producer owns a refinery or crude oil topping plant that is located on or near the
16 premises of the producer's lease or property in the state and that processes the
17 producer's oil produced from that lease or property into a product that the producer
18 uses in the operation of the lease or property in drilling for or producing oil or gas, the
19 producer's lease expenditures include the amount calculated by subtracting from the
20 fair market value of the product used the prevailing value, as determined under
21 AS 43.55.020(f), of the oil that is processed;

22 (21) costs of lobbying, public relations, public relations advertising, or
23 policy advocacy.

24 * **Sec. 44.** AS 43.55.900(10) is amended to read:

25 (10) "gas processing plant" means a facility that

26 (A) extracts and recovers liquid hydrocarbons from a gaseous
27 mixture of hydrocarbons by gas processing; and

28 (B) is located upstream of the inlet of any pipeline
29 transporting gas to a gas treatment plant and upstream of the inlet of any gas
30 pipeline system transporting gas to a market;

31 * **Sec. 45.** AS 43.55.900(20) is amended to read:

1 (20) "point of production" means

2 (A) for oil, the automatic custody transfer meter or device
3 through which the oil enters into the facilities of a carrier pipeline or other
4 transportation carrier in a condition of pipeline quality; in the absence of an
5 automatic custody transfer meter or device, "point of production" means the
6 mechanism or device to measure the quantity of oil that has been approved by
7 the department for that purpose, through which the oil is tendered and accepted
8 in a condition of pipeline quality into the facilities of a carrier pipeline or other
9 transportation carrier or into a field topping plant;

10 (B) for gas [, OTHER THAN GAS DESCRIBED IN (C) OF
11 THIS PARAGRAPH,] that is

12 (i) not subjected to or recovered by mechanical
13 separation or run through a gas processing plant, the **furthest**
14 **upstream of the** first point where the gas is accurately metered, **the**
15 **inlet of any pipeline transporting the gas to a gas treatment plant,**
16 **or the inlet of any gas pipeline system transporting gas to a market;**

17 (ii) subjected to or recovered by mechanical separation
18 but not run through a gas processing plant, the **furthest upstream of**
19 **the** first point where the gas is accurately metered after completion of
20 mechanical separation, **the inlet of any pipeline transporting the gas**
21 **to a gas treatment plant, or the inlet of any gas pipeline system**
22 **transporting gas to a market;**

23 (iii) run through a gas processing plant, the **furthest**
24 **upstream of the** first point where the gas is accurately metered
25 downstream of the plant, **the inlet of any pipeline transporting the**
26 **gas to a gas treatment plant, or the inlet of any gas pipeline system**
27 **transporting gas to a market;**

28 [(C) FOR GAS RUN THROUGH AN INTEGRATED GAS
29 PROCESSING PLANT AND GAS TREATMENT FACILITY THAT DOES
30 NOT ACCURATELY METER THE GAS AFTER THE GAS PROCESSING
31 AND BEFORE THE GAS TREATMENT, THE FIRST POINT WHERE GAS

1 PROCESSING IS COMPLETED OR WHERE GAS TREATMENT BEGINS,
2 WHICHEVER IS FURTHER UPSTREAM;]

3 * **Sec. 46.** AS 43.55.900 is amended by adding a new paragraph to read:

4 (25) "gas treatment plant" means a facility that performs gas treatment,
5 regardless of whether the facility also performs gas processing.

6 * **Sec. 47.** AS 43.98.030(c) is amended to read:

7 (c) A taxpayer acquiring a transferable tax credit certificate may use the credit
8 or a portion of the credit to offset taxes imposed under AS 21.09.210, AS 21.66.110,
9 AS 43.20, AS 43.55.011 [AS 43.55], AS 43.56, AS 43.65, AS 43.75, and AS 43.77.
10 Except as provided in (e) of this section, any portion of the credit not used may be
11 used at a later period or transferred under (b) of this section.

12 * **Sec. 48.** The uncodified law of the State of Alaska is amended by adding a new section to
13 read:

14 DEVELOPMENT OF A PLAN FOR RESIDENTS TO PARTICIPATE IN THE
15 OWNERSHIP OF A NORTH SLOPE NATURAL GAS PIPELINE. (a) At the time the
16 commissioner of natural resources submits the first contract to the legislature for approval
17 under AS 38.05.020(b)(11), enacted by sec. 10 of this Act, the commissioner of revenue shall
18 present a plan and suggested legislation to allow a resident of the state to participate as a co-
19 owner in a North Slope natural gas pipeline. The plan must include the recommendations of
20 the commissioner as to

21 (1) the means by which a resident may invest in the North Slope natural gas
22 pipeline that may include providing an option for a resident to designate an amount of a
23 permanent fund dividend to be deducted for the investment;

24 (2) whether the ownership interest in a North Slope natural gas pipeline should
25 be acquired from the portion of a North Slope natural gas pipeline acquired by the state,
26 through the purchase of stock in a publicly traded corporation that invests in a North Slope
27 natural gas pipeline, or some other means;

28 (3) the means for providing notice to a resident receiving an ownership
29 interest that explains the type of ownership interest and the rights and obligations related to
30 that ownership interest;

31 (4) whether the ownership interest received by a resident may be transferred or

1 assigned to another person and the means for transferring the interest;

2 (5) the means by which the proportional share of a dividend or other income
3 may be distributed to a resident or transferee of an interest if a resident receives an ownership
4 interest acquired by the state in a North Slope natural gas pipeline and the state receives a
5 dividend or other income from its ownership interest, and whether the payment should be
6 subject to interest if not timely distributed;

7 (6) the means by which the commissioner may identify a publicly traded
8 corporation that has an ownership interest in a North Slope natural gas pipeline that is subject
9 to investment by an individual under the proposed plan; and

10 (7) the means by which an individual may qualify as a resident for purposes of
11 investing in an ownership interest.

12 (b) In this section, "North Slope natural gas pipeline" means a natural gas pipeline
13 project that transports natural gas produced in the state north of 68 degrees North latitude to a
14 market in the state or to tidewater for export from the state including a facility in the state for
15 liquefying natural gas for transport.

16 * **Sec. 49.** The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 **TRANSITION: REGULATIONS.** The Department of Revenue and the Department of
19 Natural Resources may adopt regulations to implement this Act. The regulations take effect
20 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the
21 provisions of this Act being implemented.

22 * **Sec. 50.** The uncodified law of the State of Alaska is amended by adding a new section to
23 read:

24 **REVISOR'S INSTRUCTION.** The revisor of statutes is instructed to change the catch
25 line of AS 38.05.183 from "Sale of royalty" to "Sale of royalty and of gas delivered to the
26 state under AS 43.55.014(b)."

27 * **Sec. 51.** Sections 1 - 10, 12, 13, 19, 20, 22, 23, 30, 31, and 47 - 49 of this Act take effect
28 immediately under AS 01.10.070(c).

29 * **Sec. 52.** Except as provided in sec. 51 of this Act, this Act takes effect January 1, 2015.

28-GS2806N
Bullock
2/20/14

CS FOR SENATE BILL NO. 138(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES 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 purposes of the Alaska Gasline Development Corporation to
2 advance to develop a large-diameter natural gas pipeline project, including treatment
3 and liquefaction facilities; establishing the large-diameter natural gas pipeline project
4 fund; creating a subsidiary related to a large-diameter natural gas pipeline project,
5 including treatment and liquefaction facilities; relating to the authority of the
6 commissioner of natural resources to negotiate contracts related to North Slope natural
7 gas projects, to enter into confidentiality agreements in support of contract negotiations
8 and implementation, and to take custody of gas delivered to the state under an election
9 to pay the gas production tax in gas; relating to the sale, exchange, or disposal of gas
10 delivered to the state under an election to pay the gas production tax in gas; relating to
11 the tax on oil production; relating to the tax on gas production; relating to the duties of
12 the commissioner of revenue to direct the disposition of revenues received from gas

1 delivered to the state and to consult with the commissioner of natural resources on the
2 custody and disposition of gas delivered to the state; relating to the authority of the
3 commissioner of natural resources to propose modifications to existing state oil and gas
4 leases; making certain information provided to the Department of Natural Resources
5 and the Department of Revenue exempt from inspection as a public record; making
6 certain tax information related to an election to pay the gas production tax in gas
7 exempt from tax confidentiality provisions; relating to establishing under the oil and gas
8 production tax a gross tax rate for the production of gas after 2021; making the
9 alternate minimum tax on oil and gas produced north of 68 degrees North latitude after
10 2021 apply only to oil; relating to apportionment factors of the Alaska Net Income Tax
11 Act; authorizing a producer's election to pay the gas production tax in gas for certain
12 gas and relating to the authorization; relating to monthly installment payments of the oil
13 and gas production tax; relating to interest payments on monthly installment payments
14 of the oil and gas production tax; relating to settlements between producers and royalty
15 owners for oil and gas production tax; relating to annual statements by producers and
16 explorers; relating to annual production tax values; relating to lease expenditures;
17 amending the definition of gross value at the 'point of production' for gas for purposes
18 of the oil and gas production tax; adding definitions related to natural gas terms;
19 clarifying that credit may not be taken against the levy of the gas production tax for gas
20 paid in gas for purposes of the exploration incentive credit, the oil or gas producer
21 education credit, and the film production tax credit; requiring the commissioner of
22 revenue to develop a plan and suggest legislation for residents of the state to acquire
23 ownership interests in a North Slope natural gas pipeline project; making conforming
24 amendments; and providing for an effective date."

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

2 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
3 to read:

4 **LEGISLATIVE FINDINGS AND INTENT.** (a) The legislature finds that

5 (1) the future oil and gas development in the state is of vital public interest,
6 particularly the commercial development of the gas deposits from the North Slope; that
7 development will include major infrastructure components including a natural gas pipeline,
8 associated infrastructure, a gas treatment facility, a liquefaction facility, and a marine
9 terminal;

10 (2) much of the infrastructure required for commercial development of North
11 Slope natural gas will be within the boundaries of local governmental entities located within
12 or along the natural gas pipeline route and at the pipeline terminus at tidewater;

13 (3) the development of North Slope natural gas will provide benefits to the
14 state including employment opportunities, royalty and tax revenues, including tax revenue
15 under AS 43.56 (Oil and Gas Exploration, Production, and Pipeline Transportation Property
16 Taxes), and could provide delivery of natural gas to communities along the natural gas
17 pipeline route from the North Slope to a terminus point with liquefaction and marine terminal
18 facilities;

19 (3) the commissioner of natural resources will be authorized, through this
20 legislation, to enter short term commercial agreements and to negotiate with the developers
21 and other parties in order to secure the state's participation through contracts, which will be
22 presented to the legislature for authorization;

23 (4) the interests of the State and local governmental entities must be
24 considered in contract negotiations to protect the financial and other interests of the state and
25 those local governmental entities.

26 (b) It is therefore the intent of the legislature to provide the commissioner of natural
27 resources with the authority necessary to enter short term commercial agreements and
28 negotiate contracts and develop terms for inclusion in proposed contracts, subject to
29 legislative approval, associated with a North Slope natural gas project and that the
30 commissioner of natural resources, in those negotiations, consider and suggest for
31 incorporation into contracts terms for state participation in a North Slope natural gas project

1 that include

2 (1) subject to confidentiality agreements, provisions for reasonable disclosure
3 of information related to the state's interest in a North Slope natural gas project including
4 liquefaction, to representatives of the state administration when those representatives are
5 acting in a proprietary capacity;

6 (2) access and pro-expansion principles, opportunities for delivery of gas to
7 Alaskans, payments in lieu of property taxes on a unit rate per throughput basis, and serial
8 impact payments to be paid by the developers of a North Slope natural gas project to help
9 offset increased services and other costs borne by the state and local governments;

10 (3) to the maximum extent permitted by law, seek to negotiate separately with
11 producers of North Slope gas regarding the purchase or other disposition of liquefied natural
12 gas made from the state's share of natural gas delivered to a liquefaction facility in the state;

13 (4) to the maximum extent permitted by law, contract provisions for project
14 labor agreements, employment of Alaska residents, contracts with Alaska businesses, and
15 provisions to work with state job centers, associated services and job training services.

16 * **Sec. 2.** AS 31.25.005 is amended to read:

17 **Sec. 31.25.005. Purpose.** The corporation shall, for the benefit of the state, to
18 the fullest extent possible,

19 (1) advance an in-state natural gas pipeline as described in the July 1,
20 2011, project plan prepared under former AS 38.34.040 by the corporation while a
21 subsidiary of the Alaska Housing Finance Corporation, with modifications determined
22 by the corporation to be appropriate to develop, finance, construct, and operate an in-
23 state natural gas pipeline in a safe, prudent, economical, and efficient manner, for the
24 purpose of making natural gas, including propane and other hydrocarbons associated
25 with natural gas other than oil, available to Fairbanks, the Southcentral region of the
26 state, and other communities in the state at the lowest rates possible;

27 (2) endeavor to develop natural gas pipelines and other transportation
28 mechanisms to deliver natural gas, including propane and other hydrocarbons
29 associated with natural gas other than oil, to public utility and industrial customers in
30 areas of the state to which the natural gas, including propane and other hydrocarbons
31 associated with natural gas other than oil, may be delivered at commercially

1 reasonable rates; and

2 (3) endeavor to develop natural gas pipelines and other transportation
3 mechanisms that offer commercially reasonable rates for shippers and access for
4 shippers who produce natural gas, including propane and other hydrocarbons
5 associated with natural gas other than oil, in the state;

6 (4) advance to develop a large-diameter natural gas pipeline
7 project other than the in-state natural gas pipeline described in (1) of this section
8 by acquiring an equity interest in a large-diameter natural gas pipeline project
9 through the subsidiary under AS 31.25.122;

10 (5) advance to develop, finance, construct, and operate facilities
11 for liquefaction and treatment in connection with a large-diameter natural gas
12 pipeline project other than the in-state natural gas pipeline described in (1) of
13 this section through the subsidiary under AS 31.25.122.

14 * Sec. 3. AS 31.25.010 is amended to read:

15 **Sec. 31.25.010. Structure.** The Alaska Gasline Development Corporation is a
16 public corporation and government instrumentality located for administrative purposes
17 in the Department of Commerce, Community, and Economic Development, but
18 having a legal existence independent of and separate from the state. The corporation
19 may not be terminated as long as it has bonds, notes, or other obligations outstanding.
20 The corporation may dissolve when no bonds, notes, or other obligations of the
21 corporation or a subsidiary of the corporation are outstanding and the corporation or a
22 subsidiary of the corporation is no longer engaged in the development, financing,
23 construction, or operation of an in-state natural gas pipeline or a large-diameter
24 natural gas pipeline project. Upon termination of the corporation, its rights and
25 property pass to the state.

26 * Sec. 4. AS 31.25.080(f) is amended to read:

27 (f) The corporation shall, to the maximum extent practicable without delaying
28 the progress of developing the [AN] in-state natural gas pipeline project described in
29 AS 31.25.005(1) and without causing the in-state natural gas pipeline project
30 described in AS 31.25.005(1) to become a competing natural gas pipeline project for
31 purposes of AS 43.90.440, coordinate with and accommodate the developers of a

1 large-diameter [IN-STATE] natural gas pipeline **project** by planning for the
2 development and use of [COMMON] pipeline facilities from the North Slope to [THE
3 LIVENGOOD AREA OR TO ANOTHER POINT FROM WHICH A LARGE-
4 DIAMETER IN-STATE NATURAL GAS PIPELINE MAY BE CONSTRUCTED
5 SOUTH TO] tidewater in either the Prince William Sound or Cook Inlet area. **The**
6 **corporation may use money appropriated to the large-diameter natural gas**
7 **pipeline project fund created in AS 31.25.110 for the purposes described in this**
8 **subsection and may not use money appropriated to the in-state natural gas**
9 **pipeline fund created in AS 31.25.100 for the purposes described in this**
10 **subsection** [IN THIS SUBSECTION, "LARGE-DIAMETER IN-STATE NATURAL
11 GAS PIPELINE" MEANS A PIPELINE IN THE STATE WITH A DIAMETER OF
12 42 INCHES OR MORE].

13 * **Sec. 5.** AS 31.25.100 is amended to read:

14 **Sec. 31.25.100. In-state natural gas pipeline fund.** The in-state natural gas
15 pipeline fund is established in the corporation and consists of money appropriated to
16 it. The corporation shall determine fund management and may contract with the
17 Department of Revenue for fund management. Unless otherwise provided by law,
18 money appropriated to the fund lapses into the general fund on the day this section is
19 repealed. Interest and other income received on money in the fund shall be separately
20 accounted for and may be appropriated to the fund. The corporation may use money
21 appropriated to the fund without further appropriation **solely** for the cost of managing
22 the fund and for the planning, financing, development, acquisition, maintenance,
23 construction, and operation of **the** [AN] in-state natural gas pipeline **described in**
24 **AS 31.25.005(1) and may not use money appropriated to the fund for any other**
25 **purpose, including the purposes described in AS 31.25.005(4) and (5) and**
26 **31.25.080(f).**

27 * **Sec. 6.** AS 31.25 is amended by adding a new section to read:

28 **Sec. 31.25.110. Large-diameter natural gas pipeline project fund.** The
29 large-diameter natural gas pipeline project fund is established in the subsidiary and
30 consists of money appropriated to it. The subsidiary shall determine fund management
31 and may contract with the Department of Revenue for fund management. Interest and

1 other income received on money in the fund shall be separately accounted for and may
2 be appropriated to the fund. The subsidiary may use money appropriated to the fund
3 without further appropriation for the purpose of managing the fund and for the
4 planning, financing, acquisition, maintenance, construction, and operation of a large-
5 diameter natural gas pipeline project, including treatment and liquefaction facilities,
6 and may not use the money appropriated to the fund for the purpose described in
7 AS 31.25.005(1). If money is appropriated to the fund to finance the cost of a large-
8 diameter natural gas pipeline project described in AS 31.25.005(4) and (5), the
9 subsidiary shall create an account in the fund for that purpose and shall hold the
10 money appropriated for that purpose in that account. In this section, "subsidiary"
11 means a subsidiary established under AS 31.25.122.

12 * **Sec. 7.** AS 31.25.120 is amended to read:

13 **Sec. 31.25.120. Creation of subsidiaries for an in-state natural gas pipeline**
14 **project.** The corporation may create subsidiary corporations for the purpose of
15 developing, constructing, operating, and financing in-state natural gas pipeline
16 projects or other transportation mechanisms; for the purpose of aiding in the
17 development, construction, operation, and financing of in-state natural gas pipeline
18 projects; or for the purpose of acquiring the state's royalty share of natural gas, natural
19 gas from the North Slope, and natural gas from other regions of the state, including the
20 state's outer continental shelf, and making that natural gas available to markets in the
21 state, including the delivery of natural gas, including propane and other hydrocarbons
22 associated with natural gas other than oil, to coastal communities in the state, or for
23 export. A subsidiary corporation created under this section may be incorporated under
24 AS 10.20.146 - 10.20.166. **Except as provided in AS 31.25.110, the** [THE]
25 corporation may transfer assets of the corporation to a subsidiary created under this
26 section. A subsidiary created under this section may borrow money and issue bonds as
27 evidence of that borrowing and has all the powers of the corporation that the
28 corporation grants to it. Unless otherwise provided by the corporation, the debts,
29 liabilities, and obligations of a subsidiary corporation created under this section are not
30 the debts, liabilities, or obligations of the corporation. **A subsidiary corporation**
31 **created under this section may use money appropriated under AS 31.25.100 and**

1 may not use money appropriated under AS 31.25.110.

2 * **Sec. 8.** AS 31.25 is amended by adding a new section to read:

3 **Sec. 31.25.122. Creation of a subsidiary for a large-diameter natural gas**
4 **pipeline project.** (a) To maximize the economic recovery and value of the state's
5 natural gas royalties and gas tax revenues for the benefit of the people of the state, a
6 subsidiary of the corporation is established as a public corporation and government
7 instrumentality for administrative purposes of the corporation, but having a legal
8 existence independent of and separate from the state and the corporation, for the
9 purposes of acquiring a state equity interest in a large-diameter natural gas pipeline
10 project, in natural gas treatment facilities, in liquefaction facilities, and in marine
11 terminal facilities related to a large-diameter natural gas project, and in entities that are
12 developing, constructing, and operating such facilities; for the purposes of financing
13 the acquisition, capital costs and operating costs related to the state equity interests;
14 for the purposes of supporting in the development, construction, operation, and
15 financing a large-diameter natural gas pipeline project in which the subsidiary has an
16 equity interest; and for the purposes of transferring net revenues received by the
17 subsidiary related to equity interests acquired to the permanent fund and the general
18 fund as determined by the commissioner of natural resources in consultation with the
19 commissioner of revenue. The subsidiary created under this section may use money
20 appropriated under AS 31.25.110 and may not use money appropriated under
21 AS 31.25.100.

22 (b) The subsidiary created under this section shall be governed by a board of
23 directors consisting of

24 (1) the chair of the corporation;

25 (2) the commissioner of natural resources;

26 (3) the commissioner of revenue; and

27 (4) four public members, one of whom is a public member of the board
28 of directors under AS 31.25.030(a)(1).

29 (c) Public members of the subsidiary board shall be appointed by the
30 governor. Subsidiary board members appointed under (b)(4) of this section shall be
31 compensated as provided in AS 31.25.020(d). Public members of the subsidiary

1 board serve five-year terms. A public member serves at the pleasure of the
2 governor. The provisions of AS 31.25.030, 31.25.035, and 31.25.040 apply to the
3 board of the subsidiary.

4 (d) In addition to other powers granted in this section, the subsidiary may

5 (1) determine the form of ownership and the operating structure of a
6 large-diameter natural gas pipeline project developed by the subsidiary and may enter
7 into agreements with other persons for joint ownership, joint operation, or both, of a
8 large-diameter natural gas pipeline project;

9 (2) plan, finance, construct, develop, acquire, maintain, and operate a
10 pipeline system and other transportation mechanism, including pipelines, treatment
11 and liquefaction facilities, marine terminals, compressors, storage facilities, and other
12 related facilities, equipment, and works of public improvement in the state to facilitate
13 production, transportation, and delivery of natural gas or other related natural
14 resources to the point of consumption or to the point of distribution for consumption;

15 (3) lease or rent facilities, structures, and properties;

16 (4) exercise the power of eminent domain and file a declaration of
17 taking under AS 09.55.240 - 09.55.460 to acquire land or an interest in land that is
18 necessary for a large-diameter natural gas pipeline project; the exercise of powers by
19 the subsidiary under this paragraph may not exceed the permissible exercise of the
20 powers by the state;

21 (5) acquire, by purchase, lease, or gift, land, structures, real or personal
22 property, an interest in property, a right-of-way, a franchise, an easement, or other
23 interest in land, or an interest in or right to capacity in a pipeline system determined to
24 be necessary or convenient for the development, financing, construction, or operation
25 of a large-diameter natural gas pipeline project;

26 (6) transfer or otherwise dispose of all or part of a large-diameter
27 natural gas pipeline project developed by the subsidiary or transfer or otherwise
28 dispose of an interest in an asset of the subsidiary;

29 (7) elect to provide transportation of natural gas as a contract carrier,
30 common carrier, or otherwise;

31 (8) provide light, water, security, and other services for property of the

1 subsidiary;

2 (9) conduct hearings to gather and develop data consistent with the
3 purpose and powers of the subsidiary;

4 (10) advocate for new capacity in the project before regulatory
5 agencies;

6 (11) make and execute agreements, contracts, and other instruments
7 necessary or convenient in the exercise of the powers and functions of the subsidiary
8 under this section, including a contract with a person, firm, corporation, governmental
9 agency, or other entity;

10 (12) sue and be sued in its own name;

11 (13) adopt an official seal;

12 (14) adopt bylaws for the regulation of its affairs and the conduct of its
13 business and adopt regulations and policies in connection with the performance of its
14 functions and duties;

15 (15) employ fiscal consultants, engineers, attorneys, appraisers, and
16 other consultants and employees that may, in the judgment of the subsidiary, be
17 required and fix and pay their compensation from funds available to the subsidiary;

18 (16) procure insurance against a loss in connection with its operation;

19 (17) borrow money as provided in this chapter to carry out its
20 corporate purposes and issue its obligations as evidence of borrowing;

21 (18) include in a borrowing the amounts necessary to pay financing
22 charges, to pay interest on the obligations, and to pay the interest, consultant, advisory,
23 and legal fees, and other expenses that are necessary or incident to the borrowing;

24 (19) receive, administer, and comply with the conditions and
25 requirements of an appropriation, gift, grant, or donation of property or money;

26 (20) do all acts and things necessary, convenient, or desirable to carry
27 out the powers expressly granted or necessarily implied in this section;

28 (21) invest or reinvest, subject to its contracts with noteholders and
29 bondholders, money or funds held by the subsidiary, including funds in the large-
30 diameter natural gas project pipeline fund (AS 31.25.110), in obligations or other
31 securities or investments in which banks or trust companies in the state may legally

1 invest funds held in reserves or sinking funds or funds not required for immediate
2 disbursement, and in certificates of deposit or time deposits secured by obligations of,
3 or guaranteed by, the state or the United States;

4 (22) enter into, as it determines to be necessary or appropriate, any
5 swap or hedge, cap, or other contract providing for payments based on levels of or
6 changes in interest rates or indices or in the cost or price of any commodity, supply, or
7 expense expected to be used or incurred in connection with the acquisition,
8 construction, or operation of any facility or property owned, leased, or operated by the
9 subsidiary, or an option with respect to any of the foregoing.

10 (e) Except as provided in AS 31.25.100, the corporation may transfer assets to
11 the subsidiary. The provisions of AS 31.25.090, 31.25.130, 31.25.140, 31.25.160,
12 31.25.170, 31.25.180, 31.25.190, 31.25.200, 31.25.210, 31.25.220, 31.25.230,
13 31.25.240, 31.25.250, 31.25.260, 31.25.270, and 31.25.390 apply to the subsidiary
14 created under this section for a large-diameter natural gas pipeline project, and
15 references in those sections to

16 (1) "the corporation" shall refer to the subsidiary created under this
17 section; and

18 (2) "in-state natural gas pipeline" shall refer to a large-diameter natural
19 gas pipeline project as described in AS 31.25.005(4) and (5).

20 (f) The subsidiary under this section shall employ a project coordinator, who
21 may not be a member of the board. The project coordinator shall be appointed by the
22 subsidiary board and serves at the pleasure of the subsidiary board. The subsidiary
23 board may engage professional and technical advisers as independent contractors. The
24 project coordinator may hire employees for the subsidiary and engage professional and
25 technical advisers as independent contractors upon approval of the subsidiary board.
26 Employees of the subsidiary created under this section are state employees in the
27 exempt service under AS 39.25.110. The subsidiary board shall prescribe the duties
28 and compensation of subsidiary personnel, including the project coordinator.

29 (g) The subsidiary may not be terminated as long as it has bonds, notes, or
30 other obligations outstanding. Upon termination of the subsidiary, its rights and
31 property pass to the state.

1 * **Sec. 9.** AS 31.25.390(5) is amended to read:

2 (5) "in-state natural gas pipeline" means a natural gas pipeline for
3 transporting natural gas in the state as described in AS 31.25.005(1);

4 * **Sec. 10.** AS 31.25.390 is amended by adding new paragraphs to read:

5 (7) "large-diameter natural gas pipeline project" means a natural gas
6 pipeline project as described in AS 31.25.005(4) and (5) that includes facilities for
7 treatment and liquefaction of natural gas, including any marine terminal facilities;

8 (8) "subsidiary board" means the governing board of a subsidiary
9 created under AS 31.25.122.

10 * **Sec. 11.** AS 38.05.020(b) is amended to read:

11 (b) The commissioner may

12 (1) establish reasonable procedures and adopt reasonable regulations
13 necessary to carry out this chapter and, whenever necessary, issue directives or orders
14 to the director to carry out specific functions and duties; regulations adopted by the
15 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
16 orders by the commissioner classifying land, issued after January 3, 1959, are not
17 required to be adopted under AS 44.62 (Administrative Procedure Act);

18 (2) enter into agreements considered necessary to carry out the
19 purposes of this chapter, including agreements with federal and state agencies;

20 (3) review any order or action of the director;

21 (4) exercise the powers and do the acts necessary to carry out the
22 provisions and objectives of this chapter;

23 (5) notwithstanding the provisions of any other section of this chapter,
24 grant an extension of the time within which payments due on any exploration license,
25 lease, or sale of state land, minerals, or materials may be made, including payment of
26 rental and royalties, on a finding that compliance with the requirements is or was
27 prevented by reason of war, riots, or acts of God;

28 (6) classify tracts for agricultural uses;

29 (7) after consulting with the Board of Agriculture and Conservation
30 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
31 of a contract for the sale of agricultural land if

- 1 (A) the land is inaccessible by road; or
2 (B) transportation, marketing, and development costs render
3 the required development uneconomic;
- 4 (8) reconvey or relinquish land or an interest in land to the federal
5 government if
- 6 (A) the land is described in an amended application for an
7 allotment under 43 U.S.C. 1617; and
- 8 (B) the reconveyance or relinquishment is
- 9 (i) for the purposes provided in 43 U.S.C. 1617; and
10 (ii) in the best interests of the state;
- 11 (9) lead and coordinate all matters relating to the state's review and
12 authorization of resource development projects;
- 13 (10) enter into commercial agreements with a duration of not more
14 than two years for project services related to a North Slope natural gas project;
- 15 (11) in consultation with the commissioner of revenue, participate
16 in the negotiation of contracts and development of terms for inclusion in
17 proposed contracts associated with a North Slope natural gas project; a contract
18 negotiated under this paragraph to which the state is a party is not effective
19 unless the legislature authorizes the governor to execute the contract;
- 20 (12) enter into confidentiality agreements to maintain the
21 confidentiality of information related to contract negotiations and contract
22 implementation associated with a North Slope natural gas project; information
23 under those confidentiality agreements is not subject to AS 40.25 (Alaska Public
24 Records Act), except that
- 25 (A) the terms of a proposed contract that the commissioner
26 presents to the legislature for the purpose of obtaining authorization for
27 the governor to execute is not confidential; and
- 28 (B) confidential information obtained under this paragraph
29 shall be shared with the legislature only in committees held in executive
30 session or under confidentiality agreements;
- 31 (13) exercise the powers and do the acts necessary to carry out the

1 provisions and objectives of AS 43.90 that relate to this chapter.

2 * **Sec. 12.** AS 38.05.020(b), as amended by sec. 11 of this Act, is amended to read:

3 (b) The commissioner may

4 (1) establish reasonable procedures and adopt reasonable regulations
5 necessary to carry out this chapter and, whenever necessary, issue directives or orders
6 to the director to carry out specific functions and duties; regulations adopted by the
7 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
8 orders by the commissioner classifying land, issued after January 3, 1959, are not
9 required to be adopted under AS 44.62 (Administrative Procedure Act);

10 (2) enter into agreements considered necessary to carry out the
11 purposes of this chapter, including agreements with federal and state agencies;

12 (3) review any order or action of the director;

13 (4) exercise the powers and do the acts necessary to carry out the
14 provisions and objectives of this chapter;

15 (5) notwithstanding the provisions of any other section of this chapter,
16 grant an extension of the time within which payments due on any exploration license,
17 lease, or sale of state land, minerals, or materials may be made, including payment of
18 rental and royalties, on a finding that compliance with the requirements is or was
19 prevented by reason of war, riots, or acts of God;

20 (6) classify tracts for agricultural uses;

21 (7) after consulting with the Board of Agriculture and Conservation
22 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
23 of a contract for the sale of agricultural land if

24 (A) the land is inaccessible by road; or

25 (B) transportation, marketing, and development costs render
26 the required development uneconomic;

27 (8) reconvey or relinquish land or an interest in land to the federal
28 government if

29 (A) the land is described in an amended application for an
30 allotment under 43 U.S.C. 1617; and

31 (B) the reconveyance or relinquishment is

1 (i) for the purposes provided in 43 U.S.C. 1617; and

2 (ii) in the best interests of the state;

3 (9) lead and coordinate all matters relating to the state's review and
4 authorization of resource development projects;

5 (10) enter into commercial agreements with a duration of not more
6 than two years for project services related to a North Slope natural gas project;

7 (11) in consultation with the commissioner of revenue, participate in
8 the negotiation of contracts and development of terms for inclusion in proposed
9 contracts associated with a North Slope natural gas project; a contract negotiated
10 under this paragraph to which the state is a party is not effective unless the legislature
11 authorizes the governor to execute the contract;

12 (12) enter into confidentiality agreements to maintain the
13 confidentiality of information related to contract negotiations and contract
14 implementation associated with a North Slope natural gas project; information under
15 those confidentiality agreements is not subject to AS 40.25 (Alaska Public Records
16 Act), except that

17 (A) the terms of a proposed contract that the commissioner
18 presents to the legislature for the purpose of obtaining authorization for the
19 governor to execute is not confidential; and

20 (B) confidential information obtained under this paragraph
21 shall be shared with the legislature only in committees held in executive
22 session or under confidentiality agreements;

23 (13) **in consultation with the commissioner of revenue, take**
24 **custody of gas delivered to the state under AS 43.55.014(b) and manage the**
25 **project services and disposition and sale of that gas;**

26 (14) exercise the powers and do the acts necessary to carry out the
27 provisions and objectives of AS 43.90 that relate to this chapter.

28 * **Sec. 13.** AS 38.05.180(i) is amended to read:

29 (i) The commissioner may provide for the establishment of an exploration
30 incentive credit system under which a lessee of state land drilling an exploratory well
31 on that land may earn credits based upon the footage drilled and the region in which

1 the well is situated. The commissioner may also provide for credits to be earned by
2 persons performing geophysical work on state land, if that work is performed during
3 the two seasons immediately preceding an announced lease sale and on land included
4 within the sale area and the geophysical information is made public following the sale.
5 Credits may not exceed 50 percent of the cost of the drilling or geophysical work.
6 Credits may be used during a limited period established by the commissioner and may
7 be assigned during that period. Credits may be applied against (1) royalty and rental
8 payments for oil and gas or for gas only payable to the state or (2) taxes payable under
9 AS 43.55.011 [AS 43.55]. A credit may not exceed 50 percent of the payment toward
10 which it is being applied. Amounts due the Alaska permanent fund (AS 37.13.010)
11 shall be calculated before the application of credits under this subsection.

12 * **Sec. 14.** AS 38.05.180 is amended by adding a new subsection to read:

13 (hh) Notwithstanding any other provisions of this chapter, if the commissioner
14 makes a written determination that a North Slope natural gas project has sufficient
15 financial commitment for a work plan and budget necessary to support major permits
16 and regulatory filings required by state and federal agencies, and sufficient
17 commitment of gas by lessees, the commissioner may propose modifications to
18 existing leases that relate to

19 (1) switching between taking the state's royalty gas in value and in
20 kind to ensure that the state's actions do not unreasonably

21 (A) cause the lessee or other person to bear disproportionate
22 transportation costs with respect to the state's royalty gas; or

23 (B) interfere with long-term marketing of natural gas by the
24 lessee or other person;

25 (2) providing a method for establishing a fair market value for each
26 component of the state's royalty gas and using appropriate adjustments to reflect fair
27 market value deductions for actual and reasonable transportation and processing costs
28 for the state's royalty gas from the North Slope to the first destination market;

29 (3) establishing fixed royalty rates and modifying net profit shares
30 under leases subject to this subsection; a fixed royalty rate established under this
31 paragraph may not be less than 12.5 percent.

1 * **Sec. 15.** AS 38.05.180(hh), as enacted in sec. 14 of this Act, is amended to read:

2 (hh) Notwithstanding any other provisions of this chapter, if the commissioner
3 makes a written determination that a North Slope natural gas project has sufficient
4 financial commitment for a work plan and budget necessary to support major permits
5 and regulatory filings required by state and federal agencies, and sufficient
6 commitment of gas by lessees, the commissioner may propose modifications to
7 existing leases that relate to

8 (1) switching between taking the state's royalty gas in value and in
9 kind to ensure that the state's actions do not unreasonably

10 (A) cause the lessee or other person to bear disproportionate
11 transportation costs with respect to the state's royalty gas or gas delivered to
12 the state under AS 43.55.014(b); or

13 (B) interfere with long-term marketing of natural gas by the
14 lessee or other person;

15 (2) providing a method for establishing a fair market value for each
16 component of the state's royalty gas and using appropriate adjustments to reflect fair
17 market value deductions for actual and reasonable transportation and processing costs
18 for the state's royalty gas from the North Slope to the first destination market;

19 (3) establishing fixed royalty rates and modifying net profit shares
20 under leases subject to this subsection; a fixed royalty rate established under this
21 paragraph may not be less than 12.5 percent.

22 * **Sec. 16.** AS 38.05.183(a) is amended to read:

23 (a) The sale, exchange, or other disposal of a mineral obtained by the state as a
24 royalty under AS 38.05.182, [OR] the sale, exchange, or other disposal in whole or in
25 part of a right to receive future mineral production under a state lease under this
26 chapter, or the sale, exchange, or other disposal of gas delivered to the state under
27 AS 43.55.014(b) shall be by competitive bid and the sale, exchange, or other disposal
28 made to the highest responsible bidder, except that competitive bidding is not required
29 when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas
30 Development Advisory Board under AS 38.06.050, determines that the best interest of
31 the state does not require it or that no competition exists.

1 * **Sec. 17.** AS 38.05.183(c) is amended to read:

2 (c) If the commissioner determines that a sale, exchange, or other disposal of a
3 mineral obtained by the state as a royalty under AS 38.05.182, [OR] of a right to
4 receive future mineral production under a state lease under this chapter, or of gas
5 delivered to the state under AS 43.55.014(b) shall be made otherwise than by
6 competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board
7 has been notified in writing of that determination, the commissioner shall make public
8 in writing the specific findings and conclusions upon which that determination is
9 based.

10 * **Sec. 18.** AS 38.05.183(d) is amended to read:

11 (d) Oil or gas taken in kind by the state as its royalty share or gas delivered to
12 the state under AS 43.55.014(b) may not be sold or otherwise disposed of for export
13 from the state until the commissioner determines that the [ROYALTY-IN-KIND] oil
14 or gas is surplus to the present and projected intrastate domestic and industrial needs.
15 The commissioner shall make public, in writing, the specific findings and reasons on
16 which the determination is based.

17 * **Sec. 19.** AS 38.05.183(e) is amended to read:

18 (e) When a sale, exchange, or other disposal of oil or gas taken in kind by the
19 state as its royalty share, or a sale, exchange, or other disposal in whole or in part of a
20 right to receive future royalty oil or gas, under a state lease under this chapter is made
21 other than by competitive bid, or when a sale, exchange, or other disposal of gas
22 delivered to the state under AS 43.55.014(b) is made other than by competitive
23 bid, the sale, exchange, or other disposal shall be awarded by the commissioner to the
24 prospective buyer whose proposal offers the maximum benefits to citizens of the state.
25 The commissioner shall consider

26 (1) the cash value offered;

27 (2) the projected effects of the sale, exchange, or other disposal on the
28 economy of the state;

29 (3) the projected benefits of refining or processing the oil or gas in the
30 state;

31 (4) the ability of the prospective buyer to provide refined products or

1 by-products for distribution and sale in the state with price or supply benefits to the
2 citizens of the state; and

3 (5) the criteria listed in AS 38.06.070(a).

4 * **Sec. 20.** AS 38.05.965 is amended by adding new paragraphs to read:

5 (26) "North Slope natural gas project" means a project to produce
6 natural gas from state oil and gas leases that include land north of 68 degrees North
7 latitude for transport in a gaseous state from the North Slope;

8 (27) "project services" means services provided by a gas treatment
9 plant, pipeline, liquefaction facility, or marine terminal, marine transportation
10 services, or other services necessary to take natural gas to market.

11 * **Sec. 21.** AS 40.25.100(a) is amended to read:

12 (a) Information in the possession of the Department of Revenue that discloses
13 the particulars of the business or affairs of a taxpayer or other person, **including**
14 **information under AS 38.05.020(b)(11) that is subject to a confidentiality**
15 **agreement under AS 38.05.020(b)(12)**, is not a matter of public record, except as
16 provided in AS 43.05.230(i) or for purposes of investigation and law enforcement. The
17 information shall be kept confidential except when its production is required in an
18 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
19 court proceeding. These restrictions do not prohibit the publication of statistics
20 presented in a manner that prevents the identification of particular reports and items,
21 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
22 and relevant information that may assist in the collection of delinquent taxes, or
23 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
24 43.05.499.

25 * **Sec. 22.** AS 40.25.100, as amended by sec. 21 of this Act, is amended to read:

26 (a) Information in the possession of the Department of Revenue that discloses
27 the particulars of the business or affairs of a taxpayer or other person, including
28 information under AS 38.05.020(b)(11) that is subject to a confidentiality agreement
29 under AS 38.05.020(b)(12), is not a matter of public record, except as provided in
30 AS 43.05.230(i) **or (k)** or for purposes of investigation and law enforcement. The
31 information shall be kept confidential except when its production is required in an

1 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
2 court proceeding. These restrictions do not prohibit the publication of statistics
3 presented in a manner that prevents the identification of particular reports and items,
4 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
5 and relevant information that may assist in the collection of delinquent taxes, or
6 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
7 43.05.499.

8 * **Sec. 23.** AS 40.25.120(a) is amended to read:

9 (a) Every person has a right to inspect a public record in the state, including
10 public records in recorders' offices, except

11 (1) records of vital statistics and adoption proceedings, which shall be
12 treated in the manner required by AS 18.50;

13 (2) records pertaining to juveniles unless disclosure is authorized by
14 law;

15 (3) medical and related public health records;

16 (4) records required to be kept confidential by a federal law or
17 regulation or by state law;

18 (5) to the extent the records are required to be kept confidential under
19 20 U.S.C. 1232g and the regulations adopted under 20 U.S.C. 1232g in order to secure
20 or retain federal assistance;

21 (6) records or information compiled for law enforcement purposes, but
22 only to the extent that the production of the law enforcement records or information

23 (A) could reasonably be expected to interfere with enforcement
24 proceedings;

25 (B) would deprive a person of a right to a fair trial or an
26 impartial adjudication;

27 (C) could reasonably be expected to constitute an unwarranted
28 invasion of the personal privacy of a suspect, defendant, victim, or witness;

29 (D) could reasonably be expected to disclose the identity of a
30 confidential source;

31 (E) would disclose confidential techniques and procedures for

1 law enforcement investigations or prosecutions;

2 (F) would disclose guidelines for law enforcement
3 investigations or prosecutions if the disclosure could reasonably be expected to
4 risk circumvention of the law; or

5 (G) could reasonably be expected to endanger the life or
6 physical safety of an individual;

7 (7) names, addresses, and other information identifying a person as a
8 participant in the Alaska Higher Education Savings Trust under AS 14.40.802 or the
9 advance college tuition savings program under AS 14.40.803 - 14.40.817;

10 (8) public records containing information that would disclose or might
11 lead to the disclosure of a component in the process used to execute or adopt an
12 electronic signature if the disclosure would or might cause the electronic signature to
13 cease being under the sole control of the person using it;

14 (9) reports submitted under AS 05.25.030 concerning certain
15 collisions, accidents, or other casualties involving boats;

16 (10) records or information pertaining to a plan, program, or
17 procedures for establishing, maintaining, or restoring security in the state, or to a
18 detailed description or evaluation of systems, facilities, or infrastructure in the state,
19 but only to the extent that the production of the records or information

20 (A) could reasonably be expected to interfere with the
21 implementation or enforcement of the security plan, program, or procedures;

22 (B) would disclose confidential guidelines for investigations or
23 enforcement and the disclosure could reasonably be expected to risk
24 circumvention of the law; or

25 (C) could reasonably be expected to endanger the life or
26 physical safety of an individual or to present a real and substantial risk to the
27 public health and welfare;

28 (11) the written notification regarding a proposed regulation provided
29 under AS 24.20.105 to the Department of Law and the affected state agency and
30 communications between the Legislative Affairs Agency, the Department of Law, and
31 the affected state agency under AS 24.20.105;

- 1 (12) records that are
2 (A) proprietary, privileged, or a trade secret in accordance with
3 AS 43.90.150 or 43.90.220(e);
4 (B) applications that are received under AS 43.90 until notice is
5 published under AS 43.90.160;
- 6 (13) information of the Alaska Gasline Development Corporation
7 created under AS 31.25.010 or a subsidiary of the Alaska Gasline Development
8 Corporation that is confidential by law or under a valid confidentiality agreement;
- 9 **(14) information under AS 38.05.020(b)(11) that is subject to a**
10 **confidentiality agreement under AS 38.05.020(b)(12).**

11 * **Sec. 24.** AS 43.05.010 is amended to read:

12 **Sec. 43.05.010. Duties of commissioner.** The commissioner of revenue shall

- 13 (1) exercise general supervision and direct the activities of the
14 Department of Revenue;
- 15 (2) supervise the fiscal affairs and responsibilities of the department;
- 16 (3) prescribe uniform rules for investigations and hearings;
- 17 (4) keep a record of all departmental proceedings, record and file all
18 bonds, and assume custody of returns, reports, papers, and documents of the
19 department;
- 20 (5) adopt a seal and affix it to each order, process, or certificate issued
21 by the commissioner;
- 22 (6) keep a record of each order, process, and certificate issued by the
23 commissioner, and keep the record open to public inspection at all reasonable times;
- 24 (7) hold hearings and investigations necessary for the administration of
25 state tax and revenue laws;
- 26 (8) except as provided in AS 43.05.405 - 43.05.499 and in
27 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
28 Department of Revenue and enter orders on the appeals that are final unless reversed
29 or modified by the courts;
- 30 (9) issue subpoenas to require the attendance of witnesses and the
31 production of necessary books, papers, documents, correspondence, and other things;

- 1 (10) order the taking of depositions before a person competent to
2 administer oaths;
- 3 (11) administer oaths and take acknowledgments;
- 4 (12) request the attorney general for rulings on the interpretation of the
5 tax and revenue laws administered by the department;
- 6 (13) call upon the attorney general to institute actions for recovery of
7 unpaid taxes, fees, excises, additions to tax, penalties, and interest;
- 8 (14) issue warrants for the collection of unpaid tax penalties and
9 interest and take all steps necessary and proper to enforce full and complete
10 compliance with the tax, license, excise, and other revenue laws of the state;
- 11 (15) report to the legislature before February 15 of each year the total
12 amount of contributions reported and the total amount of credit claimed during the
13 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
14 AS 43.65.018, AS 43.75.018, and AS 43.77.045;

15 **(16) consult with the commissioner of natural resources on**
16 **negotiation of contracts and development of terms for inclusion in proposed**
17 **contracts associated with a North Slope natural gas project.**

18 * **Sec. 25.** AS 43.05.010, as amended by sec. 24 of this Act, is amended to read:

19 **Sec. 43.05.010. Duties of commissioner.** The commissioner of revenue shall

- 20 (1) exercise general supervision and direct the activities of the
21 Department of Revenue;
- 22 (2) supervise the fiscal affairs and responsibilities of the department;
- 23 (3) prescribe uniform rules for investigations and hearings;
- 24 (4) keep a record of all departmental proceedings, record and file all
25 bonds, and assume custody of returns, reports, papers, and documents of the
26 department;
- 27 (5) adopt a seal and affix it to each order, process, or certificate issued
28 by the commissioner;
- 29 (6) keep a record of each order, process, and certificate issued by the
30 commissioner, and keep the record open to public inspection at all reasonable times;
- 31 (7) hold hearings and investigations necessary for the administration of

1 state tax and revenue laws;

2 (8) except as provided in AS 43.05.405 - 43.05.499 and in
3 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
4 Department of Revenue and enter orders on the appeals that are final unless reversed
5 or modified by the courts;

6 (9) issue subpoenas to require the attendance of witnesses and the
7 production of necessary books, papers, documents, correspondence, and other things;

8 (10) order the taking of depositions before a person competent to
9 administer oaths;

10 (11) administer oaths and take acknowledgments;

11 (12) request the attorney general for rulings on the interpretation of the
12 tax and revenue laws administered by the department;

13 (13) call upon the attorney general to institute actions for recovery of
14 unpaid taxes, fees, excises, additions to tax, penalties, and interest;

15 (14) issue warrants for the collection of unpaid tax penalties and
16 interest and take all steps necessary and proper to enforce full and complete
17 compliance with the tax, license, excise, and other revenue laws of the state;

18 (15) report to the legislature before February 15 of each year the total
19 amount of contributions reported and the total amount of credit claimed during the
20 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
21 AS 43.65.018, AS 43.75.018, and AS 43.77.045;

22 (16) consult with the commissioner of natural resources on negotiation
23 of contracts and development of terms for inclusion in proposed contracts associated
24 with a North Slope natural gas project;

25 **(17) direct the disposition of revenues received from gas delivered**
26 **to the state under AS 43.55.014(b) by entering into agreements with the**
27 **commissioner of natural resources related to the management of the custody and**
28 **disposition of gas delivered to the state under AS 43.55.014(b).**

29 * **Sec. 26.** AS 43.05.230 is amended by adding a new subsection to read:

30 (k) The name of each person that the department has allowed to make an
31 election under AS 43.55.014(a) and the amount of gas produced from each lease or

1 property to which an effective election under AS 43.55.014 applies is public
2 information.

3 * **Sec. 27.** AS 43.20.144(f) is amended to read:

4 (f) The extraction factor of a taxpayer subject to this section is a fraction,

5 (1) the numerator of which is the sum of the following for the tax
6 period:

7 (A) the number of barrels of the taxpayer's oil (net of royalty to
8 an unrelated party) produced from or allocated to leases or properties of the
9 taxpayer in this state; and

10 (B) one-sixth of the number of Mcf of the taxpayer's gas,
11 **including gas subject to an election under AS 43.55.014,** (net of royalty to
12 an unrelated party) produced from or allocated to leases or properties of the
13 taxpayer in this state, excluding reinjected gas; and

14 (2) the denominator of which is the sum of the following for the tax
15 period:

16 (A) the number of barrels of oil of the taxpayer's consolidated
17 business (net of royalty to an unrelated party) produced from or allocated to
18 leases or properties of the taxpayer's consolidated business everywhere; and

19 (B) one-sixth of the number of Mcf of gas, **including gas**
20 **subject to an election under AS 43.55.014,** of the taxpayer's consolidated
21 business (net of royalty to an unrelated party) produced from or allocated to
22 leases or properties of the taxpayer's consolidated business everywhere,
23 excluding reinjected gas.

24 * **Sec. 28.** AS 43.55.011(e) is amended to read:

25 (e) There is levied on the producer of oil or gas a tax for all oil and gas
26 produced each calendar year from each lease or property in the state, less any oil and
27 gas the ownership or right to which is exempt from taxation or constitutes a
28 landowner's royalty interest **or for which a tax is levied by AS 43.55.014.** Except as
29 otherwise provided under (f), (j), (k), (o), and (p) of this section, **for oil and gas**
30 **produced**

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

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

3 (B) the sum, over all months of the calendar year, of the tax
4 amounts determined under (g) of this section;

5 (2) on and after January 1, 2014, **and before January 1, 2022,** the tax
6 is equal to the annual production tax value of the taxable oil and gas as calculated
7 under AS 43.55.160(a)(1) multiplied by 35 percent;

8 **(3) on and after January 1, 2022, the tax for**

9 **(A) oil is equal to the annual production tax value of the**
10 **taxable oil as calculated under AS 43.55.160(h) multiplied by 35 percent;**

11 **(B) gas is equal to 10.5 percent of the gross value at the**
12 **point of production of the taxable gas; if the gross value at the point of**
13 **production of gas produced from a lease or property is less than zero, that**
14 **gross value at the point of production is considered zero for purposes of**
15 **this subparagraph.**

16 * Sec. 29. AS 43.55.011(f) is amended to read:

17 (f) The levy of tax under **(e) of** this section for

18 **(1) oil and gas produced before January 1, 2022, from leases or**
19 **properties that include land** north of 68 degrees North latitude, other than [OIL
20 AND GAS PRODUCTION SUBJECT TO (i) OF THIS SECTION AND] gas subject
21 to (o) of this section, may not be less than

22 **(A) [(1)]** four percent of the gross value at the point of
23 production when the average price per barrel for Alaska North Slope crude oil
24 for sale on the United States West Coast during the calendar year for which the
25 tax is due is more than \$25;

26 **(B) [(2)]** three percent of the gross value at the point of
27 production when the average price per barrel for Alaska North Slope crude oil
28 for sale on the United States West Coast during the calendar year for which the
29 tax is due is over \$20 but not over \$25;

30 **(C) [(3)]** two percent of the gross value at the point of
31 production when the average price per barrel for Alaska North Slope crude oil

1 for sale on the United States West Coast during the calendar year for which the
2 tax is due is over \$17.50 but not over \$20;

3 (D) [(4)] one percent of the gross value at the point of
4 production when the average price per barrel for Alaska North Slope crude oil
5 for sale on the United States West Coast during the calendar year for which the
6 tax is due is over \$15 but not over \$17.50; or

7 (E) [(5)] zero percent of the gross value at the point of
8 production when the average price per barrel for Alaska North Slope crude oil
9 for sale on the United States West Coast during the calendar year for which the
10 tax is due is \$15 or less; and

11 (2) oil produced on and after January 1, 2022, from leases or
12 properties that include land north of 68 degrees North latitude, may not be less
13 than

14 (A) four percent of the gross value at the point of
15 production when the average price per barrel for Alaska North Slope
16 crude oil for sale on the United States West Coast during the calendar
17 year for which the tax is due is more than \$25;

18 (B) three percent of the gross value at the point of
19 production when the average price per barrel for Alaska North Slope
20 crude oil for sale on the United States West Coast during the calendar
21 year for which the tax is due is over \$20 but not over \$25;

22 (C) two percent of the gross value at the point of production
23 when the average price per barrel for Alaska North Slope crude oil for
24 sale on the United States West Coast during the calendar year for which
25 the tax is due is over \$17.50 but not over \$20;

26 (D) one percent of the gross value at the point of production
27 when the average price per barrel for Alaska North Slope crude oil for
28 sale on the United States West Coast during the calendar year for which
29 the tax is due is over \$15 but not over \$17.50; or

30 (E) zero percent of the gross value at the point of
31 production when the average price per barrel for Alaska North Slope

1 crude oil for sale on the United States West Coast during the calendar
2 year for which the tax is due is \$15 or less.

3 * **Sec. 30.** AS 43.55 is amended by adding a new section to read:

4 **Sec. 43.55.014. Payment in gas of tax for gas.** (a) For gas produced on and
5 after January 1, 2022, from oil and gas leases that have been modified under
6 AS 38.05.180(hh), other than gas described in (e) of this section, the department may
7 allow a producer to make an irrevocable election, under regulations adopted by the
8 department, to pay in gas the production tax levied by this section in lieu of the tax
9 otherwise levied for the gas by AS 43.55.011(e).

10 (b) A production tax levied by this section is equal to 10.5 percent of the gas
11 otherwise taxable under AS 43.55.011(e)(3) produced from each lease or property to
12 which an effective election under (a) of this section applies, when and as that gas is
13 produced. The producer shall pay the tax in gas by delivering that 10.5 percent of the
14 gas to the state at the point of production.

15 (c) The Department of Natural Resources shall manage under
16 AS 38.05.020(b)(13) the custody and disposition of gas delivered to the state under (b)
17 of this section.

18 (d) If a deficiency in a tax levied by this section is assessed, or if a provision
19 of this title providing for interest or a penalty based on a percentage of a tax liability or
20 tax deficiency applies to gas for which a tax is levied by this section, the amount of the
21 deficiency and the tax amount on which the interest or penalty percentage is calculated
22 is treated for the purpose only of that calculation as having been levied by
23 AS 43.55.011(e) rather than this section.

24 (e) This section does not apply to gas

25 (1) flared, released, or allowed to escape upstream of the point of
26 production of gas; or

27 (2) used in the operation of a lease or property in the state for drilling
28 for or producing oil or gas, or for repressuring a reservoir.

29 * **Sec. 31.** AS 43.55.019(a) is amended to read:

30 (a) A producer of oil or gas is allowed a credit against the tax levied by
31 AS 43.55.011(e) [DUE UNDER THIS CHAPTER] for cash contributions accepted for

1 (1) direct instruction, research, and educational support purposes,
2 including library and museum acquisitions, and contributions to endowment, by an
3 Alaska university foundation or by a nonprofit, public or private, Alaska two-year or
4 four-year college accredited by a regional accreditation association;

5 (2) secondary school level vocational education courses, programs, and
6 facilities by a school district in the state;

7 (3) vocational education courses, programs, and facilities by a state-
8 operated vocational technical education and training school;

9 (4) a facility or an annual intercollegiate sports tournament by a
10 nonprofit, public or private, Alaska two-year or four-year college accredited by a
11 regional accreditation association;

12 (5) Alaska Native cultural or heritage programs and educational
13 support, including mentoring and tutoring, provided by a nonprofit agency for public
14 school staff and for students who are in grades kindergarten through 12 in the state;

15 (6) education, research, rehabilitation, and facilities by an institution
16 that is located in the state and that qualifies as a coastal ecosystem learning center
17 under the Coastal America Partnership established by the federal government; and

18 (7) the Alaska higher education investment fund under AS 37.14.750.

19 * **Sec. 32.** AS 43.55.019(e) is amended to read:

20 (e) The credit under this section may not reduce a person's tax liability under
21 AS 43.55.011(e) [THIS CHAPTER] to below zero for any tax year. An unused credit
22 or portion of a credit not used under this section for a tax year may not be sold, traded,
23 transferred, or applied in a subsequent tax year.

24 * **Sec. 33.** AS 43.55.020(a) is amended to read:

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

27 (1) **for oil and gas produced** before January 1, 2014, an installment
28 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
29 as allowed by law, is due for each month of the calendar year on the last day of the
30 following month; except as otherwise provided under (2) of this subsection, the
31 amount of the installment payment is the sum of the following amounts, less 1/12 of

1 the tax credits that are allowed by law to be applied against the tax levied by
2 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
3 not be less than zero:

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

8 (i) zero; or

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

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

19 (i) zero;

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

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

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

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

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

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

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

1 (2)(A), as applicable, the amount of taxable oil produced during the month for the
2 amount of taxable oil produced during the calendar year;

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

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

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

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

19 (5) for oil and gas produced on and after January 1, 2014, and before
20 January 1, 2022, an installment payment of the estimated tax levied by
21 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
22 month of the calendar year on the last day of the following month; except as otherwise
23 provided under (6) of this subsection, the amount of the installment payment is the
24 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be
25 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
26 of the installment payment may not be less than zero:

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

31 (i) zero; or

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

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

10 (i) zero;

11 (ii) zero percent, one percent, two percent, three
12 percent, or four percent, as applicable, of 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; or

15 (iii) 35 percent multiplied by the remainder obtained by
16 subtracting 1/12 of the producer's adjusted lease expenditures for the
17 calendar year of production under AS 43.55.165 and 43.55.170 that are
18 deductible for the oil and gas under AS 43.55.160 from the gross value
19 at the point of production of the oil and gas produced from those leases
20 or properties during the month for which the installment payment is
21 calculated, except that, for the purposes of this calculation, a reduction
22 from the gross value at the point of production may apply for oil and
23 gas subject to AS 43.55.160(f) or (g);

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

26 (i) zero; or

27 (ii) 35 percent multiplied by the remainder obtained by
28 subtracting 1/12 of the producer's adjusted lease expenditures for the
29 calendar year of production under AS 43.55.165 and 43.55.170 that are
30 deductible under AS 43.55.160 for the oil or gas, respectively,
31 produced from the lease or property from the gross value at the point of

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

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

5 (i) 35 percent multiplied by the remainder obtained by
6 subtracting 1/12 of the producer's adjusted lease expenditures for the
7 calendar year of production under AS 43.55.165 and 43.55.170 that are
8 deductible for the oil and gas under AS 43.55.160 from the gross value
9 at the point of production of the oil and gas produced from the leases or
10 properties during the month for which the installment payment is
11 calculated, but not less than zero; or

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

15 (6) an amount calculated under (5)(C) of this subsection for oil or gas
16 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
17 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
18 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
19 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
20 amount of taxable gas produced during the month for the amount of taxable gas
21 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
22 (2)(A), as applicable, the amount of taxable oil produced during the month for the
23 amount of taxable oil produced during the calendar year;

24 (7) for oil and gas produced on or after January 1, 2022, an
25 installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax
26 credits applied as allowed by law, is due for each month of the calendar year on
27 the last day of the following month; the amount of the installment payment is the
28 sum of the following amounts, less 1/12 of the tax credits that are allowed by law
29 to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but
30 the amount of the installment payment may not be less than zero:

31 (A) for oil produced from leases or properties that include

1 land north of 68 degrees North latitude, the greatest of

2 (i) zero;

3 (ii) zero percent, one percent, two percent, three
4 percent, or four percent, as applicable, of the gross value at the
5 point of production of the oil produced from the leases or
6 properties during the month for which the installment payment is
7 calculated; or

8 (iii) 35 percent multiplied by the remainder obtained
9 by subtracting 1/12 of the producer's adjusted lease expenditures
10 for the calendar year of production under AS 43.55.165 and
11 43.55.170 that are deductible for the oil under AS 43.55.160(h)(1)
12 from the gross value at the point of production of the oil produced
13 from those leases or properties during the month for which the
14 installment payment is calculated, except that, for the purposes of
15 this calculation, a reduction from the gross value at the point of
16 production may apply for oil subject to AS 43.55.160(f) or
17 43.55.160(f) and (g);

18 (B) for oil produced before or during the last calendar year
19 under AS 43.55.024(b) for which the producer could take a tax credit
20 under AS 43.55.024(a), from leases or properties in the state outside the
21 Cook Inlet sedimentary basin, no part of which is north of 68 degrees
22 North latitude, other than leases or properties subject to AS 43.55.011(p),
23 the greater of

24 (i) zero; or

25 (ii) 35 percent multiplied by the remainder obtained
26 by subtracting 1/12 of the producer's adjusted lease expenditures
27 for the calendar year of production under AS 43.55.165 and
28 43.55.170 that are deductible for the oil under AS 43.55.160(h)(2)
29 from the gross value at the point of production of the oil produced
30 from the leases or properties during the month for which the
31 installment payment is calculated;

1 (C) for oil and gas produced from leases or properties
2 subject to AS 43.55.011(p), except as otherwise provided under (8) of this
3 subsection, the sum of

4 (i) 35 percent multiplied by the remainder obtained
5 by subtracting 1/12 of the producer's adjusted lease expenditures
6 for the calendar year of production under AS 43.55.165 and
7 43.55.170 that are deductible for the oil under AS 43.55.160(h)(3)
8 from the gross value at the point of production of the oil produced
9 from the leases or properties during the month for which the
10 installment payment is calculated, but not less than zero; and

11 (ii) 10.5 percent of the gross value at the point of
12 production of the gas produced from the leases or properties
13 during the month, but not less than zero;

14 (D) for oil produced from leases or properties in the state,
15 no part of which is north of 68 degrees North latitude, other than leases or
16 properties subject to (B) or (C) of this paragraph, the greater of

17 (i) zero; or

18 (ii) 35 percent multiplied by the remainder obtained
19 by subtracting 1/12 of the producer's adjusted lease expenditures
20 for the calendar year of production under AS 43.55.165 and
21 43.55.170 that are deductible for the oil under AS 43.55.160(h)(4)
22 from the gross value at the point of production of the oil produced
23 from the leases or properties during the month for which the
24 installment payment is calculated;

25 (E) for gas produced from each lease or property in the
26 state, other than a lease or property subject to AS 43.55.011(p), 10.5
27 percent of the gross value at the point of production of the gas produced
28 from the lease or property during the month for which the installment
29 payment is calculated, but not less than zero;

30 (8) an amount calculated under (7)(C) of this subsection may not
31 exceed four percent of the gross value at the point of production of the oil and gas

1 produced from leases or properties subject to AS 43.55.011(p) during the month
2 for which the installment payment is calculated;

3 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
4 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the
5 point of production is determined under AS 43.55.011(f)(1) or (2) but substituting
6 the phrase "month for which the installment payment is calculated" in
7 AS 43.55.011(f)(1) and (2) for the phrase "calendar year for which the tax is
8 due."

9 * **Sec. 34.** AS 43.55.020(g) is amended to read:

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

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

21 (2) on and after January 1, 2014, an unpaid amount of an installment
22 payment required under (a)(3), (5), [OR] (6), or (7) of this section that is not paid
23 when due bears interest (A) at the rate provided for an underpayment under 26 U.S.C.
24 6621 (Internal Revenue Code), as amended, compounded daily, from the date the
25 installment payment is due until March 31 following the calendar year of production,
26 and (B) as provided for a delinquent tax under AS 43.05.225 after that March 31;
27 interest accrued under (A) of this paragraph that remains unpaid after that March 31 is
28 treated as an addition to tax that bears interest under (B) of this paragraph; an unpaid
29 amount of tax due under (a)(4) of this section that is not paid when due bears interest
30 as provided for a delinquent tax under AS 43.05.225.

31 * **Sec. 35.** AS 43.55.020(h) is amended to read:

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

2 (1) an overpayment of an installment payment required under (a)(1),
3 (2), (3), (5), (6), or (7) [(a)(1) - (3), (5) OR (6)] of this section bears interest at the rate
4 provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as
5 amended, compounded daily, from the later of the date the installment payment is due
6 or the date the overpayment is made, until the earlier of

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

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

9 (2) except as provided under (1) of this subsection, interest with
10 respect to an overpayment is allowed only on any net overpayment of the payments
11 required under (a) of this section that remains after the later of March 31 following the
12 calendar year of production or the date that the statement required under
13 AS 43.55.030(a) is filed;

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

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

20 * **Sec. 36.** AS 43.55.020(l) is amended to read:

21 (l) **For oil and gas produced on** [ON] and after January 1, 2014, **and before**
22 **January 1, 2022,** in making settlement with the royalty owner for oil and gas that is
23 taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on
24 taxable royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in
25 value at the time the tax becomes due to the amount of the tax paid. If the total
26 deductions of installment payments of estimated tax for a calendar year exceed the
27 actual tax for that calendar year, the producer shall, before April 1 of the following
28 year, refund the excess to the royalty owner. Unless otherwise agreed between the
29 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
30 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
31 right to which constitutes a landowner's royalty interest, is considered to be the gross

1 value at the point of production of the taxable royalty oil and gas produced during the
2 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)(2) [AS 43.55.011(e)] 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) produced by the producer from all
7 leases and properties in the state during the calendar year.

8 * **Sec. 37.** AS 43.55.020 is amended by adding a new subsection to read:

9 (m) For oil and gas produced on and after January 1, 2022, in making
10 settlement with the royalty owner for oil and gas that is taxable under AS 43.55.011,
11 the producer may deduct the amount of the tax paid on taxable royalty oil and gas, or
12 may deduct taxable royalty oil or gas equivalent in value at the time the tax becomes
13 due to the amount of the tax paid. If the total deductions of installment payments of
14 estimated tax for a calendar year exceed the actual tax for that calendar year, the
15 producer shall, before April 1 of the following year, refund the excess to the royalty
16 owner. In making settlement with the royalty owner for gas that is taxable under
17 AS 43.55.014, the producer may deduct the amount of the gas paid as in kind tax on
18 taxable royalty gas or may deduct the gross value at the point of production of the gas
19 paid as in-kind tax on taxable royalty gas. Unless otherwise agreed between the
20 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
21 taxable royalty oil for a calendar year, other than oil the ownership or right to which
22 constitutes a landowner's royalty interest, is considered to be the gross value at the
23 point of production of the taxable royalty oil produced during the calendar year
24 multiplied by a figure that is a quotient, in which

25 (1) the numerator is the producer's total tax liability under
26 AS 43.55.011(e)(3)(A) for the calendar year of production; and

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

30 * **Sec. 38.** AS 43.55.030(a) is amended to read:

31 (a) A producer that produces oil or gas from a lease or property in the state

1 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
2 for that oil or gas, shall file with the department on March 31 of the following year a
3 statement, under oath, in a form prescribed by the department, giving, with other
4 information required, the following:

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

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

10 (3) the gross amount of oil and the gross amount of gas produced from
11 each lease or property, separately identifying the gross amount of gas produced
12 from each lease or property to which an effective election under AS 43.55.014(a)
13 applies, the amount of gas delivered to the state under AS 43.55.014(b), and the
14 percentage of the gross amount of oil and gas owned by the producer;

15 (4) the gross value at the point of production of the oil and of the gas
16 produced from each lease or property owned by the producer and the costs of
17 transportation of the oil and gas;

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

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

24 (7) the production tax values of the oil and gas under AS 43.55.160(a)
25 or of the oil under AS 43.55.160(h), as applicable [AS 43.55.160];

26 (8) any claims for tax credits to be applied; and

27 (9) calculations showing the amounts, if any, that were or are due
28 under AS 43.55.020(a) and interest on any underpayment or overpayment.

29 * **Sec. 39.** AS 43.55.160(a) is amended to read:

30 (a) For oil and gas produced before January 1, 2022, except [EXCEPT] as
31 provided in (b), (f), and (g) of this section, for the purposes of

1 (1) AS 43.55.011(e)(1) and (2) [AS 43.55.011(e)], the annual
2 production tax value of taxable oil, gas, or oil and gas produced during a calendar year
3 in a category for which a separate annual production tax value is required to be
4 calculated under this paragraph is the gross value at the point of production of that oil,
5 gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease
6 expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil
7 and gas in that category produced by the producer during the calendar year, as
8 adjusted under AS 43.55.170; a separate annual production tax value shall be
9 calculated for

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

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

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

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

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

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

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

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

28 (G) oil and gas produced from leases or properties in the state
29 no part of which is north of 68 degrees North latitude, other than oil or gas
30 described in (B), (C), (D), (E), or (F) of this paragraph;

31 (2) AS 43.55.011(g), for oil and gas produced before January 1, 2014,

1 the monthly production tax value of the taxable

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

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

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

25 (D) gas produced during a month from a lease or property in
26 the Cook Inlet sedimentary basin is the gross value at the point of production
27 of the gas taxable under AS 43.55.011(e) and produced by the producer from
28 that 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 gas produced by the
30 producer from that lease or property, as adjusted under AS 43.55.170;

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

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

7 * **Sec. 40.** AS 43.55.160(e) is amended to read:

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

27 * **Sec. 41.** AS 43.55.160(f) is amended to read:

28 (f) On and after January 1, 2014, in the calculation of an annual production tax
29 value of a producer under (a)(1)(A) or (h)(1) [(a)(1)] of this section, the gross value at
30 the point of production of oil or gas produced from a lease or property north of 68
31 degrees North latitude meeting one or more of the following criteria is reduced by 20

1 percent: (1) the oil or gas is produced from a lease or property that does not contain a
2 lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a
3 participating area established after December 31, 2011, that is within a unit formed
4 under AS 38.05.180(p) before January 1, 2003, if the participating area does not
5 contain a reservoir that had previously been in a participating area established before
6 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
7 existing participating area by the Department of Natural Resources on and after
8 January 1, 2014, and the producer demonstrates to the department that the volume of
9 oil or gas produced is from acreage added to an existing participating area. This
10 subsection does not apply to gas produced before 2022 that is used in the state or to
11 gas produced on and after January 1, 2022. A reduction under this subsection may
12 not reduce the gross value at the point of production below zero. In this subsection,
13 "participating area" means a reservoir or portion of a reservoir producing or
14 contributing to production as approved by the Department of Natural Resources.

15 * **Sec. 42.** AS 43.55.160(g) is amended to read:

16 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
17 section, in the calculation of an annual production tax value of a producer under
18 (a)(1)(A) or (h)(1) [(a)(1)] of this section, the gross value at the point of production of
19 oil or gas produced from a lease or property north of 68 degrees North latitude that
20 does not contain a lease that was within a unit on January 1, 2003, is reduced by 10
21 percent if the oil or gas is produced from a unit made up solely of leases that have a
22 royalty share of more than 12.5 percent in amount or value of the production removed
23 or sold from the lease as determined under AS 38.05.180(f). This subsection does not
24 apply if the royalty obligation for one or more of the leases in the unit has been
25 reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of the calendar
26 year for which the annual production tax value is calculated. This subsection does not
27 apply to gas produced before 2022 that is used in the state or to gas produced on and
28 after January 1, 2022. A reduction under this subsection may not reduce the gross
29 value at the point of production below zero.

30 * **Sec. 43.** AS 43.55.160 is amended by adding a new subsection to read:

31 (h) For oil produced on and after January 1, 2022, except as provided in (b),

1 (f), and (g) of this section, for the purposes of AS 43.55.011(e)(3), the annual
2 production tax value of oil taxable under AS 43.55.011(e) produced by a producer
3 during a calendar year

4 (1) from leases or properties in the state that include land north of 68
5 degrees North latitude is the gross value at the point of production of that oil, less the
6 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
7 explore for, develop, or produce oil or gas deposits located in the state north of 68
8 degrees North latitude or located in leases or properties in the state that include land
9 north of 68 degrees North latitude, as adjusted under AS 43.55.170;

10 (2) before or during the last calendar year under AS 43.55.024(b) for
11 which the producer could take a tax credit under AS 43.55.024(a), from leases or
12 properties in the state outside the Cook Inlet sedimentary basin, no part of which is
13 north of 68 degrees North latitude, other than leases or properties subject to
14 AS 43.55.011(p), is the gross value at the point of production of that oil, less the
15 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
16 explore for, develop, or produce oil or gas deposits located in the state outside the
17 Cook Inlet sedimentary basin and south of 68 degrees North latitude, other than oil or
18 gas deposits located in a lease or property that includes land north of 68 degrees North
19 latitude or that is subject to AS 43.55.011(p) or, before January 1, 2027, from which
20 commercial production has not begun, as adjusted under AS 43.55.170;

21 (3) from leases or properties subject to AS 43.55.011(p) is the gross
22 value at the point of production of that oil, less the producer's lease expenditures under
23 AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil or
24 gas deposits located in leases or properties subject to AS 43.55.011(p) or, before
25 January 1, 2027, located in leases or properties in the state outside the Cook Inlet
26 sedimentary basin, no part of which is north of 68 degrees North latitude from which
27 commercial production has not begun, as adjusted under AS 43.55.170;

28 (4) from leases or properties in the state no part of which is north of 68
29 degrees North latitude, other than leases or properties subject to (2) or (3) of this
30 subsection, is the gross value at the point of production of that oil less the producer's
31 lease expenditures under AS 43.55.165 for the calendar year incurred to explore for,

1 develop, or produce oil or gas deposits located in the state south of 68 degrees North
2 latitude, other than oil or gas deposits located in a lease or property in the state that
3 includes land north of 68 degrees North latitude, and excluding lease expenditures that
4 are deductible under (2) or (3) of this subsection or would be deductible under (2) or
5 (3) of this subsection if not prohibited by (b) of this section, as adjusted under
6 AS 43.55.170.

7 * **Sec. 44.** AS 43.55.165(e) is amended to read:

8 (e) For purposes of this section, lease expenditures do not include

9 (1) depreciation, depletion, or amortization;

10 (2) oil or gas royalty payments, production payments, lease profit
11 shares, or other payments or distributions of a share of oil or gas production, profit, or
12 revenue, except that a producer's lease expenditures applicable to oil and gas produced
13 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
14 profit paid to the state under that lease;

15 (3) taxes based on or measured by net income;

16 (4) interest or other financing charges or costs of raising equity or debt
17 capital;

18 (5) acquisition costs for a lease or property or exploration license;

19 (6) costs arising from fraud, wilful misconduct, gross negligence,
20 violation of law, or failure to comply with an obligation under a lease, permit, or
21 license issued by the state or federal government;

22 (7) fines or penalties imposed by law;

23 (8) costs of arbitration, litigation, or other dispute resolution activities
24 that involve the state or concern the rights or obligations among owners of interests in,
25 or rights to production from, one or more leases or properties or a unit;

26 (9) costs incurred in organizing a partnership, joint venture, or other
27 business entity or arrangement;

28 (10) amounts paid to indemnify the state; the exclusion provided by
29 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
30 a third-party insurer or surety;

31 (11) surcharges levied under AS 43.55.201 or 43.55.300;

1 (12) an expenditure otherwise deductible under (b) of this section that
2 is a result of an internal transfer, a transaction with an affiliate, or a transaction
3 between related parties, or is otherwise not an arm's length transaction, unless the
4 producer establishes to the satisfaction of the department that the amount of the
5 expenditure does not exceed the fair market value of the expenditure;

6 (13) an expenditure incurred to purchase an interest in any corporation,
7 partnership, limited liability company, business trust, or any other business entity,
8 whether or not the transaction is treated as an asset sale for federal income tax
9 purposes;

10 (14) a tax levied under AS 43.55.011 or 43.55.014;

11 (15) costs incurred for dismantlement, removal, surrender, or
12 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
13 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
14 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
15 excluded under this paragraph if the dismantlement, removal, surrender, or
16 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
17 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

18 (16) costs incurred for containment, control, cleanup, or removal in
19 connection with any unpermitted release of oil or a hazardous substance and any
20 liability for damages imposed on the producer or explorer for that unpermitted release;
21 this paragraph does not apply to the cost of developing and maintaining an oil
22 discharge prevention and contingency plan under AS 46.04.030;

23 (17) costs incurred to satisfy a work commitment under an exploration
24 license under AS 38.05.132;

25 (18) that portion of expenditures, that would otherwise be qualified
26 capital expenditures, as defined in AS 43.55.023, incurred during a calendar year that
27 are less than the product of \$0.30 multiplied by the total taxable production from each
28 lease or property, in BTU equivalent barrels, during that calendar year, except that,
29 when a portion of a calendar year is subject to this provision, the expenditures and
30 volumes shall be prorated within that calendar year;

31 (19) costs incurred for repair, replacement, or deferred maintenance of

1 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
2 undertaken in response to a failure, problem, or event that results in an unscheduled
3 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
4 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
5 equipment, other than a well, that is undertaken in response to, or is otherwise
6 associated with, an unpermitted release of a hazardous substance or of gas; however,
7 costs under this paragraph that would otherwise constitute lease expenditures under (a)
8 and (b) of this section may be treated as lease expenditures if the department
9 determines that the repair or replacement is solely necessitated by an act of war, by an
10 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
11 inevitable, and irresistible character, the effects of which could not have been
12 prevented or avoided by the exercise of due care or foresight, or by an intentional or
13 negligent act or omission of a third party, other than a party or its agents in privity of
14 contract with, or employed by, the producer or an operator acting for the producer, but
15 only if the producer or operator, as applicable, exercised due care in operating and
16 maintaining the facility, pipeline, structure, or equipment, and took reasonable
17 precautions against the act or omission of the third party and against the consequences
18 of the act or omission; in this paragraph,

19 (A) "costs incurred for repair, replacement, or deferred
20 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
21 to dismantle and remove the facility, pipeline, structure, or equipment that is
22 being replaced;

23 (B) "hazardous substance" has the meaning given in
24 AS 46.03.826;

25 (C) "replacement" includes renovation or improvement;

26 (20) costs incurred to construct, acquire, or operate a refinery or crude
27 oil topping plant, regardless of whether the products of the refinery or topping plant
28 are used in oil or gas exploration, development, or production operations; however, if
29 a producer owns a refinery or crude oil topping plant that is located on or near the
30 premises of the producer's lease or property in the state and that processes the
31 producer's oil produced from that lease or property into a product that the producer

1 uses in the operation of the lease or property in drilling for or producing oil or gas, the
2 producer's lease expenditures include the amount calculated by subtracting from the
3 fair market value of the product used the prevailing value, as determined under
4 AS 43.55.020(f), of the oil that is processed;

5 (21) costs of lobbying, public relations, public relations advertising, or
6 policy advocacy.

7 * **Sec. 45.** AS 43.55.900(10) is amended to read:

8 (10) "gas processing plant" means a facility that

9 (A) extracts and recovers liquid hydrocarbons from a gaseous
10 mixture of hydrocarbons by gas processing; and

11 (B) is located upstream of the inlet of any pipeline
12 transporting gas to a gas treatment plant and upstream of the inlet of any gas
13 pipeline system transporting gas to a market;

14 * **Sec. 46.** AS 43.55.900(20) is amended to read:

15 (20) "point of production" means

16 (A) for oil, the automatic custody transfer meter or device
17 through which the oil enters into the facilities of a carrier pipeline or other
18 transportation carrier in a condition of pipeline quality; in the absence of an
19 automatic custody transfer meter or device, "point of production" means the
20 mechanism or device to measure the quantity of oil that has been approved by
21 the department for that purpose, through which the oil is tendered and accepted
22 in a condition of pipeline quality into the facilities of a carrier pipeline or other
23 transportation carrier or into a field topping plant;

24 (B) for gas [, OTHER THAN GAS DESCRIBED IN (C) OF
25 THIS PARAGRAPH,] that is

26 (i) not subjected to or recovered by mechanical
27 separation or run through a gas processing plant, the furthest
28 upstream of the first point where the gas is accurately metered, the
29 inlet of any pipeline transporting the gas to a gas treatment plant,
30 or the inlet of any gas pipeline system transporting gas to a market;

31 (ii) subjected to or recovered by mechanical separation

1 but not run through a gas processing plant, the furthest upstream of
2 the first point where the gas is accurately metered after completion of
3 mechanical separation, the inlet of any pipeline transporting the gas
4 to a gas treatment plant, or the inlet of any gas pipeline system
5 transporting gas to a market;

6 (iii) run through a gas processing plant, the furthest
7 upstream of the first point where the gas is accurately metered
8 downstream of the plant, the inlet of any pipeline transporting the
9 gas to a gas treatment plant, or the inlet of any gas pipeline system
10 transporting gas to a market;

11 [(C) FOR GAS RUN THROUGH AN INTEGRATED GAS
12 PROCESSING PLANT AND GAS TREATMENT FACILITY THAT DOES
13 NOT ACCURATELY METER THE GAS AFTER THE GAS PROCESSING
14 AND BEFORE THE GAS TREATMENT, THE FIRST POINT WHERE GAS
15 PROCESSING IS COMPLETED OR WHERE GAS TREATMENT BEGINS,
16 WHICHEVER IS FURTHER UPSTREAM;]

17 * **Sec. 47.** AS 43.55.900 is amended by adding a new paragraph to read:

18 (25) "gas treatment plant" means a facility that performs gas treatment,
19 regardless of whether the facility also performs gas processing.

20 * **Sec. 48.** AS 43.98.030(c) is amended to read:

21 (c) A taxpayer acquiring a transferable tax credit certificate may use the credit
22 or a portion of the credit to offset taxes imposed under AS 21.09.210, AS 21.66.110,
23 AS 43.20, AS 43.55.011 [AS 43.55], AS 43.56, AS 43.65, AS 43.75, and AS 43.77.
24 Except as provided in (e) of this section, any portion of the credit not used may be
25 used at a later period or transferred under (b) of this section.

26 * **Sec. 49.** The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 DEVELOPMENT OF A PLAN FOR RESIDENTS TO PARTICIPATE IN THE
29 OWNERSHIP OF A NORTH SLOPE NATURAL GAS PIPELINE. (a) At the time the
30 commissioner of natural resources submits the first contract to the legislature for approval
31 under AS 38.05.020(b)(11), enacted by sec. 11 of this Act, the commissioner of revenue shall

1 present a plan and suggested legislation to allow a resident of the state to participate as a co-
2 owner in a North Slope natural gas pipeline. The plan must include the recommendations of
3 the commissioner as to

4 (1) the means by which a resident may invest in the North Slope natural gas
5 pipeline that may include providing an option for a resident to designate an amount of a
6 permanent fund dividend to be deducted for the investment;

7 (2) whether the ownership interest in a North Slope natural gas pipeline should
8 be acquired from the portion of a North Slope natural gas pipeline acquired by the state,
9 through the purchase of stock in a publicly traded corporation that invests in a North Slope
10 natural gas pipeline, or some other means;

11 (3) the means for providing notice to a resident receiving an ownership
12 interest that explains the type of ownership interest and the rights and obligations related to
13 that ownership interest;

14 (4) whether the ownership interest received by a resident may be transferred or
15 assigned to another person and the means for transferring the interest;

16 (5) the means by which the proportional share of a dividend or other income
17 may be distributed to a resident or transferee of an interest if a resident receives an ownership
18 interest acquired by the state in a North Slope natural gas pipeline and the state receives a
19 dividend or other income from its ownership interest, and whether the payment should be
20 subject to interest if not timely distributed;

21 (6) the means by which the commissioner may identify a publicly traded
22 corporation that has an ownership interest in a North Slope natural gas pipeline that is subject
23 to investment by an individual under the proposed plan; and

24 (7) the means by which an individual may qualify as a resident for purposes of
25 investing in an ownership interest.

26 (b) In this section, "North Slope natural gas pipeline" means a natural gas pipeline
27 project that transports natural gas produced in the state north of 68 degrees North latitude to a
28 market in the state or to tidewater for export from the state including a facility in the state for
29 liquefying natural gas for transport.

30 * **Sec. 50.** The uncodified law of the State of Alaska is amended by adding a new section to
31 read:

1 TRANSITION: REGULATIONS. The Department of Revenue and the Department of
2 Natural Resources may adopt regulations to implement this Act. The regulations take effect
3 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the
4 provisions of this Act being implemented.

5 * **Sec. 51.** The uncodified law of the State of Alaska is amended by adding a new section to
6 read:

7 REVISOR'S INSTRUCTION. The revisor of statutes is instructed to change the catch
8 line of AS 38.05.183 from "Sale of royalty" to "Sale of royalty and of gas delivered to the
9 state under AS 43.55.014(b)."

10 * **Sec. 52.** Sections 1 - 11, 13, 14, 20, 21, 23, 24, 31, 32, and 48 - 50 of this Act take effect
11 immediately under AS 01.10.070(c).

12 * **Sec. 53.** Except as provided in sec. 52 of this Act, this Act takes effect January 1, 2015.



Introduction to Senate Bill 138 relating to the Commercial Production of North Slope Natural Gas

The recent alignment by parties around a path forward on a large-scale LNG project, and the Alaska Gasline Development Corporation's ("AGDC") preparation for an open season in 2015 for an in-state pipeline, creates an opportunity for a coordinated and collaborative effort.

With parties working together on Alaska's terms, and in Alaskans' interests, the bill relating to the Commercial Production of North Slope Natural Gas will advance a natural gas project that would provide natural gas for Alaskans and markets beyond.

The bill advances a natural gas project to provide gas to Alaskans and markets beyond in a number of important ways.

1. The bill would establish an AGDC subsidiary to pursue state equity interests in a large-diameter natural gas pipeline project and associated facilities.

Commercialization of North Slope natural gas should occur with both in-state needs and export potential in mind. Therefore, the bill would create a subsidiary under the AGDC, utilizing a fund exclusively for a large-diameter natural gas pipeline project, to pursue holding state equity interests in a large-diameter natural gas pipeline project that could include treatment and liquefaction facilities. The bill contemplates a separate, but cooperative effort between AGDC's pursuit of ASAP and the newly created subsidiary's pursuit of the AKLNG project that does not impede the mission of the AGDC to continue to advance the Alaska Stand Alone Pipeline (ASAP) in-state natural gas pipeline project.

2. The bill authorizes the Department of Natural Resources (DNR) to participate in negotiations of contracts and the development of terms for project services and other contracts for the development and implementation of a North Slope natural gas project.

The bill would provide authority for the Commissioner of Natural Resources to enter into short-term commercial agreements to advance the project through the development and implementation phases. In addition, it would allow the Commissioner to negotiate terms, subject to legislative approval, for state equity interests in a natural gas project, project services related to a natural gas project, and other contracts for the development and implementation of a North Slope natural gas project. To facilitate

negotiations and continuing development activities, confidentiality of information would be maintained. Any contract to be presented to the Legislature for authorization would not be confidential.

3. The bill would authorize DNR to modify certain lease terms on properties that provide gas to any North Slope natural gas project.

Current state oil and gas leases contain terms - such as those that allow the state to switch between taking royalty oil and gas in-kind or in-value – that may hinder the ability of lessees to enter in to long-term contracts for sales of natural gas produced on the North Slope. Under the bill, if a natural gas project sponsor has demonstrated sufficient project commitments, the Commissioner may modify existing leases that commit gas to a natural gas project, with the concurrence of the lessees. Gas committed from these leases, whether through royalty or the production tax, would be subject to the current standards for sale, exchange, or disposal of gas taken in-kind by the state as its royalty share. In addition, and with the concurrence of lessees, the commissioner may also modify existing royalty and net profit share provisions to achieve consistency among leases.

4. The bill would make changes to Alaska's Oil and Gas production tax that will advance the project.

The current tax structure, which imposes a net tax on the annual production tax value of oil and gas, is retained until 2022. The bill introduces a new gross tax levy on gas produced after 2021.

For gas produced after 2021, the tax levy on gas would be 10.5 percent of annual gross value at the point of production. The oil tax levy would remain at 35 percent of net annual production tax value. Most importantly, for leases that have been modified as described above, the bill would allow producers to pay, for gas from modified leases only, production tax on that gas with gas instead of with money, equal to 10.5 percent of the taxable gas production from the modified leases. The name of a producer and the volumes of gas subject to the election to pay tax as gas would be public information.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138-DNR-NSG-1-21-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

Department: Department of Natural Resources
Appropriation: Administration & Support Services
Allocation: North Slope Gas Commercialization
OMB Component Number:

Expenditures/Revenues

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

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services	1,769.7		1,769.7	***	***	***	***
Travel	102.0		102.0				
Services	7,090.0		7,090.0				
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	8,961.7	0.0	8,961.7	***	***	***	***

Fund Source (Operating Only)

1004 Gen Fund	8,961.7		8,961.7				
Total	8,961.7	0.0	8,961.7	***	***	***	***

Positions

Full-time	6.0		6.0				
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

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? 03/31/15

Why this fiscal note differs from previous version:

Initial Version

Prepared By:	Esther Tempel, Legislative Liaison	Phone:	(907)465-4730
Division:	Commissioner's Office	Date:	01/20/2014 12:30 PM
Approved By:	Joe Balash, Commissioner	Date:	01/20/14
Agency:	Department of Natural Resources		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138

Analysis

This bill establishes the framework for state participation in a large natural gas project by giving the Commissioner of the Department of Natural Resources (DNR) the authority to enter into upstream and downstream commercial agreements related to a North Slope natural gas project. It also gives the DNR Commissioner, in consultation with the Commissioner of Revenue, the authority to manage the project services and disposition and sale of tax-as-gas (TAG) gas from the Department of Revenue (DOR).

With passage of this bill, the DNR Commissioner, in consultation with the DOR commissioner, will enter into contractual agreements related to the state's equity position in the project. DNR's role is to make sure that the state's equity participation complements and facilitates the state's royalty and TAG gas marketing efforts. The contracts, equity arrangements, and gas sales agreements will be subject to legislative approval and will define the state's relationship with the parties and potential gas customers during the life of a North Slope natural gas project. Each contract, arrangement, and agreement will be conditioned on continued progress of a North Slope gas project and will establish how value will be shared among the parties and manage the state's exposure to commercial risks.

Most of these agreements will be negotiated during the 12–18 months following passage of this legislation so that the state and the other parties in the project can be in a position to commit to the Front-End Engineering Design (FEED) phase. This pre-FEED work will provide the state with the information necessary to make the investment decision to enter into FEED. Equity partners will spend more than a billion dollars during FEED.

With the rights and obligations defined in the agreements, DNR will be able to structure its royalty and TAG gas marketing efforts. The marketing organization may include the potential utilization of a marketing subsidiary of AGDC or may leverage the Producers marketing organizations and expertise, per Article 8.3 of the Heads of Agreement (HOA), resulting in a smaller state organization than might otherwise be required.

The DNR commissioner will need the support, expertise, and involvement of a variety of experts to inform the state's decisions, including:

- When the state takes its royalty and TAG gas, it will become more aligned with the North Slope gas producers than has ever been the case historically. They will enter into production offtake agreements and gas balancing agreements. The DNR Commissioner may modify the state's oil and gas lease terms, including modification of the lease royalty rates, treatment of lease net profit share provisions, field costs, and the state's rights to take royalty gas in-value.
- The DNR commissioner will enter agreements to define gas treatment costs, transportation tolls/tariffs, and liquefaction services. These agreements will also be designed to manage capacity and arrange for expansion of the project, if needed, and must accommodate changes in equity ownership. DNR will forge contractual arrangements with the producers and other industry parties participating in the project as well as state entities who may be part of the project initially or who may take over ownership later.
- The marketing of the state's gas will depend on the rights and obligations that will be defined in the agreements. As time progresses, DNR must make decisions about how it will supply royalty and TAG gas to the domestic and international markets. Gas supply agreements are likely to be long-term and may include mechanisms to attract additional investment capital into the project. Planning and design of the marketing organization will occur during the pre-FEED phase.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138

Analysis Continued

Allocation: DNR will create a separate allocation code for expenditures related to the commercial production of North Slope natural gas for ease of tracking appropriations.

Expenditures: DNR will create in-house capacity to provide the administration with consistent and well-informed advice throughout the initial negotiations and to manage experts as needed through this process. This team will provide consistent support throughout the pre-FEED phase and will be in place to manage the marketing role. Establishing this capacity now and preserving it as the project develops is essential to facilitate the state's effective participation in the project.

The team will be involved in negotiating, crafting agreements, managing expert consultants at each of the project phases, monitoring the agreements as the project progresses and conditions are met or changed, and preserving and protecting confidential information provided by the state's counterparties.

This team will include a lead expert analyst; four subject matter experts specializing in commercial aspects of upstream, gas treatment and pipeline transportation, liquefaction, and international marketing; and a project assistant responsible for contract management, recordkeeping and administrative support, as follows:

- 1 Lead Expert Analyst (exempt)- \$349.8 annual salary and benefits
- 4 Subject Matter Expert Analysts (exempt) - \$323.7 annual salary and benefits each (total of \$1,294.8)
- 1 Project Assistant (range 20) - \$125.1 annual salary and benefits

Total Personal Services: \$1,769.7

It is anticipated that the lead expert analyst and four subject matter expert analysts will need to make trips to Asia to conduct market research and outreach. DNR estimates that each will make quarterly trips at an estimated cost of \$5.1 per trip. **Total Travel Expenses: \$102.0**

Contract services include:

- \$4,000.0 for substantial subject matter expertise to support the DNR commissioner and team including deal origination, deal analysis, market monitoring, infrastructure analysis, commercial contracting, financial and credit analysis, risk control and analysis, and imbalance reconciliation
- Reimbursable Service Agreements to the Department of Law: \$3,000.0 for legal advice from outside counsel on commercial and financial agreements, transactional negotiations and agreements, federal jurisdictional, statutory and regulatory issues and in-house attorney services (\$250.0 per month)
- DOA core service charges, lease space, and office supplies: \$15.0 per position (\$90.0 for 6 positions)

Total Contract Services: \$7,090.0

It is anticipated that the decision to proceed into FEED will take place by the end of FY16. Impacts in FY17 and beyond are indeterminate at this time; however, pre-FEED will help determine the potential costs leading up to the FEED phase.

Revenues: No new revenues from a large gas project would be expected during the timeframe (through FY20) of this fiscal note. Revenues from a North Slope gas project could be realized as soon as FY22.

Regulations: DNR expects it will need to amend its regulations as they pertain to the disposition of royalty oil and gas to include TAG gas.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138-DCCED-AGDC-AK LNG-1-28-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Gasline Development Corporation
Allocation: Alaska LNG Participation
OMB Component Number:

Expenditures/Revenues

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

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services	410.0		410.0	410.0				
Travel	432.0		432.0					
Services	2,960.0		2,960.0					
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	3,802.0	0.0	3,802.0	410.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1178 temp code	3,802.0		3,802.0	410.0				
Total	3,802.0	0.0	3,802.0	410.0	0.0	0.0	0.0	0.0

Positions

Full-time	1.0		1.0	1.0				
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 83,714.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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:

SUPPLEMENTAL PORTION: The supplemental request to capitalize the Large Diameter Pipeline Fund with \$83,714.0 UGF is informational only and requires a separate appropriation. Once in the fund, money can be spent without further appropriation. Approximately \$700.0 would be used for FY14 operating costs associated with the Alaska Gasline Development Corp (AGDC) involvement to advance the Large Diameter Natural Gas Pipeline Project (AK LNG).

FY15-FY20 operating expenses from this fund and included in all associated fiscal notes total \$8 million. Separate fiscal notes prepared by the Departments of Revenue and Natural Resources use \$18.7 million of unrestricted general funds.

Prepared By: <u>Miles Baker, Director of Governmental Relations</u>	Phone: (907)330-6360
Division: <u>Alaska Gasline Development Corporation</u>	Date: 01/28/2014 05:35 PM
Approved By: <u>Dan Fauske, President</u>	Date: 01/28/14
Agency: <u>Alaska Gasline Development Corporation</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138

Analysis

This bill would authorize the Alaska Gasline Development Corporation (AGDC) to participate in advancing a large-diameter natural gas pipeline project (AKLNG) in addition to the in-state natural gas pipeline project described in AS 31.25.005 (1), commonly known as the Alaska Stand Alone Pipeline (ASAP). In its current form, the bill does the following:

- Establishes a new AGDC subsidiary for the purpose of advancing the State's AKLNG efforts. Identifies the composition of the board of directors for the new subsidiary corporation and addresses other administrative issues related to that board.
- Authorizes the new subsidiary to develop, finance, construct and operate facilities for natural gas liquefaction and treatment associated with a large-diameter natural gas pipeline (AKLNG) project.
- Establishes a new Large-Diameter Natural Gas Pipeline Project Fund to fund AGDC's involvement in the AKLNG project.
- Restricts funds appropriated to the In-State Natural Gas Pipeline Fund (1229) solely for work associated with the ASAP project, and restricts funds appropriated to the new Large-Diameter Natural Gas Pipeline Project Fund to work associated with the large-diameter, AKLNG project.

Allocation:

A new allocation has been created for expenditures related to advancing the AKLNG project.

Operating Expenditures:

The operating costs associated with AGDC's involvement with the AKLNG project are estimated to be \$700.0 for FY 14, \$3,802.0 for each of the first two years (FY15 & FY16) and \$410.0 for FY17, for a total of \$8,714.0. AGDC would draw these funds from the new Large-Diameter Natural Gas Pipeline Project Fund. Operating costs consist of personal services, travel and contractual services associated with negotiating multiple commercial contracts relative to the state's participation in the AKLNG project. The one position shown is for a senior executive level employee with an oil & gas commercial background that will act as the Corporation's chief negotiator for the commercial and legal agreements relating to the AKLNG Project.

Capital Expenditures:

The capital costs associated with AGDC's involvement in the pre-feed phase of the AKLNG project are estimated to be \$75.0 million. The project would begin immediately and those funds would begin to be drawn upon passage of enabling legislation in FY 14. AGDC would draw these funds out of the new Large-Diameter Natural Gas Pipeline Project Fund.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138-LG Diameter Pipeline Fund-1-28-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

Department: Fund Capitalization
Appropriation: Caps Spent as Duplicated Funds
Allocation: Large Diameter Natural Gas Pipeline Fund
OMB Component Number:

Expenditures/Revenues

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

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 83,714.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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:

SUPPLEMENTAL PORTION: The supplemental request to capitalize the Large Diameter Pipeline Fund with \$83,714.0 UGF is informational only and requires a separate appropriation. Once in the fund, money can be spent without further appropriation. Approximately \$700.0 would be used for FY14 operating costs associated with the Alaska Gasline Development Corp (AGDC) involvement to advance the Large Diameter Natural Gas Pipeline Project (AKLNG).

FY15-FY20 operating expenses from this fund and included in all associated fiscal notes total \$8 million. Separate fiscal notes prepared by the Departments of Revenue and Natural Resources use \$18.7 million of unrestricted general funds.

Prepared By:	Miles Baker, Director of Governmental Relations	Phone:	(907)330-6360
Division:	Alaska Gasline Development Corporation	Date:	01/28/2014 12:00 AM
Approved By:	Dan Fauske, President	Date:	01/28/14
Agency:	Alaska Gasline Development Corporation		

FISCAL NOTE ANALYSIS

**STATE OF ALASKA
2014 LEGISLATIVE SESSION**

BILL NO. SB 138

Analysis

This fiscal note capitalizes the fund at \$83,714.0. The bill has an immediate effective date and thus requires the FY14 capitalization of the fund.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138-DOR-TAX-01-21-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Rules by request of the Governor

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)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services	750.0							
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	750.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	750.0							
Total	750.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues	***	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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? 12/31/15

Why this fiscal note differs from previous version:

Initial version.

Prepared By:	Matt Fonder, Director	Phone:	(907)269-1033
Division:	Tax Division	Date:	01/14/2014 02:00 PM
Approved By:	Angela M. Rodell, Commissioner	Date:	01/20/14
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138 _____

Analysis

Bill Language:

This bill would help the state to move forward as a partner in a large natural gas project, including liquefaction facilities. It gives the Commissioner of DNR, in consultation with the Commissioner of Revenue, the ability to take custody of gas delivered to the state and manage the disposition and sale of that gas. The main tax provision of the bill would allow gas producers to make an irrevocable election to pay their production tax liabilities with gas (tax as gas "TAG") instead of with money.

While the bill itself has numerous sections that affect other departments or corporations in the state, the analysis done for this fiscal note is limited to the tax provisions contained in the bill.

Revenues:

The department is unable to determine the amount of revenue that will be created by this bill in the future. Taxable gas production is not expected until after 2022, so no new revenues from a large gas project would be expected during the timeframe (through FY-20) of this fiscal note.

Expenditures:

The department is currently in the process of implementing its new Tax Revenue Management System (TRMS), for which the legislature appropriated approximately \$35 million for during the 2011 session. If this bill passes, we will need to amend the current contract with FAST Enterprises to allow for them to reconfigure TRMS to reflect these tax law changes. DOR estimates that it will incur an additional expense of approximately \$500,000 to reconfigure the system.

Regulations:

The department expects it will need to enter into expanded RSA's with the Department of Law to assist in drafting regulations to help the department implement the new law. DOR estimates that it will incur an additional expense of approximately \$250,000 to retain the necessary resources to assist with a regulations project of this magnitude.



SB 138: Commercial Production of North Slope Gas SECTIONAL ANALYSIS

January 23, 2014

Section 1 amends AS 31.25.005, related to the purpose of the Alaska Gasline Development Corporation (AGDC), to add new subsections (4) and (5) for the advancement of a large-diameter natural gas pipeline project through acquiring an equity interest in the large-diameter pipeline project and developing treatment and liquefaction facilities through the subsidiary created in new AS 31.25.122.

Section 2 conforms AS 31.25.010, the structure of AGDC related to dissolution, to include reference to a large-diameter natural gas pipeline project.

Section 3 amends AS 31.25.080(f) to allow the AGDC to continue to coordinate with the developers of large-diameter natural gas pipeline to the maximum extent practicable without delaying the progress of developing the in-state natural gas pipeline. In coordinating with the developers of a large-diameter natural gas pipeline, AGDC may use money appropriated for that purpose under AS 31.25.110 but may not use money appropriated for the in-state gas pipeline fund in AS 31.25.100. This section removes the description of a large diameter natural gas pipeline, the 'common' status of pipeline facilities, and portions of the area description related to a gas pipeline from the North Slope.

Section 4 amends AS 31.25.100 to direct that money appropriated to the in-state natural gas pipeline fund may not be used for the large-diameter natural gas pipeline project under new AS 31.25.005(4) and (5) and AS 31.25.080(f).

Section 5 establishes AS 31.25.110, the Large-Diameter Natural Gas Pipeline Project fund in order to fund the purposes of the subsidiary established in AS 31.25.122. Money appropriated to the Large-Diameter Natural Gas Pipeline Project fund may not be used for the purposes of the in-state natural gas pipeline under AS 31.25.005(1). Money appropriated to the Large-Diameter Natural Gas Pipeline Project fund for the purpose of AS 31.25.005(4) and (5), the large-diameter natural gas pipeline project, is to be held in an account created within the fund for that purpose.

Section 6 amends the catchline for AS 31.25.120 to specify that the section applies to the creation of subsidiaries for an in-state natural gas pipeline project. A subsidiary corporation under this section may only use money appropriated for the in-state natural gas pipeline under AS 31.25.100.

Section 7 adds new section AS 31.25.122 to establish a subsidiary for a large-diameter natural gas pipeline project as a public corporation and a government instrumentality for administrative purposes but with a legal existence independent from the state and the AGDC. The purpose of the subsidiary is to acquire state equity interests in components of a large-diameter natural gas pipeline project, including pipelines, treatment, liquefaction and marine terminal facilities. The subsidiary may use money appropriated under AS 31.25.110 and may not to use money appropriated to the in-state natural gas pipeline project fund in AS 31.25.100. Subsection (b) creates a seven member board of directors of the subsidiary. Subsection (d) sets out purposes, (e) allows the AGDC to transfer assets, except for revenues as restricted by AS 31.25.100 to the subsidiary created under this section. Some of the statutory provisions applicable to the AGDC are incorporated to aid in the operation of the subsidiary. Subsection (f) relates to employees of the subsidiary while (g) describes the conditions of termination of the subsidiary.

Section 8 amends AS 31.25.390(5), the definition of “in-state natural gas pipeline”, by adding a reference to AS 31.25.005(1).

Section 9 adds new definitions in AS 31.25.390. New subsection (7) defines a “large-diameter natural gas pipeline project” and (8) defines a “subsidiary board” as meaning a subsidiary under AS 31 25.122.

Section 10 amends the authority of the commissioner of the Department of Natural Resources (DNR) by adding new paragraphs (10) – (13) in AS 38.05.020(b). Effective immediately, the DNR commissioner may enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. In consultation with the Commissioner of Revenue, the DNR commissioner may participate in negotiations associated with a North Slope natural gas project. A contract negotiated in which the state is a party would not be effective against the state without legislative authorization for the governor to execute the contract. Paragraph (12) permits the DNR commissioner to enter into confidentiality agreements to maintain confidentiality throughout contract negotiations and contract implementation. Final contracts subject to approval by the legislature would not be confidential. The legislature may be briefed on confidential information under paragraph (12) in committees held in executive session or under confidentiality agreements.

Section 11 adds new paragraph (13) to allow the DNR commissioner, in consultation with the commissioner of revenue, to take custody of gas delivered to the state under new AS 43.55.014(b), to manage project services and the disposition of gas delivered to the state under new AS 43.55.014(b).

Section 12 clarifies AS 38.05.180(i) with a conforming amendment that the exploration incentive credit may be applied against the oil and gas production tax levied under AS 43.55.011.

Sections 13 and 14 adds a new subsection (hh) to AS 38.05.180, which deals with oil and gas leasing, to permit the DNR commissioner to propose modifications to existing oil and gas leases relating to the state's ability to take royalty gas in kind or in value, the establishment of values for the state's royalty gas and deductions for transportation costs, and the fixation of royalty rates and modifications to net profit share terms in oil and gas leases. Modifications to existing oil and gas leases would require a written determination by the DNR commissioner that a North Slope natural gas project has sufficient financial commitment and commitment of gas from the leases to be modified, in addition to concurrence of the lessees to the modification.

Sections 15 through 18 amend AS 38.05.183, related to sales of royalty oil or gas, by adding references to gas delivered to the state under AS 43.55.014(b), the levy of production tax on gas in-kind for certain North Slope leases. The amendments ensure that gas delivered to the state under AS 43.55.014(b) is treated in the same manner as royalty gas taken in kind.

Section 19 adds two new subsections (26) and (27) in AS 38.05.965. Subsection (26) defines "North Slope natural gas project;" subsection (27) defines "project services."

Sections 20 and 21 amend AS 40.25.100 related to the confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project. Section 21 references new subsection (k) in AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the oil and gas production tax on gas in-kind and the amount of gas subject to that election.

Section 22 amends AS 40.25.120(a) to establish an exception in public records for information confidential under the new provisions of AS 38.05.020(b) (related to contract negotiations for a North Slope natural gas project).

Sections 23 and 24 amend the authority of the commissioner of the Department of Revenue (DOR) by adding new paragraphs (16) and (17) in AS 43.05.010. Effective immediately, paragraph (16) provides that the DOR commissioner may consult with the DNR commissioner on negotiations associated with a North Slope natural gas project. Section 24 amends AS 43.05.010 by adding paragraph (17) to provide that the DOR commissioner direct the disposition of revenues received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the DNR commissioner.

Section 25 adds new subsection (k) to AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the oil and gas production tax on gas in-kind and the amount of gas subject to that election.

Section 26 amends AS 43.20.144(f) to clarify that gas subject to an election to pay the oil and gas production tax on gas in-kind under AS 43.55.014 is included the extraction factor in the Alaska Net Income Tax Act.

Section 27 amends AS 43.55.011(e), the levy of the oil and gas production tax, to add reference to the separate levy under AS 43.55.014 for certain North Slope gas. For oil and gas produced after January 1, 2014 and before January 1, 2022, AS 43.55.011(e)(2) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 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.

For oil and gas produced on or after January 1, 2022 (after expiration of the tax ceilings for Cook Inlet oil and gas, and gas produced outside the Cook Inlet basin and used in the state), AS 43.55.011(e)(3) would levy on producers of oil produced each calendar year a flat tax rate of 35 percent of the production tax value of taxable oil produced from each lease or property in the state and on producers of gas, and a flat tax rate of 10.5 percent of the gross value at the point of production of gas produced from each lease or property in the state. (Oil and gas subject to AS 43.55.011(p) continue to be taxed at no more than four percent of gross value at the point of production until 2027.) The tax on gas for which the DOR commissioner has approved an election to pay in kind would be levied under AS 43.55.014.

Section 28 amends AS 43.55.011(f), the alternate minimum tax on North Slope oil and gas, to retain the current minimum tax until January 1, 2022. After that date, the minimum tax would apply to oil produced on the North Slope. A minor amendment adds the reference to the tax applying to leases or properties "that include land" to ensure that property that straddles 68 degrees North latitude will be considered north of 68 degrees North latitude for purpose of the alternate minimum tax.

Section 29 adds AS 43.55.014 which allows producers to make an irrevocable election, under regulations adopted by DOR, to pay the oil and gas production tax in kind levied by this section in lieu of the tax otherwise levied on gas by AS 43.55.011(e). The election can only be made for gas produced from oil and gas leases whose terms have been modified under AS 38.05.180(hh). The levy would be 10.5 percent of the taxable gas when and as the gas is produced. The producer would pay the tax by delivering the gas to the delivery point specified by the state. The DNR would manage the custody and disposition of gas delivered to the state. Gas subject to this provision would not include gas flared, released, or allowed to escape upstream of the point of production, or to gas used in lease operations or for repressuring. Tax deficiencies and interest and penalties on any tax deficiency would be accounted for as if the tax was levied for money under AS 43.55.011(e). This section would take effect on January 1, 2015 to be applied to gas produced from certain North Slope leases on and after January 1, 2022.

Sections 30 and 31 are conforming amendments to the oil and gas producer education credit, AS 43.55.019, to clarify that the credit can be applied to tax liability under AS 43.55.011(e) only.

Section 32 amends AS 43.55.020(a), monthly installment payments of estimated tax, to add provisions for payment of tax after January 1, 2022 and to clarify the tax rates that apply to oil and gas produced after a certain date. Monthly installment payments for oil and gas produced on or after January 1, 2022 are in new subsection (a)(7).

Sections 33 and 34 are conforming changes to AS 43.55.020, monthly installment payments. Subsection (g) is amended to account for new tax provisions for oil and gas produced after January 1, 2022. A similar conforming change is made in AS 43.55.020(h) to account for interest on overpayments of installment payments.

Sections 35 and 36 amends AS 43.55.020(l) and adds subsection (m), related to making settlements by a producer with private landowner royalty owner, to account for making a settlement with the royalty owner for gas taxable before January 1, 2022 and under new AS 43.55.014.

Section 37 amends AS 43.55.030, annual statements by producers and explorers, to require reporting of the amount of gas produced from a lease or property for which tax is levied under AS 43.55.014 and the amount of gas delivered to the state under AS 43.55.014.

Section 38 amends AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the levy of tax under AS 43.55.011(e)(2) for oil and gas produced before January 1, 2022.

Section 39 amends AS 43.55.160(e), related to determination of excess lease expenditures for the purpose of calculating a carried-forward loss credit, to account for annual production tax values for oil produced on and after January 1, 2022.

Section 40 amends AS 43.55.160(f), a 20 percent gross value reduction for certain oil and gas produced north of 68 degrees North latitude, so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 41 amends AS 43.55.160(g), a 10 percent gross value reduction for certain oil and gas produced from a unit north of 68 degrees North latitude made up solely of leases that have a royalty share of more than 12.5 percent in amount or value of the production removed or sold from the lease so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 42 amends AS 43.55.160, calculation of annual production tax values, to add a new subsection (h) for calculation of annual production tax values for oil produced on and after January 1, 2022. On and after January 1, 2022, gas would be taxed at a percentage of gross value. Accordingly, there would be no need to calculate a production tax value (gross value at point of production less lease expenditures) for gas. Producers would still calculate a production tax value of oil taxable under AS 43.55.011(e) for the segments set out in AS 43.55.160(h).

Section 43 makes a conforming amendment to AS 43.55.165, lease expenditures, to exclude as a deduction from lease expenditures the tax levied under AS 43.55.014.

Sections 44 through 46 amend, for purposes of the oil and gas production tax, the definitions of "gas processing plants" and "point of production" for gas to be upstream of either the first point where

accurately measured, the inlet of a pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to market. Section 46 adds a definition of "gas treatment plant".

Section 47 makes conforming amendments to AS 43.98.030, the film production tax credit, to limit the applicability of the credit to the tax levied by AS 43.55.011.

Section 48 allows the DNR and the DOR to adopt regulations to implement this Act.

Section 49 instructs the revisor of statutes to make a title change to AS 38.05.183 to include AS 43.55.014(b).

Sections 50 and 51 set effective dates for different sections of the bill. Sections 1 -10, 12, 13 19, 20, 22, 23, 30, 31, 47 and 48 would be effective immediately. The other sections would be effective January 1, 2015.