

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2948

1           where: TP = the total amount of taxable and nontaxable oil and gas, in BTU  
2                                   equivalent barrels, produced by the producer from leases or  
3                                   properties in the state during 2005; and

4           n = the number that represents the calendar year subsequent to 2005 for  
5                                   which the tax is being computed, with the number that represents  
6                                   calendar year 2006 being 1, the number that represents calendar year  
7                                   2007 being 2, and so on;

8                                   (B) for 2031 and later years, is zero;

9                                   (5) a producer's incremental production for a calendar year is the total  
10                                  amount of taxable and nontaxable oil and gas, in BTU equivalent barrels, produced by  
11                                  the producer from leases or properties in the state during the calendar year, less the  
12                                  producer's base production for the calendar year, but the incremental production may  
13                                  not be less than zero;

14                                  (6) if a working interest in a lease or property from which oil or gas  
15                                  was produced during 2005 is transferred after 2005, the amount of 2005 oil and gas  
16                                  production attributable to that interest is considered, from the date of the transfer, to  
17                                  have been produced by the producer acquiring the working interest, for the purposes  
18                                  of computing the term TP under (4) of this subsection.

19                                  (g) In addition to the tax levied under (e) of this section, during each calendar  
20                                  year for which the price index determined under (h) of this section is greater than zero  
21                                  for one or more months, there is levied on the producer of oil or gas a tax for all oil  
22                                  and gas produced during that calendar year from each lease or property in the state,  
23                                  less any oil and gas the ownership or right to which is exempt from taxation or  
24                                  constitutes a landowner's royalty interest. Except as otherwise provided under (j) and  
25                                  (k) of this section, the tax levied under this subsection is equal to the sum, over all  
26                                  months in the calendar year, of the amounts calculated for each month as follows:  
27                                  \_\_\_\_\_ percent of the monthly production tax value of the taxable oil and gas as  
28                                  calculated under AS 43.55.160, multiplied by the price index determined under (h) of  
29                                  this section. However, the amount calculated under this subsection for any month may  
30                                  not exceed \_\_\_\_\_ percent of the monthly production tax value of the taxable oil and  
31                                  gas as calculated under AS 43.55.160.

1 (h) For purposes of (g) of this section, the price index for a month is calculated  
2 by subtracting \_\_\_\_\_ from the number that is equal to the quotient of the total monthly  
3 production tax value of the taxable oil and gas produced by the producer during that  
4 month, as calculated under AS 43.55.160, divided by the total amount of the taxable  
5 oil and gas produced by the producer during that month, in BTU equivalent barrels.  
6 However, a price index may not be less than zero.

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

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

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

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

22 (j) For a calendar year earlier than 2022, the total tax levied by (e) and (g) of  
23 this section on gas produced from a lease or property in the Cook Inlet sedimentary  
24 basin may not exceed

25 (1) for a lease or property that first commenced commercial production  
26 of gas before April 1, 2006, the product obtained by multiplying (A) the amount of  
27 taxable gas produced during the calendar year from the lease or property, times (B) the  
28 average rate of tax that was imposed under this chapter on taxable gas produced from  
29 the lease or property for the 12-month period ending on March 31, 2006, times (C) the  
30 quotient of the total gross value at the point of production of the taxable gas produced  
31 from the lease or property during the 12-month period ending March 31, 2006, divided

1 by the total amount of that gas;

2 (2) for a lease or property that first commences commercial production  
3 of gas after March 31, 2006, the product obtained by multiplying (A) the amount of  
4 taxable gas produced during the calendar year from the lease or property, times (B) the  
5 average rate of tax that was imposed under this chapter on taxable gas produced from  
6 all leases or properties in the Cook Inlet sedimentary basin for the 12-month period  
7 ending on March 31, 2006, times (C) the average prevailing value for gas delivered in  
8 the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by  
9 the department under AS 43.55.020(f).

10 (k) For a calendar year earlier than 2022, the total tax levied by (e) and (g) of  
11 this section on oil produced from a lease or property in the Cook Inlet sedimentary  
12 basin may not exceed

13 (1) for a lease or property that first commenced commercial production  
14 of oil before April 1, 2006, the product obtained by multiplying (A) the amount of  
15 taxable oil produced during the calendar year from the lease or property, times (B) the  
16 average rate of tax that was imposed under this chapter on taxable oil produced from  
17 the lease or property for the 12-month period ending on March 31, 2006, times (C) the  
18 quotient of the total gross value at the point of production of the taxable oil produced  
19 from the lease or property during the 12-month period ending March 31, 2006, divided  
20 by the total amount of that oil;

21 (2) for a lease or property that first commences commercial production  
22 of oil after March 31, 2006, the product obtained by multiplying (A) the amount of  
23 taxable oil produced during the calendar year from the lease or property, times (B) the  
24 average rate of tax that was imposed under this chapter on taxable oil produced from  
25 all leases or properties in the Cook Inlet sedimentary basin for the 12-month period  
26 ending on March 31, 2006, times (C) the average prevailing value for oil delivered in  
27 the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by  
28 the department under AS 43.55.020(f).

29 (l) When a limitation under (j) or (k) of this section on the tax levied by (e)  
30 and (g) of this section has the effect of reducing the producer's tax on gas or oil  
31 produced from a lease or property below the amount of tax that would be levied in the

1 absence of that limitation, the amount of the reduction is applied first against the tax  
2 levied by (g) of this section, but that tax may not be reduced below zero.

3 (n) Notwithstanding any contrary provision of AS 38.05.180(i),  
4 AS 41.09.010, AS 43.20.043, or 43.55.025, tax credits under AS 38.05.180(i),  
5 AS 41.09.010, AS 43.20.043, and 43.55.025 that are allocated to gas produced from  
6 leases or properties in the Cook Inlet sedimentary basin and that are available to be  
7 applied against a tax levied by (e) of this section on gas produced from leases or  
8 properties in the Cook Inlet sedimentary basin during a calendar year may be applied  
9 only against the tax levied by (e) of this section on that gas. The amount by which the  
10 amount of tax credits that are allocated to gas produced from leases or properties in the  
11 Cook Inlet sedimentary basin and that the producer would otherwise be allowed to use  
12 for a later calendar year or transfer to another person exceeds the amount of tax credits  
13 whose application would reduce the tax levied by (e) of this section on that gas to  
14 zero, if any, is considered the amount of excess tax credits and the excess tax credits  
15 are subject to the following:

16 (1) for each lease or property for which a limitation under (j) or (k) of  
17 this section on the tax levied by (e) and (g) of this section has the effect of reducing  
18 the producer's tax below the amount of tax that would be levied in the absence of that  
19 limitation, the producer shall calculate the amount of that reduction;

20 (2) the producer shall calculate the total of the reductions calculated  
21 under (1) of this subsection for all affected leases or properties;

22 (3) the producer shall reduce the amount of excess tax credits by the  
23 total calculated under (2) of this subsection, but not to less than zero;

24 (4) any amount of excess tax credits remaining after reduction under  
25 (3) of this subsection may be used for a later calendar year, transferred to another  
26 person, or applied against a tax levied on oil or gas produced from a lease or property  
27 located anywhere in the state to the extent otherwise allowed under applicable law  
28 governing the tax credits.

29 (n) Allocation of credits under (m) of this section shall be made under  
30 regulations adopted by the department that provide for reasonable methods of  
31 allocating tax credits to gas produced from leases or properties in the Cook Inlet

1 sedimentary basin.

2 (o) The department shall by regulation establish sampling, testing, and  
3 averaging methods for determining the heating value of a producer's gas. In the  
4 absence of sufficient sampling and testing of gas produced during 2005 or 2006, the  
5 department may provide for the heating value of the gas to be estimated based on  
6 sampling and testing of later-produced gas or on other information.

7 \* **Sec. 6.** AS 43.55.017(a) is amended to read:

8 (a) Except as provided in this chapter, the taxes imposed by this chapter are in  
9 place of all taxes now imposed by the state or any of its municipalities, and neither the  
10 state nor a municipality may impose a tax on [UPON]

11 (1) producing oil or gas leases;

12 (2) oil or gas produced or extracted in the state;

13 (3) the value of intangible drilling and development costs, as  
14 described in 26 U.S.C. 263(c) (Internal Revenue Code), as amended through  
15 January 1, 1974 [EXPLORATION EXPENSES].

16 \* **Sec. 7.** AS 43.55.020(a) is repealed and reenacted to read:

17 (a) The tax levied on a producer for a calendar year by AS 43.55.011(e), (g),  
18 and (i) must be paid as follows:

19 (1) an instalment payment of the estimated tax levied by  
20 AS 43.55.011(e) and (g), net of any tax credits applied as allowed by law, is due for  
21 each month of the calendar year on the last day of the following month; the amount of  
22 the installment payment is the sum of the amounts calculated under (2) and (3) of this  
23 subsection, but not less than zero;

24 (2) the first of the two amounts used to calculate the installment  
25 payment for a month under (1) of this subsection is equal to the remainder obtained by  
26 subtracting

27 (A) 1/12 of the tax credits that are allowed by law to be applied  
28 against the tax levied by AS 43.55.011(e) for the calendar year, from

29 (B) the total of the monthly production values calculated under  
30 AS 43.55.160(a)(2) of all oil and gas taxable under AS 43.55.011(e) and  
31 produced by the producer from leases or properties in the state during the

1 month, multiplied by the tax rate determined under AS 43.5.011(f) for the  
2 calendar year assuming that the producer's incremental production for the  
3 calendar year is the amount calculated according to the following formula but  
4 not less than zero:

$$5 \quad IP = 12 X (MP - 1/12 X BP)$$

6 where: IP = the producer's assumed incremental production for the calendar  
7 year;

8 MP = the total amount of taxable and nontaxable oil and gas, in BTU  
9 equivalent barrels, produced by the producer from leases or  
10 properties in the state during the month; and

11 BP = the producer's base production for the calendar year;

12 (3) the second of the two amounts used to calculate the installment  
13 payment for a month under (1) of this subsection is the amount calculated for the  
14 month under AS 43.55.011(g);

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

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

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

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

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

1 (b) The production tax on oil and [OR] gas shall be paid to the department  
2 by or on behalf of the producer.

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

4 (d) In making settlement with the royalty owner for oil and gas that is  
5 taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on  
6 taxable royalty oil and [OR] gas, or may deduct taxable royalty oil or gas equivalent  
7 in value at the time the tax becomes due to the amount of the tax paid. If the total  
8 deductions of installment payments of estimated tax for a calendar year exceed  
9 the actual tax for that calendar year, the producer shall, no later than March 31  
10 of the following year, refund the excess to the royalty owner. Unless otherwise  
11 agreed between the producer and the royalty owner, the amount of the tax paid  
12 under AS 43.55.011(e) and (g) on taxable royalty oil and gas for a calendar year,  
13 other than oil and gas the ownership or right to which constitutes a landowner's  
14 royalty interest, is considered to be the gross value at the point of production of  
15 the taxable royalty oil and gas produced during the calendar year multiplied by a  
16 figure that is a quotient, in which

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

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

22 \* Sec. 10. AS 43.55.020(e) is repealed and reenacted to read:

23 (e) Gas flared, released, or allowed to escape in excess of the amount  
24 authorized by the Alaska Oil and Gas Conservation Commission is considered, for the  
25 purpose of AS 43.55.011 - 43.55.180, as gas produced from a lease or property. Oil or  
26 gas used in the operation of a lease or property in the state in drilling for or producing  
27 oil or gas, or for repressuring, except to the extent determined by the Alaska Oil and  
28 Gas Conservation Commission to be waste, is not considered, for the purpose of  
29 AS 43.55.011 - 43.55.180, as oil or gas produced from a lease or property.

30 \* Sec. 11. AS 43.55.020(f) is amended to read:

31 (f) If oil or gas is produced but not sold, or if oil or gas is produced and

1 sold under circumstances where the sale price does not represent the prevailing value  
2 for oil or gas of like kind, character, or quality in the field or area from which the  
3 product is produced, the department may require the tax to be paid upon the basis of  
4 the value of oil or gas of the same kind, quality, and character prevailing for that field  
5 or area during the calendar month of production or sale [FOR THAT FIELD OR  
6 AREA].

7 \* **Sec. 12.** AS 43.55.020 is amended by adding new subsections to read:

8 (g) Notwithstanding any contrary provision of AS 43.05.225, an unpaid  
9 amount of an installment payment required under (a)(1) – (4) of this section that is not  
10 paid when due bears interest (1) at the rate provided for an underpayment under  
11 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the  
12 date the installment payment is due until the March 31 described in AS 43.55.030(a),  
13 and (2) as provided for a delinquent tax under AS 43.05.225 after that March 31.  
14 Interest accrued under (1) of this subsection that remains unpaid after that March 31 is  
15 treated as an addition to tax that bears interest under (2) of this subsection. An unpaid  
16 amount of tax due under (a)(5) of this section that is not paid when due bears interest  
17 as provided for a delinquent tax under AS 43.05.225.

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

19 (1) an overpayment of an installment payment required under (a)(1) –  
20 (4) of this section bears interest at the rate provided for an overpayment under  
21 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the  
22 later of the date the installment payment is due or the date the overpayment is made,  
23 until the earlier of (A) the date it is refunded or is applied to an underpayment, or (B)  
24 the March 31 described in AS 43.55.030(a);

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

30 (3) interest is allowed under (2) of this subsection only from a date that  
31 is 90 days after the later of the March 31 described in AS 43.55.030(a) or the date that

1 the statement required under AS 43.55.030(a) is filed; interest is not allowed if the  
2 overpayment was refunded within the 90-day period;

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

5 \* Sec. 13. AS 43.55 is amended by adding new sections to read:

6 **Sec. 43.55.023. Tax credits for certain losses and expenditures.** (a) A  
7 producer or explorer may take a tax credit for a qualified capital expenditure as  
8 follows:

9 (1) notwithstanding that a qualified capital expenditure may be a  
10 deductible lease expenditure for purposes of calculating a production tax value of oil  
11 or gas under AS 43.55.160(a), unless a credit for that expenditure is taken under  
12 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or  
13 explorer that incurs a qualified capital expenditure may also elect to take a tax credit  
14 against a tax due under AS 43.55.011(e) in the amount of 20 percent of that  
15 expenditure;

16 (2) a producer or explorer may take a credit for a qualified capital  
17 expenditure incurred in connection with geological or geophysical exploration or in  
18 connection with an exploration well only if the producer or explorer provides to the  
19 department, as part of the statement required under AS 43.55.030(a) for the calendar  
20 year for which the credit is sought to be taken, the producer's or explorer's written  
21 agreement

22 (A) to notify the Department of Natural Resources, within 30  
23 days after completion of the geological or geophysical data processing or  
24 completion of the well, or within 30 days after the statement is filed, whichever  
25 is the latest, of the date of completion and to submit a report to that department  
26 describing the processing sequence and provide a list of data sets available;

27 (B) to provide to the Department of Natural Resources, within  
28 30 days after the date of a request, specific data sets, ancillary data, and reports  
29 identified in (A) of this paragraph;

30 (C) that, notwithstanding any provision of AS 38, the  
31 Department of Natural Resources shall hold confidential the information

1 provided to that department under this paragraph for 10 years following the  
2 completion date, after which the department shall publicly release the  
3 information after 30 days' public notice.

4 (b) A producer or explorer may elect to take a tax credit in the amount of a  
5 carried-forward annual loss multiplied by a percentage that is equal to the tax rate  
6 calculated under AS 43.55.011(f) for the calendar year the loss was incurred. A credit  
7 under this subsection may be applied against a tax due under AS 43.55.011(e). For  
8 purposes of this subsection, a carried-forward annual loss is the amount of a producer's  
9 or explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a  
10 previous calendar year that was not deductible for that calendar year under  
11 AS 43.55.160(b) and (c).

12 (c) A credit or portion of a credit under this section may not be used to reduce  
13 a person's tax liability under AS 43.55.011(e) for any calendar year below zero, and  
14 any unused credit or portion of a credit not used under this subsection may be applied  
15 in a later calendar year.

16 (d) Except as limited by (i) of this section, a person entitled to take a tax credit  
17 under this section that wishes to transfer the unused credit to another person may  
18 apply to the department for a transferable tax credit certificate. An application under  
19 this subsection must be in a form prescribed by the department and must include  
20 supporting information and documentation that the department reasonably requires.  
21 The department shall grant or deny an application, or grant an application as to a lesser  
22 amount than that claimed and deny it as to the excess, not later than 60 days after the  
23 latest of (1) March 31 of the year following the calendar year in which the qualified  
24 capital expenditure or carried-forward annual loss for which the credit is claimed was  
25 incurred; (2) if the applicant is required under AS 43.55.030(a) to file a statement on  
26 or before March 31 of the year following the calendar year in which the qualified  
27 capital expenditures or carried-forward annual loss for which the credit is claimed was  
28 incurred, the date the statement was filed; or (3) the date the application was received  
29 by the department. If, based on the information then available to it, the department is  
30 reasonably satisfied that the applicant is entitled to a credit, the department shall issue  
31 the applicant a transferable tax credit certificate for the amount of the credit. A

1 certificate issued under this subsection does not expire.

2 (e) A person to which a transferable tax credit certificate is issued under (d) of  
3 this section may transfer the certificate to another person, and a transferee may further  
4 transfer the certificate. Subject to the limitations set out in (a) - (c) of this section, and  
5 notwithstanding any action the department may take with respect to the applicant  
6 under (g) of this section, the owner of a certificate may apply the credit or a portion of  
7 the credit shown on the certificate only against a tax due under AS 43.55.011(e).  
8 However, a credit shown on a transferable tax credit certificate may not be applied to  
9 reduce a transferee's total tax due under AS 43.55.011(e) on oil and gas produced  
10 during a calendar year to less than 80 percent of the tax that would otherwise be due  
11 without applying that credit. Any portion of a credit not used under this subsection  
12 may be applied in a later period.

13 (f) Under standards established in regulations adopted by the department and  
14 subject to appropriations made by law, the department, on the written application of  
15 the person to whom a transferable tax credit has been issued under (d) of this section  
16 and whose average amount of oil and gas produced a day taxable under  
17 AS 43.55.011(e) is not more than 50,000 BTU equivalent barrels a day for the  
18 preceding calendar year, shall issue a cash refund, in whole or in part, for the  
19 certificate if the department finds

20 (1) within 24 months after having applied for the transferable tax credit  
21 certificate, that the applicant incurred a qualified capital expenditure or was the  
22 successful bidder on a bid submitted for a lease on state land under AS 38.05.180(f);

23 (2) that the amount of the refund would not exceed the total of  
24 qualified capital expenditures and successful bids described in (1) of this subsection  
25 that have not been the subject of a finding made under this paragraph for purposes of a  
26 previous refund;

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

29 (4) that the sum of the amount of the refund applied for and amounts  
30 previously refunded to the applicant during the calendar year under this subsection  
31 would not exceed \$25,000,000.

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

14 (h) Regulations adopted to implement this section shall include provisions  
15 prescribing reporting, record keeping, and certification procedures and requirements to  
16 verify the accuracy of credits claimed and to ensure that a credit is not used more than  
17 once.

18 (i) For the purposes of this section,

19 (1) a producer's or explorer's transitional investment expenditures are  
20 the sum of the expenditures the producer or explorer incurred on or after April 1,  
21 2001, and before April 1, 2006, that would be qualified capital expenditures if they  
22 were incurred on or after April 1, 2006, less the sum of the payments or credits the  
23 producer or explorer received before April 1, 2006, for the sale or other transfer of  
24 assets, including geological, geophysical, or well data or interpretations, acquired by  
25 the producer or explorer as a result of expenditures the producer or explorer incurred  
26 before April 1, 2006, that would be qualified capital expenditures, if they were  
27 incurred on or after April 1, 2006;

28 (2) a producer or explorer may elect to take a tax credit against a tax  
29 due under AS 43.55.011(e) in the amount of 20 percent of the producer's or explorer's  
30 transitional investment expenditures, but only to the extent that the amount does not  
31 exceed 1/10 of the producer's or explorer's qualified capital expenditures that are

1 incurred during the calendar year for which the credit is taken;

2 (3) a producer or explorer may not take a tax credit for a transitional  
3 investment expenditure

4 (A) for any calendar year after the later of

5 (i) 2013; or

6 (ii) the sixth calendar year after the calendar year for  
7 which the producer first applies a credit under this subsection against a  
8 tax due under AS 43.55.011(e), if the producer did not have  
9 commercial production of oil or gas from a lease or property in the state  
10 before April 1, 2006;

11 (B) more than once; or

12 (C) if a credit for that expenditure was taken under  
13 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025;

14 (4) notwithstanding (d), (e), and (g) of this section, a producer or  
15 explorer may not transfer a tax credit or obtain a transferable tax credit certificate for a  
16 transitional investment expenditure.

17 (j) As a condition of receiving a tax credit under this section, a producer or  
18 explorer that obtains the tax credit for or directly related to a pipeline, facility, or other  
19 asset that is or becomes subject to regulation by the Federal Energy Regulatory  
20 Commission or the Regulatory Commission of Alaska, or a successor regulatory body  
21 shall at all times support and in all rate proceedings file to flow through 100 percent of  
22 the tax credits to ratepayers as a reduction in the costs of service for the pipeline,  
23 facility, or other asset.

24 (k) In this section, "qualified capital expenditure"

25 (1) means, except as otherwise provided in (2) of this subsection, an  
26 expenditure that is a lease expenditure under AS 43.55.165 and is

27 (A) incurred for geological or geophysical exploration; or

28 (B) treated as a capitalized expenditure under 26 U.S.C.  
29 (Internal Revenue Code), as amended, regardless of elections made  
30 under 26 U.S.C. 263(e) (Internal Revenue Code), as amended, and is

31 (i) treated as a capitalized expenditure for federal

1 income tax reporting purposes by the person incurring the expenditure;  
2 or

3 (ii) eligible to be deducted as an expense under 26  
4 U.S.C. 263(c) (Internal Revenue Code), as amended;

5 (2) does not include an expenditure incurred to acquire an asset

6 (A) the cost of previously acquiring which was a lease  
7 expenditure under AS 43.55.165 or would have been a lease  
8 expenditure under AS 43.55.165 if it had been incurred on or after  
9 April 1, 2006; for purposes of this subparagraph, "asset" includes  
10 geological, geophysical, and well data and interpretations; or

11 (B) that has previously been placed in service in the state; an  
12 expenditure to acquire an asset is not excluded under this paragraph if  
13 not more than an immaterial portion of the asset meets a description  
14 under this paragraph..

15 **Sec. 43.55.024. Additional nontransferable tax credits.** (a) For a calendar  
16 year for which a producer's tax liability under AS 43.55.011(e) on oil and gas  
17 produced from leases or properties outside the Cook Inlet sedimentary basin and south  
18 of 68 degrees North latitude exceeds zero before application of any credits under this  
19 chapter, a producer that is qualified under (c) of this section may apply a tax credit  
20 against that liability of up to \$6,000,000.

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

23 (1) 2016; or

24 (2) the ninth calendar year after the calendar year during which the  
25 producer first has commercial oil or gas production before May 1, 2016, from at least  
26 one lease or property in the state outside the Cook Inlet sedimentary basin and south of  
27 68 degrees North latitude. if the producer did not have commercial oil or gas  
28 production from a lease or property in the state outside the Cook Inlet sedimentary  
29 basin and south of 68 degrees North latitude before April 1, 2006.

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

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

7 (d) A tax credit authorized by this section may not be applied to reduce a  
8 producer's tax liability for any calendar year under AS 43.55.011(e) on oil and gas  
9 produced from leases or properties outside the Cook Inlet sedimentary basin and south  
10 of 68 degrees North latitude below zero.

11 (e) An unused tax credit or portion of a tax credit under this section is not  
12 transferable and may not be carried forward to or used in a later calendar year.

13 \* Sec. 14. AS 43.55.025(a) is amended to read:

14 (a) Subject to the terms and conditions of this section, [ON OIL AND GAS  
15 PRODUCED ON OR AFTER JULY 1, 2004, FROM AN OIL AND GAS LEASE,  
16 OR ON GAS PRODUCED FROM A GAS ONLY LEASE.] a credit against the  
17 production tax due under AS 43.55.011(e) [THIS CHAPTER] is allowed for  
18 exploration expenditures that qualify under (b) of this section in an amount equal to  
19 one of the following:

20 (1) 20 percent of the total exploration expenditures that qualify only  
21 under (b) and (c) of this section;

22 (2) 20 percent of the total exploration expenditures for work performed  
23 before July 1, 2007, and that qualify only under (b) and (d) of this section;

24 (3) 40 percent of the total exploration expenditures that qualify under  
25 (b), (c), and (d) of this section; or

26 (4) 40 percent of the total exploration expenditures that qualify only  
27 under (b) and (c) of this section.

28 \* Sec. 15. AS 43.55.025(b) is amended to read:

29 (b) To qualify for the production tax credit under (a) of this section, an  
30 exploration expenditure must be incurred for work performed on or after July 1, 2003,  
31 and before July 1, 2016 [2007], except that an exploration expenditure for a Cook Inlet

1 prospect must be incurred for work performed on or after July 1, 2005, [AND  
2 BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION  
3 EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15  
4 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET  
5 PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER  
6 JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

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

9 (2) if for an exploration well,

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

12 (B) may be for either an oil or gas discovery well or a dry hole;

13 and

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

19 (3) may not be for testing, stimulation, or completion costs;  
20 administration, supervision, engineering, or lease operating costs; geological or  
21 management costs; community relations or environmental costs; bonuses, taxes, or  
22 other payments to governments related to the well; or other costs that are generally  
23 recognized as indirect costs or financing costs; and

24 (4) may not be incurred for an exploration well or seismic exploration  
25 that is included in a plan of exploration or a plan of development for any unit on  
26 May 13, 2003.

27 \* Sec. 16. AS 43.55.025(1) is amended to read:

28 (1) For a production tax credit under this section,

29 (1) an explorer shall, in a form prescribed by the department and  
30 within six months of the completion of the exploration activity, claim the credit and  
31 submit information sufficient to demonstrate to the department's satisfaction that the

1 claimed exploration expenditures qualify under this section;

2 (2) an explorer shall agree, in writing,

3 (A) to notify the Department of Natural Resources, within 30  
4 days after completion of seismic or geophysical data processing, completion of  
5 a well, or filing of a claim for credit, whichever is the latest, for which  
6 exploration costs are claimed, of the date of completion and submit a report to  
7 that department describing the processing sequence and providing a list of data  
8 sets available; if, under (c)(2)(B) of this section, an explorer submits a claim  
9 for a credit for expenditures for an exploration well that is located within three  
10 miles of a well already drilled for oil and gas, in addition to the submissions  
11 required under (1) of this subsection, the explorer shall submit the information  
12 necessary for the commissioner of natural resources to evaluate the validity of  
13 the explorer's claim that the well is directed at a distinctly separate exploration  
14 target, and the commissioner of natural resources shall, upon receipt of all  
15 evidence sufficient for the commissioner to evaluate the explorer's claim, make  
16 that determination within 60 days;

17 (B) to provide to the Department of Natural Resources, within  
18 30 days after the date of a request, specific data sets, ancillary data, and reports  
19 identified in (A) of this paragraph;

20 (C) that, notwithstanding any provision of AS 38, information  
21 provided under this paragraph will be held confidential by the Department of  
22 Natural Resources for 10 years following the completion date, at which time  
23 that department will release the information after 30 days' public notice;

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

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

30 (5) if the department is satisfied that the explorer's claimed  
31 expenditures are qualified under this section, the department shall issue to the explorer

1 a production tax credit certificate for the amount of credit to be allowed against  
2 production taxes due under AS 43.55.011(e) [THIS CHAPTER; HOWEVER,  
3 NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE  
4 DEPARTMENT MAY NOT ISSUE TO AN EXPLORER A PRODUCTION TAX  
5 CREDIT CERTIFICATE IF THE TOTAL OF PRODUCTION TAX CREDITS  
6 SUBMITTED FOR COOK INLET PRODUCTION, BASED ON EXPLORATION  
7 EXPENDITURES FOR WORK PERFORMED DURING THE PERIOD  
8 DESCRIBED IN (b) OF THIS SECTION FOR THAT PRODUCTION, THAT HAVE  
9 BEEN APPROVED BY THE DEPARTMENT EXCEEDS \$20,000,000].

10 \* Sec. 17. AS 43.55.025(h) is amended to read:

11 (h) A producer that purchases a production tax credit certificate may apply the  
12 credits against its production tax liability under AS 43.55.011(e) [THIS CHAPTER].  
13 Regardless of the price the producer paid for the certificate, the producer may receive  
14 a credit against its production tax liability for the full amount of the credit, but for not  
15 more than the amount for which the certificate is issued. A production tax credit  
16 allowed under this section may not be applied more than once.

17 \* Sec. 18. AS 43.55.025(i) is amended to read:

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

19 (1) the amount of the credit that may be applied against the production  
20 tax for each calendar year may not exceed the total production tax liability under  
21 AS 43.55.011(e) of the taxpayer applying the credit for the same calendar year; and

22 (2) an amount of the production tax credit that is greater than the total  
23 tax liability under AS 43.55.011(e) of the taxpayer applying the credit for a calendar  
24 year may be carried forward and applied against the taxpayer's production tax liability  
25 under AS 43.55.011(e) in one or more immediately following calendar years.

26 \* Sec. 19. AS 43.55.030(a) is amended to read:

27 (a) The [TAX SHALL BE PAID TO THE DEPARTMENT, AND THE]  
28 person paying the tax shall file with the department on March 31 of the year  
29 following the calendar year for which the tax was levied [AT THE TIME THE  
30 TAX IS REQUIRED TO BE PAID] a statement, under oath, in a form [ON FORMS]  
31 prescribed by [OR ACCEPTABLE TO] the department, giving, with other

1 information required, the following:

2 (1) a description of each [THE] lease or property from which the oil  
3 and [OR] gas were [WAS] produced, by name, legal description, lease number, or  
4 [BY] accounting codes [CODE NUMBERS] assigned by the department;

5 (2) the names of the producer and the person paying the tax;

6 (3) the gross amount of oil and the gross amount of [OR] gas  
7 produced from each [THE] lease or property, and the percentage of the gross amount  
8 of oil and gas owned by each producer for whom the tax is paid;

9 (4) the gross [TOTAL] value at the point of production of the oil  
10 and of the [OR] gas produced from each [THE] lease or property owned by each  
11 producer for whom the tax is paid; [AND]

12 (5) the name of the first purchaser and the price received for the oil  
13 and for the [OR] gas, unless relieved from this requirement in whole or in part by  
14 the department;

15 (6) the producer's base production under AS 43.55.011(f); and

16 (7) the producer's lease expenditures and adjustments as  
17 calculated under AS 43.55.160 - 43.55.170 [IF SOLD IN THE STATE].

18 \* Sec. 20. AS 43.55.030(d) is amended to read:

19 (d) Reports by or on behalf of the producer are delinquent the first day  
20 following the day the report [TAX] is due. [EACH PRODUCER IS SUBJECT TO A  
21 PENALTY OF \$25 A DAY FOR EACH LEASE OR PROPERTY UPON WHICH  
22 THE REPORT IS NOT FILED. THE PENALTY FOR FAILURE TO FILE A  
23 REPORT IS IN ADDITION TO THE PENALTY FOR DELINQUENT TAXES.  
24 AND IS A LIEN AGAINST THE ASSETS OF THE PRODUCER.]

25 \* Sec. 21. AS 43.55.040 is amended to read:

26 Sec. 43.55.040. Powers of Department of Revenue. Except as provided in  
27 AS 43.05.405 - 43.05.499, the department may

28 (1) require a person engaged in production and the agent or employee  
29 of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil  
30 or gas to furnish, whether by the filing of regular statements or reports or  
31 otherwise, additional information that is considered by the department as necessary to

1 compute the amount of the tax; notwithstanding any contrary provision of law, the  
2 disclosure of additional information under this paragraph to the producer  
3 obligated to pay the tax does not violate AS 40.25.100(a) or AS 43.05.230(a);  
4 before disclosing information under this paragraph that is otherwise required to  
5 be held confidential under AS 40.25.100(a) or AS 43.05.230(a), the department  
6 shall

7 (A) provide the person that furnished the information a  
8 reasonable opportunity to be heard regarding the proposed disclosure and  
9 the conditions to be imposed under (B) of this paragraph; and

10 (B) impose appropriate conditions limiting

11 (i) access to the information to those legal counsel,  
12 consultants, employees, officers, and agents of the producer who  
13 have a need to know that information for the purpose of  
14 determining or contesting the producer's tax obligation; and

15 (ii) the use of the information to use for that  
16 purpose;

17 (2) examine the books, records, and files of such a person;

18 (3) conduct hearings and compel the attendance of witnesses and the  
19 production of books, records, and papers of any person; and

20 (4) make an investigation or hold an inquiry that is considered  
21 necessary to a disclosure of the facts as to

22 (A) the amount of production from any oil or gas location, or of  
23 a company or other producer of oil or gas; and

24 (B) the rendition of the oil and gas for taxing purposes.

25 \* Sec. 22. AS 43.55.080 is amended to read:

26 Sec. 43.55.080. Collection and deposit of revenue. Except as otherwise  
27 provided under art. IX, sec. 17, Constitution of the State of Alaska, the [THE]  
28 department shall deposit in the general fund the money collected by it under  
29 AS 43.55.011 - 43.55.180 [AS 43.55.011 - 43.55.150].

30 \* Sec. 23. AS 43.55.135 is amended to read:

31 Sec. 43.55.135. Measurement. For the purposes of AS 43.55.011 - 43.55.180

1 [AS 43.55.011 - 43.55.150], except where otherwise provided, oil is [SHALL BE]  
2 measured in terms of a "barrel of oil" and gas is [SHALL BE] measured in terms of a  
3 "cubic foot of gas."

4 \* Sec. 24. AS 43.55.150(a) is amended to read:

5 (a) For the purposes of AS 43.55.011 - 43.55.180 [AS 43.55.011 - 43.55.150],  
6 the gross value at the point of production is [SHALL BE] calculated using the  
7 reasonable costs of transportation of the oil or gas. The reasonable costs of  
8 transportation are [SHALL BE] the actual costs, except when the

9 (1) [WHEN THE] parties to the transportation of oil or gas are  
10 affiliated;

11 (2) [WHEN THE] contract for the transportation of oil or gas is not an  
12 arm's length transaction or is not representative of the market value of that  
13 transportation; and

14 (3) [WHEN THE] method of transportation of oil or gas is not  
15 reasonable in view of existing alternative methods of transportation.

16 \* Sec. 25. AS 43.55 is amended by adding new sections to article 1 to read:

17 **Sec. 43.55.160. Determination of production tax value of oil and gas.** (a)  
18 Except as provided in (b) of this section, for the purposes of

19 (1) AS 43.55.011(e), the annual production tax value of the taxable

20 (A) oil and gas produced during a calendar year from a lease or  
21 property in the state that includes land north of 68 degrees North latitude is the  
22 gross value at the point of production of the oil and gas taxable under  
23 AS 43.55.011(e) and produced by the producer from that lease or property, less  
24 the producer's lease expenditures under AS 43.55.165 for the calendar year  
25 applicable to the oil and gas produced by the producer from that lease or  
26 property, as adjusted under AS 43.55.170;

27 (B) oil and gas produced during a calendar year from a lease or  
28 property in the state outside the Cook Inlet sedimentary basin and south of 68  
29 degrees North latitude is the gross value at the point of production of the oil  
30 and gas taxable under AS 43.55.011(e) and produced by the producer from that  
31 lease or property, less the producer's lease expenditures under AS 43.55.165

1 for the calendar year applicable to the oil and gas produced by the producer  
2 from that lease or property, as adjusted under AS 43.55.170;

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

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

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

16 (A) oil and gas produced during a month from a lease or  
17 property in the state that includes land north of 68 degrees North latitude is the  
18 gross value at the point of production of the oil and gas taxable under  
19 AS 43.55.011(g) and produced by the producer from that lease or property, less  
20 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar  
21 year applicable to the oil and gas produced by the producer from that lease or  
22 property, as adjusted under AS 43.55.170;

23 (B) oil and gas produced during a month from a lease or  
24 property in the state outside the Cook Inlet sedimentary basin and south of 68  
25 degrees North latitude is the gross value at the point of production of the oil  
26 and gas taxable under AS 43.55.011(g) and produced by the producer from that  
27 lease or property, less 1/12 of the producer's lease expenditures under  
28 AS 43.55.165 for the calendar year applicable to the oil and gas produced by  
29 the producer from that lease or property, as adjusted under AS 43.55.170;

30 (C) oil produced during a month from a lease or property in the  
31 Cook Inlet sedimentary basin is the gross value at the point of production of

1 the oil taxable under AS 43.55.011(g) and produced by the producer from that  
2 lease or property, less 1/12 of the producer's lease expenditures under  
3 AS 43.55.165 for the calendar year applicable to the oil produced by the  
4 producer from that lease or property, as adjusted under AS 43.55.170;

5 (D) gas 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 gas taxable under AS 43.55.011(g) 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 gas produced by the  
10 producer from that lease or property, as adjusted under AS 43.55.170.

11 (b) A production tax value calculated under (a) of this section may not be less  
12 than zero.

13 (c) Notwithstanding any contrary provision of AS 43.55.150, for purposes of  
14 calculating a monthly production tax value under (a)(2) of this section, the gross value  
15 at the point of production of the oil and gas taxable under AS 43.55.011(g) is  
16 calculated under regulations adopted by the department that provide for using an  
17 appropriate monthly share of the producer's costs of transportation for the calendar  
18 year.

19 (d) Irrespective of whether a producer produces taxable oil or gas during a  
20 calendar year or month, the producer is considered to have generated a positive  
21 production tax value if a calculation described in (a) of this section yields a positive  
22 number because the producer's adjusted lease expenditures for a calendar year under  
23 AS 43.55.165 and 43.55.170 are less than zero as a result of the producer's receiving a  
24 payment or credit under AS 43.55.170 or otherwise. An explorer that has taken a tax  
25 credit under AS 43.55.024(b) or that has obtained a transferable tax credit certificate  
26 under AS 43.55.024(d) for the amount of a tax credit under AS 43.55.024(b) is  
27 considered a producer, subject to the tax levied under AS 43.55.011(e), to the extent  
28 that the explorer generates a positive production tax value as the result of the  
29 explorer's receiving a payment or credit under AS 43.55.170.

30 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that  
31 would otherwise be deductible in a calendar year but whose deduction would cause an

1 annual production tax value calculated under (a)(1) of this section of taxable oil or gas  
2 produced during the calendar year to be less than zero may be used to establish a  
3 carried-forward annual loss under AS 43.55.024(b).

4 **Sec. 43.55.165. Lease expenditures.** (a) Except as provided under (c) - (e) of  
5 this section, for the purposes of AS 43.55.160, a producer's lease expenditures for a  
6 calendar year are the ordinary and necessary costs upstream of the point of production  
7 of oil and gas that are incurred during the calendar year by the producer on or after  
8 April 1, 2006, and that are direct costs of exploring for, developing, or producing oil  
9 or gas deposits located within the producer's leases or properties in the state or, in the  
10 case of land in which the producer does not own a working interest, that are direct  
11 costs of exploring for oil or gas deposits located within other land in the state. In  
12 determining whether costs are lease expenditures, the department shall consider,  
13 among other factors,

14 (1) the typical industry practices and standards in the state that  
15 determine the costs, other than items listed in (e) of this section, that an operator is  
16 allowed to bill a working interest owner that is not the operator, under unit operating  
17 agreements or similar operating agreements that were in effect on or before  
18 December 1, 2005, and were subject to negotiation with at least one working interest  
19 owner with substantial bargaining power, other than the operator; and

20 (2) the standards adopted by the Department of Natural Resources that  
21 determine the costs, other than items listed in (e) of this section, that a lessee is  
22 allowed to deduct from revenue in calculating net profits under a lease issued under  
23 AS 38.05.180(1)(3)(B), (D), or (E).

24 (b) For purposes of (a) of this section,

25 (1) direct costs include

26 (A) an expenditure, when incurred, to acquire an item if the  
27 acquisition cost is otherwise a direct cost, notwithstanding that the expenditure  
28 may be required to be capitalized rather than treated as an expense for financial  
29 accounting or federal income tax purposes;

30 (B) payments of or in lieu of property taxes, sales and use  
31 taxes, motor fuel taxes, and excise taxes;

1 (C) a reasonable allowance, as determined under regulations  
2 adopted by the department, for overhead expenses directly related to exploring  
3 for, developing, and producing oil or gas deposits located within leases or  
4 properties or other land in the state;

5 (2) an activity does not need to be physically located on, near, or  
6 within the premises of the lease or property within which an oil or gas deposit being  
7 explored for, developed, or produced is located in order for the cost of the activity to  
8 be a cost upstream of the point of production of the oil or gas.

9 (c) Subject to (g) and (h) of this section, if the department finds that the  
10 pertinent provisions of a unit operating agreement or similar operating agreement are  
11 substantially consistent with the department's determinations and standards under (a)  
12 of this section concerning whether costs are lease expenditures, the department may  
13 authorize or require a producer, subject to conditions prescribed under regulations  
14 adopted by the department, to treat as that portion of its lease expenditures for a  
15 calendar year applicable to oil and gas produced from a lease or property in the state  
16 only

17 (1) the costs, other than items listed in (e) of this section, that are  
18 incurred by the operator during the calendar year and that

19 (A) are billable to the producer by the operator in accordance  
20 with the terms of the agreement to which that lease or property is subject;

21 (B) for a producer that is the operator, would be billable to the  
22 producer by the operator in accordance with the terms of the agreement to  
23 which that lease or property is subject if the producer were not the operator;

24 (C) would be billable to the producer by the operator in  
25 accordance with the terms of the agreement if that lease or property were  
26 subject to the agreement; or

27 (D) for a producer that is the operator, would be billable to the  
28 producer by the operator in accordance with the terms of the agreement if that  
29 lease or property were subject to the agreement and if the producer were not  
30 the operator; and

31 (2) a reasonable percentage, as determined under regulations adopted

1 by the department, of the costs that are billable under (1) of this subsection as an  
2 allowance for overhead expenses directly related to exploring for, developing, and  
3 producing oil or gas deposits located within the lease or property, to the extent those  
4 expenses are not billable under the agreement.

5 (d) Subject to (g) and (h) of this section, if the department makes the finding  
6 described in (c) of this section with respect to a unit operating agreement or similar  
7 operating agreement and, in addition, finds that at least one working interest owner  
8 party to the agreement, other than the operator, with substantial incentive and ability to  
9 effectively audit billings under the agreement in fact is effectively auditing billings  
10 under the agreement, the department may authorize or require a producer, subject to  
11 conditions prescribed under regulations adopted by the department, to treat as that  
12 portion of its lease expenditures for a calendar year applicable to oil and gas produced  
13 from a lease or property in the state only

14 (1) the costs, other than items listed in (e) of this section, that are  
15 incurred by the operator during the calendar year and that

16 (A) are billed to the producer by the operator under the  
17 agreement to which that lease or property is subject and are either not disputed  
18 by a working interest owner party to the agreement or are finally determined to  
19 be properly billable as a result of dispute resolution; or

20 (B) for a producer that is the operator, would be billable to the  
21 producer by the operator in accordance with the terms of the agreement to  
22 which that lease or property is subject if the producer were not the operator;  
23 and

24 (2) a reasonable percentage, as determined under regulations adopted  
25 by the department, of the costs that are billed under (1) of this subsection as an  
26 allowance for overhead expenses directly related to exploring for, developing, and  
27 producing oil or gas deposits located within the lease or property, to the extent those  
28 expenses are not billable under the agreement.

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

30 (1) depreciation, depletion, or amortization;

31 (2) oil or gas royalty payments, production payments, lease profit

1 shares, or other payments or distributions of a share of oil or gas production, profit, or  
2 revenue;

3 (3) taxes based on or measured by net income;

4 (4) interest or other financing charges or costs of raising equity or debt  
5 capital;

6 (5) acquisition costs for a lease or property or exploration license;

7 (6) costs arising from fraud, willful misconduct, or gross negligence;

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) donations;

13 (10) costs incurred in organizing a partnership, joint venture, or other  
14 business entity or arrangement;

15 (11) amounts paid to indemnify the state; the exclusion provided by  
16 this paragraph does not apply to the costs of obtaining insurance or a surety bond from  
17 a third-party insurer or surety;

18 (12) surcharges levied under AS 43.55.201 or 43.55.300;

19 (13) for a transaction that is an internal transfer or is otherwise not an  
20 arm's length transaction, expenditures incurred that are in excess of fair market value;

21 (14) an expenditure incurred to purchase an interest in any corporation,  
22 partnership, limited liability company, business trust, or any other business entity,  
23 whether or not the transaction is treated as an asset sale for federal income tax  
24 purposes;

25 (15) a tax levied under AS 43.55.011;

26 (16) the portion of costs incurred for dismantlement, removal,  
27 surrender, or abandonment of a facility, pipeline, well pad, platform, or other  
28 structure, or for the restoration of a lease, field, unit, area, body of water, or right-of-  
29 way in conjunction with dismantlement, removal, surrender, or abandonment, that is  
30 attributable to production of oil or gas occurring before April 1, 2006; the portion is  
31 calculated as a ratio of the amount of oil and gas production in barrels of oil equivalent

1 associated with the facility, pipeline, well pad, platform, or other structure, lease, field,  
2 unit, area, body of water, or right-of-way occurring before April 1, 2006, to the total  
3 amount of oil and gas production in barrels of oil equivalent associated with that  
4 facility, pipeline, well pad, platform, or other structure, lease, field, unit, area, body of  
5 water, or right-of-way through the end of the calendar month before commencement  
6 of the dismantlement, removal, surrender, or abandonment; a cost is not excluded  
7 under this paragraph if the dismantlement, removal, surrender, or abandonment for  
8 which the cost is incurred is undertaken for the purpose of replacing, renovating, or  
9 improving the facility, pipeline, well pad, platform, or other structure; for the purposes  
10 of this paragraph, "barrel of oil equivalent" means

11 (A) in the case of oil, one barrel;

12 (B) in the case of gas, 6,000 cubic feet;

13 (17) losses or damages resulting from an unpermitted oil discharge that  
14 is not confined to a pad, platform, or other structure, or costs to contain, clean up, or  
15 remediate such an unpermitted oil discharge to the extent that those costs exceed the  
16 routine costs of operation for a producer or explorer that would otherwise be incurred  
17 as lease expenditures in the absence of the unpermitted oil discharge; this paragraph  
18 does not apply to the cost of developing and maintaining an oil discharge prevention  
19 and contingency plan under AS 46.04.030;

20 (18) costs incurred to satisfy a work commitment under an exploration  
21 license under AS 38.05.132.

22 (f) For purposes of AS 43.55.024(a) and (b) and only as to expenditures  
23 incurred to explore for an oil or gas deposit located within land in which an explorer  
24 does not own a working interest, the term "producer" in this section, in  
25 AS 43.55.160(h), and in AS 43.55.170 includes "explorer."

26 (g) The department shall specify or approve a reasonable allocation method  
27 for determining the portion of a cost that is appropriately treated as a lease expenditure  
28 under this section if a cost that would otherwise constitute a lease expenditure under  
29 this section is incurred to explore for, develop, or produce

30 (1) both an oil or gas deposit located within land outside the state and  
31 an oil or gas deposit located within a lease or property, or other land, in the state; or

1 (2) an oil or gas deposit located partly within land outside the state and  
2 partly within a lease or property, or other land, in the state.

3 (h) The department shall adopt regulations that provide for reasonable  
4 methods of allocating costs between oil and gas and between leases or properties in  
5 those circumstances where the determination of the lease expenditures that are  
6 applicable to oil or to gas, or that are applicable to oil and gas produced from different  
7 leases or properties, requires an allocation of costs.

8 (i) The department may adopt regulations that establish additional standards  
9 necessary to carrying out the purposes of this section and AS 43.55.170, including the  
10 incorporation of the concepts of 26 U.S.C. 482 (Internal Revenue Code), as amended,  
11 the related or accompanying regulations of that provision, and any ruling or guidance  
12 issued by the United States Internal Revenue Service that relates to that provision.

13 (j) For purposes of this section,

14 (1) "explore" includes conducting geological or geophysical  
15 exploration, including drilling a stratigraphic test well;

16 (2) "ordinary and necessary" has the meaning given in 26 U.S.C. 162  
17 (Internal Revenue Code), as amended, and regulations adopted under that section;

18 (3) "stratigraphic test well" means a well drilled for the sole purpose of  
19 obtaining geological information to aid in exploring for an oil or gas deposit and the  
20 target zones of which are located in the state.

21 **Sec. 43.55.170. Adjustments to lease expenditures.** (a) Unless the payment  
22 or credit has already been subtracted in calculating billable or billed costs under  
23 AS 43.55.165(c) or (d), a producer's lease expenditures under AS 43.55.165 must be adjusted  
24 by subtracting payments or credits, other than tax credits, received by the producer or by an  
25 operator acting for the producer for

26 (1) the use by another person of a production facility in which the  
27 producer has an ownership interest or the management by the producer of a production  
28 facility under a management agreement providing for the producer to receive a  
29 management fee;

30 (2) a reimbursement or similar payment that offsets the producer's  
31 lease expenditures, including an insurance recovery from a third-party insurer and a

1 payment from the state or federal government for reimbursement of the producer's  
2 upstream costs, including costs for gathering, separating, cleaning, dehydration,  
3 compressing, or other field handling associated with the production of oil or gas  
4 upstream of the point of production;

5 (3) the sale or other transfer of

6 (A) an asset, including geological, geophysical, or well data or  
7 interpretations, acquired by the producer as a result of a lease expenditure or an  
8 expenditure that would be a lease expenditure if it were incurred on or after  
9 April 1, 2006; for purposes of this subparagraph,

10 (i) if a producer removes from the state, for use outside  
11 the state, an asset described in this subparagraph, the value of the asset  
12 at the time it is removed is considered a payment received by the  
13 producer for sale or transfer of the asset;

14 (ii) for a transaction that is an internal transfer or is  
15 otherwise not an arm's length transaction, if the sale or transfer of the  
16 asset is made for less than fair market value, the amount subtracted  
17 must be the fair market value; and

18 (B) oil or gas

19 (i) that is not considered produced from a lease or  
20 property under AS 43.55.020(e); and

21 (ii) the cost of acquiring which is a lease expenditure  
22 incurred by the person that acquires the oil or gas.

23 (b) Except as otherwise provided under this subsection, if one or more  
24 payments or credits subject to this section are received by a producer or by an operator  
25 acting for the producer during a calendar year and if either the total amount of the  
26 payments or credits exceeds the amount of the producer's applicable lease  
27 expenditures for that calendar year or the producer has no lease expenditures for that  
28 calendar year, the producer shall nevertheless subtract those payments or credits from  
29 the lease expenditures or from zero, respectively, and the producer's applicable  
30 adjusted lease expenditures for that calendar year are a negative number and shall be  
31 applied to the pertinent calculation under AS 43.55.160(a) as a negative number.

1                   **Sec. 43.55.180. Required report.** (a) The department shall study

2                   (1) the effects of the provisions of this chapter on oil and gas  
3 exploration, development, and production in the state, on investment expenditures for  
4 oil and gas exploration, development, and production in the state, on the entry of new  
5 producers into the oil and gas industry in the state, on state revenue, and on tax  
6 administration and compliance, giving particular attention to the tax rates provided  
7 under AS 43.55.011, the tax credits provided under AS 43.55.023 – 43.55.025, and the  
8 deductions for and adjustments to lease expenditures provided under AS 43.55.160 –  
9 43.55.170; and

10                   (2) the effects of the tax rates under AS 43.55.011(i) on state revenue  
11 and on oil and gas exploration, development, and production on private land, and the  
12 fairness of those tax rates for private landowners.

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

18 \* **Sec. 26.** AS 43.55.201 is amended to read:

19                   **Sec. 43.55.201. Surcharge levied.** (a) Every producer of oil shall pay a  
20 surcharge of \$ .01 [~~\$.02~~] per barrel of oil produced from each lease or property in the  
21 state, less any oil the ownership or right to which is exempt from taxation.

22                   (b) The surcharge imposed by (a) of this section is in addition to the tax  
23 imposed by AS 43.55.011 and is due on the last day of the month on oil produced  
24 from each lease or property during the preceding month. The surcharge [SHALL  
25 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -  
26 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 -  
27 43.55.310.

28                   (c) A producer of oil shall make a ort [REPORTS] of production on  
29 March 31 of the year following the calendar year of production and in the same  
30 manner and under the same penalties as required under AS 43.55.011 - 43.55.180  
31 [AS 43.55.011 - 43.55.150].

1 \* **Sec. 27.** AS 43.55.201 is amended by adding a new subsection to read:

2 (d) Oil not considered under AS 43.55.020(e) to be produced from a lease or  
3 property is not considered to be produced from a lease or property for purposes of this  
4 section.

5 \* **Sec. 28.** AS 43.55.300 is amended to read:

6 **Sec. 43.55.300. Surcharge levied.** (a) Every producer of oil shall pay a  
7 surcharge of \$~~.04~~ [\$.03] per barrel of oil produced from each lease or property in the  
8 state, less any oil the ownership or right to which is exempt from taxation.

9 (b) The surcharge imposed by (a) of this section is in addition to the tax  
10 imposed by AS 43.55.011 and is due on the last day of the month on oil produced  
11 from each lease or property during the preceding month. The surcharge [SHALL  
12 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -  
13 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 -  
14 43.55.231.

15 (c) A producer of oil shall make a report [REPORTS] of production on  
16 March 31 of the year following the calendar year of production and in the same  
17 manner and under the same penalties as required under AS 43.55.011 - 43.55.180  
18 [AS 43.55.011 - 43.55.150].

19 \* **Sec. 29.** AS 43.55.300 is amended by adding a new subsection to read:

20 (d) Oil not considered under AS 43.55.020(e) to be produced from a lease or  
21 property is not considered to be produced from a lease or property for purposes of this  
22 section.

23 \* **Sec. 30.** AS 43.55.900(6) is repealed and reenacted to read:

24 (6) "gas" means

25 (A) all natural, associated, or casinghead gas;

26 (B) all hydrocarbons that

27 (i) are recovered by mechanical separation of well  
28 fluids or by gas processing in a gas processing plant; and

29 (ii) exist in a gaseous phase at the completion of  
30 mechanical separation and any gas processing in a gas processing plant;

31 and

1 (C) all other hydrocarbons produced from a well not defined as  
2 oil;

3 \* Sec. 31. AS 43.55.900(7) is repealed and reenacted to read:

4 (7) "gross value at the point of production" means

5 (A) for oil, the value of the oil at its point of production  
6 without deduction of any costs upstream of that point of production;

7 (B) for gas, the value of the gas at its point of production  
8 without deduction of any costs upstream of that point of production;

9 \* Sec. 32. AS 43.55.900(10) is repealed and reenacted to read:

10 (10) "oil" means

11 (A) crude petroleum oil; and

12 (B) all liquid hydrocarbons that are recovered by mechanical  
13 separation of well fluids or by gas processing in a gas processing plant;

14 \* Sec. 33. AS 43.55.900 is amended by adding new paragraphs to read:

15 (17) "British thermal unit" means the quantity of heat required to raise  
16 the temperature of one pound of water from 58.5 degrees Fahrenheit to 59.5  
17 degrees Fahrenheit at a constant pressure of one atmosphere;

18 (18) "BTU equivalent barrel" means

19 (A) in the case of oil, one barrel;

20 (B) in the case of gas, the amount of gas that has a heating value  
21 of 6,000,000 British thermal units;

22 (19) "Cook Inlet sedimentary basin" has the meaning given in  
23 regulations adopted to implement AS 38.05.180(f)(4);

24 (20) "explorer" means a person who, in exploring for new oil or gas  
25 reserves, incurs expenditures;

26 (21) "gas processing"

27 (A) means processing a gaseous mixture of hydrocarbons

28 (i) by means of absorption, adsorption, externally  
29 applied refrigeration, artificial compression followed by adiabatic  
30 expansion using the Joule-Thomson effect, or another physical process  
31 that is not mechanical separation; and

- 1 (ii) for the purpose of extracting and recovering liquid  
2 hydrocarbons;
- 3 (B) does not include gas treatment;
- 4 (22) "gas processing plant" means a facility that
- 5 (A) extracts and recovers liquid hydrocarbons from a gaseous  
6 mixture of hydrocarbons by gas processing; and
- 7 (B) is located upstream of any gas treatment and upstream of  
8 the inlet of any gas pipeline system transporting gas to a market;
- 9 (23) "gas treatment"
- 10 (A) means conditioning gas and removing from gas  
11 nonhydrocarbon substances for the purpose of rendering the gas acceptable for  
12 tender and acceptance into a gas pipeline system;
- 13 (B) includes incidentally removing liquid hydrocarbons from  
14 the gas;
- 15 (C) does not include
- 16 (i) dehydration required to facilitate the movement of  
17 gas from the well to the point where gas processing takes place;
- 18 (ii) the scrubbing of liquids from gas to facilitate gas  
19 processing;
- 20 (24) "heating value" means the gross number of BTUs evolved by  
21 complete combustion of an amount of gas;
- 22 (25) "landowner's royalty interest" means
- 23 (A) a lessor's royalty interest under an oil and gas lease; or
- 24 (B) a royalty interest that is
- 25 (i) held by a surface owner of land from which oil or  
26 gas is produced; and
- 27 (ii) granted in exchange for the right to use the surface  
28 of that land or as compensation for damage to the surface of that land;
- 29 (26) "oil and gas lease" includes an oil and gas lease, a gas only lease,  
30 and an oil only lease;
- 31 (27) "point of production" means

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

9 (B) for gas, other than gas described in (C) of this paragraph,  
10 that is

11 (i) not subjected to or recovered by mechanical  
12 separation or run through a gas processing plant, the first point where  
13 the gas is accurately metered;

14 (ii) subjected to or recovered by mechanical separation  
15 but not run through a gas processing plant, the first point where the gas  
16 is accurately metered after completion of mechanical separation;

17 (iii) run through a gas processing plant, the first point  
18 where the gas is accurately metered downstream of the plant;

19 (C) for gas run through an integrated gas processing plant and  
20 gas treatment facility that does not accurately meter the gas after the gas  
21 processing and before the gas treatment, the first point where gas processing is  
22 completed or where gas treatment begins, whichever is further upstream.

23 \* Sec. 34. AS 43.55.011(a), 43.55.011(b), 43.55.011(c), 43.55.012, 43.55.013, 43.55.016,  
24 43.55.025(k)(1), 43.55.025(k)(3), 43.55.900(1), 43.55.900(8), 43.55.900(11), 43.55.900(12),  
25 and 43.55.900(16) are repealed.

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

28 APPLICABILITY. (a) Sections 5, 7 - 10, 12 - 14, 16 - 20, 24, and 26 - 34 of this Act  
29 and AS 43.55.160 - 43.55.170, enacted by sec. 25 of this Act, apply to oil and gas produced  
30 after March 31, 2006.

31 (b) Section 11 of this Act applies to oil and gas produced before, on, or after the

1 effective date of sec. 11 of this Act.

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

4 TRANSITIONAL PROVISIONS. (a) Notwithstanding any contrary provision of  
5 AS 43.55.023(i), enacted by sec. 13 of this Act, for oil and gas produced after March 31,  
6 2006, and before January 1, 2007, the phrase "20 percent" in AS 43.55.023(i)(2), enacted by  
7 sec. 13 of this Act, shall be replaced by the phrase "15 percent".

8 (b) For oil and gas produced before April 1, 2006, the provisions of AS 43.55, and  
9 regulations adopted under AS 43.55, that were in effect before April 1, 2006, and that were  
10 applicable to the oil and gas continue to apply to that oil and gas.

11 (c) Notwithstanding any contrary provision of AS 43.55.020(a), as repealed and  
12 reenacted by sec. 7 of this Act, for oil and gas produced after March 31, 2006, and before  
13 January 1, 2007,

14 (1) the amount of the taxes that would have been levied on the producer by  
15 AS 43.55, as the provisions of that chapter read on March 31, 2006, is due on the last day of  
16 each calendar month on the oil and gas that was produced from each lease or property during  
17 the preceding month;

18 (2) the amount, if any, of the taxes levied by AS 43.55.011(e), (g), and (i),  
19 enacted by sec. 5 of this Act, net of any credits applied as allowed by law, that exceeds the  
20 amount due under (1) of this subsection, is due on March 31, 2007.

21 (d) Notwithstanding any contrary provision of AS 43.55.030(a), as amended by sec.  
22 19 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the  
23 person paying the tax shall file with the Department of Revenue, at the time an amount of tax  
24 is due

25 (1) under (c)(1) of this section, the statement required under former  
26 AS 43.55.030(a), as that subsection read on March 31, 2006; and

27 (2) under (c)(2) of this section, the statement required under AS 43.55.030(a),  
28 as amended by sec. 19 of this Act.

29 (e) Notwithstanding any contrary provision of AS 43.55.201(a) or (b), as amended by  
30 sec. 26 of this Act, or AS 43.55.300(a) or (b), as amended by sec. 28 of this Act, for oil  
31 produced after March 31, 2006, and before January 1, 2007,

1 (1) the amount of the surcharges that would have been imposed on the  
2 producer under AS 43.55, as the provisions of that chapter read on March 31, 2006, is due on  
3 the last day of each calendar month on oil produced from each lease or property during the  
4 preceding month;

5 (2) the amount, if any, of the surcharges imposed under AS 43.55.201(a), as  
6 amended by sec. 26 of this Act, and AS 43.55.300(a), as amended by sec. 28 of this Act, that  
7 exceeds the amount due under (1) of this subsection, is due on March 31, 2007.

8 (f) Notwithstanding any contrary provision of AS 43.55.201(c), as amended by sec.  
9 26 of this Act, or AS 43.55.300(c), as amended by sec. 28 of this Act, for oil produced after  
10 March 31, 2006, and before January 1, 2007, at the time an amount of surcharge is due

11 (1) under (e)(1) of this section, the producer shall file the report of production  
12 required under former AS 43.55.201(c) and 43.55.300(c), as those provisions read on  
13 March 31, 2006; and

14 (2) under (e)(2) of this section, the producer shall file on March 31, 2007, the  
15 report of production otherwise required under AS 43.55.201(c), as amended by sec. 26 of this  
16 Act, and AS 43.55.300(c), as amended by sec. 28 of this Act.

17 (g) For purposes of taxes to be calculated and due under (e)(1) of this section and  
18 statements to be filed under (d)(1) of this section, regulations that were adopted by the  
19 Department of Revenue under AS 43.55, as the provisions of that chapter read on March 31,  
20 2006, and that were in effect on that date apply to those taxes and statements.

21 (h) Notwithstanding any contrary provision of AS 43.55.160(a)(2), enacted by sec. 25  
22 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the  
23 phrase "1/12" in AS 43.55.160(a)(2)(A) - (D), enacted by sec. 25 of this Act, shall be  
24 replaced by the phrase "1/9".

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

27 TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any  
28 contrary provision of AS 44.62.240, a regulation adopted by the Department of Revenue to  
29 implement, interpret, make specific, or otherwise carry out the provisions of secs. 5, 7 - 10, 12  
30 - 14, 16 - 20, 24 - 34, and 36 of this Act may apply retroactively as of April 1, 2006, if the  
31 Department of Revenue expressly designates in the regulation that the regulation applies

1 retroactively to that date.

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

4 REVISOR'S INSTRUCTION. The revisor of statutes is instructed to change the  
5 heading of

6 (1) AS 43.55 from "Oil and Gas Production Taxes and Oil Surcharge" to "Oil  
7 and Gas Production Tax and Oil Surcharge";

8 (2) article 1 of AS 43.55 from "Oil and Gas Properties Production Taxes" to  
9 "Oil and Gas Production Tax";

10 (3) AS 43.55.011 from "Oil production tax" to "Oil and gas production tax";

11 (4) AS 43.55.025 from "Tax credit for oil and gas exploration or gas only  
12 exploration" to "Alternative tax credit for oil and gas exploration";

13 (5) AS 43.55.150 from "Determination of gross value" to "Determination of  
14 gross value at the point of production."

15 \* Sec. 39. The uncodified law of the State of Alaska is amended by adding a new section to  
16 read:

17 RETROACTIVITY OF PROVISIONS OF ACT. Sections 5, 7 - 10, 12 - 14, 16 - 19,  
18 and 24 - 36 of this Act are retroactive to April 1, 2006.

19 \* Sec. 40. This Act takes effect immediately under AS 01.10.070(c).

# FISCAL NOTE

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: HB 3001  
(H) Publish Date: 7/12/06

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Natural Resources  
Title Repealing the oil production tax and gas RDU Resource Development  
production tax etc. Component Oil & Gas Development  
Sponsor Rules by Request of Governor  
Requester Governor Component No. 439

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

There is no anticipated fiscal impact for DNR associated with implementation of this legislation.

Prepared by: Bill VanDyke, Acting Director  
Division: Oil & Gas  
Approved by: Michael Menge, Commissioner  
Agency: Natural Resources

Phone: 907-269-8800  
Date/Time: 7/11/2006  
Date: 7/11/2006

# FISCAL NOTE

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2 \*\*CORRECTED\*\*  
Bill Version: HB 3001  
(H) Publish Date: 7/13/06

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title: An Act Relating to the Production Tax on RDU: Tax and Treasury  
Oil and Gas Component: Tax  
Sponsor: Rules Committee  
Requester: Governor Component No.: 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	875.0	892.5	910.4	928.6	947.1	966.1
Travel						
Contractual	525.0	487.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	53.0	53.0	53.0	53.0	53.0	53.0
<b>TOTAL OPERATING</b>	<b>1,495.0</b>	<b>1,433.4</b>	<b>1,081.6</b>	<b>1,100.2</b>	<b>1,121.1</b>	<b>1,142.5</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>	<i>See analysis section -----</i>
-------------------------------	-----------------------------------

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,495.0	1,433.4	1,081.6	1,100.2	1,121.1	1,142.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>1,495.0</b>	<b>1,433.4</b>	<b>1,081.6</b>	<b>1,100.2</b>	<b>1,121.1</b>	<b>1,142.5</b>

Estimate of any current year (FY2006) cost: \_\_\_\_\_

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time	10	10	10	10	10	10
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

Relative to Status Quo

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net profit would be subject to a 20% tax, less a credit of 20% which applies to capital costs upstream of the point of production. There would be an additional allowance of up to \$12 million per company for companies producing less than 50,000 barrels of oil equivalent per day; this amount is reduced as production reaches 100,000 boe per day, the point at which no allowance is authorized. The allowance expires in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period April 1, 2001 through April 1, 2006, recoverable at \$1 for every \$2 in capital expenditures. Transition costs cannot be recovered after 2013.

Prepared by: Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis  
Division: Tax Division

Phone: 269-1019  
Date/Time: 7/13/06 7:00 AM

Approved by: Jerry Burnett  
Agency: Department of Revenue

Date: 7/13/2006

FISCAL NOTE 2 \*\*CORRECTED\*\*

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

BILL NO. HB 3001

ANALYSIS CONTINUATION

The additional conservation surcharge on oil is increased from 3 cents to 4 cents.

The bill would be effective April 1, 2006.

The figures in the table on the next page reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. The status quo assumes the January 2005 ELF aggregation decision by the Department of Revenue for Prudhoe Bay continues.

The cost assumptions are as follows:

- \$100 mm/yr exploration
- \$1/bbl on-going capital on all barrels
- \$3.50/bbl developmental capital on 2/3 of existing conventional oil
- \$8/bbl developmental capital on 2/3 of existing heavy oil
- \$3.50/bbl developmental capital on new conventional oil
- \$8/bbl developmental capital on new heavy oil
- \$3/bbl operating cost on conventional oil
- \$5/bbl operating cost on heavy oil

The table shows the 2007-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a \$40 price, and a \$60 price. (Note that the status quo numbers are slightly different from what is reflected in the Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 8 additional positions for auditors: 1 O & G Specialist (Range 23), 3 O & G Revenue Auditor IV (Range 22), and 4 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax. In addition, we request 2 additional Tax Tech III positions (Range 14) to process additional information and tax returns that will be required, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase.

Contractual expenditures include \$100,000 and \$70,000 for programming in FY 07 and FY 08, respectively, \$300,000 in each of FY 07 and FY 08 for help in writing regulations, \$100,000 in each year for consulting services and an estimate of chargeback costs. Supplies include computers and other supplies necessary for new positions.

FISCAL NOTE 2 \*\*CORRECTED\*\*

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

BILL NO. HB 3001

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

The revenues provided in the table below do not reflect increased revenues in FY06 that would result from an effective date of 4/1/06. At a preliminary estimated quarter end price of \$65, the bill would provide approximately \$260 million over the status quo system.

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	\$53.60	989	1,718	729
2008	\$46.90	759	1,339	580
2009	\$25.50	355	316	-38
2010	\$25.50	315	285	-30
2011	\$25.50	281	282	0
2012	\$25.50	271	278	6

---

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	\$40.00	708	972	264
2008	\$40.00	655	947	292
2009	\$40.00	631	1,015	384
2010	\$40.00	582	984	402
2011	\$40.00	544	1,006	462
2012	\$40.00	536	1,015	479

---

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	\$60.00	1,120	1,994	875
2008	\$60.00	1,032	1,941	909
2009	\$60.00	978	2,003	1,025
2010	\$60.00	901	1,954	1,053
2011	\$60.00	842	1,995	1,153
2012	\$60.00	831	2,015	1,184

\*Numbers may not sum due to rounding.

# FISCAL NOTE

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

Fiscal Note Number: 3  
Bill Version: CSHB 3001(FIN)  
(H) Publish Date: 8/4/06

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title An Act Relating to the Production Tax on RDU Tax and Treasury  
Oil and Gas Component Tax  
Sponsor Rules Committee  
Requester Governor Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	813.1	829.4	845.9	862.9	880.1	897.7
Travel						
Contractual	522.5	485.4	115.7	116.1	118.4	120.8
Supplies	36.7					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous (OH office, etc)	53.0	53.0	53.0	53.0	53.0	53.0
<b>TOTAL OPERATING</b>	<b>1,425.3</b>	<b>1,367.8</b>	<b>1,014.6</b>	<b>1,032.0</b>	<b>1,051.5</b>	<b>1,071.5</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>	<i>See analysis section</i>					
-------------------------------	-----------------------------	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,425.3	1,367.8	1,014.6	1,032.0	1,051.5	1,071.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>1,425.3</b>	<b>1,367.8</b>	<b>1,014.6</b>	<b>1,032.0</b>	<b>1,051.5</b>	<b>1,071.5</b>

Estimate of any current year (FY2006) cost: \_\_\_\_\_

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time	9	9	9	9	9	9
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, and property taxes. The net profit would be subject to a variable tax rate with a floor of 20% and a ceiling of 25%, less a credit of 20% which applies to capital costs upstream of the point of production. The variable tax rate would be determined by the level of capital investment, limited by tax benefits generated by capital investments. The capital investment benefit limitation is 75% of qualified capital costs. There would also be a progressive surcharge based on 0.25% of the difference between actual per barrel net income and \$40, applied to net production tax value. The surcharge would not be considered a deductible lease expenditure.

There would be an additional allowance of up to \$12 million per company for companies producing less than 50,000 barrels of oil equivalent per day; this amount is reduced as production reaches 100,000 bbl per day, the point at

Prepared by: Robynn Wilson, Michael Williams, Roger Mackay and Cheryl Nenthaus  
Division: Tax Division

Phone: 269-1019  
Date/Time: 8/4/06 9:00 AM

Approved by: Tom Boutin, Deputy Comptroller Chief  
Agency: Department of Revenue

Date: 8/4/2006

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

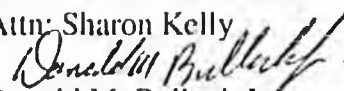
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

August 4, 2006

**SUBJECT:** CSHB 3001(FIN) (Work Order No. 24-GH2096\X)

**TO:** Representative Mike Chenault  
Co-Chair of the House Finance Committee  
Attn: Sharon Kelly

**FROM:**   
Donald M. Bullock Jr.  
Legislative Counsel

The subject bill has been delivered to the secretary for the House Finance Committee. The bill includes amendment 1 (prepared under Work Order No. 24-GH2096\1.11) and the conceptual amendment "#2.A."

Nonsubstantive language changes were made to the bill to conform the conceptual amendment to the Manual of Legislative Drafting and the language and style in the Alaska Statutes.

A section that was included in the conceptual amendment and would be enacted by sec. 5 of the bill, AS 43.55.011(f)(3), includes a formula for determining the alternative tax rate for a producer for a calendar year. The conceptual language read, "a producer's tax rate for a calendar year shall be the higher of . . . and the rate "R" as determined by the following formula . . . ." Because the formula in the conceptual amendment does not determine "R", but rather states "R" within the context of an equation, I changed the language to read, "a producer's tax rate for a calendar year shall be the higher of . . . or the rate "R" as represented in the following formula . . . ."

Representative Mike Chenault

August 4, 2006

Page 2

If "R" was to be determined by the formula, the formula might look something like this:<sup>1</sup>

$$R = \frac{OC \times (.75 - IR)}{(1 - IR) \times (QC - PT)} - \frac{(.2 \times OC) - (.25 \times PT)}{(QC - PT)}$$

If I may be of further assistance, please advise.

DMB:ljw

06-291.ljw

---

<sup>1</sup> This was my best attempt at solving the formula for "R." It may or may not correctly represent the relationship between "R" and the other variables in the formula.

Amend #1

24-GH2096A.11  
Bullock  
8/1/06

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE CHENAULT

TO: CSHB 3001( ), Draft Version "I"

1 Page 4, line 18:

2 Delete "during"

3 Insert "for"

4

5 Page 4, line 19, following "year":

6 Insert "that includes one or more months"

7

8 Page 4, line 20:

9 Delete "for one or more months,"

10

11 Page 4, line 21:

12 Delete "during"

13

14 Page 6, line 6:

15 Delete "produced"

16 Insert "delivered"

17

18 Page 6, line 25, following "produced":

19 Insert "and delivered"

20

21 Page 8, line 28:

22 Delete "under"

23 Insert "in the manner provided in"

1

2 Page 9, line 4:

3 Delete "IP = 12 x (MP - 1/12 x BP)"

4 Insert "12 x (MP - 1/12 x BP)"

5

6 Page 9, lines 6 - 7:

7 Delete all material.

8

9 Page 12, line 27:

10 Delete "before"

11

12 Page 13, line 21:

13 Delete "later"

14 Insert "latest"

15

16 Page 14, line 31:

17 Delete "certificate"

18

19 Page 16, line 2:

20 Delete "that ends"

21

22 Page 17, line 13:

23 Delete "credits"

24 Insert "credit"

25

26 Page 17, line 15:

27 Delete "south"

28 Insert "no part of which is north"

29

30 Page 18, lines 11 - 13:

31 Delete all material.

1

2 Page 21, lines 19 - 26:

3 Delete all material and insert:

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

5 (1) the amount of the credit that may be applied against the production  
6 tax for each calendar year [TAX MONTH] may not exceed the total production tax  
7 liability under AS 43.05.011(e) of the taxpayer applying the credit for the same  
8 calendar year [MONTH]; and9 (2) an amount of the production tax credit that is greater than the total  
10 tax liability under AS 43.05.011(e) of the taxpayer applying the credit for a calendar  
11 year [TAX MONTH] may be carried forward and applied against the taxpayer's  
12 production tax liability under AS 43.05.011(e) in one or more immediately following  
13 calendar years [MONTHS]."  
14

15 Page 24, line 2, following "[AS 43.55.011 - 43.55.150],":

16 Insert "except where otherwise provided"

17

18 Page 24, lines 20 - 21:

19 Delete "a lease or property"

20 Insert "leases or properties"

21 Delete "includes land at or"

22 Insert "include land"

23

24 Page 24, line 23:

25 Delete "that lease or property"

26 Insert "those leases or properties"

27

28 Page 24, lines 25 - 26:

29 Delete "that lease or property"

30 Insert "those leases or properties"

31

- 1 Page 24, lines 27 - 28:  
2 Delete "a lease or property"  
3 Insert "leases or properties"  
4  
5 Page 24, lines 28 - 29:  
6 Delete "all parts of which are south"  
7 Insert "no part of which is north"  
8  
9 Page 24, line 31:  
10 Delete "that lease or property"  
11 Insert "those leases or properties"  
12  
13 Page 25, line 2:  
14 Delete "that lease or property"  
15 Insert "those leases or properties"  
16  
17 Page 25, lines 17 - 18:  
18 Delete "a lease or property"  
19 Insert "leases or properties"  
20 Delete "includes land at or"  
21 Insert "include land"  
22  
23 Page 25, line 20:  
24 Delete "that lease or property"  
25 Insert "those leases or properties"  
26  
27 Page 25, lines 22 - 23:  
28 Delete "that lease or property"  
29 Insert "those leases or properties"  
30  
31 Page 25, lines 24 - 25:

- 1 Delete "a lease or property"
- 2 Insert "leases or properties"
- 3
- 4 Page 25, lines 25 - 26:
  - 5 Delete "all parts of which are south"
  - 6 Insert "no part of which is north"
  - 7
- 8 Page 25, line 28:
  - 9 Delete "that lease or property"
  - 10 Insert "those leases or properties"
  - 11
- 12 Page 25, line 30:
  - 13 Delete "that lease or property"
  - 14 Insert "those leases or properties"
  - 15
- 16 Page 26, line 26:
  - 17 Delete "or otherwise"
  - 18
- 19 Page 31, line 3:
  - 20 Following "production":
    - 21 Insert ", "
  - 22 Following "equivalent":
    - 23 Insert ", "
  - 24
- 25 Page 31, line 4:
  - 26 Delete "or"
  - 27
- 28 Page 31, line 6:
  - 29 Following "production":
    - 30 Insert ", "
  - 31 Following "equivalent":

- 1                   Insert ","
- 2
- 3   Page 31, line 7:
- 4           Delete "or"
- 5
- 6   Page 37, line 27:
- 7           Delete "evolved"
- 8           Insert "released"
- 9
- 10   Page 41, lines 24 - 25:
- 11           Delete "Sections 5, 7 - 10, 12 - 14, 16 - 19, and 24 - 36"
- 12           Insert "Sections 5, 7 - 10, 12 - 14, 16 - 20, and 24 - 36"

Amend #2

Withdrawn 8/3/06

8/2/2006  
7:00 p.m.

CONCEPTUAL AMENDMENT

OFFERED IN THE HOUSE

BY Wendell Hoyer  
Stoltz, Hawker,  
Holm, Kelly,  
Weyhoush, Foster

TO: CSHB 3001(FIN). Draft Version "I"

1 Page 3, line 13, through page 4, line 17:

2 Delete all material and insert:

3 "(1) except as provided under (3) of this subsection, the tax rate for a  
4 calendar year under (e) of this section is

5 (A) for a producer whose investment factor is equal to or less than  
6 \$1 per BTU equivalent barrel, 25 percent;

7 (B) for a producer whose investment factor is equal to or greater  
8 than \$6 per BTU equivalent barrel, 20 percent;

9 (C) for a producer whose investment factor is between \$1 and \$6  
10 per BTU equivalent barrel, the rate determined by the following formula and  
11 rounded to the nearest 1/100 of a percent:

$$.25 - .01(IF - 1)$$

12 where IF = the number that is equal to the producer's investment factor;

13 (2) a producer's investment factor for a calendar year is the quotient  
14 obtained by dividing the producer's total qualified capital expenditures incurred during  
15 the calendar year by the total amount of taxable and nontaxable oil and gas, in BTU  
16 equivalent barrels, produced by the producer from leases or properties in the state during  
17 the calendar year;

18 (3) a producer's tax rate for a calendar year may not be less than the rate  
19 "R" as determined by the following formula:

$$[(R \times QC) + (.2 \times QC) + [(.25 - R) \times PT] \times (1 - IR)] + (QC \times IR) = .75 \times QC$$

20 where: QC = the producer's qualified capital expenditures incurred  
21 during the calendar year;  
22  
23

1 PT = the total annual production tax value calculated under  
2 AS 43.55.160(a)(1) of taxable oil and gas produced by the  
3 producer from leases or properties in the state during the  
4 calendar year; and  
5 IR = the highest percentage tax rate imposed on the taxable  
6 income of a corporation by 26 U.S.C. 11 (Internal Revenue  
7 Code), as amended, without regard to any additional  
8 amount of tax provided under that section in the form of the  
9 lesser of a dollar amount or a percentage of income in  
10 excess of a stated minimum.”  
11

12 Page 4, line 26:

13 Delete the blank space

14 Insert “.25”  
15

16 Page 4, line 29:

17 Delete the blank space

18 Insert “.25”  
19

20 Page 5, line 1:

21 Delete the blank space

22 Insert “.40”  
23

24 Page 7, line 3, following “AS 43.20.043.”

25 Insert “AS 43.55.024.”  
26

27 Page 7, line 4, following “AS 43.20.043.”

28 Insert “AS 43.55.024.”  
29

30 Page 7, line 31, following “basin.”:

1           Insert "The method of allocating tax credits available under AS 43.55.024 shall be based  
2           on the number of BTU equivalent barrels produced from a lease or property."

3  
4   Page 8, line 3, following "during":

5           Delete "2005 or"

6  
7   Page 8, following line 5:

8           Insert the following material:

9                   "(p) For purposes of this section, "qualified capital expenditure" has the meaning  
10                  given in AS 43.55.023(k)."

11  
12   Page 8, line 31, following "multiplied by", through page 9, line 11:

13           Delete all material and insert:

14                               "(i) for February through December, the tax rate  
15                               determined under AS 43.5.011(f) for the preceding calendar year or, if the  
16                               producer did not produce oil or gas during the preceding calendar year,  
17                               22.5 percent;

18                               (ii) for January, the tax rate determined under AS  
19                               43.55.011(f) for the calendar year before the preceding calendar year or, if  
20                               the producer did not produce oil or gas during the calendar year before the  
21                               preceding calendar year, 22.5 percent;"

22  
23   Page 17, line 13, through page 18, line 13:

24           Delete all material

25           Insert the following material:

26                   "**Sec. 43.55.024. Additional nontransferable tax credits.** (a) For a calendar  
27                   year for which a producer's tax liability under AS 43.55.011(e) on oil and gas produced  
28                   from leases or properties outside the Cook Inlet sedimentary basin and no part of which is  
29                   north of 68 degrees North latitude exceeds zero before application of any credits under  
30                   this chapter, a producer that is qualified under (e) of this section may apply a tax credit  
31                   against that liability of not more than \$6,000,000.

1 (b) A producer may not take a tax credit under (a) of this section for any calendar  
2 year after the later of

3 (1) 2016; or

4 (2) the ninth calendar year after the calendar year during which the  
5 producer first has commercial oil or gas production before May 1, 2016, from at least one  
6 lease or property in the state outside the Cook Inlet sedimentary basin and no part of  
7 which is north of 68 degrees North latitude, if the producer did not have commercial oil  
8 or gas production from a lease or property in the state outside the Cook Inlet sedimentary  
9 basin and no part of which is north of 68 degrees North latitude before April 1, 2006.

10 (c) For a calendar year for which a producer's tax liability under AS 43.55.011(e)  
11 exceeds zero before application of any credits under this chapter, other than a credit  
12 under (a) of this section, but after application of any credit under (a) of this section, a  
13 producer that is qualified under (e) of this section and whose average amount of oil and  
14 gas produced a day and taxable under AS 43.55.011(e) is less than 100,000 BTU  
15 equivalent barrels a day may apply a tax credit under this subsection against that liability.  
16 A producer whose average amount of oil and gas produced a day and taxable under AS  
17 43.55.011(e) is

18 (1) not more than 50,000 BTU equivalent barrels may apply a tax credit  
19 of not more than \$12,000,000 for the calendar year;

20 (2) more than 50,000 and less than 100,000 BTU equivalent barrels may  
21 apply a tax credit of not more than the following fraction of \$12,000,000 for the calendar  
22 year:

$$23 \quad 1 - [2 X (AP - 50,000)]/100,000$$

24 where AP = the average amount of oil and gas, expressed as BTU equivalent barrels,  
25 produced a day during the calendar year and taxable under AS 43.55.011(e).

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

28 (1) 2016; or

29 (2) the ninth calendar year after the calendar year during which the  
30 producer first has commercial oil or gas production before May 1, 2016, from at least one

1 lease or property in the state, if the producer did not have commercial oil or gas  
2 production from a lease or property in the state before April 1, 2006.

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

11 (f) A tax credit authorized by (a) of this section may not be applied to reduce a  
12 producer's tax liability for any calendar year under AS 43.55.011(e) on oil and gas  
13 produced from leases or properties outside the Cook Inlet sedimentary basin and no part  
14 of which is north of 68 degrees North latitude below zero.

15 (g) A tax credit authorized by (c) of this section may not be applied to reduce a  
16 producer's tax liability for any calendar year under AS 43.55.011(e) below zero.

17 (h) An unused tax credit or portion of a tax credit under this section is not  
18 transferable and may not be carried forward to or used in a later calendar year.”  
19

20 Page 39, line 23, following “gas that”:

21 Delete “was”

22 Insert “were”  
23

24 Page 40, following line 27:

25 Insert:

26 “(h) Notwithstanding any contrary provision of AS 43.55.020(a), as repealed and  
27 reenacted by sec. 7 of this Act, for the installment payment for January, 2007, the phrase  
28 “the tax rate determined under AS 43.55.011(f) for the calendar year before the preceding  
29 calendar year” in AS 43.55.020(a)(2)(B)(ii), as AS 43.55.020(a) is repealed and reenacted  
30 by sec. 7 of this Act, shall be replaced by the phrase “22.5 percent”.”  
31

- 1 Page 40, line 28:
- 2 Delete "(h)"
- 3 Insert "(i)"

Amend #2.A

MH objected for disc.

adopted - Mo 8/2/06

8/2/2006  
7:00 p.m. sh

CONCEPTUAL AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 3001(FIN), Draft Version "I"

BY Chenault, Meyer,  
Stultz, Hawker,  
Holm, Kelly,  
Weyhrich, Foster

1 Page 3, line 13, through page 4, line 17:

2 Delete all material and insert:

3 "(1) except as provided under (3) of this subsection, the tax rate for a  
4 calendar year under (e) of this section is

5 (A) for a producer whose investment factor is equal to or less than  
6 \$1 per BTU equivalent barrel, 25 percent;

7 (B) for a producer whose investment factor is equal to or greater  
8 than \$6 per BTU equivalent barrel, 20 percent;

9 (C) for a producer whose investment factor is between \$1 and \$6  
10 per BTU equivalent barrel, the rate determined by the following formula and  
11 rounded to the nearest 1/100 of a percent:

$$.25 - .01(IF - 1)$$

12 where IF = the number that is equal to the producer's investment factor;

13 (2) a producer's investment factor for a calendar year is the quotient  
14 obtained by dividing the producer's total qualified capital expenditures incurred during  
15 the calendar year by the total amount of taxable and nontaxable oil and gas, in BTU  
16 equivalent barrels, produced by the producer from leases or properties in the state during  
17 the calendar year;

18 (3) a producer's tax rate for a calendar year shall be the higher of the rate  
19 determined in (1) and the ~~may not be less than~~ rate "R" as determined by the  
20 following formula, ~~except that the rate shall not be higher than 25% or less than 20%;~~

$$[(R \times QC) + (.2 \times QC) + [(.25 - R) \times PT]] \times (1 - IR) + (QC \times IR) = .75 \times QC$$

21 where: QC = the producer's qualified capital expenditures incurred  
22 during the calendar year;  
23  
24

1 PT = the total annual production tax value calculated under  
2 AS 43.55.160(a)(1) of taxable oil and gas produced by the  
3 producer from leases or properties in the state during the  
4 calendar year; and  
5 IR = the highest percentage tax rate imposed on the taxable  
6 income of a corporation by 26 U.S.C. 11 (Internal Revenue  
7 Code), as amended, without regard to any additional  
8 amount of tax provided under that section in the form of the  
9 lesser of a dollar amount or a percentage of income in  
10 excess of a stated minimum.”  
11

12 Page 4, line 26:

13 Delete the blank space  
14 Insert “.25”  
15

16 Page 4, line 29:

17 Delete the blank space  
18 Insert “25”  
19

20 Page 5, line 1:

21 Delete the blank space  
22 Insert “40”  
23

24 Page 7, line 3, following “AS 43.20.043,”

25 Insert “AS 43.55.024,”  
26

27 Page 7, line 4, following “AS 43.20.043,”

28 Insert “AS 43.55.024,”  
29

30 Page 7, line 31, following “basin.”;

1 Insert "The method of allocating tax credits available under AS 43.55.024 shall be based  
2 on the number of BTU equivalent barrels produced from a lease or property."  
3

4 Page 8, line 3, following "during":

5 Delete "2005 or"  
6

7 Page 8, following line 5:

8 Insert the following material:

9 "(p) For purposes of this section, "qualified capital expenditure" has the meaning  
10 given in AS 43.55.023(k)."  
11

12 Page 8, line 31, following "multiplied by", through page 9, line 11:

13 Delete all material and insert:

14 "(i) for February through December, the tax rate  
15 determined under AS 43.5.011(f) for the preceding calendar year or, if the  
16 producer did not produce oil or gas during the preceding calendar year,  
17 22.5 percent;

18 "(ii) for January, the tax rate determined under AS  
19 43.55.011(f) for the calendar year before the preceding calendar year or, if  
20 the producer did not produce oil or gas during the calendar year before the  
21 preceding calendar year, 22.5 percent;"  
22

23 Page 17, line 13, through page 18, line 13:

24 Delete all material

25 Insert the following material:

26 "Sec. 43.55.024. **Additional nontransferable tax credits.** (a) For a calendar  
27 year for which a producer's tax liability under AS 43.55.011(e) on oil and gas produced  
28 from leases or properties outside the Cook Inlet sedimentary basin and no part of which is  
29 north of 68 degrees North latitude exceeds zero before application of any credits under  
30 this chapter, a producer that is qualified under (e) of this section may apply a tax credit  
31 against that liability of not more than \$6,000,000.

1 (b) A producer may not take a tax credit under (a) of this section for any calendar  
2 year after the later of

3 (1) 2016; or

4 (2) the ninth calendar year after the calendar year during which the  
5 producer first has commercial oil or gas production before May 1, 2016, from at least one  
6 lease or property in the state outside the Cook Inlet sedimentary basin and no part of  
7 which is north of 68 degrees North latitude, if the producer did not have commercial oil  
8 or gas production from a lease or property in the state outside the Cook Inlet sedimentary  
9 basin and no part of which is north of 68 degrees North latitude before April 1, 2006.

10 (c) For a calendar year for which a producer's tax liability under AS 43.55.011(e)  
11 exceeds zero before application of any credits under this chapter, other than a credit  
12 under (a) of this section, but after application of any credit under (a) of this section, a  
13 producer that is qualified under (e) of this section and whose average amount of oil and  
14 gas produced a day and taxable under AS 43.55.011(e) is less than 100,000 BTU  
15 equivalent barrels a day may apply a tax credit under this subsection against that liability.  
16 A producer whose average amount of oil and gas produced a day and taxable under AS  
17 43.55.011(e) is

18 (1) not more than 50,000 BTU equivalent barrels may apply a tax credit  
19 of not more than \$12,000,000 for the calendar year;

20 (2) more than 50,000 and less than 100,000 BTU equivalent barrels may  
21 apply a tax credit of not more than the following fraction of \$12,000,000 for the calendar  
22 year:

$$23 \quad 1 - [2 \times (AP - 50,000)] / 100,000$$

24 where AP = the average amount of oil and gas, expressed as BTU equivalent barrels,  
25 produced a day during the calendar year and taxable under AS 43.55.011(e).

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

28 (1) 2016; or

29 (2) the ninth calendar year after the calendar year during which the  
30 producer first has commercial oil or gas production before May 1, 2016, from at least one

1 lease or property in the state, if the producer did not have commercial oil or gas  
2 production from a lease or property in the state before April 1, 2006.

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

11 (f) A tax credit authorized by (a) of this section may not be applied to reduce a  
12 producer's tax liability for any calendar year under AS 43.55.011(e) on oil and gas  
13 produced from leases or properties outside the Cook Inlet sedimentary basin and no part  
14 of which is north of 68 degrees North latitude below zero.

15 (g) A tax credit authorized by (c) of this section may not be applied to reduce a  
16 producer's tax liability for any calendar year under AS 43.55.011(e) below zero.

17 (h) An unused tax credit or portion of a tax credit under this section is not  
18 transferable and may not be carried forward to or used in a later calendar year.”  
19

20 Page 39, line 23, following “gas that”:

21 Delete “was”

22 Insert “were”  
23

24 Page 40, following line 27:

25 Insert:

26 “(h) Notwithstanding any contrary provision of AS 43.55.020(a), as repealed and  
27 reenacted by sec. 7 of this Act, for the installment payment for January, 2007, the phrase  
28 “the tax rate determined under AS 43.55.011(f) for the calendar year before the preceding  
29 calendar year” in AS 43.55.020(a)(2)(B)(ii), as AS 43.5. 020(a) is repealed and reenacted  
30 by sec. 7 of this Act, shall be replaced by the phrase “22.5 percent”.”  
31

- 1 Page 40, line 28:
- 2 Delete "(h)"
- 3 Insert "(i)"

Amend 3

Amend 2-0

24-GH2096V.2  
Bullock  
8/1/06

A M E N D M E N T

OFFERED IN THE HOUSE

TO: CSHB 3001( ), Draft Version "I"

Kerttula

1 Page 12, line 6:

2 Delete "A"

3 Insert "Except as provided in (k) of this section, a"

4

5 Page 15, line 16, following "section,":

6 Insert "and except as provided in (k) of this section,"

7

8 Page 16, following line 21:

9 Insert a new subsection to read:

10 "(k) A person engaged in the production of gas in the Point Thomson Unit  
11 may not take a credit under this section for a qualified capital expenditure upstream  
12 from the point of production of gas from the Point Thomson Unit for a gas processing  
13 plant or a gas treatment facility. In this subsection, "Point Thomson Unit" means the  
14 land identified by the Department of Natural Resources as the "Point Thomson Unit."  
15

16 Reletter the following subsection accordingly.

17

18 Page 31, line 24, following "AS 38.05.132":

19 Insert ";

20 (19) costs related to a gas processing plant or a gas treatment facility  
21 upstream from the point of production of gas from the Point Thomson Unit"

22

23 Page 32, following line 20:

1           Insert a new paragraph to read:

2                           "(3) "Point Thomson Unit" means the land identified by the  
3           Department of Natural Resources as the "Point Thomson Unit";"

4

5    Renumber the following paragraph accordingly.

Conceptual Amendment

• Make this a 23.5% Rate in 2006

• High end of 27.5%

CONCEPTUAL AMENDMENT

failed  
8-2

~~Amend #2.A~~  
Amend 4  
8/2/2006  
7:00 p.m.

Herttule

OFFERED IN THE HOUSE

TO: CSHB 3001(FIN), Draft Version "T"

BY ~~Chenault, Meyer,  
Stoltz, Hawker,  
Holm, Kelly,  
Weyhrauch, Foster~~

1 Page 3, line 13, through page 4, line 17:

2 Delete all material and insert:

3 "(1) except as provided under (3) of this subsection, the tax rate for a  
4 calendar year under (e) of this section is

5 (A) for a producer whose investment factor is equal to or less than  
6 \$1 per BTU equivalent barrel, ~~25~~<sup>27.5</sup> percent;

7 (B) for a producer whose investment factor is equal to or greater  
8 than \$6 per BTU equivalent barrel, 20 percent;

9 (C) for a producer whose investment factor is between \$1 and \$6  
10 per BTU equivalent barrel, the rate determined by the following formula and  
11 rounded to the nearest 1/100 of a percent:

12  $.25 - .01(IF - 1)$  <sup>2</sup>

13 where IF = the number that is equal to the producer's investment factor;

14 (2) a producer's investment factor for a calendar year is the quotient  
15 obtained by dividing the producer's total qualified capital expenditures incurred during  
16 the calendar year by the total amount of taxable and nontaxable oil and gas, in BTU  
17 equivalent barrels, produced by the producer from leases or properties in the state during  
18 the calendar year;

19 (3) a producer's tax rate for a calendar year shall be the higher of the rate  
20 determined in (1) and the rate ~~not be less than~~ the rate "R" as determined by the  
21 following formula, except that the rate shall not be higher than 25% or less than 20%;

22  $[(R \times QC) + (.2 \times QC) + [(.25 - R) \times PT]] \times (1 - IR) + (QC \times IR) = .75 \times QC$

23 where: QC = the producer's qualified capital expenditures incurred  
24 during the calendar year;

*Amended 7-8*

*Amend 5  
h*

AMENDMENT

OFFERED IN THE HOUSE  
TO: CSHB 3001 ( )

BY REPRESENTATIVE KERTTULA

- 1 Page 4, line 29:
- 2 Delete the blank space
- 3 Insert "50"
- 4 Page 5, line 1:
- 5 Delete the blank space
- 6 Insert "35"

*Amend 6*

*Amend 6*

24-GH2096V.10  
Chenoweth/Bullock  
8/1/06

*SL*

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE KERTTULA

TO: CSHB 3001( ), Draft Version "I"

- 1 Page 27, line 29, following "incurred,":
- 2       Insert "that is incurred in the state"
- 3
- 4 Page 28, line 2, following "payments":
- 5       Insert "to the state or to a political subdivision of the state"
- 6
- 7 Page 28, line 5, following "expenses":
- 8       Insert "incurred in the state"
- 9
- 10 Page 28, line 11, following "gas":
- 11       Insert ", but the activity must occur within the state"

*Withdrawn*

*Amend 7*  
*sk*

24-GH2096/L4  
Finley/Bullock  
8/2/06

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE KERTTULA

TO: CSHB 3001( ), Draft Version "I"

- 1 Page 1, line 1:
- 2 Delete "tax"
- 3 Insert "taxes"
- 4
- 5 Page 1, lines 3 - 4:
- 6 Delete "amending the definition of 'gas' as that definition applies in the Alaska
- 7 Stranded Gas Development Act;"
- 8
- 9 Page 3, line 5:
- 10 Delete "or gas"
- 11 Delete "and gas"
- 12
- 13 Page 3, lines 6 - 7:
- 14 Delete "and gas"
- 15
- 16 Page 3, line 8:
- 17 Delete "and (k)"
- 18
- 19 Page 3, line 9:
- 20 Delete "and gas"
- 21
- 22 Page 4, lines 2 - 3:
- 23 Delete "and gas, in BTU equivalent barrels."

- 1
- 2 Page 4, line 9:
- 3 Delete "and gas, in BTU equivalent barrels,"
- 4
- 5 Page 4, line 13:
- 6 Delete "or gas"
- 7
- 8 Page 4, line 14:
- 9 Delete "and gas"
- 10
- 11 Page 4, line 20:
- 12 Delete "or gas"
- 13
- 14 Page 4, line 21:
- 15 Delete "and gas"
- 16
- 17 Page 4, line 22:
- 18 Delete "and gas"
- 19
- 20 Page 4, lines 23 - 24:
- 21 Delete "and (k)"
- 22
- 23 Page 4, line 26:
- 24 Delete "and gas"
- 25
- 26 Page 4, lines 29 - 30:
- 27 Delete "and gas"
- 28
- 29 Page 5, line 2:
- 30 Delete "and gas"
- 31

1 Page 5, line 4:

2 Delete "and gas"

3

4 Page 5, lines 4 - 5:

5 Delete ", in BTU equivalent barrels"

6

7 Page 5, line 6:

8 Delete "or gas"

9 Delete "and gas"

10

11 Page 5, line 8:

12 Delete "and gas"

13

14 Page 5, lines 13 - 14:

15 Delete all material.

16

17 Renumber the following paragraph accordingly.

18

19 Page 5, line 16:

20 Delete "or (2)"

21

22 Page 5, line 19:

23 Delete "and (2)"

24

25 Page 5, line 20:

26 Delete "and gas"

27

28 Page 5, line 21, through page 6, line 8:

29 Delete all material.

30

31 Reletter the following subsections accordingly.

1

2 Page 6, line 28:

3 Delete "or (k)"

4

5 Page 6, line 29:

6 Delete "or gas"

7

8 Page 7, line 2, through page 8, line 5:

9 Delete all material.

10

11 Page 8, following line 5:

12 Insert a new bill section to read:

13 **\*\* Sec. 6.** AS 43.55.013(j) is amended to read:

14 (j) The department may aggregate two or more leases or properties (or portions  
15 of them), for purposes of determining the economic limit factor [FACTORS] under  
16 this section and applying it [THEM] to [AS 43.55.011 OR] AS 43.55.016, when  
17 economically interdependent [OIL OR] gas production operations are not confined to  
18 a single lease or property. The department may also segregate a lease or property into  
19 two or more parts, for purposes of determining the economic limit factor [FACTORS]  
20 under this section and applying it [THEM] under [AS 43.55.011 OR] AS 43.55.016,  
21 when two or more economically independent [OIL OR] gas production operations are  
22 being conducted on it [, OR WHEN OLD CRUDE OIL IS PRODUCED FROM THE  
23 SAME LEASE OR PROPERTY AS OTHER OIL]."

24

25 Renumber the following bill sections accordingly.

26

27 Page 8, line 16, following "(a)":

28 Insert "The production tax on gas shall be paid monthly. The tax on gas is due on the  
29 20th day of each calendar month on gas produced from each lease or property during the  
30 preceding month. If the tax on gas is not paid before the end of the month in which it becomes  
31 due, the tax becomes delinquent."

- 1
- 2 Page 8, line 29:
- 3 Delete "and gas"
- 4
- 5 Page 9, lines 8 - 9:
- 6 Delete "and gas, in BTU equivalent barrels,"
- 7
- 8 Page 9, lines 17 - 18:
- 9 Delete "the sum of"
- 10
- 11 Page 9, line 19:
- 12 Delete "(A)"
- 13
- 14 Page 9, line 22:
- 15 Delete "plus"
- 16
- 17 Page 9, lines 23 - 26:
- 18 Delete all material.
- 19
- 20 Page 10, line 1:
- 21 Delete "and [OR]"
- 22 Insert "or"
- 23
- 24 Page 10, line 4:
- 25 Delete "and"
- 26 Insert "or"
- 27
- 28 Page 10, line 5, following "AS 43.55.011":
- 29 Insert "or 43.55.016"
- 30
- 31 Page 10, line 6:

- 1 Delete "and [OR]"
- 2 Insert "or"
- 3
- 4 Page 10, line 8, following "tax":
- 5 insert "on oil and monthly payments of tax on gas"
- 6
- 7 Page 10, line 12:
- 8 Delete "and gas"
- 9
- 10 Page 10, line 13:
- 11 Delete "and gas"
- 12
- 13 Page 10, line 15:
- 14 Delete "and gas"
- 15
- 16 Page 10, line 20:
- 17 Delete "and gas"
- 18
- 19 Page 10, lines 22 - 29:
- 20 Delete all material.
- 21
- 22 Renumber the following bill sections accordingly.
- 23
- 24 Page 12, line 11:
- 25 Delete "and gas"
- 26
- 27 Page 14, line 7:
- 28 Delete "and gas"
- 29
- 30 Page 14, line 14:
- 31 Delete "and gas"

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

Page 14, line 15:

Delete "BTU equivalent"

Page 16, line 7:

Delete "or gas"

Page 17, line 14:

Delete "and gas"

Page 17, line 23:

Delete "or gas"

Page 17, line 25:

Delete "or gas"

Page 18, line 6:

Delete "and gas"

Page 18, line 12:

Delete "or gas"

Page 18, line 18, following "AS 43.55.011(e)":

Insert "or 43.55.016"

Page 21, line 3, following "AS 43.55.011(e)":

Insert "or 43.55.016"

Page 21, line 13, following "AS 43.55.011(e)":

Insert "or 43.55.016"

- 1 Page 21, line 22, following "AS 43.55.011(e)":  
2 Insert "or 43.55.016. as applicable."  
3  
4 Page 21, line 24, following "AS 43.55.011(e)":  
5 Insert "or 43.55.016. as applicable."  
6  
7 Page 21, line 26, following "AS 43.55.011(e)":  
8 Insert "or 43.55.016. as applicable."  
9  
10 Page 22, line 4:  
11 Delete "and [OR] gas were [WAS]"  
12 Insert "or gas was"  
13  
14 Page 22, line 9:  
15 Delete "and gas"  
16 Insert "or gas. as applicable."  
17  
18 Page 22, line 11:  
19 Delete "and of the [OR] gas"  
20 Insert "or the total value of the gas. as applicable."  
21  
22 Page 22, line 14:  
23 Delete "and for the [OR]"  
24 Insert "or"  
25  
26 Page 24, line 6, following "value":  
27 Delete "at the point of production is"  
28 Insert "of gas and the gross value at the point of production of oil are"  
29  
30 Page 24, line 17:  
31 Delete "and gas"

- 1
- 2 Page 24, line 20:
- 3 Delete "and gas"
- 4
- 5 Page 24, line 22:
- 6 Delete "and gas"
- 7
- 8 Page 24, line 25:
- 9 Delete "and gas"
- 10
- 11 Page 24, line 27:
- 12 Delete "and gas"
- 13
- 14 Page 24, line 30:
- 15 Delete "and gas"
- 16
- 17 Page 25, line 1:
- 18 Delete "and gas"
- 19
- 20 Page 25, lines 10 - 15:
- 21 Delete all material.
- 22
- 23 Page 25, line 17:
- 24 Delete "and gas"
- 25
- 26 Page 25, line 19:
- 27 Delete "and gas"
- 28
- 29 Page 25, line 22:
- 30 Delete "and gas"
- 31

- 1 Page 25, line 24:
- 2 Delete "and gas"
- 3
- 4 Page 25, line 27:
- 5 Delete "and gas"
- 6
- 7 Page 25, lines 29 - 30:
- 8 Delete "and gas"
- 9
- 10 Page 26, line 6:
- 11 Delete ":",
- 12 Insert ":",
- 13
- 14 Page 26, lines 7 - 12:
- 15 Delete all material.
- 16
- 17 Page 26, line 17:
- 18 Delete "and gas"
- 19
- 20 Page 26, line 21:
- 21 Delete "or gas"
- 22
- 23 Page 27, line 4:
- 24 Delete "or gas"
- 25
- 26 Page 27, line 10:
- 27 Delete "and gas"
- 28
- 29 Page 27, line 12:
- 30 Delete "or gas"
- 31

1 Page 27, line 14:

2 Delete "or gas"

3

4 Page 28, line 6:

5 Delete "or gas"

6

7 Page 28, line 9:

8 Delete "or gas"

9

10 Page 28, line 11:

11 Delete "or gas"

12

13 Page 28, line 18:

14 Delete "and gas"

15

16 Page 29, line 6:

17 Delete "or gas"

18

19 Page 29, line 15:

20 Delete "and gas"

21

22 Page 29, line 30:

23 Delete "or gas"

24

25 Page 31, line 2:

26 Delete "or gas"

27

28 Page 31, line 3:

29 Delete "and gas production in barrels of oil equivalent"

30 Insert "production"

31

1 Page 31, line 6:

2 Delete "and gas production in barrels of oil equivalent"

3 Insert "production"

4

5 Page 31, line 12:

6 Delete "for the purposes"

7

8 Page 31, lines 13 - 15:

9 Delete all material.

10

11 Page 31, line 26:

12 Delete "or gas"

13

14 Page 32, line 2:

15 Delete "or gas"

16

17 Page 32, line 3:

18 Delete "or gas"

19

20 Page 32, line 4:

21 Delete "or gas"

22

23 Page 32, lines 6 - 10:

24 Delete all material and insert:

25 "(h) If a cost that would otherwise constitute a lease expenditure under this  
26 section is incurred to explore for, develop, or produce both oil and gas, the department  
27 shall allocate the cost between oil and gas to determine the amount applicable to oil  
28 and deductible under this section by (1) a ratio of the volume of oil production to the  
29 volume of gas production in barrels of oil equivalent for the applicable lease or  
30 property, (2) the predominant purpose of the expenditure between oil and gas, or (3)  
31 other reasonable allocation methods to determine the portion of the cost that is

1 appropriately treated as a lease expenditure for oil under this section. In this  
2 subsection, "barrels of oil equivalent" means 6,000 cubic feet of gas."

3

4 Page 32, line 22:

5 Delete "or gas"

6

7 Page 33, line 6:

8 Delete "or gas"

9

10 Page 33, line 21:

11 Delete "or gas"

12

13 Page 33, line 25:

14 Delete "or gas"

15

16 Page 34, line 5:

17 Delete "or gas"

18

19 Page 35, line 30, through page 36, line 9:

20 Delete all material.

21

22 Renumber the following bill sections accordingly.

23

24 Page 36, lines 14 - 15:

25 Delete all material and insert:

26 "(B) for gas

27 (i) recovered from or in association with oil, the value  
28 of the gas at the point where it is accurately metered or measured after  
29 separation from the oil; for gas run through a gas processing plant, the  
30 gross value at the point of production is the full consideration received  
31 by the producer for the gas if sold in an arm's length transaction or, in

1 the absence of an arm's length transaction, is the sum of the value of the  
2 liquids extracted from the gas at the plant and the value of the residue  
3 gas, less a reasonable allowance for processing the gas at the plant and  
4 for transporting the gas to the plant from the premises on which the oil  
5 production operation is conducted; and

6 (ii) not recovered from or in association with oil, the  
7 value of the gas at the point where it is accurately metered or measured  
8 or the value of the gas at the point of sale, if any, on the premises of the  
9 lease or property from which the gas is recovered, whichever is the  
10 higher value; for gas run through a gas processing plant, the gross value  
11 at the point of production is the full consideration received by the  
12 producer for the gas if sold in an arm's length transaction or, in the  
13 absence of an arm's length transaction, is the sum of the value of the  
14 liquids extracted from the gas at the plant and the value of the residue  
15 gas, less a reasonable allowance for processing the gas at the plant and  
16 for transporting the gas to the plant from the point where it was  
17 accurately metered or measured;"

18  
19 Page 36, lines 22 - 28:

20 Delete all material.

21  
22 Renumber the following paragraphs accordingly.

23  
24 Page 37, lines 27 - 28:

25 Delete all material.

26  
27 Renumber the following paragraphs accordingly.

28  
29 Page 38, line 8:

30 Delete "(A) for oil."

31

- 1 Page 38, line 15:
- 2 Delete ";"
- 3 Insert "."
- 4
- 5 Page 38, lines 16 - 29:
- 6 Delete all material.
- 7
- 8 Page 38, line 30:
- 9 Delete "43.55.013, 43.55.016"
- 10 Insert "43.55.013(b), 43.55.013(d)"
- 11
- 12 Page 39, line 4:
- 13 Delete "7 - 10, 12 - 14, 16 - 20, 24, and 26 - 34"
- 14 Insert "8 - 10, 12 - 14, 16 - 20, 24, and 26 - 33"
- 15
- 16 Page 39, line 5:
- 17 Delete "and gas"
- 18
- 19 Page 39, line 12:
- 20 Delete "and gas"
- 21
- 22 Page 39, line 19:
- 23 Delete "sec. 7"
- 24 Insert "sec. 8"
- 25
- 26 Page 40, line 29:
- 27 Delete "and gas"
- 28
- 29 Page 40, line 30:
- 30 Delete "AS 43.55.160(a)(2)(A) - (D)"
- 31 Insert "AS 43.55.160(a)(2)(A) - (C)"

1

2 Page 41, lines 5 - 6:

3 Delete "7 - 10, 12 - 14, 16 - 20, 24 - 34, and 36"

4 Insert "8 - 10, 12 - 14, 16 - 20, 24 - 33, and 35"

5

6 Page 41, lines 9 - 21:

7 Delete all material.

8

9 Renumber the following bill sections accordingly.

10

11 Page 41, lines 24 - 25:

12 Delete "7 - 10, 12 - 14, 16 - 19, and 24 - 36"

13 Insert "8 - 10, 12 - 14, 16 - 19, and 24 - 35"

*failed*

*Amend 8*

24-GH2096L.3  
Bullock  
8/1/06 *A*

AMENDMENT

*Kerthula*

OFFERED IN THE HOUSE

TO: CSHB 3001( ), Draft Version "I"

1 Page 15, line 18, following "expenditures":

2       Insert "made during each April 1 through March 31 12-month period that exceeded the  
3 12-month average expenditures for the two 12-month periods immediately before April 1,  
4 2006, that"

5

6 Page 15, line 19, following "April 1, 2006,":

7       Insert "and"

8

9 Page 15, line 20:

10       Delete "the sum"

11       Insert "that portion"

12

13 Page 15, line 21, following "April 1, 2006,":

14       Insert "during each 12-month period multiplied by a fraction in which the numerator is  
15 the amount of transitional investment expenditures during that 12-month period and the  
16 denominator is the total expenditures incurred during that 12-month period that would be  
17 qualified capital expenditures if they were incurred after March 31, 2006,"

18

19 Page 15, lines 24 - 25:

20       Delete ", that would be qualified capital expenditures, if they were incurred after  
21 March 31, 2006"