

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3111

1 (k) As a condition of receiving a tax credit under this section, a producer or
2 explorer that obtains the tax credit for or directly related to a pipeline, facility, or other
3 asset that is or becomes subject to regulation by the Federal Energy Regulatory
4 Commission or the Regulatory Commission of Alaska, or a successor regulatory body
5 shall at all times support and in all rate proceedings file to flow through 100 percent of
6 the tax credits to ratepayers as a reduction in the costs of service for the pipeline,
7 facility, or other asset.

8 (l) In this section,

9 (1) "barrel of oil equivalent" means one barrel, in the case of oil, or
10 6,000 cubic feet, in the case of gas;

11 (2) "qualified capital expenditure" means, except as otherwise
12 provided in (i) of this section, an expenditure that is a lease expenditure under
13 AS 43.55.160 and is

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

15 (B) treated as a capitalized expenditure under 26 U.S.C.
16 (Internal Revenue Code), as amended, regardless of elections made under 26
17 U.S.C. 263(c) (Internal Revenue Code), as amended, and is

18 (i) treated as a capitalized expenditure for federal
19 income tax reporting purposes by the person incurring the expenditure;

20 or

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

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

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

30 (1) 20 percent of the total exploration expenditures that qualify only
31 under (b) and (c) of this section;

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

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

5 (4) 40 percent of the total exploration expenditures that qualify only
6 under (b) and (c) of this section.

7 * Sec. 14. AS 43.55.025(b) is amended to read:

8 (b) To qualify for the production tax credit under (a) of this section, an
9 exploration expenditure must be incurred for work performed on or after July 1, 2003,
10 and before July 1, 2016 [2007], except that an exploration expenditure for a Cook Inlet
11 prospect must be incurred for work performed on or after July 1, 2005, [AND
12 BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION
13 EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15
14 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET
15 PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER
16 JULY 1, 2003, AND BEFORE JULY 1, 2010.] and

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

19 (2) if for an exploration well,

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

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

23 and

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

29 (3) may not be for testing, stimulation, or completion costs;
30 administration, supervision, engineering, or lease operating costs; geological or
31 management costs; community relations or environmental costs; bonuses, taxes, or

1 other payments to governments related to the well; or other costs that are generally
2 recognized as indirect costs or financing costs; and

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

6 * Sec. 15. AS 43.55.025(f) is amended to read:

7 (f) For a production tax credit under this section,

8 (1) an explorer shall, in a form prescribed by the department and
9 within six months of the completion of the exploration activity, claim the credit and
10 submit information sufficient to demonstrate to the department's satisfaction that the
11 claimed exploration expenditures qualify under this section;

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

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

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, information
31 provided under this paragraph will be held confidential by the Department of

1 Natural Resources for 10 years following the completion date, at which time
2 that department will release the information after 30 days' public notice;

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

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

9 (5) if the department is satisfied that the explorer's claimed
10 expenditures are qualified under this section, the department shall issue to the explorer
11 a production tax credit certificate for the amount of credit to be allowed against
12 production taxes due under AS 43.55.011(e) [THIS CHAPTER; HOWEVER,
13 NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE
14 DEPARTMENT MAY NOT ISSUE TO AN EXPLORER A PRODUCTION TAX
15 CREDIT CERTIFICATE IF THE TOTAL OF PRODUCTION TAX CREDITS
16 SUBMITTED FOR COOK INLET PRODUCTION, BASED ON EXPLORATION
17 EXPENDITURES FOR WORK PERFORMED DURING THE PERIOD
18 DESCRIBED IN (b) OF THIS SECTION FOR THAT PRODUCTION, THAT HAVE
19 BEEN APPROVED BY THE DEPARTMENT EXCEEDS \$20,000,000].

20 * Sec. 16. AS 43.55.025(h) is amended to read:

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

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

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

29 (1) the amount of the credit that may be applied against the production
30 tax for each tax month may not exceed the total production tax liability under
31 AS 43.55.011(e) of the taxpayer applying the credit for the same month; and

1 (2) an amount of the production tax credit that is greater than the total
2 tax liability under AS 43.55.011(e) of the taxpayer applying the credit for a tax month
3 may be carried forward and applied against the taxpayer's production tax liability
4 under AS 43.55.011(e) in one or more immediately following months.

5 * Sec. 18. AS 43.55.030(a) is amended to read:

6 (a) The tax shall be paid to the department, and the person paying the tax shall
7 file with the department at the time the tax or a portion of the tax is required to be
8 paid a statement, under oath, on forms prescribed by or acceptable to the department,
9 giving, with other information required, the following:

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

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

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

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

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

23 (6) the producer's lease expenditures and adjustments as
24 calculated under AS 43.55.160 [IF SOLD IN THE STATE].

25 * Sec. 19. AS 43.55.030(d) is amended to read:

26 (d) Reports by or on behalf of the producer are delinquent the first day
27 following the day the tax is due. [EACH PRODUCER IS SUBJECT TO A PENALTY
28 OF \$25 A DAY FOR EACH LEASE OR PROPERTY UPON WHICH THE
29 REPORT IS NOT FILED. THE PENALTY FOR FAILURE TO FILE A REPORT IS
30 IN ADDITION TO THE PENALTY FOR DELINQUENT TAXES, AND IS A LIEN
31 AGAINST THE ASSETS OF THE PRODUCER.]

1 * Sec. 20. AS 43.55.030 is amended by adding a new subsection to read:

2 (e) In addition to other required information, the statement required to be filed
3 on or before March 31 of a year must show any adjustments or corrections to the
4 statements that were required under (a) of this section to be filed for the months of the
5 preceding calendar year during which the oil or gas was produced.

6 * Sec. 21. AS 43.55.040 is amended to read:

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

9 (1) require a person engaged in production and the agent or employee
10 of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil
11 or gas to furnish, whether by the filing of regular statements or reports or
12 otherwise, additional information that is considered by the department as necessary to
13 compute the amount of the tax; notwithstanding any contrary provision of law, the
14 disclosure of additional information under this paragraph to the producer
15 obligated to pay the tax does not violate AS 40.25.100(a) or AS 43.05.230(a);
16 before disclosing information under this paragraph that is otherwise required to
17 be held confidential under AS 40.25.100(a) or AS 43.05.230(a), the department
18 shall

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

22 (B) impose appropriate conditions limiting

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

27 (ii) the use of the information to use for that
28 purpose;

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

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

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

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

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

6 * Sec. 22. AS 43.55.080 is amended to read:

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

11 * Sec. 23. AS 43.55.135 is amended to read:

12 Sec. 43.55.135. Measurement. For the purposes of AS 43.55.011 - 43.55.180
13 [AS 43.55.011 - 43.55.150], oil is [SHALL BE] measured in terms of a "barrel of oil"
14 and gas is [SHALL BE] measured in terms of a "cubic foot of gas."

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

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

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

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

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

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

28 Sec. 43.55.160. Determination of production tax value of oil and gas. (a)
29 Except as provided in (f) of this section, for purposes of AS 43.55.011(e) and (g), the
30 production tax value of the taxable (1) oil and gas produced during a month, other than
31 from leases or properties in the Cook Inlet sedimentary basin, is the total of the gross

1 value at the point of production of the oil and gas taxable under AS 43.55.011(e) and
2 (g) and produced by the producer from all leases or properties in the state outside the
3 Cook Inlet sedimentary basin, less the producer's lease expenditures for the month as
4 adjusted under (e) of this section, other than lease expenditures applicable to oil or gas
5 produced from leases or properties in the Cook Inlet sedimentary basin; (2) oil
6 produced during a month from a lease or property in the Cook Inlet sedimentary basin
7 is the gross value at the point of production of the oil taxable under AS 43.55.011(e)
8 and (g) and produced by the producer from that lease or property, less the producer's
9 lease expenditures for the month applicable to that oil, as adjusted under (e) of this
10 section; (3) gas produced during a month from a lease or property in the Cook Inlet
11 sedimentary basin is the gross value at the point of production of the gas taxable under
12 AS 43.55.011(e) and (g) and produced by the producer from that lease or property,
13 less the producer's lease expenditures for the month applicable to that gas, as adjusted
14 under (e) of this section. However, a production tax value calculated under this
15 subsection may not be less than zero. If a producer does not produce taxable oil or gas
16 during a month, the producer is considered to have generated a positive production tax
17 value if a calculation described in this subsection yields a positive number because the
18 producer's adjusted lease expenditures for a month are less than zero as a result of the
19 producer's receiving a payment or credit under (e) of this section or otherwise.

20 (b) For purposes of administration of (a) of this section.

21 (1) any adjusted lease expenditures that would otherwise be deductible
22 in a month but whose deduction would cause a production tax value calculated under
23 (a) of this section of taxable oil or gas produced during the month to be less than zero
24 may be added to the producer's adjusted lease expenditures for one or more other
25 months in the same calendar year; the total of any adjusted lease expenditures that are
26 not deductible in any month during a calendar year because their deduction would
27 cause a production tax value calculated under (a) of this section of taxable oil or gas
28 produced during one or more months to be less than zero may be used to establish a
29 carried-forward annual loss under AS 43.55.024(b);

30 (2) an explorer that has taken a tax credit under AS 43.55.024(b) or
31 that has obtained a transferable tax credit certificate under AS 43.55.024(d) for the

1 amount of a tax credit under AS 43.55.024(b) is considered a producer, subject to the
2 tax levied under AS 43.55.011(e), to the extent that the explorer generates a positive
3 production tax value as the result of the explorer's receiving a payment or credit
4 described in (e) of this section.

5 (c) For purposes of this section,

6 (1) a producer's lease expenditures for a period are the ordinary and
7 necessary costs upstream of the point of production of oil and gas that are incurred on
8 or after April 1, 2006, by the producer during the period and that are direct costs of
9 exploring for, developing, or producing oil or gas deposits located within the
10 producer's leases or properties in the state or, in the case of land in which the producer
11 does not own a working interest, are the direct costs of exploring for oil or gas
12 deposits located within other land in the state; in determining whether costs are ^{lease}direct
13 and ordinary and necessary costs of exploring for, developing, or producing oil or gas
14 deposits located within a lease or property or other land in the state,

15 (A) the department shall give substantial weight to the typical
16 industry practices and standards in the state that determine the costs that an
17 operator is allowed to bill a working interest owner that is not the operator,
18 under unit operating agreements or similar operating agreements that were in
19 effect on or before December 1, 2005, and were subject to negotiation with at
20 least one working interest owner with substantial bargaining power, other than
21 the operator; and

22 (B) as to matters that are not addressed by the industry
23 practices and standards described in (A) of this paragraph or as to which those
24 practices and standards are not clear or are not uniform, the department shall
25 give substantial weight to the standards adopted by the Department of Natural
26 Resources that determine the costs, other than interest, that a lessee is allowed
27 to deduct from revenue in calculating net profits under a lease issued under
28 AS 38.05.180(f)(3)(B), (D), or (E);

29 (2) the Department of Revenue may authorize a producer, including a
30 producer that is an operator, to treat as its lease expenditures under this section the
31 costs, other than items listed in (d) of this section, paid by the producer that are billed

1 to the producer by an operator in accordance with the terms of a unit operating
2 agreement or similar operating agreement if the Department of Revenue finds that

3 (A) the pertinent provisions of the operating agreement are
4 substantially consistent with the Department of Revenue's determinations and
5 standards otherwise applicable under this subsection; and

6 (B) at least one working interest owner party to the agreement,
7 other than the operator, has substantial incentive and ability to effectively audit
8 billings under the agreement;

9 (3) an activity does not need to be physically located on, near, or
10 within the premises of the lease or property within which an oil or gas deposit being
11 explored for, developed, or produced is located in order for the cost of the activity to
12 be a cost upstream of the point of production of the oil or gas;

13 (4) the lease expenditures that are applicable to oil or gas produced
14 from leases or properties in the Cook Inlet sedimentary basin and the lease
15 expenditures that are applicable to other oil and gas shall be determined under
16 regulations adopted by the department that provide for reasonable methods of
17 allocating costs between oil and gas among leases or properties in the Cook Inlet
18 sedimentary basin, and between the Cook Inlet sedimentary basin and the rest of the
19 state;

20 (5) "direct costs" include

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

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

27 (C) a reasonable allowance, as determined under regulations
28 adopted by the department, for overhead expenses directly related to exploring
29 for, developing, and producing oil or gas deposits located within leases or
30 properties or other land in the state.

31 (d) For purposes of (c) of this section, lease expenditures do not include

Non Deductibles

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- (1) depreciation, depletion, or amortization;
- (2) oil or gas royalty payments, production payments, lease profit shares, or other payments or distributions of a share of oil or gas production, profit, or revenue;
- (3) taxes based on or measured by net income;
- (4) interest or other financing charges or costs of raising equity or debt capital;
- (5) acquisition costs for a lease or property or exploration license;
- (6) costs arising from fraud, wilful misconduct, or gross negligence;
- (7) fines or penalties imposed by law;
- (8) costs of arbitration, litigation, or other dispute resolution activities that involve the state or concern the rights or obligations among owners of interests in, or rights to production from, one or more leases or properties or a unit;
- (9) donations;
- (10) costs incurred in organizing a partnership, joint venture, or other business entity or arrangement;
- (11) amounts paid to indemnify the state; the exclusion provided by this paragraph does not apply to the costs of obtaining insurance or a surety bond from a third-party insurer or surety;
- (12) surcharges levied under AS 43.55.201 or 43.55.300;
- (13) for a transaction that is an internal transfer or is otherwise not an arm's length transaction, expenditures incurred that are in excess of fair market value;
- (14) an expenditure incurred to purchase an interest in any corporation, partnership, limited liability company, business trust, or any other business entity, whether or not the transaction is treated as an asset sale for federal income tax purposes;
- (15) a tax levied under AS 43.55.011;
- (16) the portion of costs incurred for dismantlement, removal, surrender, or abandonment of a facility, pipeline, well pad, platform, or other structure, or for the restoration of a lease, field, unit, area, body of water, or right-of-way in conjunction with dismantlement, removal, surrender, or abandonment, that is

standalone

1 attributable to production of oil or gas occurring before April 1, 2006; the portion is
2 calculated as a ratio of the amount of oil and gas production associated with the
3 facility, pipeline, well pad, platform, or other structure, lease, field, unit, area, body of
4 water, or right-of-way occurring before April 1, 2006, to the total amount of oil and
5 gas production associated with that facility, pipeline, well pad, platform, or other
6 structure, lease, field, unit, area, body of water, or right-of-way through the end of the
7 calendar month before commencement of the dismantlement, removal, surrender, or
8 abandonment; for purposes of the ratio calculated under this paragraph, 6,000 cubic
9 feet of gas is considered to be equivalent to one barrel of oil; a cost is not excluded
10 under this paragraph if the dismantlement, removal, surrender, or abandonment for
11 which the cost is incurred is undertaken for the purpose of replacing, renovating, or
12 improving the facility, pipeline, well pad, platform, or other structure;

13 (17) losses or damages resulting from an unpermitted oil discharge that
14 is not confined to a gravel pad, or costs to contain, clean up, or remediate such an
15 unpermitted oil discharge to the extent that those costs exceed the routine costs of
16 operation for a producer or explorer that would otherwise be incurred as lease
17 expenditures in the absence of the unpermitted oil discharge; this paragraph does not
18 apply to the cost of developing and maintaining an oil discharge prevention and
19 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 (e) Unless the payment or credit has already been subtracted in calculating
23 billed costs under (c)(2) of this section, a producer's lease expenditures must be
24 adjusted by subtracting certain payments or credits received by the producer or by an
25 operator acting for the producer, as provided in this subsection. If one or more
26 payments or credits subject to this subsection are received by a producer or by an
27 operator acting for the producer during a month or, under (f) of this section, during a
28 calendar year, and if either the total amount of the payments or credits exceeds the
29 amount of the producer's lease expenditures or the producer has no lease expenditures,
30 the producer shall nevertheless subtract those payments or credits from the lease
31 expenditures or from zero, respectively, and the producer's adjusted lease expenditures

1 for that month or calendar year are a negative number and shall be applied to the
2 calculation under (a) of this section as a negative number. The payments or credits that
3 a producer shall subtract from the producer's lease expenditures, or from zero, under
4 this subsection are payments or credits, other than tax credits, received by the producer
5 or by an operator acting for the producer for

6 (1) the use by another person of a production facility in which the
7 producer has an ownership interest or the management by the producer of a production
8 facility under a management agreement providing for the producer to receive a
9 management fee;

10 (2) a reimbursement or similar payment that offsets the producer's
11 lease expenditures, including an insurance recovery from a third-party insurer and a
12 payment from the state or federal government for reimbursement of the producer's
13 upstream costs, including costs for gathering, separating, cleaning, dehydration,
14 compressing, or other field handling associated with the production of oil or gas
15 upstream of the point of production;

16 (3) the sale or other transfer of

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

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

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

29 (B) oil or gas

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

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

3 (f) In place of the adjusted lease expenditures for a month under (a) of this
4 section, a producer may, at any time, elect to substitute, for every month of a calendar
5 year, 1/12 of the producer's adjusted lease expenditures for the calendar year. For
6 every month of a calendar year in which the price index for a producer determined
7 under AS 43.55.011(h) is greater than zero for one or more months, the producer shall
8 substitute, in place of the adjusted lease expenditures under (a) of this section, 1/12 of
9 the producer's adjusted lease expenditures for the calendar year. A substitution made
10 under this subsection applies to the calculation of the tax under AS 43.55.011(e) and
11 (g).

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

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

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

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

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

29 (j) For purposes of this section,

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

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

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

6 **Sec. 43.55.170. Additional nontransferable tax credit.** (a) For a month for
7 which a producer's tax liability under AS 43.55.011(e) exceeds zero before application
8 of any credits under this chapter, a producer that is qualified under (c) of this section
9 and whose average amount of oil and gas produced a day and taxable under
10 AS 43.55.011(e) is less than 100,000 barrels of oil equivalent a day may apply a tax
11 credit under this section against that liability. A producer whose average amount of oil
12 and gas produced a day and taxable under AS 43.55.011(e) is

13 (1) not more than 50,000 barrels of oil equivalent may apply a tax
14 credit of up to \$1,000,000 for the month;

15 (2) more than 50,000 and less than 100,000 barrels of oil equivalent
16 may apply a tax credit of up to the following fraction of \$1,000,000 for the month:

$$17 \quad 1 - [2 \times (AP - 50,000)]/100,000,$$

18 where AP = the average amount of oil and gas, expressed as barrels of oil equivalent,
19 produced a day during the month and taxable under AS 43.55.011(e).

20 (b) A producer may not take a tax credit under this section for any month that
21 ends the later of

22 (1) April 30, 2016; or

23 (2) the 10th anniversary of the last day of the month for which the
24 producer first has commercial oil or gas production from at least one lease or property
25 in the state, if the producer did not have commercial oil or gas production from a lease
26 or property in the state before April 1, 2006.

27 (c) On written application by a producer, including any information the
28 department may require, the department shall determine whether the producer
29 qualifies under this section for a calendar year. To qualify under this section, a
30 producer must demonstrate that its operation in the state or its ownership of an interest
31 in a lease or property in the state as a distinct producer entity would not result in the

1 division among multiple producer entities of any production tax liability under
2 AS 43.55.011(e) that would be reasonably expected to be attributed to a single
3 producer entity if the tax credit provision of (a) of this section did not exist.

4 (d) A tax credit authorized by this section may not be applied to reduce a
5 producer's tax liability under AS 43.55.011(e) for any month below zero. An unused
6 portion of a tax credit that could otherwise be applied for a month but whose
7 application would cause the producer's tax liability under AS 43.55.011(e) for the
8 month to be less than zero may be applied for one or more other months in the same
9 calendar year to the extent otherwise allowed under this section.

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

12 **Sec. 43.55.180. Required reports.** (a) The Department of Revenue shall

13 (1) study

14 (A) the effects of the tax rates under AS 43.55.011(f) and of
15 potential changes in those tax rates on state revenue and on oil and gas
16 exploration, development, and production on private land; and

17 (B) the fairness of the tax rates under AS 43.55.011(f) and of
18 potential changes in those tax rates for private landowners; and

19 (2) prepare a report on or before the first day of the 2013 regular
20 session of the legislature on the results of the study made under (1) of this subsection,
21 including a recommendation as to whether those tax rates should be changed; the
22 department shall notify the legislature that the report prepared under this paragraph is
23 available.

24 (b) The Department of Revenue shall

25 (1) study the effects of the credits authorized by AS 43.55.025 and
26 43.55.170 on state revenue, on the encouragement of exploration, development, and
27 production of oil and gas deposits located in the state, and on the encouragement of
28 new entrants into the oil and gas industry in the state; and

29 (2) prepare a report on or before the first day of the 2015 regular
30 session of the legislature on the results of the study made under (1) of this subsection,
31 and shall include with the report a recommendation as to whether the legislature

1 should extend the availability of the credits under AS 43.55.025 and 43.55.170; the
2 department shall notify the legislature that the report prepared under this paragraph is
3 available.

4 * Sec. 26. AS 43.55.201 is amended to read:

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

8 (b) The surcharge imposed by (a) of this section is in addition to the tax
9 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
10 from each lease or property during the preceding month. The surcharge [SHALL
11 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
12 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 -
13 43.55.310.

14 (c) A producer of oil shall make reports of production in the same manner and
15 under the same penalties as required under AS 43.55.011 - 43.55.180 [AS 43.55.011 -
16 43.55.150].

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

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

21 * Sec. 28. AS 43.55.300 is amended to read:

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

25 (b) The surcharge imposed by (a) of this section is in addition to the tax
26 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
27 from each lease or property during the preceding month. The surcharge [SHALL
28 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
29 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 -
30 43.55.231.

31 (c) A producer of oil shall make reports of production in the same manner and

1 under the same penalties as required under AS 43.55.011 - 43.55.180 [AS 43.55.011 -
2 43.55.150].

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

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

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

8 (6) "gas" means

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

10 (B) all hydrocarbons that

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

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

16 (C) all other hydrocarbons produced from a well not defined as
17 oil;

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

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

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

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

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

25 (10) "oil" means

26 (A) crude petroleum oil; and

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

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

30 (17) "Cook Inlet sedimentary basin" has the meaning given in
31 regulations adopted to implement AS 38.05.180(f)(4);

1 (18) "explorer" means a person who, in exploring for new oil or gas
2 reserves, incurs expenditures;

3 (19) "gas processing"

4 (A) means processing a gaseous mixture of hydrocarbons

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

9 (ii) for the purpose of extracting and recovering liquid
10 hydrocarbons;

11 (B) does not include gas treatment;

12 (20) "gas processing plant" means a facility that

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

15 (B) is located upstream of any gas treatment and upstream of
16 the inlet of any gas pipeline system transporting gas to a market;

17 (21) "gas treatment"

18 (A) means conditioning gas and removing from gas
19 nonhydrocarbon substances for the purpose of rendering the gas acceptable for
20 tender and acceptance into a gas pipeline system;

21 (B) includes incidentally removing liquid hydrocarbons from
22 the gas;

23 (C) does not include

24 (i) dehydration required to facilitate the movement of
25 gas from the well to the point where gas processing takes place;

26 (ii) the scrubbing of liquids from gas to facilitate gas
27 processing;

28 (22) "landowner's royalty interest" means

29 (A) a lessor's royalty interest under an oil and gas lease; or

30 (B) a royalty interest that is

31 (i) held by a surface owner of land from which oil or

1 gas is produced; and

2 (ii) granted in exchange for the right to use the surface
3 of that land or as compensation for damage to the surface of that land;

4 (23) "oil and gas lease" includes an oil and gas lease, a gas only lease,
5 and an oil only lease;

6 (24) "point of production" means

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

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

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

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

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

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

29 * Sec. 34, AS 43.55.011(a), 43.55.011(b), 43.55.011(c), 43.55.012, 43.55.013, 43.55.016,
30 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),
31 and 43.55.900(16) are repealed.

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

3 APPLICABILITY. (a) Sections 5, 7 - 10, 12, 13, 15 - 18, 20, 24, and 26 - 34 of this
4 Act and AS 43.55.160 and 43.55.170, enacted by sec. 25 of this Act, apply to oil and gas
5 produced after March 31, 2006.

6 (b) Section 11 of this Act applies to oil and gas produced before, on, or after the
7 effective date of sec. 11 of this Act.

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

10 TRANSITIONAL PROVISIONS. (a) Notwithstanding any contrary provision of
11 AS 43.55.024(a), enacted by sec. 12 of this Act, for oil and gas produced after March 31,
12 2006, and before January 1, 2007, the phrase "every month an annualized tax credit in an
13 amount equal to 1 2/3 percent" in AS 43.55.024(a)(1)(B), enacted by sec. 12 of this Act, shall
14 be replaced by the phrase "every month during the period April 1, 2006, through
15 December 31, 2006, an annualized tax credit in an amount equal to 2.222 percent."

16 (b) Notwithstanding any contrary provision of AS 43.55.024(e), enacted by sec. 12 of
17 this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the
18 phrase "a calendar year" in AS 43.55.024(e), enacted by sec. 12 of this Act, shall be replaced
19 by the phrase "the last nine months of the calendar year."

20 (c) Notwithstanding any contrary provision of AS 43.55.024(j)(2), enacted by sec. 12
21 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007,

22 (1) the number "1/24" in AS 43.55.024(j)(2)(B), enacted by sec. 12 of this
23 Act, shall be replaced by the number "1/18";

24 (2) the phrase "calendar year" in AS 43.55.024(j)(2)(B), enacted by sec. 12 of
25 this Act, shall be replaced by the phrase "last nine months of the calendar year."

26 (d) Notwithstanding any contrary provision of AS 43.55.160(f), enacted by sec. 25 of
27 this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the
28 phrase "for every month of a calendar year, 1/12 of the producer's adjusted lease expenditures
29 for the calendar year" in AS 43.55.160(f), enacted by sec. 25 of this Act, shall be replaced by
30 the phrase "for each of the last nine months of 2006, one-ninth of the producer's adjusted lease
31 expenditures for that nine-month period."

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

4 (f) Notwithstanding any contrary provision of AS 43.55.020(a), as repealed and
5 reenacted by sec. 7 of this Act, for oil and gas produced after March 31, 2006, and before the
6 first day of the first month that begins at least 270 days after the effective date of sec. 7 of this

7 Act, /0

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

12 (2) the amount, if any, of the taxes levied by AS 43.55.011(e) - (g), enacted by
13 sec. 5 of this Act, net of any credits applied as allowed by law that was not due under (1) of
14 this subsection, is due on the last day of the first month that begins at least 300 days after the
15 effective date of sec. 5 of this Act.

16 (g) Notwithstanding any contrary provision of AS 43.55.030(a), as amended by sec.
17 18 of this Act, for oil and gas produced after March 31, 2006, and before the first day of the
18 first month that begins at least 270 days after the effective date of sec. 18 of this Act, the
19 person paying the tax shall file with the Department of Revenue, at the time an amount of tax
20 is due

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

23 (2) under (f)(2) of this section, the statements required under AS 43.55.030(a),
24 as amended by sec. 18 of this Act.

25 (h) Notwithstanding any contrary provision of AS 43.55.201(a) or (b), as amended by
26 sec. 26 of this Act, or AS 43.55.300(a) or (b), as amended by sec. 28 of this Act, for oil
27 produced after March 31, 2006, and before the first day of the first month that begins at least
28 270 days after the effective date of secs. 26 and 28 of this Act,

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

1 preceding month;

2 (2) the amount, if any, of the surcharges imposed under AS 43.55.201(a), as
3 amended by sec. 26 of this Act, and AS 43.55.300(a), as amended by sec. 28 of this Act, that
4 was not due under (1) of this subsection, is due on the last day of the first month that begins at
5 least 300 days after the effective date of secs. 26 and 28 of this Act.

6 (i) Notwithstanding any contrary provision of AS 43.55.201(c), as amended by sec.
7 26 of this Act, or AS 43.55.300(c), as amended by sec. 28 of this Act, for oil produced after
8 March 31, 2006, and before the first day of the first month that begins at least 270 days after
9 the effective date of secs. 26 and 28 of this Act, at the time an amount of surcharge is due

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

13 (2) under (h)(2) of this section, the producer shall file the report of production
14 required under AS 43.55.201(c), as amended by sec. 26 of this Act, and AS 43.55.300(c), as
15 amended by sec. 28 of this Act.

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

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

22 **TRANSITION: RETROACTIVITY OF REGULATIONS.** Notwithstanding any
23 contrary provision of AS 44.62.240, a regulation adopted by the Department of Revenue to
24 implement, interpret, make specific, or otherwise carry out the provisions of secs. 5, 7 - 10,
25 12, 13, 15 - 18, 20, 24 - 34, and 36 of this Act may apply retroactively as of April 1, 2006, if
26 the Department of Revenue expressly designates in the regulation that the regulation applies
27 retroactively to that date.

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

30 **REVISOR'S INSTRUCTION.** The revisor of statutes is instructed to change the
31 heading of

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

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

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

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

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

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

12 RETROACTIVITY OF PROVISIONS OF ACT. Sections 5, 7 - 10, 12, 13, 15 - 18,
13 and 24 - 38 of this Act are retroactive to April 1, 2006.

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

Comments of SB2001

May 31, 2006

Pedro van Meurs

**Attn: Bill Corbus
Commissioner of Revenue
State of Alaska
From: Pedro van Meurs**

There are now many modifications and amendments in SB2001 to the bill originally proposed by the Governor. The original bill, I believe had 19 pages, now we are up to 35 pages. I find that SB2001 is now difficult to understand, even for an expert in petroleum fiscal matters such as me. I believe that this bill would also be difficult to administer.

On the assumption that the final bill will have a progressive feature in it, I also believe that the feature in SB2001 needs to be amended. It harms heavy oils by having an insertion point that is too low and is not progressive enough to be meaningful in case of real changes to long term expectations.

Also the GRE is now much to complex, without reason in my view.

Following is my list of comments and suggestions:

Section 5. With respect to (h):

Comment 1: This section has now become horrendously complicated as a result of all these special GRE values.

I believe the GRE should be simplified by simply deduction 2/3 of the gross value of the gas in all of Alaska under AS.43.55.160.

The reasons for this recommendation are the following. Cook Inlet is a mature declining oil and gas basin. For such a basin, lowering government take makes sense.

Bristol Bay and Nana Basin are extreme high risk exploration areas. Again having a lower government take on gas makes sense for such areas. We really need to give strong support to exploration in these two areas.

A large gas discovery in either of these two areas could alter dramatically the entire gas distribution economics in the State of Alaska and would create a much more flexible Alaska Gas Pipeline.

Section 5. With respect to Section (i):

I cannot see how there would be any tax on gas under (e) if there would be a GRE of 2/3 applicable to Cook Inlet. Also the progressive feature under (g) is now based on the net value (the "production tax value"). For a producer which produces primarily gas in Cook Inlet, the production tax value would be zero with the 2/3 GRE. Furthermore the progressive feature would only click in at a very high corresponding gas price based on my recommendation of a \$ 45 insertion point, on a barrel equivalent basis this would be \$ 7.50 per mmBtu net. In addition there would be small company allowance under AS 43.55.170 which would ensure that even if there would be a modest profit, the production tax value would still be zero. It seems impossible for a company in Cook Inlet to pay any tax even under low or average gas prices. There might be some tax under high gas prices as Cherrie Nienhuis seems to have calculated. Therefore, this section is complete overkill and makes the PPT difficult to administer for no reason whatsoever.

Therefore the best solution would be to delete section (i).

However, if Legislators concerned about Cook Inlet want to be absolutely sure that there are no taxes in Cook Inlet than as an alternative Section (i) could be simplified by stating that for Cook Inlet the tax rate under (e) is 0% and under (g) is 0. This would maintain the credits for Cook Inlet, but would set the rates at zero. We need then regulations to ring fence Cook Inlet for PPT purposes. I believe that zero tax rates for Cook Inlet are acceptable. The gas production in the basin is expected to decline strongly over the next three decades. Therefore, the long term impact of setting Cook Inlet rates at zero is low.

Section 12. With respect to (a)(2):

I would strongly advise to delete (a)(2).

This section is very difficult to administer. It would require a complete coordination between DNR and DOR as far as this credit is concerned. In practice, this section has the potential to create significant delays in the granting of the credit. This defeats the purpose of the PPT, which is to encourage new exploration.

Section 12. With respect to (f):

This section is an unnecessary complication. The chance that tax credits cannot be transferred to any one for a reasonable price under (e) is very low. At least five companies will pay PPT and will be able to use the credits. The 80% figure in (e) could be lowered to 60% if there is a concern that the "buyers market" for credits is not strong enough. The buyers will exact a discount. But this discount is likely not to exceed 5% to 20%.

With respect to the North Slope a 2/3 exclusion would create a level playing field for gas producers which are not part of the stranded gas contract, such as Anadarko or Chevron. I assume that all PPT deductions and credits can be taken against the condensates, as was presented by Roger Marks to the Legislature in January 2006 and in my GRE-May 1 memo. Therefore Anadarko and Chevron and others would pay approximately a 7% tax, just as the Sponsors under the proposed contract.

Therefore a flat 2/3 GRE would be reasonable and in the interest of the State in terms of promotion of gas exploration in all areas of Alaska. We should not forget that we always receive the royalties on state lands, the property taxes and the corporate income tax.

Comment 2: The insertion point of \$ 35 per barrel for the progressive feature is too low. It should be noted that this value is in nominal dollars. Over a period of 30 years this value could reduce in real 2006 dollars to well below \$ 20 per barrel. Such a low insertion point could seriously hamper re-investment in heavy oils, in particular 5 or 10 years from now.

It should be noted that the heavy oils in Alaska are not of a uniform quality. There is a wide range of heavy oil fields from 25 degrees API to 10 degrees API. It is essential for maintaining oil production that gradually technology is developed to increasingly produce oil from heavier oil fields. A low insertion point of \$ 35 per barrel could seriously hamper such a development over time.

Therefore, I would strongly recommend to raise this number to \$ 45.

Comment 3: At the same time, I believe that there is space to make the progressive feature slightly more progressive.

I believe that the fundamental principle should be to create a new stable relationship between the oil and gas industry and the State.

Alaskans may look unfavourably at the PPT in the future, if world oil supply and demand conditions change for whatever reason during the next thirty years in a way that would create a new oil price deck with an average expectation of over \$ 100 per barrel. It is likely that a large number of nations would adjust government takes on oil upward. Alaska may look rather rapidly out of date. This would induce the Legislature to change the PPT. It is much better to prevent this from happening in the first place by having a more progressive system that would automatically adjust to these circumstances.

Therefore I would recommend a tax of 0.2 percent in section 5 sub (g) instead of 0.1 percent.

It is not worth setting up an entire government administration just to pay cash for credits to small companies.

Given all the criteria under (f), this will likely be a slow process in the first place. There is no need for this extra layer of complexity.

I would therefore recommend deleting this section (f) and decreasing 80% in section (e) to 60%.

Section 12. With respect to (j) (2):

This section does not seem to implement the 2 for 1 concept that was suggested.

The 2 for 1 concept involved that if producer's or explorer's made twice the capital expenditures between April 1, 2006 and April 1, 2013 compared to the investments that they had made during five years from April 1, 2001 to April 1, 2006, that they would be entitled to the credits on the transitional investment expenditures. It seems to me that the section can actually be read in a way that all the producer has to do is invest 40% of what was invested before. The tax credit of 20% is compared with one-half of the capital expenditures in (2)(A). I believe that the transitional capital expenditures themselves should be compared with one half of the new capital expenditures. It might be that I misunderstand the wording of this section.

I strongly recommend to do a legal review of section (j)(2) in order to determine whether the section correctly implements the (2) for (1) concept.

Section 14. With respect to (b):

I would strongly suggest not to extend the current credit to the year 2016 as is now provided for in this section.

The PPT should be streamlined as soon as possible.

With a general profits based system under which exploration costs can already be deducted, a GRE as suggested by me of 2/3 for gas and a tax credit of 20% there is more sufficient incentive to explore in Alaska. There is no need to maintain two parallel credit systems for exploration for a decade. It is therefore acceptable for the current credit to expire as planned.

Section 15. With respect to (f):

This section still relates to the original exploration credit which I would recommend that it expires as planned originally. I therefore see no need for amendments relative to the original Oil and Gas Production Tax other than clarifying that the credit can be claimed against taxes due under AS. 43.55.011(e).

Section 25. With respect to (a):

This section can be greatly simplified if my suggestions with respect to Section 5, with respect to (h) and (i) would be adopted.

Section 43.55.180. With respect to (b):

This section can be simplified by eliminating the reference to AS 43.55.025, if my suggestions with respect to Section 14 would be adopted.

In general, there would be many consequential changes to SB2001 as a result of my suggestions above and these will all assist in making the PPT law easier to understand and administer.

Best regards,

Pedro van Meurs

Dan Dickinson

	Current CS	House	Senate
Market	70	70	70
All Costs	-15	-15	-15
Net Value	55	55	55
Prog Insertion Point	45	35	35
Price Index	10	20	20
Prog Rate	0.175	0.250	0.100
Product	1.750	5.000	2.000
Base Rate	20.000	21.500	22.500
Effective Rate	21.750	26.500	24.500

Dept of Revenue
1-Jun-06

COOK INLET

Cook Inlet

Cook Inlet Gas

Existing Production

PPT at 20% - with the .011 (i) comparison

.011 (i) comparison is

Comparison Period is April 1 2005 through March 31 2006

ELF on a lease by lease basis

Price is PV

Sets a ceiling on a lease or property basis

Only total increase can come from increased volume

Using PPT or .011 (i) ceiling

Credits are deductible HOWEVER

Can only take CI taxes to zero

Cannot be used outside CI, sold or transferred unless

Credits would have been available under PPT

New Production

PPT at 20% - with the .011 (i) comparison

.011 (i) comparison is

Comparison Period is April 1 2005 through March 31 2006

Average of all existing production

Sets a ceiling on a unit by unit basis

Using PPT or .011 (i) ceiling

Credits are deductible HOWEVER

Can only take CI taxes to zero

Cannot be used outside CI, sold or transferred unless

Credits would have been available under PPT

Cook Inlet Oil

Same scheme as above

However, OIL ELF was zero for the period

so Oil taxes will remain at zero for the period

Department will write regulations to allocate costs between Cook Inlet and rest of State

COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS

source DOR	House CS for CS for SB 305 Version B	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001(FIN) Version X
general	21.5%	20%	22.5%	20%
Cook Inlet	011(e)-page 3	011(e) - page 3	011(e) - page 3	011(e) - page 3
tax rate	3/4 rev. excl for Cook Inlet oil 160(a) --page 19	3/4 rev. excl for Cook Inlet oil 160(a) - page 18	3/4 rev. excl for Cook Inlet oil 160(a) - page 19	ELF tax ceiling on Cook Inlet oil 011(j) - page 5
Cook Inlet Gas	ELF tax ceiling on Cook Inlet gas 011(i) --page 5	ELF tax ceiling on Cook Inlet gas 011(i) - page 4	ELF tax ceiling on Cook Inlet gas 011(i) - page 4	ELF tax ceiling on Cook Inlet gas 011(i) - pages 4-5
credit rate	20%	20%	20%	20%
	024(a)-pages 7-8	024(a) - page 6-7	024(a) - page 7	024(a) - page 9
private royalty tax rate	5% oil & 1.67% gas Report from Commish	5% oil & 1.67% gas Report from Commish	5% oil & 1.67% gas Report from Commish	5% oil & 1.67% gas Report from Commish
	011(f) - pages 3-4 & 180 pg 27	011(f) - pages 3-4 & 180 p 26	011(f) - pages 3-4 & 180 p 27	011(f) - pages 3-4 & 180 p 30
Gas (GRE)	ANS gas 2/3 included (1/3 excl), CI gas 1/3 included, new gas 1/2 included 160(a) page 19	ANS gas 2/3 included (1/3 excl), CI gas 1/3 included, new gas 1/2 included 160(a) pages 18-19	ANS gas 2/3 included (1/3 excl), CI gas 1/3 included, new gas 1/2 included 160(a) pages 19-20	n/a
progressivity surcharge	over \$35/bbl (net value/boe) x .0025 x net value 011(g) and (h) page 4-5	none	over \$35/bbl (net value/boe) x .001 x net value with new boe rules 011(g) & (h)-page 4	over \$45/bbl (net value/boe) x .00175 x net value with new boe rules 011(g) & (h)-page 4
progressivity tax cap	when combined with PPT basic tax, cannot exceed 50% 011(g)-page	n/a	when combined with PPT basic tax, cannot exceed 50% 011(g)-page 4	when combined with PPT basic tax, cannot exceed 50% 011(g)-page 4
special gas progressivity?	n/a	n/a	n/a	n/a
progressivity deductible?	no 160(d)(2)(O)-page 23	n/a	no 160(d)(15)-page 23	no 160(d)(15)-page 24
transition	5 yrs lookback capex 2 for 1 recoupment 024(j)-page 11	5 yrs lookback capex 2 for 1 recoupment 024(j)-pages 10-11	5 yrs lookback capex 2 for 1 recoupment 024(j)-pages 11-12	5 yrs lookback capex 2 for 1 recoupment (CORRECTED) 024(j)-pages 12-14
transition treatment	20% credit, no oil price test 024(j)-pages 11-12	20% credit, no oil price test 024(j)-pages 10-11	20% credit, no oil price test 024(j)-pages 11-12	20% credit, no oil price test 024(j)-pages 12-14
sunset of transition	7 yr rolling 024(j)(3) page 12	7 yr rolling 024(j)(3) page 11	7 yr rolling 024(j)(3) page 12	7 yr rolling 024(j)(3) page 13
base allowance	\$12M credit (\$1M per month) (equates to \$60M ded) based on production 170(a)-page 26	\$12M credit (\$1M per month) (equates to \$60M ded) NOT based on production 170(a)-page 25	\$12M credit (\$1M per month) (equates to \$53.3M ded) NOT based on production 170(a)-page 26	\$12M credit (\$1M per month) (equates to \$60M ded) based on production 170(c)-page 28-29
sunset of base allowance	10 yr rolling 170(n)-page 26	10 yr rolling 170(b)-pages 25-26	10 yr rolling 170(b)-pages 26-27	10 yr rolling 170(d)-pages 29
new area development credit	n/a	n/a	n/a	\$6M credit (\$500,000 per mo) for areas NOT ANS, NOT Cook Inlet 170(a) -page 28
sunset of new area development credit				10 yr rolling 170(b)-page 28
safe harbor	95%, annual true up, no interest 020(a)-page 6	95%, annual true up, no interest 020(a)-page 5	95%, annual true up, no interest 020(a)-page 5	95%, annual true up, no interest 020(a)-page 7
pmt < safe harbor??	interest only 020(a)-page 6	interest only 020(a)-page 6	interest only 020(a)-page 5	interest only 020(a)-page 7

6/3/2006

COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS

source: DOR	House CS for CS for SB 305 Version B	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001(FIN) Version X
effective date	4/1/2006 Sec. 39 --page 35	7/1/2006 Sec. 36 --page 31	4/1/2006 Sec. 39 --page 35	4/1/2006 Sec. 39 --page 38
transition payment	10 mos. pymt on old system, true-up in 11th mo. Sec. 36(g)(h) --page 33	10 mos. pymt on old system, true up in 11th mo Sec. 7(f)(g) --pages 32- 33	10 mos. pymt on old system, true up in 11th mo Sec. 37(f)(g) --pages 33-34	10 mos. pymt on old system; true-up in 10th mo. (clarification) Sec. 37(f)(g) --page 36
spill surcharge total spill surcharge split (201/300) spill surcharge payable	no change (5 cents) 1/4 increase 1 cent page 28	no change (5 cents) 1/4 increase 1 cent pages 27-28	no change (5 cents) 1/4 increase 1 cent pages 28-29	no change (5 cents) 1/4 increase 1 cent pages 31-32
surcharge treatment	not creditable, not ded 160(d)(2)(L) --page 23	not creditable, not ded 160(d)(12) --page 22	not creditable, not ded. 160(d)(12) --page 23	not creditable, not ded 160(d)(12) --page 24-25
SB 185 credit	extends 10 years; removes \$20M Cook Inlet limit 025(b), 025(f) --pages 13-14	extends 10 years; removes \$20M Cook Inlet limit 025(b), 025(f) --pages 12-15	extends 10 years; removes \$20M Cook Inlet limit 025(b), 025(f) --pages 13-16	extends 10 years; removes \$20M Cook Inlet limit 025(b), 025(f) --pages 15-17
abandonment	no deduction or credit for abandonment on old production (improved language) 160(d)(2)(P) --page 23	no deduction or credit for abandonment on old production (further improved language) 160(d)(16) --pages 22- 23	no deduction or credit for abandonment on old production (further improved language) 160(d)(16) --pages 23-24	no deduction or credit for abandonment on old production (further improved language) 160(d)(16) --pages 24-25
credits usable	against PPT only 024(a) --page 7-8	against PPT only 024(a) --pages 6-7	against PPT only 024(a) --pages 7-8	against PPT only 024(a) --pages 9-10
credits transferable	yes--20% tax limit 024(d) --(e) --page 9-10	yes--20% tax limit 024(d) --(e) --pages 8-9	yes--20% tax limit 024(d) --(e) --page 9	yes--20% tax limit 024(d) --(e) --pages 10-11
credits refundable?	up to \$25M depends on investment, production limit 024(f) --page 10	up to \$25M depends on investment, production limit 024(f) --page 9	up to \$25M depends on investment, production limit 024(f) --pages 9-10	up to \$25M depends on investment, production limit 024(f) --pages 11-12
credits for annual loss	yes, at 20% 024(b) --page 8-9	yes, at 20% 024(b) --pages 7-8	yes, at 22.5% 024(b) --page 8	yes, at 20% 024(b) --page 10
point of production	upstream of gas treatment upstream (definition added) 900(7) --page 29	upstream of gas treatment upstream (definition added) 900(7) --pages 29-30	upstream of gas treatment upstream (definition added) 900(7) --pages 29-30	upstream of gas treatment upstream (definition added) 900(7) --page 32
DNR royalty value	no	no	no	no
IRC sec. 482 as a tool	yes (w/o §6662) 160(i) --page 25	yes (w/o §6662) 160(i) --page 25	yes (w/o §6662) 160(i) --page 26	yes (w/o §6662) 160(i) --page 27
oil spill	any oil spill cleanup costs not ded 160(d)(2)(Q) --page 23	any oil spill cleanup costs not ded (exception for gravel pad) 160(d)(17) --page 23	any oil spill cleanup costs not ded (exception for gravel pad) 160(d)(17) --page 24	any oil spill cleanup costs not ded (improved pad language) 160(d)(17) --page 25
DNR gets exploration Data	yes 024(a) --pages 7-8	yes 024(a) --page 7	yes 024(a)(2) --page 8	yes 024(a)(2) --page 9
020 (f) Sales Language	yes 020(f) --page 7	yes 020(f) --page 6	yes 020(f) --page 7	yes 020(f) --page 8
NPSI. regs after industry practice	yes 160(c)(1)(A) --page 21	yes (in Alaska only) 160(c)(1)(A) --page 20	yes (in Alaska only) 160(c)(1)(A) --page 21	yes (in Alaska only) 160(c)(1)(A) --page 22
credit flow through re FERC	yes, regulated fac. only 024(k) --page 12	yes, regulated fac. only 024(k) --page 11	yes, regulated fac. only 024(k) --page 12	yes, regulated fac. only 024(k) --page 14
disallowed deduction for negligence	exp re. negligence not allowable 160(d)(2)(F) --page 22	exp re. gross negligence not allowable 160(d)(6) --page 23	exp re. gross negligence not allowable 160(d)(6) --page 23	exp re. gross negligence not allowable 160(d)(6) --page 24
high energy fund established	yes 011(h)	no	no	no

*Gas Rev Exclusion -
 includes 2% net premium*

Cook Inlet Examples
 PPT with various Adjustments

*Process PPT @ 20% (b) apply credits (tax amt)
 SB*

GRE of 2/3

011 (i) Lookback test

\$12 mm Credit

	Change from PPT base	Tax	Change from Current	Change from PPT base	Tax	Change from Current	Change from PPT base	Tax	Change from Current
Cook Inlet Gas \$ 2.50									
Big Vol High ELF	(18,958,333)	(8,520,833)	(18,473,958)	-	10,437,500	484,375	(12,000,000)	(1,562,500)	(11,515,025)
Big Vol Low ELF	(18,958,333)	(8,520,833)	(12,786,458)	(7,759,375)	2,678,125	(1,587,500)	(12,000,000)	(1,562,500)	(5,828,125)
Mid Range	(14,583,333)	(6,708,333)	(12,177,083)	(2,031,250)	5,843,750	375,000	(11,875,000)	(4,000,000)	(9,409,750)
Small Vol Low ELF	(1,458,333)	(1,270,833)	(1,598,958)	(595,875)	(409,375)	(737,500)	(1,187,500)	(1,000,000)	(1,328,125)
Small Vol High ELF	(1,458,333)	(1,270,833)	(2,038,458)	-	187,500	(578,125)	(1,187,500)	(1,000,000)	(1,705,625)
TOTAL	(55,416,667)	(26,291,667)	(47,072,917)	(10,387,500)	18,737,500	(2,043,750)	(38,250,000)	(9,125,000)	(29,905,250)
Cook Inlet Gas \$ 4.50									
Big Vol High ELF	(34,125,000)	(937,500)	(18,953,125)	(20,271,875)	12,915,625	(5,000,000)	(12,000,000)	21,187,500	3,271,875
Big Vol Low ELF	(34,125,000)	(937,500)	(8,615,625)	(30,509,375)	2,678,125	(5,000,000)	(12,000,000)	21,187,500	13,509,375
Mid Range	(26,250,000)	(875,000)	(10,718,750)	(19,531,250)	5,843,750	(4,000,000)	(12,000,000)	13,375,000	3,531,250
Small Vol Low ELF	(2,825,000)	(687,500)	(1,278,125)	(2,346,875)	(409,375)	(1,000,000)	(2,937,500)	(1,000,000)	(1,500,025)
Small Vol High ELF	(2,825,000)	(687,500)	(2,065,625)	(1,559,375)	378,125	(1,000,000)	(2,937,500)	(1,000,000)	(2,378,125)
TOTAL	(99,750,000)	(4,125,000)	(41,531,250)	(74,218,750)	21,406,250	(16,000,000)	(41,875,000)	53,750,000	16,343,750
Cook Inlet Gas \$ 6.50									
Big Vol High ELF	(49,291,667)	6,645,833	(19,232,292)	(43,021,875)	12,915,625	(12,962,500)	(12,000,000)	43,937,500	18,059,375
Big Vol Low ELF	(49,291,667)	6,645,833	(4,444,792)	(53,259,375)	2,678,125	(8,412,500)	(12,000,000)	43,937,500	32,846,875
Mid Range	(37,918,667)	4,958,333	(9,260,417)	(37,031,250)	5,843,750	(8,375,000)	(12,000,000)	30,875,000	18,658,250
Small Vol Low ELF	(3,781,667)	(104,167)	(957,292)	(4,096,875)	(409,375)	(1,262,500)	(4,687,500)	(1,000,000)	(1,853,125)
Small Vol High ELF	(3,791,667)	(104,167)	(1,194,792)	(3,309,375)	378,125	(1,612,500)	(4,687,500)	(1,000,000)	(2,990,625)
TOTAL	(144,083,333)	18,041,667	(35,989,583)	(140,718,750)	21,408,250	(32,625,000)	(45,375,000)	116,750,000	62,719,750
Cook Inlet Gas \$ 8.50									
Big Vol High ELF	(64,458,333)	14,229,167	(19,611,458)	(65,771,875)	12,915,625	(20,925,000)	(12,000,000)	66,687,500	32,846,875
Big Vol Low ELF	(64,458,333)	14,229,167	(273,958)	(76,009,375)	2,678,125	(11,825,000)	(12,000,000)	66,687,500	52,184,375
Mid Range	(49,583,333)	10,781,667	(7,802,083)	(54,531,250)	5,843,750	(12,750,000)	(12,000,000)	48,375,000	29,781,250
Small Vol Low ELF	(4,958,333)	479,167	(638,458)	(5,846,875)	(409,375)	(1,525,000)	(6,437,500)	(1,000,000)	(2,115,625)
Small Vol High ELF	(4,958,333)	479,167	(2,123,958)	(5,059,375)	378,125	(2,225,000)	(6,437,500)	(1,000,000)	(3,603,125)
TOTAL	(188,416,667)	40,208,333	(30,447,917)	(207,218,750)	21,436,250	(49,250,000)	(48,875,000)	179,750,000	109,093,750

Handwritten notes:
 H 12/11/10
 based on
 2010 model
 1/20/11

Handwritten:
 copy on
 file

Cook Inlet Examples
PPT with various Adjustments

	Volume	Value Ex Royalty	ELF	Current Tax	Costs	"Net Value"	20% Tax on Net Value	Credits	Tax After Credits
		Value * Volume * 87.5%		ELF * Value * 10%		Value - Costs	Net Value * 20		Tax - Credits
Cook Inlet Gas Value:		\$	2.50						
Big Vol High ELF	65,000,000	142,187,500	0.7000000	9,953,125	65,000,000	77,187,500	15,437,500	5,000,000	10,437,500
Big Vol Low ELF	65,000,000	142,187,500	0.3000000	4,265,625	65,000,000	77,187,500	15,437,500	5,000,000	10,437,500
Mid Range	50,000,000	109,375,000	0.5000000	5,468,750	50,000,000	59,375,000	11,875,000	4,000,000	7,875,000
Small Vol Low ELF	5,000,000	10,937,500	0.3000000	328,125	5,000,000	5,937,500	1,187,500	1,000,000	187,500
Small Vol High ELF	5,000,000	10,937,500	0.7000000	765,625	5,000,000	5,937,500	1,187,500	1,000,000	187,500
TOTAL	190,000,000	415,625,000		20,781,250	190,000,000	225,625,000	45,125,000	16,000,000	29,125,000
Cook Inlet Gas Value:		\$	4.50						
Big Vol High ELF	65,000,000	255,937,500	0.7000000	17,915,625	65,000,000	190,937,500	38,187,500	5,000,000	33,187,500
Big Vol Low ELF	65,000,000	255,937,500	0.3000000	7,678,125	65,000,000	190,937,500	38,187,500	5,000,000	33,187,500
Mid Range	50,000,000	196,875,000	0.5000000	9,843,750	50,000,000	146,875,000	29,375,000	4,000,000	25,375,000
Small Vol Low ELF	5,000,000	19,687,500	0.3000000	590,625	5,000,000	14,687,500	2,937,500	1,000,000	1,937,500
Small Vol High ELF	5,000,000	19,687,500	0.7000000	1,378,125	5,000,000	14,687,500	2,937,500	1,000,000	1,937,500
TOTAL	190,000,000	748,125,000		37,406,250	190,000,000	558,125,000	111,625,000	16,000,000	95,625,000
Cook Inlet Gas Value:		\$	6.50						
Big Vol High ELF	65,000,000	369,687,500	0.7000000	25,878,125	65,000,000	304,687,500	60,937,500	5,000,000	55,937,500
Big Vol Low ELF	65,000,000	369,687,500	0.3000000	11,090,625	65,000,000	304,687,500	60,937,500	5,000,000	55,937,500
Mid Range	50,000,000	284,375,000	0.5000000	14,218,750	50,000,000	234,375,000	46,875,000	4,000,000	42,875,000
Small Vol Low ELF	5,000,000	28,437,500	0.3000000	853,125	5,000,000	23,437,500	4,687,500	1,000,000	3,687,500
Small Vol High ELF	5,000,000	28,437,500	0.7000000	1,890,625	5,000,000	23,437,500	4,687,500	1,000,000	3,687,500
TOTAL	190,000,000	1,080,625,000		54,031,250	190,000,000	890,625,000	178,125,000	16,000,000	162,125,000
Cook Inlet Gas Value:		\$	8.50						
Big Vol High ELF	65,000,000	483,437,500	0.7000000	33,840,625	65,000,000	418,437,500	83,687,500	5,000,000	78,687,500
Big Vol Low ELF	65,000,000	483,437,500	0.3000000	14,503,125	65,000,000	418,437,500	83,687,500	5,000,000	78,687,500
Mid Range	50,000,000	371,875,000	0.5000000	18,593,750	50,000,000	321,875,000	64,375,000	4,000,000	60,375,000
Small Vol Low ELF	5,000,000	37,187,500	0.3000000	1,115,625	5,000,000	32,187,500	6,437,500	1,000,000	5,437,500
Small Vol High ELF	5,000,000	37,187,500	0.7000000	2,603,125	5,000,000	32,187,500	6,437,500	1,000,000	5,437,500
TOTAL	190,000,000	1,413,125,000		70,050,250	190,000,000	1,223,125,000	244,625,000	16,000,000	228,625,000

Wagon file

Cook Inlet Gas
 Credit Usage Example
 Comparison of Effect of Allocation of Base Credit
 source: Dept. of Revenue
 6/1/2006
 for: House Finance Committee

		Example A1 all prod. in CI	Example A2 50% prod. CI
<u>Tentative Tax</u>			
PPT tax before credits	A	100	100
Base credit <i>Nonimmediate</i>		12	6
total capex credit--Cook Inlet	X	110	110
capex credits usable under PPT		<u>88</u>	<u>94</u>
PPT tax after credits		0	0
ELF tax before credits	B	95	95
Lower of A or B		95	95
Tax Benefit enjoyed (ELF less than PPT)	A - B = Y	5	5
<u>Tax Calculation</u>			
Lower of A or B		95	95
Base credit		12	6
capex credits usable		<u>83</u>	<u>89</u>
Net tax after credits		0	0
capex credits used		83	89
capex credits deemed used (tax benefit enjoyed)	Y	<u>5</u>	<u>5</u>
total capex credits deemed used (not to exceed total credits X)	Z	<u>88</u>	<u>94</u>
capex credit available for use outside Cook Inlet or carryforward	X - Z	22	16

30% NS

oil pg 5

Cook Inlet Gas
 Credit Usage Example
 ELF lower than base credit
 source: Dept. of Revenue
 6/1/2006
 for: House Finance Committee

		Example B1	Example B2
<u>Tentative Calculation</u>			
PPT tax before credits	A	38	38
Base credit		6	6
total capex credit--Cook Inlet	X 40		40
capex credits usable under PPT		<u>32</u>	<u>32</u>
PPT tax after credits		0	0
ELF tax before credits			
ELF tax before credits	B	8	5
Lower of A or B		8	5
Tax Benefit enjoyed (ELF less than PPT)	A - B = Y	30	33
 <u>Tax Calculation</u>			
Lower of A or B		8	5
Base credit		6	5
capex credits usable		<u>2</u>	<u>0</u>
Net tax after credits		0	0
capex credits used		2	0
capex credits deemed used (tax benefit enjoyed)	Y	<u>30</u>	<u>33</u>
total capex credits deemed used (not to exceed total credit)	Z	32	33
capex credit available for use outside Cook Inlet or carryforward	X - Z	8	7

Dept of Rev

6/1/2006

COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS

source: DOR	SENATE (page refs = S. Fin. CS)	HOUSE (page refs = H. Fin. CS)	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001(FIN) Version I
general	22.5% general	21.5%	20%	22.5%	20%
Cook Inlet Oil	5% on Cook Inlet oil	.011(e)-page 3 3/4 rev. excl. for Cook Inlet oil	.011(e) - page 3 3/4 rev. excl for Cook Inlet oil	.011(e) - page 3 3/4 rev. excl for Cook Inlet oil	.011(e) - page 3 ELF tax ceiling on Cook Inlet oil
Cook Inlet Gas		.160(a) - page 19	.160(a) - page 18	.160(a) - page 19	.011(f) - page 5
tax rate		ELF tax ceiling on Cook Inlet gas	ELF tax ceiling on Cook Inlet gas	ELF tax ceiling on Cook Inlet gas	ELF tax ceiling on Cook Inlet gas
	.011(e)-pages 3-4	.011(i) - page 5	.011(g) - page 4	.011(g) - page 5	.011(i) - page 4
credit rate	25%	20%	20%	20%	20%
	.024(a)-page 7	.024(a)-pages 7-8	.024(a) - page 6-7	.024(a) - page 7	.024(a) - page 8-9
private royalty tax rate	5% oil & 1.67% gas Report from Commish	5% oil & 1.67% gas Report from Commish	5% oil & 1.67% gas Report from Commish	5% oil & 1.67% gas Report from Commish	5% oil & 1.67% gas Report from Commish
	.011(f)-page 4 & .180 pg 26	.011(f)-pages 3-4 & .180 pg 27	.011(f) - pages 3-4 & .180 p. 26	.011(f) - pages 3-4 & .180 p. 27	.011(f) - pages 3-4 & .180 p. 29
Gas (GRE)	Gas Revenue (Value) Exclusion of 2/3 (1/3 included)	ANS gas 2/3 included (1/3 excl); CI gas 1/3 included; new gas 1/2 included	ANS gas 2/3 included (1/3 excl); CI gas 1/3 included; new gas 1/2 included	ANS gas 2/3 included (1/3 excl); CI gas 1/3 included; new gas 1/2 included	n/a
	.160(a) page 19	.160(a) page 19	.160(a) pages 18-19	.160(a) pages 19-20	
progressivity surcharge	over \$50/bbl, (ANSwc - \$50) x .002 x ANSwh x .775 x bbls (oil only)	over \$35/bbl (net value/bbl) x .0025 x net value	none	over \$35/bbl (net value/bbl) x .001 x net value with new boo rules	over \$45/bbl (net value/bbl) x .00175 x net value with new boo rules
	.011(g) and (h)-pages 4-5	.011(g) and (h)-pages 4-5		.011(g) & (h)-page 4	.011(g) & (h)-page 4
progressivity tax cap	no	when combined with PPT basic tax, cannot exceed 50%	n/a	when combined with PPT basic tax, cannot exceed 50%	when combined with PPT basic tax, cannot exceed 50%
		.011(g)-page		.011(g)-page 4	.011(g)-page 4
special gas progressivity?	no	n/a	n/a	n/a	n/a
progressivity deductible?	no	no	n/a	no	no
	.160(d)(2)(O)-page 22	.160(d)(2)(O)-page 23		.160(d)(15)-page 23	.160(d)(15)-page 24
transition	5 yrs lookback capex 2 for 1 recoupment	5 yrs lookback capex 2 for 1 recoupment	5 yrs lookback capex 2 for 1 recoupment	5 yrs lookback capex 2 for 1 recoupment	5 yrs lookback capex 2 for 1 recoupment
	.024(i)-pages 10-11	.024(j)-page 11	.024(j)-pages 10-11	.024(j)-pages 11-12	.024(j)-pages 12-13
transition treatment	20% credit, no oil price test	20% credit, no oil price test	20% credit, no oil price test	20% credit, no oil price test	20% credit, no oil price test
	.024(i)-pages 10-11	.024(j)-pages 11-12	.024(j)-pages 10-11	.024(j)-pages 11-12	.024(j)-pages 12-13
sunset of transition	3/31/2013	7 yr rolling	7 yr rolling	7 yr rolling	7 yr rolling
	.024(i)-page 11	.024(j)(3) page 12	.024(j)(3) page 11	.024(j)(3) page 12	.024(j)(3)-page 13
base allowance	Revised 5000 bbl equivalent credit capped at 14 million	\$12M credit (\$1M per month) (equates to \$60M ded.) based on production	\$12M credit (\$1M per month) (equates to \$60M ded.) NOT based on production	\$12M credit (\$1M per month) (equates to \$53.3M ded.) NOT based on production	\$12M credit (\$1M per month) (equates to \$60M ded.) based on production
	.170(a)-pages 25-26	.170(a)-page 26	.170(a)-page 25	.170(a)-page 26	.170(a)-page 28
sunset of base allowance	3/31/2016 w/commissioner report	10 yr rolling	10 yr rolling	10 yr rolling	10 yr rolling
	.170(a)-page 25, .180 pg 26-27	.170(a)-page 26	.170(b)-pages 25-26	.170(b)-pages 26-27	.170(b)-page 28
safe harbor	95%, annual true-up, no interest	95%, annual true-up, no interest	95%, annual true-up, no interest	95%, annual true-up, no interest	95%, annual true-up, no interest
	.020(a)-pages 5-6	.020(a)-page 6	.020(a)-page 5	.020(a)-page 5	.020(a)-page 7
pmt < safe harbor??	interest only	interest only	interest only	interest only	interest only
	.020(a)-pages 5-6	.020(a)-page 6	.020(a)-page 6	.020(a)-page 5	.020(a)-page 7
effective date	4/1/2006	4/1/2006	7/1/2006	4/1/2006	4/1/2006
	Sec. 40 -page 37	Sec. 34 -page 35	Sec. 36 -page 31	Sec. 39 -page 35	Sec. 39 -page 37

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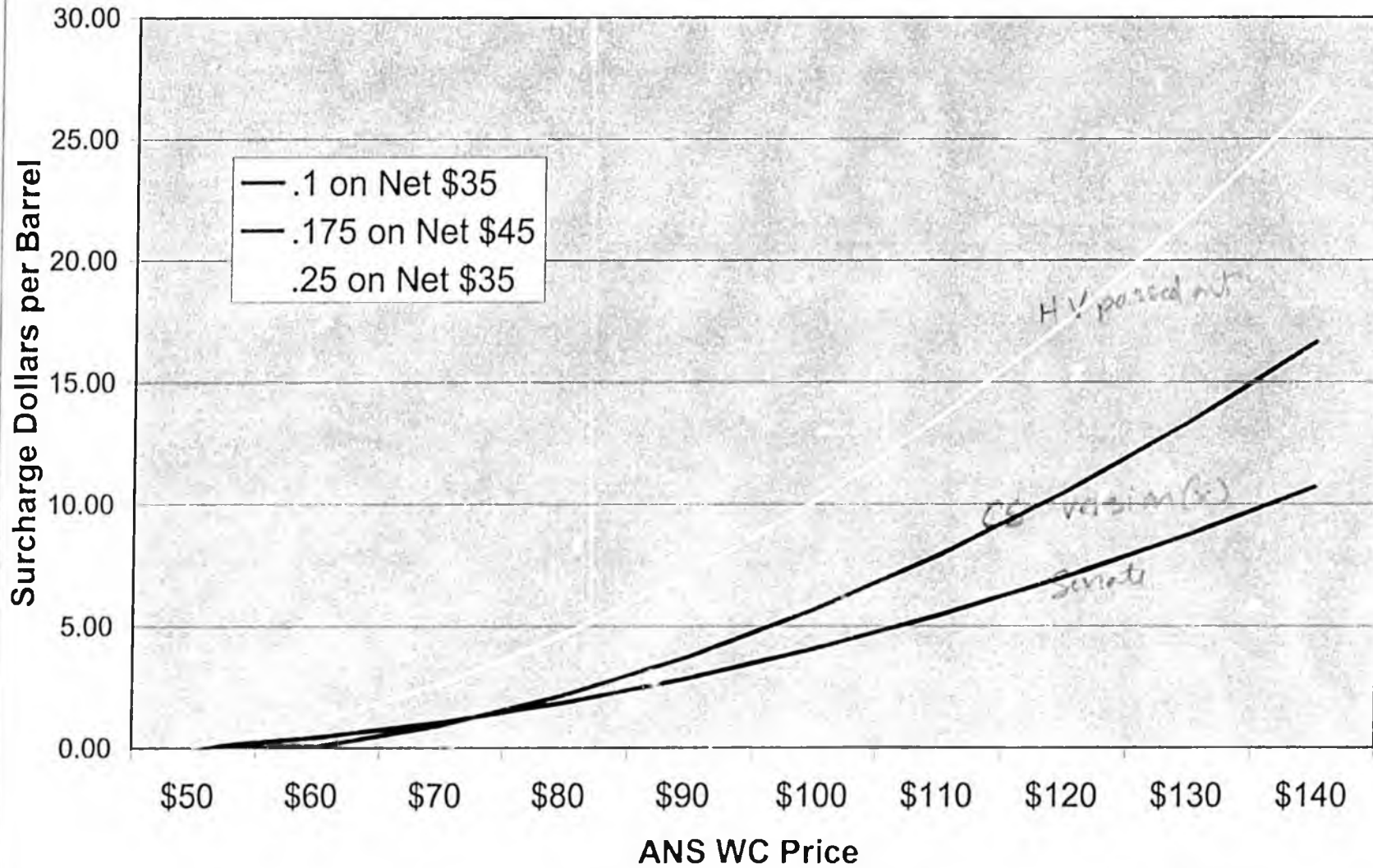
6/1/2006

COMPARISON OF PPT BILL VERSIONS--HIGHLIGHTS

source: DOR	SENATE (page refs = S. Fin. CS)	HOUSE (page refs = H. Fin. CS)	Governor's Bill (Special Session) Version A	CSSB 2001 (FIN) Version F	House CS for SB 2001 (FIN) Version I
transition payment	6 mos. pymt on old system, true-up in 7th mo. Sec. 37(g)--pages 31-32	10 mos. pymt on old system; true-up in 11th mo. Sec. 36(a)(h)--page 33	10 mos. pymt on old system, true-up in 11th mo. Sec. 37(f)(g)--pages 32-33	10 mos. pymt on old system, true-up in 11th mo. Sec. 37(f)(g)--pages 33-34	10 mos. pymt on old system, true-up in 10th mo. (clarification) Sec. 36(f)(g)--page 35
spill surcharge total spill surcharge split (.201/.300) spill surcharge payable	increase 1 cent, to 6 cents 1/5 increase 2 cent .201, .300 pages 27-28	no change (5 cents) 1/4 increase 1 cent page 28	no change (5 cents) 1/4 increase 1 cent pages 27-28	no change (5 cents) 1/4 increase 1 cent pages 28-29	no change (5 cents) 1/4 increase 1 cent page 30
surcharge treatment	not creditable, not ded. .160(d)(2)(L)--page 22	not creditable, not ded. .160(d)(2)(L)--page 23	not creditable, not ded. .160(d)(12)--page 22	not creditable, not ded. .160(d)(12)--page 23	not creditable, not ded. .160(d)(12)--page 24
SB 185 credit	extends 0 years; fixes \$20 m issue .025(b), .025(f)--page 12-14	extends 10 years; removes \$20M Cook Inlet limit .025(b), .025(f)--pages 13-14	extends 10 years; removes \$20M Cook Inlet limit .025(b), .025(f)--pages 12-15	extends 10 years; removes \$20M Cook Inlet limit .025(b), .025(f)--pages 13-16	extends 10 years; removes \$20M Cook Inlet limit .025(b), .025(f)--pages 15-17
abandonment	no deduction or credit for abandonment on old production .160(d)(2)(P) page 22	no deduction or credit for abandonment on old production (improved language) .160(d)(2)(P)--page 23	no deduction or credit for abandonment on old production (further improved language) .160(d)(16)--pages 22-23	no deduction or credit for abandonment on old production (further improved language) .160(d)(16)--pages 23-24	no deduction or credit for abandonment on old production (further improved language) .160(d)(16)--pages 24-25
credits usable	against PPT only .024(a)--page 7	against PPT only .024(a)--pages 7-8	against PPT only .024(a)--pages 6-7	against PPT only .024(a)--pages 7-8	against PPT only .024(a)--pages 8-9
credits transferable	yes--20% tax limit .024(d)--(e)--page 8-9	yes--20% tax limit .024(d)--(e)--page 9-10	yes--20% tax limit .024(d)--(e)--pages 8-9	yes--20% tax limit .024(d)--(e)--page 9	yes--20% tax limit .024(d)--(e)--pages 10-11
credits refundable?	no	up to \$25M depends on investment, production limit .024(f)--page 10	up to \$25M depends on investment, production limit .024(f)--page 9	up to \$25M depends on investment, production limit .024(f)--pages 9-10	up to \$25M depends on investment, production limit .024(f)--pages 11-12
credits for annual loss	yes, at 22.5% .024(b)--page 8	yes, at 20% .024(b)--page 8-9	yes, at 20% .024(b)--pages 7-8	yes, at 22.5% .024(b)--page 8	yes, at 20% .024(b)--page 10
point of production	upstream of gas treatment upstream .900(7)--pages 28-29	upstream of gas treatment upstream (definition added) .900(7)--page 29	upstream of gas treatment upstream (definition added) .900(7)--pages 29-30	upstream of gas treatment upstream (definition added) .900(7)--pages 29-30	upstream of gas treatment upstream (definition added) .900(7)--page 31
DHR royalty value	no	no	no	no	no
FIC sec. 482 as a tool	yes (incl. 56662) .160(i)--page 24	yes (w/o 56662) .160(i)--page 25	yes (w/o 56662) .160(i)--page 25	yes (w/o 56662) .160(i)--page 26	yes (w/o 56662) .160(i)--page 27
oil spill	yes, if on lease (except negligent) (not precluded)	any oil spill cleanup costs not ded. .160(d)(2)(O)--(page 23)	any oil spill cleanup costs not ded (exception for gravel pad) .160(d)(17)--(page 23)	any oil spill cleanup costs not ded (exception for gravel pad) .160(d)(17)--page 24	any oil spill cleanup costs not ded (exception for gravel pad) .160(d)(17)--page 25
DHR gets exploration data	yes .024(n) page 8	yes .024(a)--pages 7-8	yes .024(a)--page 7	yes .024(n)(2)--page 8	yes .024(n)(2)--page 9-10
020 (f) Sales Language	yes .020(f) page 7	yes .020(f)--page 7	yes .020(f)--page 6	yes .020(f)--page 7	yes .020(f)--page 8
NPSL regs after industry practice	yes .160(c)(1)(A) page 20	yes .160(c)(1)(A)--page 21	yes (in Alaska only) .160(c)(1)(A)--page 20	yes (in Alaska only) .160(c)(1)(A)--page 21	yes (in Alaska only) .160(c)(1)(A)--page 22
credit flow through re. FEHC	yes, regulated & non-regulated .024(k) pages 11-12	yes, regulated fac. only .024(k) page 12	yes, regulated fac. only .024(k) page 11	yes, regulated fac. only .024(k) page 12	yes, regulated fac. only .024(k) page 14
high energy fund established	no	yes .011(d)	no	no	no

Chart 1

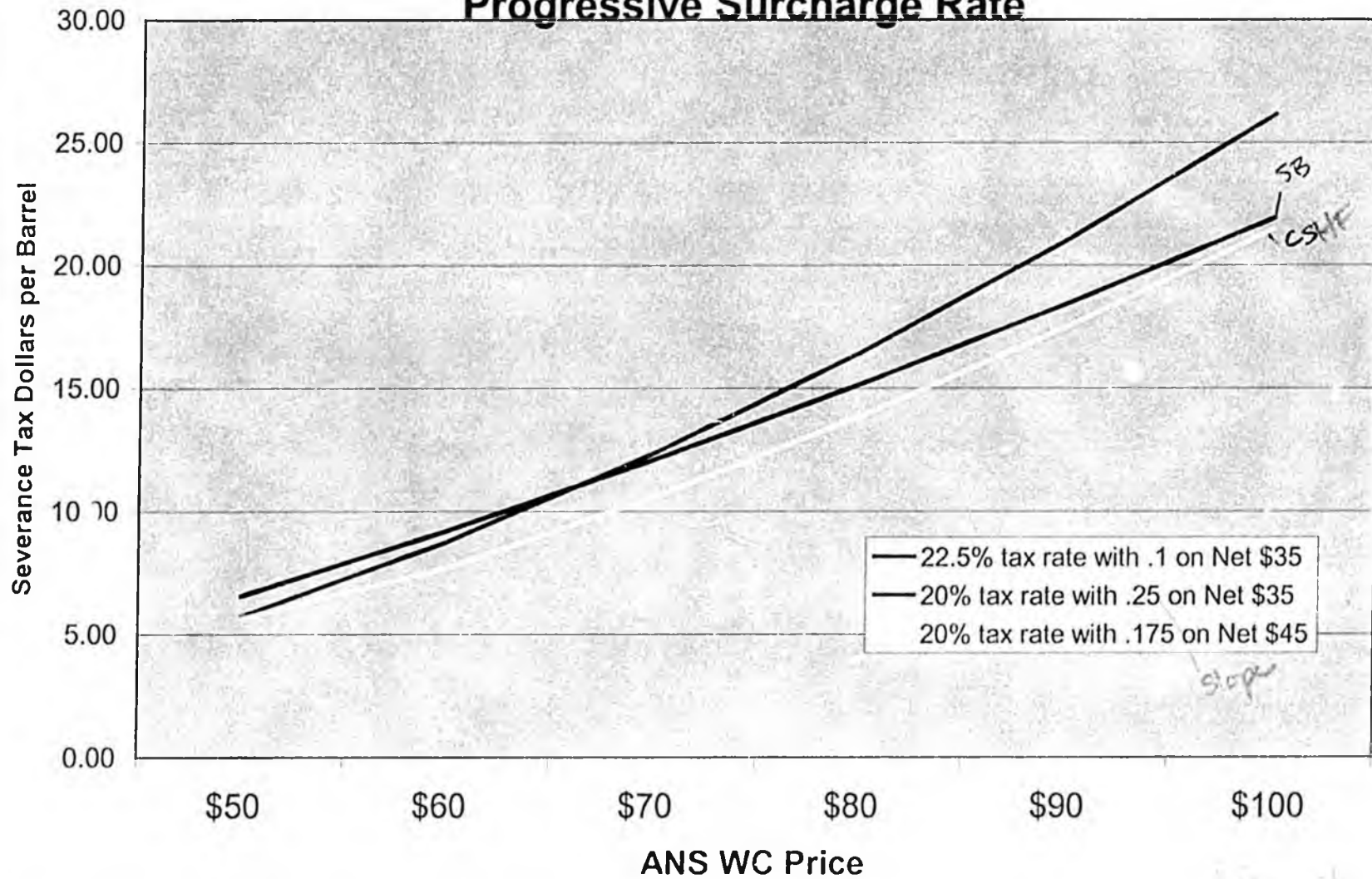
Progressive Surcharge per Barrel, FY 2006-2030, CSSB 2001 (FIN)



Handout 2/1/06

Chart 2

Severance Tax per Barrel, FY 2006-2030, CSSB 2001 (FIN) with Variations in Tax and Progressive Surcharge Rate



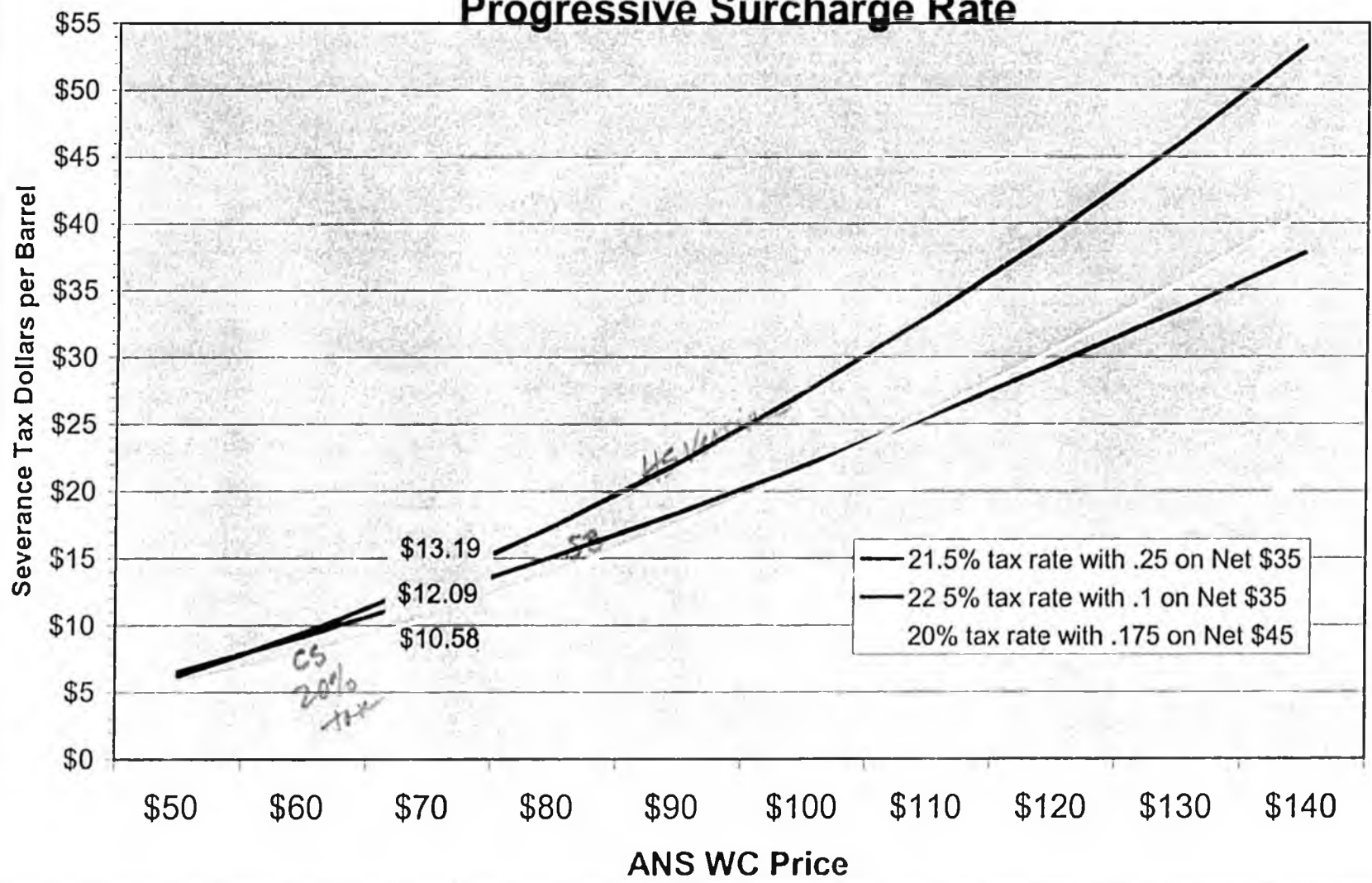
Source: ADOR - DRAFT

handout 6/1/06

progressive
surcharge

Chart 3

Total Severance Tax (including Surcharge) per Barrel, FY 2006-2030, CSSB 2001 (FIN) with Variations in Tax and Progressive Surcharge Rate



Source: ADOR - DRAFT

NET VALUE

SE

10%

SB

2001

SFIN

FILE

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

SENATE FINANCE COMMITTEE REPORT
First Committee of Referral

REPORTED OUT
MAY 21 2006
SENATE FINANCE COMMITTEE

DATE: 5/20/06

FURTHER:

Date of 5-Day Notice: 5/18/06/24hr.
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 21 May 2006

Finance Committee considered SENATE BILL NO. 2001
SB 2001 OIL AND GAS TAX

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; providing that provisions of AS 43.55 do not apply to certain oil and gas subject to a contract executed under the Alaska Stranded Gas Development Act; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with _____ CS SB 2001 (FIN)
- adopt previous _____ CS CS forthcoming (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

CS Senate Bill:	
<input type="checkbox"/>	Same Title
<input checked="" type="checkbox"/>	New Title
SCS House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

F/n forthcoming
Revenue
\$

Department	Date	Fiscal	Ind.	Zero	FN#
DNR	7/19/06			✓	#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:		DO PASS	DO NOT PASS	NO REC	AMEND
		✓			
				✓	
		✓			
		✓			
COCHAIR:		✓			
COCHAIR:		✓			

FISCAL NOTE

REPORTED OUT
MAY 21 2006
 SENATE FINANCE COMMITTEE

3

STATE OF ALASKA
 2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSSB 2001 (FIN)
 () Publish Date: _____

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 Senate Finance 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	577.6	589.2	600.9	613.0	625.2	637.7
Travel						
Contractual	517.5	487.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	37.1	37.1	37.1	37.1	37.1	37.1
TOTAL OPERATING	1,174.2	1,114.1	756.2	768.7	783.3	798.2

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	See analysis section					
------------------------	----------------------------	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
1002 Federal Receipts						
1003 GF Match						
1004 GF	1,174.2	1,114.1	756.2	768.7	783.3	798.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	1,174.2	1,114.1	756.2	768.7	783.3	798.2

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	7	7	7	7	7	7
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 income 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 per day, which is scaled down to zero between 50,000 and 100,000 barrels per day. 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: Dan Dickinson
 Division: Tax Division

Phone: 269-1019
 Date/Time: 5/21/06 5:30 AM

Approved by: Kevin Jardell
 Agency: Office of the Governor

Date: 5/21/2006

FISCAL NOTE

3

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CSSB 2001 (FIN)

ANALYSIS CONTINUATION

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

The bill would be effective July 1, 2006.

The figures in the table below 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 2006-2012 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 5 additional positions for auditors: 1 O & G Specialist (Range 23), 1 O & G Revenue Auditor IV (Range 22), and 3 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax, an amendment in the Senate regarding requires additional staff. 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.

3

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CSSB 2001 (FIN)

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

FISCAL NOTE

Fiscal Year	DOR Forecast	Col. 15 Status Quo Tax	Col. 16 Tax from Bill	Col. 17 Gain from Bill
2007	\$53.60	989	1,756	767
2008	\$46.90	759	1,340	581
2009	\$25.50	355	353	-2
2010	\$25.50	315	321	6
2011	\$25.50	281	318	36
2012	\$25.50	271	313	42
			32	32

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	\$40.00	708	1,121	413
2008	\$40.00	655	1,095	440
2009	\$40.00	631	1,164	532
2010	\$40.00	582	1,132	551
2011	\$40.00	544	1,155	611
2012	\$40.00	536	1,163	628

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	\$60.00	1,120	2,271	1,151
2008	\$60.00	1,032	2,217	1,185
2009	\$60.00	978	2,279	1,301
2010	\$60.00	901	2,231	1,330
2011	\$60.00	842	2,272	1,429
2012	\$60.00	831	2,292	1,460

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 2001
(S) Publish Date: 5/20/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Relating to the production tax on oil and gas RDU Resource Development
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						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

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 Phone 907-269-8400
Division Oil & Gas Date/Time 5/19/2006
Approved by: Michael Mengo, Commissioner Date 5/19/2006
Agency Natural Resources

SB 2001

5/20/06

Committee adopted amendments 1-4 & 6 - all conceptual

Upon adjournment of the meeting, I faxed the amendments to Legal with a request that they be incorporated into a new workdraft committee substitute.

Ginger Blaisdell, Staff to Co-Chair Green then informed me that she had directed Legal to deliver the CS workdraft to her. She indicated her intention was to then hold the CS. I asked if she planned to then proof and review the committee substitute to verify that the amendments were properly implemented. She responded that she would be closely reviewing the CS to ensure the multiple technical and conforming changes that the conceptual amendments would necessitate.

5/21/06

Shortly before the Committee's scheduled meeting, Ginger gave the CS, Version "G", to the Committee Page to be photocopied and distributed only to Members, but not to other Committee staff. I did not review the CS at this time.

The Committee adopted the CS after I asked Co-Chair Green if this was her intent. Amendments 7 - 12 were adopted and the CS was reported from Committee as amended.

I then faxed the remaining amendments to Legal with a request for a Final. Ginger phoned the bill drafter directly and ordered a final.

Ginger took temporary possession of the original conceptual amendments #1-4 and 6 - those amendments that had been faxed to Legal for inclusion in the workdraft CS. She indicated she needed them to assist her in preparing an explanation of the changes contained in the CS that Co-Chair Green would overview in the Senate floor session.

Shortly after this I learned that the language of Amendment #3 had not been implemented into the CS "G" in the manner directed by the conceptual language of the amendment. The language of the CS did not reflect the action of the Committee. The Committee action adopted the language of another bill, SB 305, Version "R"; specifically subsections (g) and (h) inserted to AS 43.55.011 in Section 5, with a modification of the percentage amount. Draft language of this amendment was also given to me by Ginger for reference purposes, but was not mentioned by the Committee or the sponsor of the amendment, Senator Stedman. The draft language contained the same intent as was stated in the motion. The inserted language provided the progressivity tax to be assessed when the gross price of oil reached \$50. It appears that the CS provides that the progressivity tax would be assessed on a net value of \$35, rather than the gross value.

Mindy Rowland, Senate Finance Committee Secretary

Adopted 5/2/06

WORK DRAFT

WORK DRAFT

WORK DRAFT

24-GS2094G
Bullock
5/21/06

CS FOR SENATE BILL NO. 2001(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - SECOND SPECIAL SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

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

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to the production tax on oil and gas and to conservation surcharges on
2 oil; relating to criminal penalties for violating conditions governing access to and use of
3 confidential information relating to the production tax; providing that provisions of
4 AS 43.55 do not apply to certain oil and gas subject to a contract executed under the
5 Alaska Stranded Gas Development Act; amending the definition of 'gas' as that
6 definition applies in the Alaska Stranded Gas Development Act; making conforming
7 amendments; and providing for an effective date."

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

9 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
10 to read:

11 LEGISLATIVE INTENT. (a) It is the intent of the legislature through sec. 11 of this
12 Act to confirm by clarification the long-standing interpretation of AS 43.55.020(f) by the
13 Department of Revenue.

1 (b) It is the intent of the legislature that the division or other unit of the Department of
2 Environmental Conservation assigned responsibility for administration of the programs under
3 AS 46.08 that are principally supported by the conservation surcharges on oil levied under
4 AS 43.55.201 - 43.55.299 and 43.55.300 - 43.55.310

5 (1) reduce program costs, including personnel costs, as necessary to operate
6 within the revenue anticipated to be generated by those surcharges, in the amounts of those
7 surcharges as amended by secs. 26 and 28 of this Act; and

8 (2) request appropriations for exceptional program needs and expansions
9 beyond what can be provided from the estimated amounts collected from those surcharges
10 from alternative funding sources.

11 * Sec. 2. AS 43.05.230(f) is amended to read:

12 (f) A wilful violation of the provisions of this section or of a condition
13 imposed under AS 43.55.040(1)(B) is punishable by a fine of not more than \$5,000,
14 or by imprisonment for not more than two years, or by both.

15 * Sec. 3. AS 43.20.031(c) is amended to read:

16 (c) In computing the tax under this chapter, the taxpayer is not entitled to
17 deduct any taxes based on or measured by net income. The taxpayer may deduct the
18 tax levied and paid under AS 43.55.

19 * Sec. 4. AS 43.20.072(b) is amended to read:

20 (b) A taxpayer's business income to be apportioned under this section to the
21 state shall be the federal taxable income of the taxpayer's consolidated business for the
22 tax period, except that

23 (1) taxes based on or measured by net income that are deducted in the
24 determination of the federal taxable income shall be added back; the tax levied and
25 paid under AS 43.55 may not be added back;

26 (2) intangible drilling and development costs that are deducted as
27 expenses under 26 U.S.C. 263(c) (Internal Revenue Code) in the determination of the
28 federal taxable income shall be capitalized and depreciated as if the option to treat
29 them as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) had not been
30 exercised;

31 (3) depletion deducted on the percentage depletion basis under 26

1 U.S.C. 613 (Internal Revenue Code) in the determination of the federal taxable income
2 shall be recomputed and deducted on the cost depletion basis under 26 U.S.C. 612
3 (Internal Revenue Code); and

4 (4) depreciation shall be computed on the basis of 26 U.S.C. 167
5 (Internal Revenue Code) as that section read on June 30, 1981.

6 * Sec. 5. AS 43.55.011 is amended by adding new subsections to read:

7 (e) There is levied on the producer of oil or gas a tax for all oil and gas
8 produced each month from each lease or property in the state, less any oil and gas the
9 ownership or right to which is exempt from taxation or constitutes a landowner's
10 royalty interest. Except as otherwise provided under (i) of this section, the tax is equal
11 to 22.5 percent of the production tax value of the taxable oil and gas as calculated
12 under AS 43.55.160.

13 (f) There is levied on the producer of oil or gas a tax for all oil and gas
14 produced each month from each lease or property in the state the ownership or right to
15 which constitutes a landowner's royalty interest, except for oil and gas the ownership
16 or right to which is exempt from taxation. The provisions of this subsection apply to a
17 landowner's royalty interest as follows:

18 (1) the rate of tax levied on oil is equal to five percent of the gross
19 value at the point of production of the oil;

20 (2) the rate of tax levied on gas is equal to 1.667 percent of the gross
21 value at the point of production of the gas;

22 (3) if the department determines that, for purposes of reducing the
23 producer's tax liability under (1) or (2) of this subsection, the producer has received or
24 will receive consideration from the royalty owner offsetting all or a part of the
25 producer's royalty obligation, other than a deduction under AS 43.55.020(d) of the
26 amount of a tax paid,

27 (A) notwithstanding (1) of this subsection, the tax is equal to

28 (i) for oil that is produced from a lease or property in
29 the Cook Inlet sedimentary basin, five percent of the gross value at the
30 point of production of the oil;

31 (ii) for oil, except oil described in (i) of this

1 subparagraph, 22.5 percent of the gross value at the point of production
2 of the oil; and

3 (B) notwithstanding (2) of this subsection, for gas the tax is
4 equal to 6.67 percent of the gross value at the point of production of the gas.

5 (g) In addition to the taxes levied under (e) and (f) of this section, during each
6 month for which the price index determined under (h) of this section is greater than
7 zero, there is levied on the producer of oil or gas a tax for all oil and gas produced
8 during that month from each lease or property in the state, less any oil and gas the
9 ownership or right to which is exempt from taxation or constitutes a landowner's
10 royalty interest. Except as otherwise provided under (i) of this section, the tax levied
11 under this subsection is equal to .1 percent of the production tax value of the taxable
12 oil and gas as calculated under AS 43.55.160, multiplied by the price index
13 determined under (h) of this section.

14 (h) For purposes of (g) of this section, the price index for a month is calculated
15 by subtracting 35 from the number that is equal to the quotient of the production tax
16 value of the taxable oil and gas produced during that month, as calculated under
17 AS 43.55.160, divided by the number of barrels of oil equivalent of that oil and gas.
18 For purposes of this subsection, a barrel of oil equivalent is a barrel of oil, in the case
19 of oil, or 6,000 cubic feet of gas, in the case of gas.

20 (i) For a month that ends before April 1, 2021, the total tax levied by (e) and
21 (g) of this section on gas produced from a lease or property in the Cook Inlet
22 sedimentary basin may not exceed

23 (1) for a lease or property that first commenced commercial production
24 of gas before April 1, 2006, the product obtained by multiplying (A) the amount of gas
25 produced during that month from the lease or property, times (B) the average rate of
26 tax that was imposed under this chapter on gas produced from the lease or property for
27 the 12-month period ending on March 31, 2006, times (C) the average prevailing value
28 for gas delivered in the Cook Inlet area for the 12-month period ending March 31,
29 2006, as determined by the department under AS 43.55.020(f);

30 (2) for a lease or property that first commences commercial production
31 of gas after March 31, 2006, the product obtained by multiplying (A) the amount of

1 gas produced during that month from the lease or property, times (B) the average rate
2 of tax that was imposed under this chapter on gas produced from all leases or
3 properties in the Cook Inlet sedimentary basin for the 12-month period ending on
4 March 31, 2006, times (C) the average prevailing value for gas delivered in the Cook
5 Inlet area for the 12-month period ending March 31, 2006, as determined by the
6 department under AS 43.55.020(f).

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) Ninety-five percent of the total tax levied by AS 43.55.011(e) - (g), net of
18 any credits applied under this chapter, is due on the last day of each calendar month on
19 oil and gas produced from each lease or property during the preceding month. The
20 remaining portion of the tax levied by AS 43.55.011(e) - (g), net of any credits applied
21 under this chapter, is due on March 31 of the year following the calendar year during
22 which the oil and gas were produced. An unpaid amount of tax that is not paid when
23 due in accordance with this subsection becomes delinquent. An overpayment of tax
24 with respect to a month may be applied against the tax due for any later month.
25 Notwithstanding any contrary provision of AS 43.05.280, interest on an overpayment
26 is allowed only from a date that is 90 days after the later of (1) the March 31 described
27 in this subsection, or (2) the date that the statement required under AS 43.55.030(a)
28 and (e) to be filed on or before that March 31 is filed. Interest is not allowed if the
29 overpayment was refunded within the 90-day period.

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

31 (b) The production tax on oil and [OR] gas shall be paid by or on behalf of the

1 producer.

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

3 (d) In making settlement with the royalty owner for oil and gas that is
4 taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on
5 taxable royalty oil and [OR] gas, or may deduct taxable royalty oil or gas equivalent
6 in value at the time the tax becomes due to the amount of the tax paid. Unless
7 otherwise agreed between the producer and the royalty owner, the amount of the
8 tax paid under AS 43.55.011(e) and (g) on taxable royalty oil and gas for a month,
9 other than oil and gas the ownership or right to which constitutes a landowner's
10 royalty interest, is considered to be the gross value at the point of production of
11 the taxable royalty oil and gas produced during the month multiplied by a figure
12 that is a quotient, in which

13 (1) the numerator is the producer's total tax liability under
14 AS 43.55.011(e) and (g) for the month of production; and

15 (2) the denominator is the total gross value at the point of
16 production of the oil and gas taxable under AS 43.55.011(e) and (g) produced by
17 the producer from all leases and properties in the state during the month.

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

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

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

27 (f) If oil or gas is produced but not sold, or if oil or gas is produced and
28 sold under circumstances where the sale price does not represent the prevailing value
29 for oil or gas of like kind, character, or quality in the field or area from which the
30 product is produced, the department may require the tax to be paid upon the basis of
31 the value of oil or gas of the same kind, quality, and character prevailing for that field

1 or area during the calendar month of production or sale [FOR THAT FIELD OR
2 AREA].

3 * Sec. 12. AS 43.55 is amended by adding a new section to read:

4 Sec. 43.55.024. Tax credits for certain losses and expenditures. (a) A
5 producer or explorer may take a tax credit for a qualified capital expenditure as
6 follows:

7 (1) notwithstanding that a qualified capital expenditure may be a
8 deductible lease expenditure for purposes of calculating the production tax value of oil
9 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
10 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025,

11 (A) a producer or explorer that incurs a qualified capital
12 expenditure may also elect to take a tax credit against a tax due under
13 AS 43.55.011(e) in the amount of 20 percent of that expenditure;

14 (B) for a calendar year for which the producer makes an
15 election under AS 43.55.160(f), instead of taking a tax credit at a rate
16 authorized by (A) of this paragraph as to each separate qualified capital
17 expenditure after it has been incurred, a producer that incurs a qualified capital
18 expenditure during that year and that wishes to apply a credit based on that
19 expenditure against a tax due under AS 43.55.011(c) shall calculate and apply
20 every month an annualized tax credit in an amount equal to 1 2/3 percent of the
21 total qualified capital expenditures incurred during that year and for which the
22 tax credit is taken for that year;

23 (2) a producer or explorer may take a credit for a qualified capital
24 expenditure incurred in connection with geological or geophysical exploration or in
25 connection with an exploration well only if the producer or explorer provides to the
26 department, as part of the statement required under AS 43.55.030(a) for the month for
27 which the credit is sought to be taken, the producer's or explorer's written agreement

28 (A) to notify the Department of Natural Resources, within 30
29 days after completion of the geological or geophysical data processing or
30 completion of the well, or within 30 days after the statement is filed, whichever
31 is the latest, of the date of completion and to submit a report to that department

1 describing the processing sequence and provide a list of data sets available;

2 (B) to provide to the Department of Natural Resources, within
3 30 days after the date of a request, specific data sets, ancillary data, and reports
4 identified in (A) of this paragraph;

5 (C) that, notwithstanding any provision of AS 38, the
6 Department of Natural Resources shall hold confidential the information
7 provided to that department under this paragraph for 10 years following the
8 completion date, after which the department shall publicly release the
9 information after 30 days' public notice.

10 (b) A producer or explorer may elect to take a tax credit in the amount of 22.5
11 percent of a carried-forward annual loss. A credit under this subsection may be applied
12 against a tax due under AS 43.55.011(e) and may be applied irrespective of whether
13 the producer or explorer also claims a credit for transitional investment expenditures
14 authorized by (j) of this section. For purposes of this subsection, a carried-forward
15 annual loss is the amount of a producer's or explorer's adjusted lease expenditures
16 under AS 43.55.160 for a previous calendar year that was not deductible in any month
17 under AS 43.55.160(a) and (b).

18 (c) A credit or portion of a credit under this section may not be used to reduce
19 a person's tax liability under AS 43.55.011(e) for any month below zero, and any
20 unused credit or portion of a credit not used under this subsection may be applied in a
21 later month.

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

1 statement on or before March 31 of the year following the calendar year in which the
2 qualified capital expenditures or carried-forward annual loss for which the credit is
3 claimed was incurred, the date the statement was filed; or (3) the date the application
4 was received by the department. If, based on the information then available to it, the
5 department is reasonably satisfied that the applicant is entitled to a credit, the
6 department shall issue the applicant a transferable tax credit certificate for the amount
7 of the credit. A certificate issued under this subsection does not expire.

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

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

26 (1) after investigation and audit of the tax credit claim by the
27 department, that the applicant is entitled to the credit to the extent of the refund
28 amount;

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

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

5 (4) that the applicant does not have an outstanding liability to the state
6 for unpaid delinquent taxes under this title; and

7 (5) that the sum of the amount of the refund applied for and amounts
8 previously refunded to the applicant during the calendar year under this subsection
9 would not exceed \$25,000,000.

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

22 (h) The department may adopt regulations to carry out the purposes of this
23 section, including prescribing reporting, record keeping, and certification procedures
24 and requirements to verify the accuracy of credits claimed and to ensure that a credit is
25 not used more than once, and otherwise implementing this section.

26 (i) A person may not elect to take a tax credit under (a) or (j) of this section for
27 an expenditure incurred to acquire an asset (1) the cost of previously acquiring which
28 was a lease expenditure under AS 43.55.160(c) or would have been a lease
29 expenditure under AS 43.55.160(c) if it had been incurred on or after April 1, 2006; or
30 (2) that has previously been placed in service in the state. An expenditure to acquire an
31 asset is not excluded under this subsection if not more than an immaterial portion of

1 the asset meets a description under (1) or (2) of this subsection. For purposes of this
2 subsection, "asset" includes geological, geophysical, and well data and interpretations.

3 (j) For the purposes of this section,

4 (1) a producer's or explorer's transitional investment expenditures are
5 the sum of the expenditures the producer or explorer incurred on or after April 1,
6 2001, and before April 1, 2006, that would be qualified capital expenditures if they
7 were incurred on or after April 1, 2006, less the sum of the payments or credits the
8 producer or explorer received before April 1, 2006, for the sale or other transfer of
9 assets, including geological, geophysical, or well data or interpretations, acquired by
10 the producer or explorer as a result of expenditures the producer or explorer incurred
11 before April 1, 2006, that would be qualified capital expenditures, if they were
12 incurred on or after April 1, 2006;

13 (2) a producer or explorer may elect to take a tax credit against a tax
14 due under AS 43.55.011(e) in the amount of 20 percent of the producer's or explorer's
15 transitional investment expenditures, but only to the extent that the amount does not
16 exceed

17 (A) one-half of the producer's or explorer's qualified capital
18 expenditures that are incurred during the month for which the credit is taken, if
19 the producer or explorer does not make an election under AS 43.55.160(f);

20 (B) 1/24 of the producer's or explorer's qualified capital
21 expenditures that are incurred during the calendar year that includes the month
22 for which the credit is taken, if the producer or explorer makes an election
23 under AS 43.55.160(f);

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

26 (A) for any month that ends the later of

27 (i) April 30, 2013; or

28 (ii) the seventh anniversary of the last day of the month
29 for which the producer first applies a credit under this subsection
30 against a tax due under AS 43.55.011(e), if the producer did not have
31 commercial production of oil or gas from a lease or property in the state

1 before April 1, 2006;

2 (B) more than once; or

3 (C) if a credit for that expenditure was taken under
4 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025:

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

8 (k) As a condition of receiving a tax credit under this section, a producer or
9 explorer that obtains the tax credit for or directly related to a pipeline, facility, or other
10 asset that is or becomes subject to regulation by the Federal Energy Regulatory
11 Commission or the Regulatory Commission of Alaska, or a successor regulatory body
12 shall at all times support and in all rate proceedings file to flow through 100 percent of
13 the tax credits to ratepayers as a reduction in the costs of service for the pipeline,
14 facility, or other asset.

15 (l) In this section,

16 (1) "barrel of oil equivalent" means one barrel, in the case of oil, or
17 6,000 cubic feet, in the case of gas;

18 (2) "qualified capital expenditure" means, except as otherwise
19 provided in (i) of this section, an expenditure that is a lease expenditure under
20 AS 43.55.160 and is

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

22 (B) treated as a capitalized expenditure under 26 U.S.C.
23 (Internal Revenue Code), as amended, regardless of elections made under 26
24 U.S.C. 263(c) (Internal Revenue Code), as amended, and is

25 (i) treated as a capitalized expenditure for federal
26 income tax reporting purposes by the person incurring the expenditure;
27 or

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

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

31 (a) Subject to the terms and conditions of this section, [ON OIL AND GAS

1 PRODUCED ON OR AFTER JULY 1, 2004, FROM AN OIL AND GAS LEASE,
2 OR ON GAS PRODUCED FROM A GAS ONLY LEASE,] a credit against the
3 production tax due under AS 43.55.011(e) [THIS CHAPTER] is allowed for
4 exploration expenditures that qualify under (b) of this section in an amount equal to
5 one of the following:

6 (1) 20 percent of the total exploration expenditures that qualify only
7 under (b) and (c) of this section;

8 (2) 20 percent of the total exploration expenditures for work performed
9 before July 1, 2007, and that qualify only under (b) and (d) of this section;

10 (3) 40 percent of the total exploration expenditures that qualify under
11 (b), (c), and (d) of this section; or

12 (4) 40 percent of the total exploration expenditures that qualify only
13 under (b) and (e) of this section.

14 * Sec. 14. AS 43.55.025(b) is amended to read:

15 (b) To qualify for the production tax credit under (a) of this section, an
16 exploration expenditure must be incurred for work performed on or after July 1, 2003,
17 and before July 1, 2016 [2007], except that an exploration expenditure for a Cook Inlet
18 prospect must be incurred for work performed on or after July 1, 2005, [AND
19 BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION
20 EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15
21 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET
22 PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER
23 JULY 1, 2003, AND BEFORE JULY 1, 2010.] and

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

26 (2) if for an exploration well,

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

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

30 and

31 (C) must be for goods, services, or rentals of personal property

1 reasonably required for the surface preparation, drilling, casing, cementing,
2 and logging of an exploration well, and, in the case of a dry hole, for the
3 expenses required for abandonment if the well is abandoned within 18 months
4 after the date the well was spudded;

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

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

13 * Sec. 15. AS 43.55.025(f) is amended to read:

14 (f) For a production tax credit under this section,

15 (1) an explorer shall, in a form prescribed by the department and
16 within six months of the completion of the exploration activity, claim the credit and
17 submit information sufficient to demonstrate to the department's satisfaction that the
18 claimed exploration expenditures qualify under this section;

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

20 (A) to notify the Department of Natural Resources, within 30
21 days after completion of seismic or geophysical data processing, completion of
22 a well, or filing of a claim for credit, whichever is the latest, for which
23 exploration costs are claimed, of the date of completion and submit a report to
24 that department describing the processing sequence and providing a list of data
25 sets available; if, under (c)(2)(B) of this section, an explorer submits a claim
26 for a credit for expenditures for an exploration well that is located within three
27 miles of a well already drilled for oil and gas, in addition to the submissions
28 required under (1) of this subsection, the explorer shall submit the information
29 necessary for the commissioner of natural resources to evaluate the validity of
30 the explorer's claim that the well is directed at a distinctly separate exploration
31 target, and the commissioner of natural resources shall, upon receipt of all

1 evidence sufficient for the commissioner to evaluate the explorer's claim, make
2 that determination within 60 days;

3 (B) to provide to the Department of Natural Resources, within
4 30 days after the date of a request, specific data sets, ancillary data, and reports
5 identified in (A) of this paragraph;

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

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

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

16 (5) if the department is satisfied that the explorer's claimed
17 expenditures are qualified under this section, the department shall issue to the explorer
18 a production tax credit certificate for the amount of credit to be allowed against
19 production taxes due under AS 43.55.011(e) [THIS CHAPTER; HOWEVER,
20 NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE
21 DEPARTMENT MAY NOT ISSUE TO AN EXPLORER A PRODUCTION TAX
22 CREDIT CERTIFICATE IF THE TOTAL OF PRODUCTION TAX CREDITS
23 SUBMITTED FOR COOK INLET PRODUCTION, BASED ON EXPLORATION
24 EXPENDITURES FOR WORK PERFORMED DURING THE PERIOD
25 DESCRIBED IN (b) OF THIS SECTION FOR THAT PRODUCTION, THAT HAVE
26 BEEN APPROVED BY THE DEPARTMENT EXCEEDS \$20,000,000].

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

28 (h) A producer that purchases a production tax credit certificate may apply the
29 credits against its production tax liability under AS 43.55.011(e) [THIS CHAPTER].
30 Regardless of the price the producer paid for the certificate, the producer may receive
31 a credit against its production tax liability for the full amount of the credit, but for not

1 more than the amount for which the certificate is issued. A production tax credit
2 allowed under this section may not be applied more than once.

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

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 tax month may not exceed the total production tax liability under
7 AS 43.55.011(e) of the taxpayer applying the credit for the same month; and

8 (2) an amount of the production tax credit that is greater than the total
9 tax liability under AS 43.55.011(e) of the taxpayer applying the credit for a tax month
10 may be carried forward and applied against the taxpayer's production tax liability
11 under AS 43.55.011(e) in one or more immediately following months.

12 * Sec. 18. AS 43.55.030(a) is amended to read:

13 (a) The tax shall be paid to the department, and the person paying the tax shall
14 file with the department at the time the tax or a portion of the tax is required to be
15 paid a statement, under oath, on forms prescribed by or acceptable to the department,
16 giving, with other information required, the following:

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

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

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

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

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

30 (6) the producer's lease expenditures and adjustments as
31 calculated under AS 43.55.160 [IF SOLD IN THE STATE].

1 * Sec. 19. AS 43.55.030(d) is amended to read:

2 (d) Reports by or on behalf of the producer are delinquent the first day
3 following the day the tax is due. [EACH PRODUCER IS SUBJECT TO A PENALTY
4 OF \$25 A DAY FOR EACH LEASE OR PROPERTY UPON WHICH THE
5 REPORT IS NOT FILED. THE PENALTY FOR FAILURE TO FILE A REPORT IS
6 IN ADDITION TO THE PENALTY FOR DELINQUENT TAXES, AND IS A LIEN
7 AGAINST THE ASSETS OF THE PRODUCER.]

8 * Sec. 20. AS 43.55.030 is amended by adding a new subsection to read:

9 (e) In addition to other required information, the statement required to be filed
10 on or before March 31 of a year must show any adjustments or corrections to the
11 statements that were required under (a) of this section to be filed for the months of the
12 preceding calendar year during which the oil or gas was produced.

13 * Sec. 21. AS 43.55.040 is amended to read:

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

16 (1) require a person engaged in production and the agent or employee
17 of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil
18 or gas to furnish, whether by the filing of regular statements or reports or
19 otherwise, additional information that is considered by the department as necessary to
20 compute the amount of the tax; notwithstanding any contrary provision of law, the
21 disclosure of additional information under this paragraph to the producer
22 obligated to pay the tax does not violate AS 40.25.100(a) or AS 43.05.230(a);
23 before disclosing information under this paragraph that is otherwise required to
24 be held confidential under AS 40.25.100(a) or AS 43.05.230(a), the department
25 shall

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

29 (B) impose appropriate conditions limiting

30 (i) access to the information to those legal counsel,
31 consultants, employees, officers, and agents of the producer who

1 have a need to know that information for the purpose of
 2 determining or contesting the producer's tax obligation; and

3 (ii) the use of the information to use for that
 4 purpose;

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

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

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

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

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

13 * Sec. 22. AS 43.55.080 is amended to read:

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

18 * Sec. 23. AS 43.55.135 is amended to read:

19 Sec. 43.55.135. Measurement. For the purposes of AS 43.55.011 - 43.55.180
 20 [AS 43.55.011 - 43.55.150], oil is [SHALL BE] measured in terms of a "barrel of oil"
 21 and gas is [SHALL BE] measured in terms of a "cubic foot of gas."

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

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

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

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

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

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

4 **Sec. 43.55.160. Determination of production tax value of oil and gas. (a)**

5 Except as provided in (f) of this section, for purposes of AS 43.55.011(e) and (g), the
6 production tax value of the taxable oil and gas produced during a month, other than
7 gas produced from leases or properties in the Cook Inlet sedimentary basin, is (1) the
8 total of (A) the gross value at the point of production of the oil taxable under
9 AS 43.55.011(e) and (g) and produced by the producer from all leases or properties in
10 the state, less three-quarters of the gross value at the point of production of the oil
11 taxable under AS 43.55.011(e) and (g) and produced by the producer from leases or
12 properties in the Cook Inlet sedimentary basin, and (B) two-thirds of the gross value at
13 the point of production of the gas taxable under AS 43.55.011(e) and (g) and produced
14 by the producer from all leases or properties in the state outside the Cook Inlet
15 sedimentary basin, less one-sixth of the gross value at the point of production of the
16 gas taxable under AS 43.55.011(e) and (g) and produced by the producer from all
17 leases or properties in the state located south of 68 degrees 15 minutes North latitude
18 outside the Cook Inlet sedimentary basin, (2) less the producer's lease expenditures for
19 the month as adjusted under (e) of this section, other than lease expenditures
20 applicable to gas produced from leases or properties in the Cook Inlet sedimentary
21 basin. Except as provided in (f) of this section, for purposes of AS 43.55.011(e) and
22 (g), the production tax value of the taxable gas produced during a month from leases
23 or properties in the Cook Inlet sedimentary basin is one-third of the gross value at the
24 point of production of the gas taxable under AS 43.55.011(e) and (g) and produced by
25 the producer from those leases or properties, less the producer's lease expenditures for
26 the month applicable to gas produced from leases or properties in the Cook Inlet
27 sedimentary basin, as adjusted under (e) of this section. However, a production tax
28 value calculated under this subsection may not be less than zero. If a producer does
29 not produce taxable oil or gas during a month, the producer is considered to have
30 generated a positive production tax value if a calculation described in this subsection
31 yields a positive number because the producer's adjusted lease expenditures for a

1 month are less than zero as a result of the producer's receiving a payment or credit
2 under (e) of this section or otherwise.

3 (b) For purposes of administration of (a) of this section,

4 (1) any adjusted lease expenditures that would otherwise be deductible
5 in a month but whose deduction would cause a production tax value calculated under
6 (a) of this section of taxable oil or gas produced during the month to be less than zero
7 may be added to the producer's adjusted lease expenditures for one or more other
8 months in the same calendar year; the total of any adjusted lease expenditures that are
9 not deductible in any month during a calendar year because their deduction would
10 cause a production tax value calculated under (a) of this section of taxable oil or gas
11 produced during one or more months to be less than zero may be used to establish a
12 carried-forward annual loss under AS 43.55.024(b);

13 (2) an explorer that has taken a tax credit under AS 43.55.024(b) or
14 that has obtained a transferable tax credit certificate under AS 43.55.024(d) for the
15 amount of a tax credit under AS 43.55.024(b) is considered a producer, subject to the
16 tax levied under AS 43.55.011(e), to the extent that the explorer generates a positive
17 production tax value as the result of the explorer's receiving a payment or credit
18 described in (e) of this section.

19 (c) For purposes of this section,

20 (1) a producer's lease expenditures for a period are the costs upstream
21 of the point of production of oil and gas that are incurred on or after April 1, 2006, by
22 the producer during the period and that are direct, ordinary, and necessary costs of
23 exploring for, developing, or producing oil or gas deposits located within the
24 producer's leases or properties in the state or, in the case of land in which the producer
25 does not own a working interest, direct, ordinary, and necessary costs of exploring for
26 oil or gas deposits located within other land in the state; in determining whether costs
27 are direct, ordinary, and necessary costs of exploring for, developing, or producing oil
28 or gas deposits located within a lease or property or other land in the state,

29 (A) the department shall give substantial weight to the typical
30 industry practices and standards in the state that determine the costs that an
31 operator is allowed to bill a working interest owner that is not the operator.

1 under unit operating agreements or similar operating agreements that were in
2 effect on or before December 1, 2005, and were subject to negotiation with at
3 least one working interest owner with substantial bargaining power, other than
4 the operator; and

5 (B) as to matters that are not addressed by the industry
6 practices and standards described in (A) of this paragraph or as to which those
7 practices and standards are not clear or are not uniform, the department shall
8 give substantial weight to the standards adopted by the Department of Natural
9 Resources that determine the costs, other than interest, that a lessee is allowed
10 to deduct from revenue in calculating net profits under a lease issued under
11 AS 38.05.180(f)(3)(B), (D), or (E);

12 (2) the Department of Revenue may authorize a producer, including a
13 producer that is an operator, to treat as its lease expenditures under this section the
14 costs paid by the producer that are billed to the producer by an operator in accordance
15 with the terms of a unit operating agreement or similar operating agreement if the
16 Department of Revenue finds that

17 (A) the pertinent provisions of the operating agreement are
18 substantially consistent with the Department of Revenue's determinations and
19 standards otherwise applicable under this subsection; and

20 (B) at least one working interest owner party to the agreement,
21 other than the operator, has substantial incentive and ability to effectively audit
22 billings under the agreement;

23 (3) an activity does not need to be physically located on, near, or
24 within the premises of the lease or property within which an oil or gas deposit being
25 explored for, developed, or produced is located in order for the cost of the activity to
26 be a cost upstream of the point of production of the oil or gas;

27 (4) the lease expenditures that are applicable to gas produced from
28 leases or properties in the Cook Inlet sedimentary basin and the lease expenditures that
29 are applicable to oil and other gas shall be determined under regulations adopted by
30 the department that provide for reasonable methods of allocating costs between oil and
31 gas and between the Cook Inlet sedimentary basin and the rest of the state;

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(5) "direct costs" include

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

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

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

(d) For purposes of (c) of this section, lease expenditures do not include

(1) depreciation, depletion, or amortization;

(2) oil or gas royalty payments, production payments, lease profit shares, or other payments or distributions of a share of oil or gas production, profit, or revenue;

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

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

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

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

(7) fines or penalties imposed by law;

(8) costs of arbitration, litigation, or other dispute resolution activities that involve the state or concern the rights or obligations among owners of interests in, or rights to production from, one or more leases or properties or a unit;

(9) donations;

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

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

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

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

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

8 (15) a tax levied under AS 43.55.011;

9 (16) the portion of costs incurred for dismantlement, removal,
10 surrender, or abandonment of a facility, pipeline, well pad, platform, or other
11 structure, or for the restoration of a lease, field, unit, area, body of water, or right-of-
12 way in conjunction with dismantlement, removal, surrender, or abandonment, that is
13 attributable to production of oil or gas occurring before April 1, 2006; the portion is
14 calculated as a ratio of the amount of oil and gas production associated with the
15 facility, pipeline, well pad, platform, or other structure, lease, field, unit, area, body of
16 water, or right-of-way occurring before April 1, 2006, to the total amount of oil and
17 gas production associated with that facility, pipeline, well pad, platform, or other
18 structure, lease, field, unit, area, body of water, or right-of-way through the end of the
19 calendar month before commencement of the dismantlement, removal, surrender, or
20 abandonment; for purposes of the ratio calculated under this paragraph, 6,000 cubic
21 feet of gas is considered to be equivalent to one barrel of oil; a cost is not excluded
22 under this paragraph if the dismantlement, removal, surrender, or abandonment for
23 which the cost is incurred is undertaken for the purpose of replacing, renovating, or
24 improving the facility, pipeline, well pad, platform, or other structure;

25 (17) losses or damages resulting from an unpermitted oil discharge that
26 is not confined to a gravel pad, or costs to contain, clean up, or remediate such an
27 unpermitted oil discharge to the extent that those costs exceed the routine costs of
28 operation for a producer or explorer that would otherwise be incurred as lease
29 expenditures in the absence of the unpermitted oil discharge; this paragraph does not
30 apply to the cost of developing and maintaining an oil discharge prevention and
31 contingency plan under AS 46.04.030;

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

3 (e) Unless the payment or credit has already been subtracted in calculating
4 billed costs under (c)(2) of this section, a producer's lease expenditures must be
5 adjusted by subtracting certain payments or credits received by the producer or by an
6 operator acting for the producer, as provided in this subsection. If one or more
7 payments or credits subject to this subsection are received by a producer or by an
8 operator acting for the producer during a month or, under (f) of this section, during a
9 calendar year, and if either the total amount of the payments or credits exceeds the
10 amount of the producer's lease expenditures or the producer has no lease expenditures,
11 the producer shall nevertheless subtract those payments or credits from the lease
12 expenditures or from zero, respectively, and the producer's adjusted lease expenditures
13 for that month or calendar year are a negative number and shall be applied to the
14 calculation under (a) of this section as a negative number. The payments or credits that
15 a producer shall subtract from the producer's lease expenditures, or from zero, under
16 this subsection are payments or credits, other than tax credits, received by the producer
17 or by an operator acting for the producer for

18 (1) the use by another person of a production facility in which the
19 producer has an ownership interest or the management by the producer of a production
20 facility under a management agreement providing for the producer to receive a
21 management fee;

22 (2) a reimbursement or similar payment that offsets the producer's
23 lease expenditures, including an insurance recovery from a third-party insurer and a
24 payment from the state or federal government for reimbursement of the producer's
25 upstream costs, including costs for gathering, separating, cleaning, dehydration,
26 compressing, or other field handling associated with the production of oil or gas
27 upstream of the point of production;

28 (3) the sale or other transfer of

29 (A) an asset, including geological, geophysical, or well data or
30 interpretations, acquired by the producer as a result of a lease expenditure or an
31 expenditure that would be a lease expenditure if it were incurred on or after

1 April 1, 2006; for purposes of this subparagraph,

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

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

10 (B) oil or gas

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

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

15 (f) In place of the adjusted lease expenditures for a month under (a) of this
16 section, a producer may, at any time, elect to substitute, for every month of a calendar
17 year, 1/12 of the producer's adjusted lease expenditures for the calendar year.

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

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

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

26 (h) For purposes of AS 43.55.024(a) and (b) and only as to expenditures
27 incurred to explore for an oil or gas deposit located within land in which an explorer
28 does not own a working interest, the term "producer" in (b), (c), and (e) of this section
29 includes "explorer."

30 (i) The department may adopt regulations that establish additional standards
31 necessary to carrying out the purposes of this section, including the incorporation of

1 the concepts of 26 U.S.C. 482 (Internal Revenue Code), as amended, the related or
2 accompanying regulations of that section, and any ruling or guidance issued by the
3 United States Internal Revenue Service that relates to that section.

4 (j) For purposes of this section,

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

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

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

12 **Sec. 43.55.170. Additional nontransferable tax credit.** (a) For a month for
13 which a producer's tax liability under AS 43.55.011(e) exceeds zero before application
14 of any credits under this chapter, a producer that is qualified under (c) of this section
15 may apply a tax credit under this section of up to \$1,000,000 against that liability.

16 (b) A producer may not take a tax credit under this section for any month that
17 ends the later of

18 (1) March 31, 2016; or

19 (2) the 10th anniversary of the last day of the month for which the
20 producer first has commercial oil or gas production from at least one lease or property
21 in the state, if the producer did not have commercial oil or gas production from a lease
22 or property in the state before April 1, 2006.

23 (c) On written application by a producer, including any information the
24 department may require, the department shall determine whether the producer
25 qualifies under this section for a calendar year. To qualify under this section, a
26 producer must demonstrate that its operation in the state or its ownership of an interest
27 in a lease or property in the state as a distinct producer entity would not result in the
28 division among multiple producer entities of any production tax liability under
29 AS 43.55.011(e) that would be reasonably expected to be attributed to a single
30 producer entity if the tax credit provision of (a) of this section did not exist.

31 (d) A tax credit authorized by this section may not be applied to reduce a

1 producer's tax liability under AS 43.55.011(e) for any month below zero. An unused
2 portion of a tax credit that could otherwise be applied for a month but whose
3 application would cause the producer's tax liability under AS 43.55.011(e) for the
4 month to be less than zero may be applied for one or more other months in the same
5 calendar year to the extent otherwise allowed under this section.

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

8 **Sec. 43.55.180. Required reports.** (a) The Department of Revenue shall

9 (1) study

10 (A) the effects of the tax rates under AS 43.55.011(f) and of
11 potential changes in those tax rates on state revenue and on oil and gas
12 exploration, development, and production on private land; and

13 (B) the fairness of the tax rates under AS 43.55.011(f) and of
14 potential changes in those tax rates for private landowners; and

15 (2) prepare a report on or before the first day of the 2013 regular
16 session of the legislature on the results of the study made under (1) of this subsection,
17 including a recommendation as to whether those tax rates should be changed; the
18 department shall notify the legislature that the report prepared under this paragraph is
19 available.

20 (b) The Department of Revenue shall

21 (1) study the effects of the credits authorized by AS 43.55.025 and
22 43.55.170 on state revenue, on the encouragement of exploration, development, and
23 production of oil and gas deposits located in the state, and on the encouragement of
24 new entrants into the oil and gas industry in the state; and

25 (2) prepare a report on or before the first day of the 2015 regular
26 session of the legislature on the results of the study made under (1) of this subsection,
27 and shall include with the report a recommendation as to whether the legislature
28 should extend the availability of the credits under AS 43.55.025 and 43.55.170; the
29 department shall notify the legislature that the report prepared under this paragraph is
30 available.

31 * **Sec. 26.** AS 43.55.201 is amended to read:

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

4 (b) The surcharge imposed by (a) of this section is in addition to the tax
5 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
6 from each lease or property during the preceding month. The surcharge [SHALL
7 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
8 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 -
9 43.55.310.

10 (c) A producer of oil shall make reports of production in the same manner and
11 under the same penalties as required under AS 43.55.011 - 43.55.180 [AS 43.55.011 -
12 43.55.150].

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

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

17 * Sec. 28. AS 43.55.300 is amended to read:

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

21 (b) The surcharge imposed by (a) of this section is in addition to the tax
22 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
23 from each lease or property during the preceding month. The surcharge [SHALL
24 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
25 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 -
26 43.55.231.

27 (c) A producer of oil shall make reports of production in the same manner and
28 under the same penalties as required under AS 43.55.011 - 43.55.180 [AS 43.55.011 -
29 43.55.150].

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

31 (d) Oil not considered under AS 43.55.020(e) to be produced from a lease or

1 property is not considered to be produced from a lease or property for purposes of this
2 section.

3 * **Sec. 30.** AS 43.55 is amended by adding a new section to article 4 to read:

4 **Sec. 43.55.890. Relationship to Alaska Stranded Gas Development Act.**

5 During the period that a valid contract executed under AS 43.82, as amended, is in
6 force, AS 43.55.011 - 43.55.310 do not apply to oil or gas for which a producer is
7 obligated to make payments in lieu of taxes or oil surcharges. A payment in lieu of
8 taxes includes delivery of gas to the state in lieu of taxes.

9 * **Sec. 31.** AS 43.55.900(6) is repealed and reenacted to read:

10 (6) "gas" means

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

12 (B) all hydrocarbons that

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

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

18 (C) all other hydrocarbons produced from a well not defined as
19 oil;

20 * **Sec. 32.** AS 43.55.900(7) is repealed and reenacted to read:

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

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

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

26 * **Sec. 33.** AS 43.55.900(10) is repealed and reenacted to read:

27 (10) "oil" means

28 (A) crude petroleum oil; and

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

31 * **Sec. 34.** AS 43.55.900 is amended by adding new paragraphs to read:

1 (17) "Cook Inlet sedimentary basin" has the meaning given in
2 regulations adopted to implement AS 38.05.180(f)(4);

3 (18) "explorer" means a person who, in exploring for new oil or gas
4 reserves, incurs expenditures;

5 (19) "gas processing"

6 (A) means processing a gaseous mixture of hydrocarbons

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

11 (ii) for the purpose of extracting and recovering liquid
12 hydrocarbons;

13 (B) does not include gas treatment;

14 (20) "gas processing plant" means a facility that

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

17 (B) is located upstream of any gas treatment and upstream of
18 the inlet of any gas pipeline system transporting gas to a market;

19 (21) "gas treatment"

20 (A) means conditioning gas and removing from gas
21 nonhydrocarbon substances for the purpose of rendering the gas acceptable for
22 tender and acceptance into a gas pipeline system;

23 (B) includes incidentally removing liquid hydrocarbons from
24 the gas;

25 (C) does not include

26 (i) dehydration required to facilitate the movement of
27 gas from the well to the point where gas processing takes place;

28 (ii) the scrubbing of liquids from gas to facilitate gas
29 processing;

30 (22) "landowner's royalty interest" means

31 (A) a lessor's royalty interest under an oil and gas lease; or