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# Alaska State Legislature

**Mike Doogan**
Representative
District 25, Anchorage


## 10 Impossible Things

*Alice laughed. "There's no use trying," she said. "One can't believe impossible things."*
*"I dare say you haven't had much practice," said the queen. "When I was your age, I always did it for half an hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."*

To support a net profits tax, the current PPT or the governor's ACES proposal, you have to believe that:

1. State tax policy should be designed to give the oil companies more money, and the state treasury less, because the companies will reinvest that revenue in Alaska.

2. Reinvestment will result in more money to the state at some point than we let the companies keep.

3. If it doesn't, the economic benefits to Alaskans will make up the difference.

4. You know how each of the oil companies operating in Alaska makes its investment decisions.

5. Our tax policy is the deciding factor in that decision-making process.

6. Those decision-making procedures are congruent enough that you can manipulate all of them with a single tax law.

7. You can write a tax law that will do that.

8. Your tax policy is so good that it will run by itself for some period of time.

9. If your tax policy doesn't do what you expected it to do, it's not the tax policy's fault.

10. If your tax policy results in the companies keeping more money than you wanted them to, you can claw that money back.

Distributed by Rep. Mike Doogan
House Special Committee on Oil & Gas
Sunday, October 28, 2007


State Capitol
Juneau, AK 99801
907-465-4998 or 800-689-4998
Fax 907-465-4419

716 West 4th Avenue
Anchorage, AK 99501
907-269-0216
Fax 907-269-0218

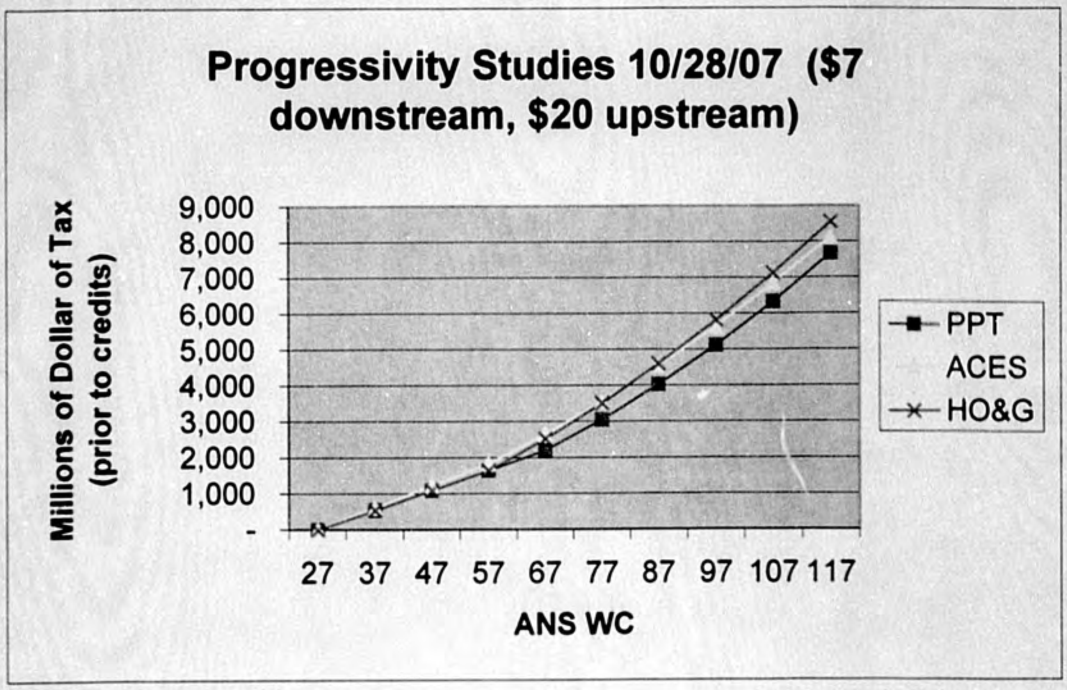
Rep.Mike.Doogan@legis.state.ak.us

# Estimated Tax Impacts Under Potential Alternative Scenarios
## TIE Sensitivity 1 -- No TIE Credit
## FY 2008 - FY 2014

| Case | ANS West Coast Price (Real 2008 $/Barrel) | | | | |
|---|---|---|---|---|---|
| | $40 | $60 | $80 | $100 | $120 |
| (1) | (2) | (3) | (4) | (5) | (6) |
| ***Estimated Effective Tax Rate (Percent)*** | | | | | |
| ***Current PPT*** | ***4.2%*** | ***10.7%*** | ***17.4%*** | ***23.6%*** | ***29.3%*** |
| ACES | 9.3% | 14.6% | 20.6% | 25.9% | 30.8% |
| Progressivity on Gross: $60 Trigger, 0.225% Increment | 6.1% | 11.9% | 19.0% | 25.3% | 31.2% |
| Progressivity on Gross: $55 Trigger, 0.225% Increment | 6.1% | 12.7% | 20.1% | 26.4% | 32.4% |
| Progressivity on Gross: $50 Trigger, 0.225% Increment | 6.1% | 13.7% | 21.2% | 27.6% | 33.5% |
| Progressivity on Gross: $45 Trigger, 0.225% Increment | 6.1% | 14.8% | 22.3% | 28.7% | 34.6% |
| Progressivity on Gross: $40 Trigger, 0.225% Increment | 6.2% | 16.0% | 23.5% | 29.8% | 35.7% |
| Progressivity on Gross: $60 Trigger, 0.25% Increment | 6.1% | 12.0% | 19.5% | 26.4% | 32.8% |
| Progressivity on Gross: $55 Trigger, 0.25% Increment | 6.1% | 12.8% | 20.7% | 27.6% | 34.1% |
| Progressivity on Gross: $50 Trigger, 0.25% Increment | 6.1% | 13.9% | 22.0% | 28.9% | 35.3% |
| Progressivity on Gross: $45 Trigger, 0.25% Increment | 6.1% | 15.2% | 23.2% | 30.1% | 36.6% |
| Progressivity on Gross: $40 Trigger, 0.25% Increment | 6.2% | 16.4% | 24.5% | 31.4% | 37.8% |
| ***Estimated Annual Average Tax Difference Above Current PPT (Million Dollars)*** | | | | | |
| ACES | $459 | $549 | $627 | $590 | $455 |
| Progressivity on Gross: $60 Trigger, 0.225% Increment | $171 | $175 | $298 | $428 | $550 |
| Progressivity on Gross: $55 Trigger, 0.225% Increment | $171 | $278 | $513 | $701 | $881 |
| Progressivity on Gross: $50 Trigger, 0.225% Increment | $171 | $424 | $728 | $973 | $1,211 |
| Progressivity on Gross: $45 Trigger, 0.225% Increment | $171 | $582 | $943 | $1,246 | $1,541 |
| Progressivity on Gross: $40 Trigger, 0.225% Increment | $174 | $739 | $1,159 | $1,519 | $1,871 |
| Progressivity on Gross: $60 Trigger, 0.25% Increment | $171 | $179 | $398 | $686 | $1,024 |
| Progressivity on Gross: $55 Trigger, 0.25% Increment | $171 | $294 | $637 | $989 | $1,391 |
| Progressivity on Gross: $50 Trigger, 0.25% Increment | $171 | $456 | $876 | $1,292 | $1,758 |
| Progressivity on Gross: $45 Trigger, 0.25% Increment | $171 | $631 | $1,116 | $1,595 | $2,125 |
| Progressivity on Gross: $40 Trigger, 0.25% Increment | $174 | $806 | $1,355 | $1,898 | $2,492 |

Note: Alternatives shown here move progressivity from a "net" to a "gross" wellhead basis and eliminate all TIE credits. Estimates use volumes, aggregate costs and other assumptions underlying DOR's fiscal note to HB2001.

| ANS | PPT | ACES | HO&G |
|---|---|---|---|
| 27 | - | - | - |
| 37 | 549.00 | 610.00 | 549.00 |
| 47 | 1,098.00 | 1,220.00 | 1,098.00 |
| 57 | 1,647.00 | 1,830.00 | 1,647.00 |
| 67 | 2,196.00 | 2,635.20 | 2,525.40 |
| 77 | 3,050.00 | 3,538.00 | 3,513.60 |
| 87 | 4,026.00 | 4,538.40 | 4,611.60 |
| 97 | 5,124.00 | 5,636.40 | 5,819.40 |
| 107 | 6,344.00 | 6,832.00 | 7,137.00 |
| 117 | 7,686.00 | 8,125.20 | 8,564.40 |




Dan Dickinson Progressivity Model 10.28.07

Dist. by Rep. Samuels 10/28

First Approaches to Using Certain Receipts from Taxes on the Energy Producing Industry to Alleviate High Alaskan Energy Consumption Costs
October 26, 2007

A March 2007 ISER study by Ben Saylor and Sharman Haley entitled Effects of Rising Utility Costs on Household Budgets 2000-2006 contains a wealth of information assembled from many sources, and the following analysis is based on it:

Some quick math suggests that

- in 2006 the total bill in Alaska for solid or liquid heating fuel (for those that pay) was somewhere between 200 and 275 million dollars. (pages 7 & 9)
- However, natural gas is widely used for heating and cooking in Anchorage. Therefore, even though roughly half the population is from Anchorage, it accounts for less than 20% of the total "liquid or solid heating fuel" expenditures. (pages 7 & 9)
- Between 2000 and 2005 the price of diesel for home heating fuel has risen dramatically - 57% for Anchorage consumers and 83% in remote rural communities (page 2 of Executive Summary)

However the State (and federal government) has already focused on this issue and the following programs are in place. Without them, the problem may have been even more severe. (pages 41-42)

Power Cost Equalization
Municipal Energy Assistance Program
Low Income Home Energy Assistance Program
Bulk Fuel Revolving Loan Fund
Fuel Bridge Loan Program
Power Project Loan Fund
Bulk Fuel Upgrades Program
Power Fuel and Hydro Training
Weatherization Assistance and Enhanced Weatherization Program
Alternative Energy and Energy Efficiency

Recommendation: set aside a portion of tax receipts under .011 (g) and (h) – the so called progressivity tax - into a fund.

The legislature may use that fund

(1) to study the problem, the efficacy of the solutions employed to date and recommend solutions
(2) To enable local outreach efforts to make sure that affected communities, households, families and individuals are aware and able to take advantages of the programs already in place.
(3) To fund or increase funds available to those programs that are proving useful and effective.
(4) To fund recommended initiatives

# State of Alaska

**Department of Revenue**
***Commissioner's Office***

**SARAH PALIN, GOVERNOR**
333 Willoughby Avenue, 11th Floor
P.O. Box 110400
Juneau, Alaska 99811-0405
Phone: (907) 465-2300
Fax: (907) 465-2394

The Honorable Jay Ramras
Alaska State Representative
State Capitol, Room 118
Juneau, AK 99801-1182

October 27, 2007

Dear Representative Ramras,

You have requested that we provide you with what you call a "risk delta" associated with passage of ACES through year 2020. We have interpreted your inquiry as a request for a quantification of "what would happen if ACES were passed and investment decreased." To evaluate your question, we compared state revenues through 2020 under the scenarios of PPT with a 3% decline and ACES with a 6% decline. Slide 1 of the attached PowerPoint presentation depicts total severance taxes and royalties. The assumptions we used in this calculation were:

-Starting production of 750,000 bbls/day in 2008
-Most current DOR price forecast
-Capex of $7.00/bbl in the 3% decline case and $4.50/bbl in the 6% decline case
-Opex of $8.00/bbl in the 3% decline case and $7.00/bbl in the 6% decline case
-These cost estimates are based on our research

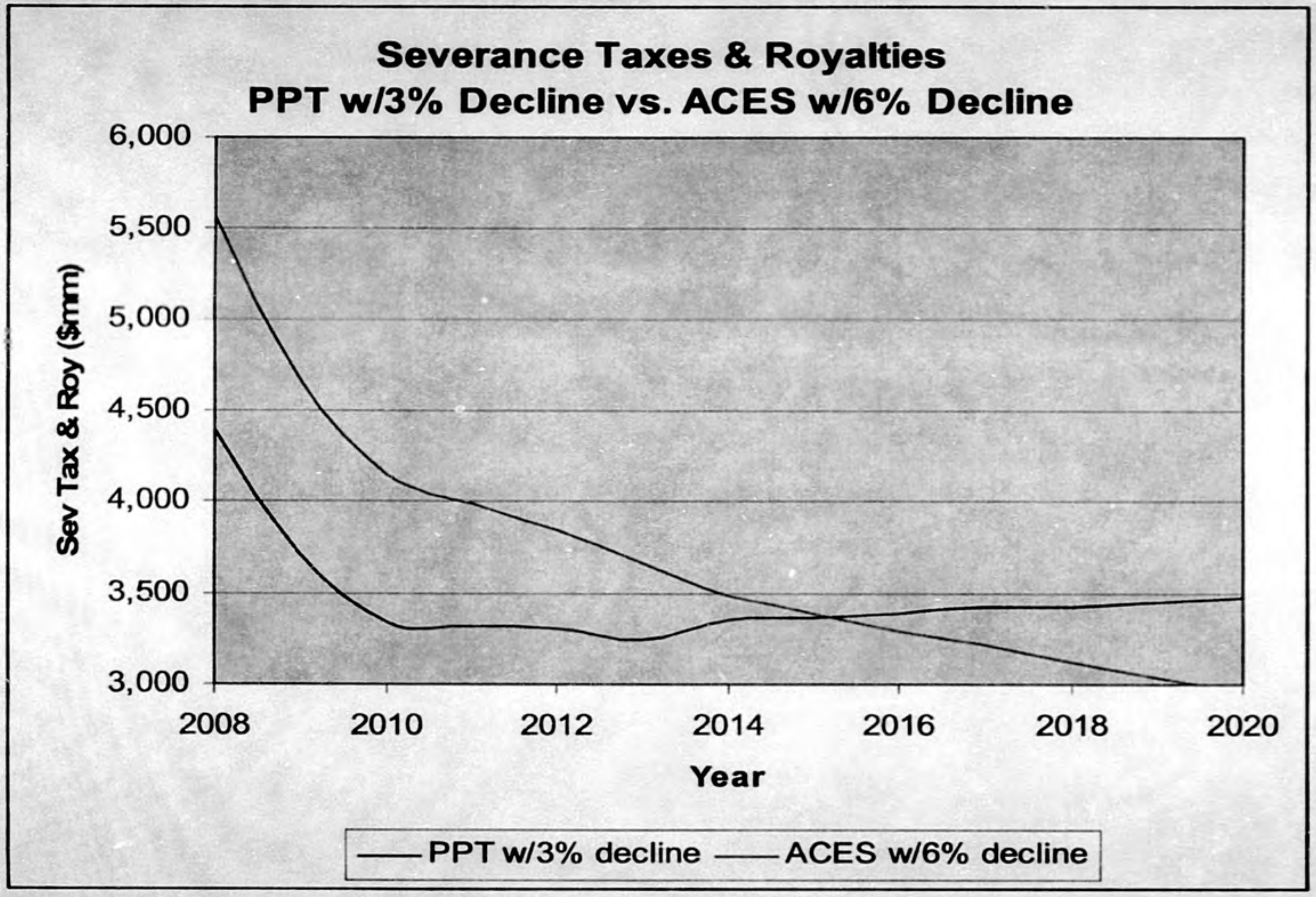
**Slide 1** demonstrates that notwithstanding the lower total oil production should ACES result in reduced investment and thus, lower production through a higher decline rate, the total revenues under the ACES case with higher decline rate were slightly higher than PPT base case with lower decline rate: $48 billion under ACES vs. $45 billion under PPT.

**Slide 2** supports the administration's statements that ACES would not cause a curtailment of investment, and associated increase in oil production decline until oil prices dropped below $30-40 a barrel. Above this oil price range, the higher taxes paid under ACES pales in comparison to the additional revenue investors would receive as a result of selling additional oil resulting from the additional investment. At prices above $35/bbl the net present value (NPV) to the producers of their additional investments to achieve a 3% decline under ACES is higher than the NPV of reducing investment and having 6% decline under ACES.

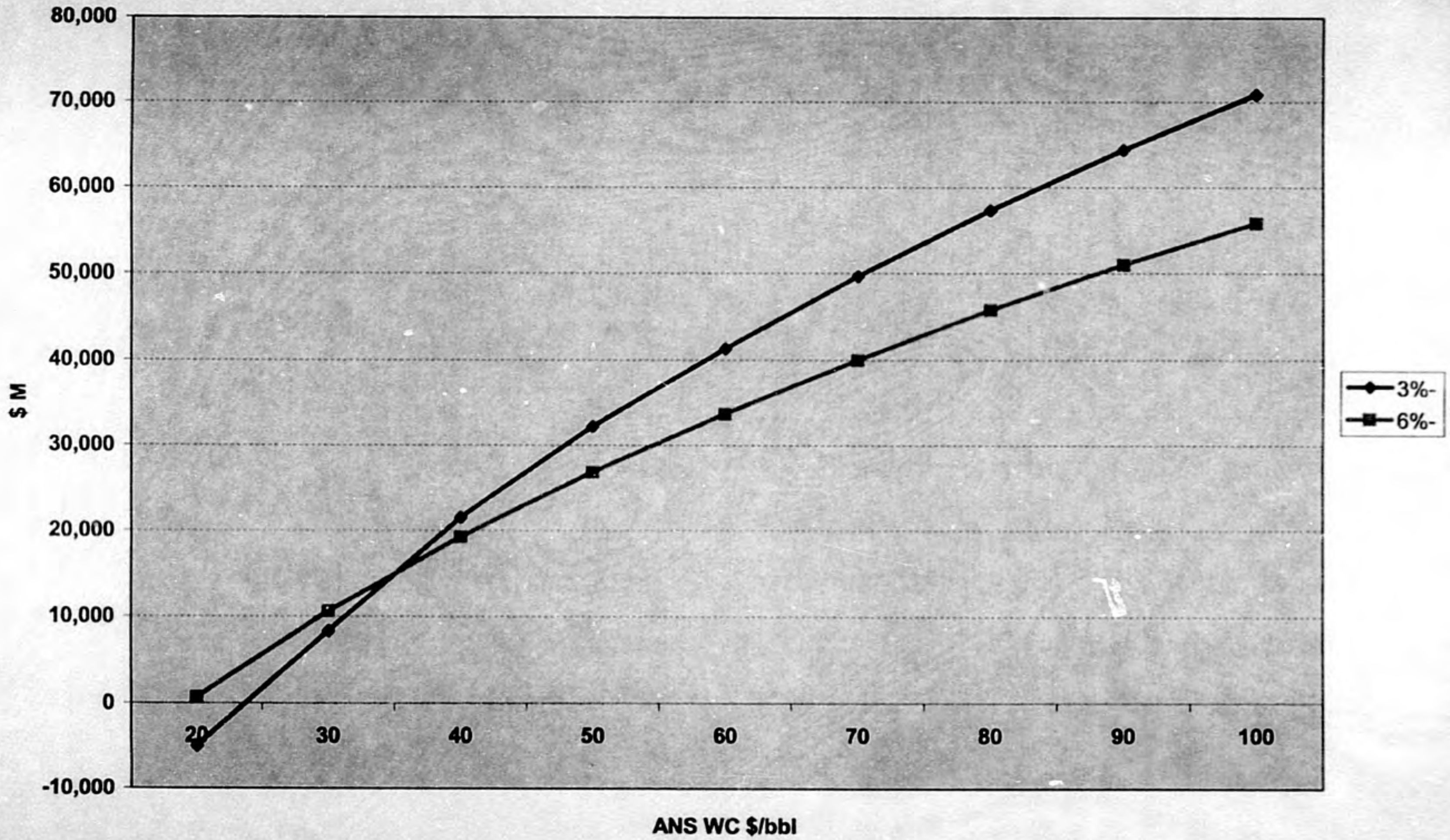
Sincerely,

Marcia Davis

Marcia Davis, Deputy Commissioner
Department of Revenue


Severance Taxes & Royalties
PPT w/3% Decline vs. ACES w/6% Decline
6,000
5,500
5,000
4,500
4,000
3,500
3,000
Sev Tax & Roy ($mm)
2008
2010
2012
2014
2016
2018
2020
Year
PPT w/3% decline
ACES w/6% decline

## Producer Economics - NCF NPV10
## ACES Under Two Decline Scenarios



25-GH0014\~~A~~K

Bullock
10/27/07

# CS FOR HOUSE BILL NO. 2001(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - SECOND SPECIAL SESSION

**BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

**Offered:**
**Referred:**

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

~~**Introduced: 10/18/07**~~
~~**Referred: House Special Committee on Oil and Gas, Resources, Finance**~~

## A BILL

## FOR AN ACT ENTITLED

**"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; ~~relating to the issuance~~providing a limit on the amount of ~~advisory bulletins and the disclosure of certain information relating to~~ tax that may be levied on the production ~~tax~~of certain gas that is produced outside of the Cook Inlet sedimentary basin and south of 68 degrees North latitude; relating to the sharing between agencies of certain information relating to the production tax and to oil and gas or gas only leases; expanding the period in which the Department of Revenue may assess the amount of oil and gas production tax and conservation surcharges; amending the State Personnel Act to place in the exempt service certain state oil and gas auditors and their immediate supervisors; ~~establishing an oil and gas tax credit fund and authorizing payment from~~**



*New Text Underlined* [DELETED TEXT BRACKETED]

~~that fund;~~ **providing for retroactive application of certain statutory and regulatory provisions relating to the production tax on oil and gas and conservation surcharges on oil; making conforming amendments; and providing for an effective date."**

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

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

~~LEGISLATIVE INTENT. It is the intent of the legislature that AS 43.55.075(b), enacted by sec. 50 of this Act, confirm by clarification the long-standing interpretation of AS 43.05.260 by the Department of Revenue relating to limitation of assessments for the production tax on oil and gas and conservation surcharges on oil.~~

~~* Sec. 2.~~ AS 38.05.035(a) is amended to read:

(a) The director shall

(1) have general charge and supervision of the division and may exercise the powers specifically delegated to the director; **the director** may employ and fix the compensation of assistants and employees necessary for the operations of the division; **the director** [AND] is the certifying officer of the division, with the consent of the commissioner, and may approve vouchers for disbursements of money appropriated to the division;

(2) manage, inspect, and control state land and improvements on it belonging to the state and under the jurisdiction of the division;

(3) execute laws, rules, regulations, and orders adopted by the commissioner;

(4) prescribe application procedures and practices for the sale, lease, or other disposition of available land, resources, property, or interest in them;

(5) prescribe fees or service charges, with the consent of the commissioner, for any public service rendered;

(6) under the conditions and limitations imposed by law and the commissioner, issue deeds, leases, or other conveyances disposing of available land, resources, property, or any interests in them;

(7) have jurisdiction over state land, except that land acquired by the

Alaska World War II Veterans Board and the Agricultural Loan Board or the departments or agencies succeeding to their respective functions through foreclosure or default; to this end**,** the director possesses the powers and, with the approval of the commissioner, shall perform the duties necessary to protect the state's rights and interest in state land, including the taking of all necessary action to protect and enforce the state's contractual or other property rights;

(8) [REPEALED

(9)] maintain **<u>the</u>** [SUCH] records [AS] the commissioner considers necessary, administer oaths, and do all things incidental to the authority imposed; the following records and files shall be kept confidential upon request of the person supplying the information:

(A) the name of the person nominating or applying for the sale, lease, or other disposal of land by competitive bidding;

(B) before the announced time of opening, the names of the bidders and the amounts of the bids;

(C) all geological, geophysical, and engineering data supplied, whether or not concerned with the extraction or development of natural resources;

(D) except as provided in AS 38.05.036, cost data and financial information submitted in support of applications, bonds, leases, and similar items;

(E) applications for rights-of-way or easements;

(F) requests for information or applications by public agencies for land **<u>that</u>** [WHICH] is being considered for use for a public purpose;

**<u>(9)</u>** [(10)] account for the fees, licenses, taxes, or other money received in the administration of this chapter including the sale or leasing of land, identify their source, and promptly transmit them to the proper fiscal department after crediting them to the proper fund; receipts from land application filing fees and charges for copies of maps and records shall be deposited immediately in the general fund of the state by the director;

**<u>(10)</u>** [(11)] select and employ or obtain at reasonable compensation cadastral, appraisal, or other professional personnel the director considers necessary for the proper operation of the division;

<u>(11)</u> [(12)] be the certifying agent of the state to select, accept, and secure by whatever action is necessary in the name of the state, by deed, sale, gift, devise, judgment, operation of law, or other means any land, of whatever nature or interest, available to the state; and be the certifying agent of the state, to select, accept, or secure by whatever action is necessary in the name of the state any land, or title or interest to land available, granted, or subject to being transferred to the state for any purpose;

**<u>(12) on request, furnish records, files, and other information related to the administration of AS 38.05.180 to the Department of Revenue for use in forecasting state revenue under or administering AS 43.55, whether or not those records, files, and other information are required to be kept confidential under (8) of this subsection; in the case of records, files, or other information required to be kept confidential under (8) of this subsection, the Department of Revenue shall maintain the confidentiality that the Department of Natural Resources is required to extend to records, files, and other information under (8) of this subsection</u>**

[(13) REPEALED

(14) REPEALED].

*** Sec. ~~3.~~<u>2.</u>** AS 38.05.036(b) is amended to read:

(b) The Department of Revenue may obtain from the department information relating to royalty and net profits payments and to exploration incentive credits under this chapter or under AS 41.09, whether or not that information is confidential. The Department of Revenue may use the information in carrying out its functions and responsibilities under AS 43, and shall hold that information confidential to the extent required by an agreement with the department or by **<u>AS 38.05.035(a)(8)</u>** [AS 38.05.035(a)(9)], AS 41.09.010(d), or AS 43.05.230.

*** Sec. ~~4.~~<u>3.</u>** AS 38.05.036(f) is amended to read:

(f) Except as otherwise provided in this section or in connection with official investigations or proceedings of the department, it is unlawful for a current or former officer, employee, or agent of the state to divulge information obtained by the department as a result of an audit under this section that is required by an agreement with the department or by **AS 38.05.035(a)(8)** [AS 38.05.035(a)(9)] or AS 41.09.010(d) to be kept confidential.

* **Sec. ~~5.~~4.** AS 38.05.036(g) is amended to read:

(g) Nothing in this section prohibits the publication of statistics in a manner that maintains the confidentiality of information to the extent required by an agreement with the department or by **AS 38.05.035(a)(8)** [AS 38.05.035(a)(9)] or AS 41.09.010(d).

* **Sec. ~~6.~~5.** AS 38.05.123(f) is amended to read:

(f) As part of the timber sale negotiations authorized by this section, the commissioner may require a prospective purchaser negotiating a timber sale contract to submit financial and technical data that demonstrates that the requirements of this section have been or will be met. Upon the prospective purchaser's request, the commissioner shall keep data provided by the purchaser confidential in accordance with the requirements of **AS 38.05.035(a)(8)** [AS 38.05.035(a)(9)].

* **Sec. ~~7.~~6.** AS 38.05.133(e) is amended to read:

(e) The commissioner may make a written request to a prospective licensee for additional information on the prospective licensee's proposal. The commissioner shall keep confidential information described in **AS 38.05.035(a)(8)** [AS 38.05.035(a)(9)] that is voluntarily provided if the prospective licensee has made a written request that the information remain confidential.

* **Sec. ~~8.~~7.** AS 38.05.180(j) is amended to read:

(j) The commissioner

(1) may provide for modification of royalty on individual leases, leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05

(A) to allow for production from an oil or gas field or pool if

(i) the oil or gas field or pool has been sufficiently delineated to the satisfaction of the commissioner;

(ii) the field or pool has not previously produced oil or



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gas for sale; and

(iii) oil or gas production from the field or pool would not otherwise be economically feasible;

(B) to prolong the economic life of an oil or gas field or pool as per barrel or barrel equivalent costs increase or as the price of oil or gas decreases, and the increase or decrease is sufficient to make future production no longer economically feasible; or

(C) to reestablish production of shut-in oil or gas that would not otherwise be economically feasible;

(2) may not grant a royalty modification unless the lessee or lessees requesting the change make a clear and convincing showing that a modification of royalty meets the requirements of this subsection and is in the best interests of the state;

(3) shall provide for an increase or decrease or other modification of the state's royalty share by a sliding scale royalty or other mechanism that shall be based on a change in the price of oil or gas and may also be based on other relevant factors such as a change in production rate, projected ultimate recovery, development costs, and operating costs;

(4) may not grant a royalty reduction for a field or pool

(A) under (1)(A) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than five percent in amount or value of the production removed or sold from a lease or leases covering the field or pool;

(B) under (1)(B) or (1)(C) of this subsection if the royalty modification for the field or pool would establish a royalty rate of less than three percent in amount or value of the production removed or sold from a lease or leases covering the field or pool;

(5) may not grant a royalty reduction under this subsection without including an explicit condition that the royalty reduction is not assignable without the prior written approval, which may not be unreasonably withheld, by the commissioner; the commissioner shall, in the preliminary and final findings and

determinations, set out the conditions under which the royalty reduction may be assigned;

(6) shall require the lessee or lessees to submit, with the application for the royalty reduction, financial and technical data that demonstrate that the requirements of this subsection are met; the commissioner

(A) may require disclosure of only the financial and technical data related to development, production, and transportation of oil and gas or gas only from the field or pool that are reasonably available to the applicant; and

(B) shall keep the data confidential under **AS 38.05.035(a)(8)** [AS 38.05.035(a)(9)] at the request of the lessee or lessees making application for the royalty reduction; the confidential data may be disclosed by the commissioner to legislators and to the legislative auditor and as directed by the chair or vice-chair of the Legislative Budget and Audit Committee to the director of the division of legislative finance, the permanent employees of their respective divisions who are responsible for evaluating a royalty reduction, and to agents or contractors of the legislative auditor or the legislative finance director who are engaged under contract to evaluate the royalty reduction, if they sign an appropriate confidentiality agreement;

(7) may

(A) require the lessee or lessees making application for the royalty reduction under (1)(A) of this subsection to pay for the services of an independent contractor, selected by the lessee or lessees from a list of qualified consultants compiled by the commissioner, to evaluate hydrocarbon development, production, transportation, and economics and to assist the commissioner in evaluating the application and financial and technical data; if, under this subparagraph, the commissioner requires payment for the services of an independent contractor, the total cost of the services to be paid for by the lessee or lessees may not exceed $150,000 for each application, and the commissioner shall determine the relevant scope of the work to be performed by the contractor; selection of an independent contractor under this subparagraph is not subject to AS 36.30;

(B) with the mutual consent of the lessee or lessees making application for the royalty reduction under (1)(B) or (1)(C) of this subsection, request payment for the services of an independent contractor, selected from a list of qualified consultants to evaluate hydrocarbon development, production, transportation, and economics by the commissioner to assist the commissioner in evaluating the application and financial and technical data; if, under this subparagraph, the commissioner requires payment for the services of an independent contractor, the total cost of the services that may be paid for by the lessee or lessees may not exceed $150,000 for each application, and the commissioner shall determine the relevant scope of the work to be performed by the contractor; selection of an independent contractor under this subparagraph is not subject to AS 36.30;

(8) shall make and publish a preliminary findings and determination on the royalty reduction application, give reasonable public notice of the preliminary findings and determination, and invite public comment on the preliminary findings and determination during a 30-day period for receipt of public comment;

(9) shall offer to appear before the Legislative Budget and Audit Committee, on a day that is not earlier than 10 days and not later than 20 days after giving public notice under (8) of this subsection, to provide the committee a review of the commissioner's preliminary findings and determination on the royalty reduction application and administrative process; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to all members of the legislature;

(10) shall make copies of the preliminary findings and determination available to

(A) the presiding officer of each house of the legislature;

(B) the chairs of the legislature's standing committees on resources; and

(C) the chairs of the legislature's special committees on oil and gas, if any;

(11) shall, within 30 days after the close of the public comment period under (8) of this subsection,

(A) prepare a summary of the public response to the commissioner's preliminary findings and determination;

(B) make a final findings and determination; the commissioner's final findings and determination prepared under this subparagraph regarding a royalty reduction is final and not appealable to the court;

(C) transmit a copy of the final findings and determination to the lessee;

(D) with the applicant's consent, amend the applicant's lease or unitization agreement consistent with the commissioner's final decision; and

(E) make copies of the final findings and determination available to each person who submitted comment under (8) of this subsection and who has filed a request for the copies;

(12) is not limited by the provisions of AS 38.05.134(3) or (f) of this section in the commissioner's determination under this subsection.

* **Sec. ~~9.~~8.** AS 38.05.275(c) is amended to read:

(c) Subsection (b) of this section may not be construed to limit the director in the exercise of authority granted by **AS 38.05.035(a)(11)** [AS 38.05.035(a)(12)].

* **Sec. ~~10.~~9.** AS 39.25.110 is amended by adding a new paragraph to read:

(42) oil and gas auditors performing

(A) production tax audits, and their immediate supervisors, in the Department of Revenue;

(B) royalty audits, including net profit share audits, and their immediate supervisors, in the Department of Natural Resources.

* **Sec. ~~11.~~10.** AS 41.09.010(d) is amended to read:

(d) Data derived from drilling a stratigraphic test well or exploratory well that is provided to the commissioner under (c)(3) of this section shall be kept confidential for 24 months after receipt by the commissioner unless the owner of the well gives written permission to the state to release the well data at an earlier date, and, notwithstanding AS 31.05.035(c), confidentiality may not be extended beyond 24 months. The provisions of **AS 38.05.035(a)(8)(C)** [AS 38.05.035(a)(9)(C)] apply to other data provided to the commissioner under (c)(3) of this section, except that the commissioner, under appropriate confidentiality provisions and without preference or discrimination, may display to all interested third parties, but may not distribute or transfer in hard copy or electronic form, those data with respect to all land if the commissioner determines that the limited disclosure is necessary to further the interest of the state in evaluating or developing its land.

*** Sec. ~~12.~~11.** AS 43.05.230(a) is amended to read:

(a) It is unlawful for a current or former officer, employee, or agent of the state to divulge the amount of income or the particulars set out or disclosed in a report or return made under this title, except

(1) in connection with official investigations or proceedings of the department, whether judicial or administrative, involving taxes due under this title;

(2) in connection with official investigations or proceedings of the child support enforcement agency, whether judicial or administrative, involving child support obligations imposed or imposable under AS 25 or AS 47;

(3) as provided in AS 38.05.036 pertaining to audit functions of the Department of Natural Resources;

(4) as provided in AS 43.05.405 - 43.05.499; and

(5) as otherwise provided in this section **or AS 43.55.890**.

*** Sec. ~~13~~12.** AS 43.05.230(h) is amended to read:

(h) The commissioner shall, upon request, furnish to the Department of Natural Resources copies of tax returns, reports, **and other** documents filed under **AS 43.55 or** AS 43.65, and the Department of Revenue's determinations and workpapers **under ~~AS 43.55 and AS 43.65~~ those chapters**. The Department of Natural Resources shall maintain the confidentiality that the Department of Revenue is required to extend to the returns, reports, documents, determinations, and workpapers furnished to the Department of Natural Resources under this subsection.

*** Sec. ~~14~~13.** AS 43.05.260(a) is amended to read:

(a) Except as provided in (c) of this section**,** [AND] AS 43.20.200(b), **and**

**AS 43.55.075,** the amount of a tax imposed by this title must be assessed within three years after the return was filed, whether or not a return was filed on or after the date prescribed by law. If the tax is not assessed before the expiration of the **applicable** [THREE-YEAR] period, proceedings may not be instituted in court for the collection of the tax.

*** Sec. ~~15~~14.** AS 43.55.011~~(e) is repealed and reenacted to read:~~

~~(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), and (k) of this section, the tax is equal to the production tax value of the taxable oil and gas as calculated under AS 43.55.160 multiplied by the tax rate determined under (g) of this section.~~

~~*** Sec. 16.** AS 43.55.011(f) is repealed and reenacted to read:~~

~~(f) The provisions of this subsection apply to oil and gas produced from each lease or property within a unit or nonunitized reservoir from which 1,000,000,000 BTU equivalent barrels of oil or gas have been cumulatively produced by the close of the most recent calendar year and from which the average daily oil and gas production during the most recent calendar year exceeded 100,000 BTU equivalent barrels. Notwithstanding any contrary provision of law, a producer may not apply tax credits to reduce its total tax liability under (e) of this section for oil and gas produced from all leases or properties within the unit or nonunitized reservoir below 10 percent of the total gross value at the point of production of that oil and gas. If the amount calculated by multiplying the tax rate determined under (g) of this section times the total production tax value of the oil and gas taxable under (e) of this section produced from all of the producer's leases or properties within the unit or nonunitized reservoir is less than 10 percent of the total gross value at the point of production of that oil and gas, the tax levied by (e) of this section for that oil and gas is equal to 10 percent of the total gross value at the point of production of that oil and gas.~~

~~*** Sec. 17.** AS 43.55.011(g) is repealed and reenacted to read:~~

~~(g) The tax rate applied to the production tax value of oil and gas under (e) of~~

~~this section is 25 percent plus 0.20 percent times the price index for the calendar year determined under (h) of this section. However, the tax rate calculated under this subsection may not be more than 50 percent.~~

~~* **Sec. 18.** AS 43.55.011(h~~) is amended to read:

~~(h) For purposes of (g) of this section, the price index for a **calendar year** [MONTH] is calculated by subtracting **30** [40] from the number that is equal to [THE QUOTIENT OF] the total [MONTHLY] production tax value of the taxable oil and gas produced by the producer **from all leases or properties in the state during that calendar year** [DURING THAT MONTH], as calculated under AS 43.55.160, divided by the total amount of **that** [THE TAXABLE] oil and gas [PRODUCED BY THE PRODUCER DURING THAT MONTH], in BTU equivalent barrels. However, a price index **calculated under this subsection** may not be less than zero.~~

~~* **Sec. 19.** AS 43.55.011(j) is amended to read:~~

(j) For a calendar year before 2022, the ~~[TOTAL]~~total tax levied by (e) ~~[AND~~ and **(o)** [(g)] of this section ~~**for** [ON]~~ on gas produced from a lease or property in the Cook Inlet sedimentary basin may not exceed

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

(2) for a lease or property that first commences commercial production of gas after March 31, 2006, the product obtained by multiplying (A) the amount of taxable gas produced during the calendar year from the lease or property, times (B) the average rate of tax that was imposed under this chapter ~~**for** [ON]~~ on taxable gas produced from all leases or properties in the Cook Inlet sedimentary basin for the 12-month period ending on March 31, 2006, times (C) the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending

March 31, 2006, as determined by the department under AS 43.55.020(f).

*** Sec. ~~20.~~15.** AS 43.55.011(k) is amended to read:

(k) For a calendar year before 2022, the ~~[TOTAL]~~total tax levied by (e) ~~[AND~~ and **(o)** [(g)] of this section ~~**for**~~ ~~[ON]~~ on oil produced from a lease or property in the Cook Inlet sedimentary basin may not exceed

(1) for a lease or property that first commenced commercial production of oil before April 1, 2006, the product obtained by multiplying (A) the amount of taxable oil produced during the calendar year from the lease or property, times (B) the average rate of tax that was imposed under this chapter ~~**for**~~ ~~[ON]~~ on taxable oil produced from the lease or property for the 12-month period ending on March 31, 2006, times (C) the quotient obtained by dividing the total gross value at the point of production of the taxable oil produced from the lease or property during the 12-month period ending on March 31, 2006, by the total amount of that oil;

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

*** Sec. ~~21~~16.** AS 43.55.011(m) is amended to read:

(m) Notwithstanding any contrary provision of AS 38.05.180(i), AS 41.09.010, AS 43.20.043, AS 43.55.024, or 43.55.025, tax credits under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, AS 43.55.024, and 43.55.025 that are allocated to gas produced from leases or properties in the Cook Inlet sedimentary basin and that are available to be applied against a tax levied by (e) of this section **for** [ON] gas produced from leases or properties in the Cook Inlet sedimentary basin during a calendar year may be applied only against the tax levied by (e) of this section **for** [ON] that gas. The amount by which the amount of tax credits that are allocated to gas produced from leases or properties in the Cook Inlet sedimentary basin and that the producer would otherwise be allowed to use for a later calendar year or transfer to another person exceeds the amount of tax credits whose application would reduce the tax levied by (e) of this section **for** [ON] that gas to zero, if any, is considered the amount of excess tax credits, and the excess tax credits are subject to the following:

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

(2) the producer shall calculate the total of the reductions calculated under (1) of this subsection for all affected leases or properties; ~~**however, for a calendar year for which the producer has Cook Inlet excess adjusted lease expenditures under AS 43.55.160(h), the amount calculated under this paragraph is deemed to be**~~

~~**(A) zero, if the amount calculated under AS 43.55.160(i)(2) is greater than or equal to the amount calculated under AS 43.55.160(i)(4);**~~

~~**(B) the remainder calculated by subtracting the amount calculated under AS 43.55.160(i)(2) from the amount calculated under AS 43.55.160(i)(4), if the amount calculated under AS 43.55.160(i)(2) is less than the amount calculated under AS 43.55.160(i)(4);**~~

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

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

* **Sec.** ~~22. AS 43.55.020(a) is repealed and reenacted~~17. AS 43.55.011 is amended by adding new subsections to read:

~~(a) For a calendar year, a producer subject~~o) In addition to the tax levied under ~~AS 43.55.011~~(e) ~~or (i) shall pay the tax as follows:~~

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

~~(A) for oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin other than leases or properties subject to AS 43.55.011(f), the greater of~~

~~(i) zero; or~~

~~(ii) 25 percent of the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the leases or properties under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month~~ for which the ~~installment payment is calculated;~~

~~(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), the total~~ gross value at the point of production exceeds $50 a barrel, there is levied on the producer of oil or gas a tax for all ~~units or nonunitized reservoirs of the amount for each unit or nonunitized reservoir that is the greatest of~~

~~(i) zero;~~

~~(ii) 10 percent of the gross value at the point of production of the~~ oil and gas produced ~~from all leases or properties in the unit or nonunitized reservoir; or~~

~~(iii) 25 percent of the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170~~ that ~~are deductible for those leases or properties under AS 43.55.160 from the~~

~~gross value at the point of production of the oil and gas produced from those leases or properties during the~~ month ~~for which the installment payment is calculated;~~

~~(C) for oil and gas produced~~ from each lease or property in the ~~Cook Inlet sedimentary basin, the greater of~~state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (j) and (k) of this section, the tax levied under this subsection is equal to .225 percent of the difference between the gross value at the point of production for the month and the product of the total amount of production for that month in BTU equivalent barrels multiplied by $50.

~~(i) zero; or~~

~~(ii) 25 percent of the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160 for oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;~~

~~(2) an amount calculated under (1)(C) of this subsection for oil or gas produced from a lease or property in the Cook Inlet sedimentary basin may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;~~

(p) For a calendar year before 2022, the tax levied by (e) and (o) of this section for gas produced from a lease or property that is outside of the Cook Inlet sedimentary basin and no part of which is north of 68 degrees North latitude may not exceed the product of the amount of taxable gas produced during the calendar year

<u>from the lease or property, multiplied by the average rate of tax imposed under this chapter for taxable gas produced from all leases or properties in the Cook Inlet sedimentary basin, multiplied by the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f). This subsection applies only to gas produced from a lease or property for which the start of regular deliveries of marketable gas is after December 31, 2007.</u>

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

<u>(a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f), [(g), OR] (i),</u> **<u>or (o),</u>** <u>and notwithstanding that a producer may be liable for the tax under AS 43.55.011(f) rather than the tax under AS 43.55.011(e), shall pay the tax as follows:</u>

<u>(1) an installment payment of the estimated tax levied by AS 43.55.011(e) or (f), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of the amounts calculated under (2) and</u> (3) <u>of this subsection, but not less than zero;</u>

<u>(2) the first of the two amounts used to calculate the installment payment for a month under (1) of this subsection is equal to the remainder obtained by subtracting</u>

<u>(A) 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year; from</u>

<u>(B) the total of the monthly production values calculated</u> **<u>under</u>** <u>[IN THE MANNER PROVIDED IN] AS 43.55.160(a)(2) of all oil and gas taxable under AS 43.55.011(e) and produced by the producer from leases or properties in the state during the month, multiplied by 22.5 percent;</u>

<u>(3) the second of the two amounts used to calculate the installment payment for a month under (1) of this subsection is the amount calculated for the month under</u> **<u>AS 43.55.011(o)</u>** <u>[AS 43.55.011(g)];</u>

<u>(4)</u> an installment payment of the estimated tax levied by AS 43.55.011(i) for each lease or property is due for each month of the calendar year

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

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

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

(45) any amount of tax levied by **AS 43.55.011(e~~)~~), (f), (i), and (o)** [AS 43.55.011(e) - (g) AND (i~~),~~)], net of any credits applied as allowed by law, that exceeds the total of the amounts due as installment payments of estimated tax is due on March 31 of the year following the calendar year of production.

*** Sec. ~~23.~~19.** AS 43.55.020(d) is amended to read:

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

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

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

* **Sec.** ~~24.~~**20.** AS 43.55.020(g) is amended to read:

(g) Notwithstanding any contrary provision of AS 43.05.225, an unpaid amount of an installment payment required under (a)(1) - (**3**) ~~[(a)(1) - (4)]~~ of this section that is not paid when due bears interest (1) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the date the installment payment is due until [THE] March 31 ~~of the year~~ **following the calendar year of production** [DESCRIBED IN AS 43.55.030(a)], and (2) as provided for a delinquent tax under AS 43.05.225 after that March 31. Interest accrued under (1) of this subsection that remains unpaid after that March 31 is treated as an addition to tax that bears interest under (2) of this subsection. An unpaid amount of tax due under (a)(**4**) ~~[(a)(5)]~~ of this section that is not paid when due bears interest as provided for a delinquent tax under AS 43.05.225.

* **Sec.** ~~25.~~**21.** AS 43.55.020(h) is amended to read:

(h) Notwithstanding any contrary provision of AS 43.05.280,

(1) an overpayment of an installment payment required under (a)(1) - (**3**) ~~[(a)(1) - (4)]~~ of this section bears interest at the rate provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the later of the date the installment payment is due or the date the overpayment is made, until the earlier of

(A) the date it is refunded or is applied to an underpayment**;** [,] or

(B) [THE] March 31 ~~of the year~~ **following the calendar year of production** [DESCRIBED IN AS 43.55.030(a)];

(2) except as provided under (1) of this subsection, interest with respect to an overpayment is allowed only on any net overpayment of the payments required under (a) of this section that remains after the later of [THE] March 31 ~~of the year~~ **following the calendar year of production** [DESCRIBED IN

AS 43.55.030(a)] or the date that the statement required under AS 43.55.030(a) is filed;

(3) interest is allowed under (2) of this subsection only from a date that is 90 days after the later of [THE] March 31 ~~of the year~~ **following the calendar year of production** [DESCRIBED IN AS 43.55.030(a)] or the date that the statement required under AS 43.55.030(a) is filed; interest is not allowed if the overpayment was refunded within the 90-day period;

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

*** Sec.** ~~**26.** AS 43.55.023(a) is amended to read:~~

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

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

~~(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer [PROVIDES TO THE DEPARTMENT, AS PART OF THE STATEMENT REQUIRED UNDER AS 43.55.030(a) FOR THE CALENDAR YEAR FOR WHICH THE CREDIT IS SOUGHT TO BE TAKEN, THE PRODUCER'S OR EXPLORER'S WRITTEN AGREEMENT]~~

~~(A) **agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2)** [TO NOTIFY THE DEPARTMENT OF NATURAL RESOURCES, BEFORE THE LATER OF 30 DAYS AFTER COMPLETION OF THE GEOLOGICAL OR GEOPHYSICAL DATA~~

~~PROCESSING OR COMPLETION OF THE WELL, OR 30 DAYS AFTER THE STATEMENT IS FILED, OF THE DATE OF COMPLETION AND TO SUBMIT A REPORT TO THAT DEPARTMENT DESCRIBING THE PROCESSING SEQUENCE AND PROVIDE A LIST OF DATA SETS AVAILABLE];~~

~~(B) **if more than one explorer holds an interest in a well, obtains each explorer's written agreement that the explorer will not make the request described in AS 43.55.025(f)(2)(D); and**~~

~~**(C) submits** [TO PROVIDE] to the Department of Natural Resources **all data that would be required to be submitted under AS 43.55.025(f)(2)** [, WITHIN 30 DAYS AFTER THE DATE OF A REQUEST, SPECIFIC DATA SETS, ANCILLARY DATA, AND REPORTS IDENTIFIED IN (A) OF THIS PARAGRAPH];~~

~~**(3) a tax credit for a qualified capital expenditure to explore for, develop, or produce oil or gas deposits located within a unit or nonunitized reservoir subject to AS 43.55.011(f) may not be applied against a tax for oil or gas produced from a lease or property outside a unit or nonunitized reservoir subject to AS 43.55.011(f)**~~

~~[(C) THAT, NOTWITHSTANDING ANY PROVISION OF AS 38, THE DEPARTMENT OF NATURAL RESOURCES SHALL HOLD CONFIDENTIAL THE INFORMATION PROVIDED TO THAT DEPARTMENT UNDER THIS PARAGRAPH FOR 10 YEARS FOLLOWING THE COMPLETION DATE, AFTER WHICH THE DEPARTMENT SHALL PUBLICLY RELEASE THE INFORMATION AFTER 30 DAYS' PUBLIC NOTICE].~~

~~*** Sec. 27.** AS 43.55.023(b) is amended to read:~~

~~(b) A producer or explorer may elect to take a tax credit in the amount of **25** [20] percent of a carried-forward annual loss. A credit under this subsection may be applied against a tax **levied by** [DUE UNDER] AS 43.55.011(e). For purposes of this subsection, **except as limited by AS 43.55.160(h),** a carried-forward annual loss is the amount of a producer's or explorer's adjusted lease expenditures under~~

~~AS 43.55.165 and 43.55.170 for a previous calendar year that was not deductible~~ ~~**in calculating production tax values**~~ ~~for that calendar year under~~ ~~**AS 43.55.160. However, a carried-forward annual loss may not include an adjusted lease expenditure to explore for, develop, or produce oil or gas deposits located within a unit or nonunitized reservoir subject to AS 43.55.011(f)**~~ ~~[AS 43.55.160(b) AND (e)].~~

~~*** Sec. 28.**~~**22.** AS 43.55.023(d) is amended to read:

(d) ~~**A**~~ ~~[EXCEPT AS LIMITED BY (i) OF THIS SECTION, A]~~Except as limited by (i) of this section, a person ~~**that is**~~ entitled to take a tax credit under this section~~**, other than a tax credit described in (a)(3) of this section, and**~~ that wishes to transfer the unused credit to another person ~~**or obtain a cash payment under AS 43.55.028**~~ may apply to the department for ~~[A]~~ a transferable tax credit certificate~~s~~ ~~[CERTIFICATE]~~. An application under this subsection must be in a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than ~~**120**~~ ~~[60]~~ days after the latest of (1) March 31 of the year following the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; (2) ~~[IF THE APPLICANT IS REQUIRED UNDER AS 43.55.030(a) TO FILE A STATEMENT ON OR BEFORE MARCH 31 OF THE YEAR FOLLOWING THE CALENDAR YEAR IN WHICH THE QUALIFIED CAPITAL EXPENDITURES OR CARRIED-FORWARD ANNUAL LOSS FOR WHICH THE CREDIT IS CLAIMED WAS INCURRED,]~~if the ~~date the statement~~ applicant is required under AS 43.55.030(a) to file a statement on or ~~**(e) was filed for**~~before March 31 of the year following the calendar year in which the qualified capital ~~**expenditure**~~expenditures or carried-forward annual loss for which the credit is claimed was incurred, the date the statement **required under AS 43.55.030(a) or (e)** was filed; or (3) the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant ~~**two**~~ ~~[A]~~ a transferable tax credit ~~**certificates, each**~~ ~~[CERTIFICATE] for~~ ~~**half of**~~ ~~the amount of the credit.~~ ~~**The credit shown on one of the two certificates is available for immediate use. The credit shown on the second of the two certificates may not be applied against a tax for a calendar year earlier than the calendar year following the calendar year in which the certificate is issued, and the**~~ certificate ~~**must contain a conspicuous statement to that effect.**~~for the amount of the credit. A certificate issued under this subsection does not expire.

* **Sec. ~~29.~~23.** AS 43.55.023(~~e~~i) is amended to read:

~~(e) A person to which a transferable tax credit certificate is issued under (d) of this section may transfer the certificate to another person, and a transferee may further transfer the certificate. Subject to the limitations set out in **(a) - (d)** [(a) - (c)] of this section, and notwithstanding any action the department may take with respect to the applicant under (g) of this section, the owner of a certificate may apply the credit or a portion of the credit shown on the certificate only against a tax **levied by** [DUE UNDER] AS 43.55.011(e). However, a credit shown on a transferable tax credit certificate may not be applied to reduce a transferee's total tax **liability** [DUE] under AS 43.55.011(e) **for** [ON] oil and gas produced during a calendar year to less than 80 percent of the tax that would otherwise be due without applying that credit. Any portion of a credit not used under this subsection may be applied in a later period.~~

~~* **Sec. 30.** AS 43.55.023(g) is amended to read:~~

~~(g) The issuance of a transferable tax credit certificate under (d) of this section or the **purchase of a certificate** [ISSUANCE OF A CASH REFUND] under **AS 43.55.028** [(f) OF THIS SECTION] does not limit the department's ability to later audit a tax credit claim to which the certificate relates or to adjust the claim if the department determines, as a result of the audit, that the applicant was not entitled to the amount of the credit for which the certificate was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit that exceeds that to which the applicant was entitled, or the applicant's available valid outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is~~

~~increased under this subsection, the increase bears interest under AS 43.05.225 from the date the transferable tax credit certificate was issued.~~i) For the purposes of this ~~subsection, an applicant that is an explorer is considered a producer subject to the tax levied by AS 43.55.011(e).~~section.

~~*** Sec. 31.** AS 43.55.023 is amended by adding a new subsection to read:~~

~~(*l*) An entity that is exempt from taxation under this chapter may not apply for a transferable tax credit certificate.~~

~~*** Sec. 32.** AS 43.55.024(a) is amended to read:~~

~~(a) For a calendar year for which a producer's tax liability under AS 43.55.011(e) [OR (f)] on oil and gas produced from leases or properties outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, exceeds zero before application of any credits under this chapter, a producer that is qualified under (e) of this section may apply a tax credit against that liability of not more than $6,000,000.~~

~~*** Sec. 33.** AS 43.55.024(c) is amended to read:~~

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

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

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

$$\cancel{1 - [2 \times (AP - 50{,}000)] \div 100{,}000}$$

~~where AP = the average amount of oil and gas taxable under AS 43.55.011(e) [OR~~

~~(f)], produced a day during the calendar year in BTU equivalent barrels.~~

~~*** Sec. 34.** AS 43.55.024(e) is amended to read:~~

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

~~*** Sec. 35.** AS 43.55.024(g) is amended to read:~~

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

~~*** Sec. 36.** AS 43.55.025(a) is amended to read:~~

~~(a) Subject to the terms and conditions of this section, a credit against the production tax **levied by** [DUE UNDER] AS 43.55.011(e) [OR (f)] is allowed for exploration expenditures that qualify under (b) of this section in an amount equal to one of the following:~~

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

~~(2) 20 percent of the total exploration expenditures [FOR WORK PERFORMED BEFORE JULY 1, 2007, AND] that qualify only under (b) and (d) of this section;~~

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

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

~~*** Sec. 37.** AS 43.55.025(b) is amended to read:~~

~~(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed [ON OR] after~~

~~**December 31, 2007** [JULY 1, 2003], and before July 1, 2016, [EXCEPT THAT AN EXPLORATION EXPENDITURE FOR A COOK INLET PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER JULY 1, 2005,] and~~

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

~~(2) if for an exploration well,~~

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

~~(B) may be for either **a** [AN OIL OR GAS DISCOVERY] well **that encounters an oil or gas deposit** or a dry hole; [AND]~~

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

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

~~(3) may not be for testing, stimulation, or completion costs; administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or other payments to governments related to the well; **costs arising from gross negligence or violation of health, safety, or environmental statutes or regulations;** or other costs that are generally recognized as indirect costs or financing costs; and~~

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

~~*** Sec. 38.** AS 43.55.025(c) is repealed and reenacted to read:~~

~~(c) To be eligible for the 20 percent production tax credit authorized by (a)(1) of this section or the 40 percent production tax credit authorized by (a)(3) of this~~

~~section, exploration expenditures must~~

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

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

~~(A) before spudding the well, (i) the explorer shall submit to the commissioner of natural resources the information necessary to determine whether the geological objective of the well is a potential oil or gas trap that is distinctly separate from any trap that has been tested by a preexisting well; and (ii) the commissioner of natural resources must make an affirmative determination on that question; the commissioner of natural resources shall decide whether to make that determination within 60 days after receiving all the necessary information from the explorer and based on the information received and on other information the commissioner of natural resources may consider relevant;~~

~~(B) for an exploration well other than a well to explore a Cook Inlet prospect, the well must be located and drilled in such a manner that the bottom hole is located not less than three miles away from the bottom hole of a preexisting well drilled for oil or gas, irrespective of whether the preexisting well has been completed, suspended, or abandoned;~~

~~(C) after completion or abandonment of the exploration well, the commissioner of natural resources must determine that the well adequately achieved the explorer's stated geological objective.~~

~~*** Sec. 39.** AS 43.55.025(f) is amended to read:~~

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

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

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

~~(A) to notify the Department of Natural Resources, within 30 days after completion of seismic or geophysical data processing, completion~~

~~of [A] well **drilling**, or filing of a claim for credit, whichever is the latest, for which exploration costs are claimed, of the date of completion and submit a report to that department describing the processing sequence and providing a list of data sets available; [IF, UNDER (c)(2)(B) OF THIS SECTION, AN EXPLORER SUBMITS A CLAIM FOR A CREDIT FOR EXPENDITURES FOR AN EXPLORATION WELL THAT IS LOCATED WITHIN THREE MILES OF A WELL ALREADY DRILLED FOR OIL AND GAS, IN ADDITION TO THE SUBMISSIONS REQUIRED UNDER (1) OF THIS SUBSECTION, THE EXPLORER SHALL SUBMIT THE INFORMATION NECESSARY FOR THE COMMISSIONER OF NATURAL RESOURCES TO EVALUATE THE VALIDITY OF THE EXPLORER'S CLAIM THAT THE WELL IS DIRECTED AT A DISTINCTLY SEPARATE EXPLORATION TARGET, AND THE COMMISSIONER OF NATURAL RESOURCES SHALL, UPON RECEIPT OF ALL EVIDENCE SUFFICIENT FOR THE COMMISSIONER TO EVALUATE THE EXPLORER'S CLAIM, MAKE THAT DETERMINATION WITHIN 60 DAYS;]~~

~~(B) to provide to the Department of Natural Resources, within 30 days after the date of a request, **unless a longer period is provided by the Department of Natural Resources,** specific data sets, ancillary data, and reports identified in (A) of this paragraph;~~ **in this subparagraph,**

~~**(i) a seismic or geophysical data set includes the data for an entire seismic survey, irrespective of whether the survey area covers nonstate land in addition to state land or land in a unit in addition to land outside a unit;**~~

~~**(ii) well data include all derivative products, results, and copies of data collected and data analyses for the well; well logs; sample analyses; geophysical and velocity data including vertical seismic profiles and check shot surveys; and tangible material including, for each whole core collected, a lengthwise cut slab that is at least 1/3 of the whole core volume, and**~~

~~**representative samples, as specified by the Department of Natural Resources, of other gaseous, liquid, or solid material collected from drilling or testing the well;**~~

~~(C) that, notwithstanding any provision of AS 38, information provided under this paragraph will be held confidential by the Department of Natural Resources~~

~~**(i) in the case of well data, until the expiration of the 24-month period of confidentiality described in AS 31.05.035(c), without extension, after which the Department of Natural Resources**~~ ~~[FOR 10 YEARS FOLLOWING THE COMPLETION DATE, AT WHICH TIME THAT DEPARTMENT] will release the information after 30 days' public notice;~~

~~**(ii) in the case of seismic or other geophysical data, other than seismic data acquired by seismic exploration subject to (*l*) of this section, for 10 years following the completion date, at which time the Department of Natural Resources will release the information after 30 days' public notice;**~~

~~**(iii) in the case of seismic data obtained by seismic exploration subject to (*l*) of this section, only until the expiration of 30 days' public notice issued on or after the date the production tax credit certificates are issued under (5) of this subsection; and**~~

~~**(D) that, in the case of well data, the explorer will not make a request under AS 31.05.035(c) that the commissioner of natural resources keep the data confidential for longer than the 24-month period of confidentiality described in AS 31.05.035(c);**~~

~~(3) if more than one explorer holds an interest in a well or seismic exploration,~~

~~**(A)** each explorer may claim an amount of credit that is proportional to the explorer's cost incurred;~~

~~**(B) in the case of a well, each explorer holding an interest in the well shall agree, in writing, that the explorer will not make the**~~

~~**request described in (2)(D) of this subsection;**~~

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

~~(5) if the department is satisfied that the explorer's claimed expenditures are qualified under this section **and that all data required to be submitted under this section have been submitted**, the department shall issue to the explorer **two** [A] production tax credit **certificates, each** [CERTIFICATE] for **half of** the amount of **the** credit to be allowed against production taxes **levied by AS 43.55.011(e); the credit shown on one of the two certificates is available for immediate use; the credit shown on the second of the two certificates may not be applied against a tax for a calendar year earlier than the calendar year following the calendar year in which the certificate is issued, and the certificate must contain a conspicuous statement to that effect; notwithstanding any contrary provision of AS 38, AS 40.25.100, or AS 43.05.230, the following information is not confidential:**~~

~~**(A) the explorer's name;**~~

~~**(B) the date of the application;**~~

~~**(C) the location of the well or seismic exploration;**~~

~~**(D) the date of the department's issuance of the certificate; and**~~

~~**(E) the date on which the information required to be submitted under this section will be released** [DUE UNDER AS 43.55.011(e) OR (f)].~~

~~* **Sec. 40.** AS 43.55.025(g) is amended to read:~~

~~(g) An explorer**, other than an entity that is exempt from taxation under this chapter,** may transfer, convey, or sell its production tax credit certificate to any person, and any person who receives a production tax credit certificate may also transfer, convey, or sell the certificate.~~

~~* **Sec. 41.** AS 43.55.025(h) is amended to read:~~

~~(h) A producer that purchases a production tax credit certificate may~~

~~apply the credits against its production tax liability under AS 43.55.011(e) [OR (f)]. Regardless of the price the producer paid for the certificate, the producer may receive a credit against its production tax liability for the full amount of the credit, but for not more than the amount for which the certificate is issued. A production tax credit allowed under this section may not be applied~~ (1) a producer's or explorer's transitional investment expenditures are the sum of the expenditures the producer or explorer incurred after March 31, **2003** [2001], and before April 1, 2006, that would be qualified capital expenditures if they were incurred after March 31, 2006, less the sum of the payments or credits the producer or explorer received before April 1, 2006, for the sale or other transfer of assets, including geological, geophysical, or well data or interpretations, acquired by the producer or explorer as a result of expenditures the producer or explorer incurred before April 1, 2006, that would be qualified capital expenditures, if they were incurred after March 31, 2006;

(2) a producer or explorer may elect to take a tax credit against a tax due under AS 43.55.011(e) in the amount of 20 percent of the producer's or explorer's transitional investment expenditures, but only to the extent that the amount does not exceed 1/10 of the producer's or explorer's qualified capital expenditures that are incurred during the calendar year for which the credit is taken;

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

(A) for any calendar year after the later of

(i) 2013; or

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

(B) more than once~~.~~; or

~~*** Sec. 42.** AS 43.55.025(i) is repealed and reenacted to read:~~

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

~~(1) a credit may not be applied to reduce a taxpayer's tax liability~~

~~under AS 43.55.011(e) below zero for a calendar year; and~~

~~(2) an amount of the production tax credit in excess of the amount that may be applied for a calendar year under this subsection may be carried forward and applied against the taxpayer's tax liability under AS 43.55.011(e) in one or more later calendar years.~~

~~*** Sec. 43.** AS 43.55.025(k) is amended by adding a new paragraph to read:~~

~~(4) "preexisting well" means a well that was spudded more than 540 days but less than 35 years before the date on which the exploration well to which it is compared is spudded.~~

~~*** Sec. 44.** AS 43.55.025 is amended by adding a new subsection to read:~~

~~(*l*) Subject to the terms and conditions of this section, if a claim is filed under (f)(1) of this section before January 1, 2016, a credit against the production tax levied by AS 43.55.011(e) is allowed in an amount equal to five percent of an eligible expenditure under this subsection incurred for seismic exploration performed before July 1, 2003. To be eligible under this subsection, an expenditure must~~

~~(1) have been for seismic exploration that~~

~~(A) obtained data that the commissioner of natural resources considers to be in the best interest of the state to acquire for public distribution; and~~

~~(B) was conducted outside the boundaries of a production unit; however, the amount of the expenditure that is otherwise eligible under this section is reduced proportionately by the portion of the seismic exploration activity that crossed into a production unit; and~~

~~(2) qualify under (b)(3) of this section.~~

~~*** Sec. 45.** AS 43.55 is amended by adding a new section to read:~~

~~**Sec. 43.55.028. Oil and gas tax credit fund established; cash purchases of tax credit certificates.** (a) The oil and gas tax credit fund is established as a separate fund of the state. The purpose of the fund is to purchase certain transferable tax credit certificates issued under AS 43.55.023 and certain production tax credit certificates issued under AS 43.55.025.~~

~~(b) The oil and gas tax credit fund consists of~~

~~(1) money appropriated to the fund, including any appropriation of the percentage provided under (c) of this section of all revenue from taxes levied by AS 43.55.011 that is not required to be deposited in the constitutional budget reserve fund established in art. IX, sec. 17(a), Constitution of the State of Alaska; and~~

~~(2) earnings on the fund.~~

~~(c) The applicable percentage for a fiscal year under (b)(1) of this section is determined with reference to the average price or value forecast by the department for Alaska North Slope oil sold or otherwise disposed of on the United States West Coast during the fiscal year for which the appropriation of revenue from taxes levied by AS 43.55.011 is made. If that forecast is~~

~~(1) $60 a barrel or higher, the applicable percentage is 10 percent;~~

~~(2) less than $60 a barrel, the applicable percentage is 15 percent.~~

~~(d) The department shall manage the fund.~~

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

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

~~(2) within~~(C) if a credit for that expenditure was taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025;

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

*** Sec. 24** ~~months after applying for the transferable tax credit certificate or filing a claim for the production tax credit certificate, the applicant incurred a qualified capital expenditure or was the successful bidder on a bid submitted for a lease on state land under AS 38.05.180(f);~~

~~(3) the amount expended for the purchase would not exceed the total~~

~~of qualified capital expenditures and successful bids described in (2) of this subsection that have not been the subject of a finding made under this paragraph for purposes of a previous purchase of a certificate;~~

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

~~(5) the applicant's total tax liability under AS 43.55.011(e), after application of all available tax credits, for the calendar year in which the application is made is zero;~~

~~(6) the applicant's average amount of oil and gas taxable under AS 43.55.011(e) and produced each day during the calendar year preceding the calendar year in which the application is made was not more than 50,000 BTU equivalent barrels; and~~

~~(7) the purchase is consistent with this section and regulations adopted under this section.~~

~~(f) Money in the fund remaining at the end of a fiscal year does not lapse and remains available for expenditure in successive fiscal years.~~

~~(g) The department may adopt regulations to carry out the purposes of this section, including standards and procedures to allocate available money among applications for purchases the total amount of which exceeds the amount of available money in the fund.~~

~~(h) Nothing in this section creates a dedicated fund.~~

~~(i) In this section, "qualified capital expenditure" has the meaning given in AS 43.55.023.~~

~~* Sec. 46.~~ AS 43.55.030(a) is amended to read:

(a) **A producer that produces oil or gas from a lease or property in the state during a calendar year, whether or not any tax payment is due under AS 43.55.020(a) for that oil or gas,** [THE PERSON PAYING THE TAX] shall file with the department on March 31 of the **following** year [FOLLOWING THE CALENDAR YEAR FOR WHICH THE TAX WAS LEVIED] a statement, under oath, in a form prescribed by the department, giving, with other information required, the following:

(1) a description of each lease or property from which [THE] oil **or** [AND] gas **was** [WERE] produced, by name, legal description, lease number, or accounting codes assigned by the department;

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

(3) the gross amount of oil and the gross amount of gas produced from each lease or property, and the percentage of the gross amount of oil and gas owned by **the** [EACH] producer [FOR WHOM THE TAX IS PAID];

(4) the gross value at the point of production of the oil and of the gas produced from each lease or property owned by **the** [EACH] producer **and the costs of transportation of the oil and gas** [FOR WHOM THE TAX IS PAID];

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

(6) the producer's **qualified capital expenditures, as defined in AS 43.55.023, other** lease expenditures [AND ADJUSTMENTS AS CALCULATED] under **AS 43.55.165, and adjustments or other payments or credits under AS 43.55.170;**

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

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

**(9) calculations showing the amounts, if any, that were or are due under AS 43.55.020(a) and interest on any underpayment or overpayment** [AS 43.55.160 - 43.55.170].

*** Sec.** ~~**47.** AS 43.55.030(d) is amended to read:~~

~~(d) Reports **required under this section** [BY OR ON BEHALF OF THE PRODUCER] are delinquent the first day following the day the report is due. **The person required to file the report is liable for a penalty, as determined by the department under standards adopted in regulation by the department, of not more than $1,000 for each day the person fails to file the report at the time required. The penalty is in addition to the penalties in AS 43.05.220 and**~~

~~43.05.290 and is assessed, collected, and paid in the same manner as a tax deficiency under this title. In this subsection, "report" includes a statement.~~

* ~~Sec. 48.~~25. AS 43.55.030 is amended by adding new subsections to read:

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

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

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

(f) The department may require a producer, an explorer, or an operator of a lease or property to file monthly reports, as applicable, of

(1) the amounts and gross value at the point of production of oil and gas produced;

(2) transportation costs of the oil and gas;

(3) any unscheduled interruption of, or reduction in the rate of, oil or gas production;

(4) lease expenditures and adjustments under AS 43.55.165 and 43.55.170;

(5) joint interest billings;

(6) contracts for the sale or transportation of oil or gas;

(7) information and calculations used in determining monthly installment payments of estimated tax under AS 43.55.020(a); and

(8) other records and information the department considers necessary for the administration of this chapter.

* **Sec. ~~49.~~26.** AS 43.55.040 is amended to read:

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

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

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

(B) impose appropriate conditions limiting

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

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

(2) examine the books, records, and files of **the** [SUCH A] person;

(3) conduct hearings and compel the attendance of witnesses and the production of books, records, and papers of any person; [AND]

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

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

(B) the rendition of the oil and gas for taxing purposes**; and**

**(5) require a producer, an explorer, or an operator of a lease or property to file reports and copies of records that the department considers necessary to forecast state revenue under this chapter; in the case of reports and**

**copies of records relating to proposed, expected, or approved unit expenditures for a unit for which one or more working interest owners other than the operator have authority to approve unit expenditures, the required reports and copies of records are limited to those reports or copies of records that constitute or disclose communications between the operator and the working interest owners relating to unit budget matters~~; and~~.**

~~**(6) assess against a person required under this section to file a report, statement, or other document a penalty, as determined by the department under standards adopted in regulation by the department, of not more than $1,000 for each day the person fails to file the report, statement, or other document at the time required; the penalty is in addition to the penalties in AS 43.05.220 and 43.05.290 and is assessed, collected, and paid in the same manner as a tax deficiency under this title.**~~

*** Sec. ~~50.~~27.** AS 43.55 is amended by adding a new section to read:

**Sec. 43.55.075. Limitation on assessment and amended returns.** (a) Except as provided in AS 43.05.260(c), the amount of a tax imposed by this chapter must be assessed within six years after the latest return was filed.

(b) A decision of a regulatory agency, court, or other body with authority to resolve disputes that results in a retroactive change to a lease expenditure, to an adjustment to a lease expenditure, to costs of transportation, to sale price, to prevailing value, or to consideration of quality differentials relating to the commingling of oils has a corresponding effect, either an increase or decrease, as applicable, on the production tax value of oil or gas or the amount or availability of a tax credit as determined under this chapter. For purposes of this section, a change to a lease expenditure includes a change in the categorization of a lease expenditure as a qualified capital expenditure or as not a qualified capital expenditure. The producer shall

(1) within 60 days after the change, notify the department in writing; and

(2) within 120 days after the change, file amended returns covering all periods affected by the change, unless the department agrees otherwise or a stay is in

place that affects the filing or payment, regardless of the pendency of appeals of the decision.

(c) If an alteration in or modification of a producer's federal income tax return or a recomputation of the producer's federal income tax or determination of deficiency occurs that affects the amount of a tax imposed on the producer under this chapter, the producer shall

(1) within 60 days after the final determination of the alteration, modification, recomputation, or deficiency, notify the department in writing; and

(2) within 120 days after the final determination of the alteration, modification, recomputation, or deficiency, file amended returns covering all affected periods.

(d) In this section,

(1) "qualified capital expenditure" has the meaning given in AS 43.55.023;

(2) "return" includes a report, a statement, and an amended return, report, or statement.

* **Sec. ~~51.~~<u>28.</u>** AS 43.55.110 is amended by adding new subsections to read:

(e) The department may require that returns, statements, reports, notifications, and applications filed under this chapter be filed electronically in a form and manner approved or prescribed by the department.

(f) The department may require that payments required under this chapter be made electronically in a form and manner approved or prescribed by the department.

(g) Notwithstanding AS 44.62, the department may issue, for the information and guidance of producers, explorers, and other interested persons, advisory bulletins stating the department's interpretation of provisions of this chapter and of regulations adopted under this chapter. Unless otherwise provided by the department by regulation, interpretations stated in the advisory bulletins are not binding on the department or others.

* **Sec. ~~52.~~<u>29.</u>** AS 43.55.160(a) is ~~repealed and reenacted~~<u>amended</u> to read:

(a) Except as provided in (b) of this section, for <u>the</u> purposes of ~~this chapter, the~~

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

(~~1~~A) oil and gas produced during a calendar year from ~~a lease or property in the state outside the Cook Inlet sedimentary basin~~ leases or properties in the state that include land north of 68 degrees North latitude is the ~~amount calculated by deducting from the~~ gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced ~~from the lease or property,~~

~~(A)~~ by the producer from those leases or properties, less the producer's lease expenditures under AS 43.55.165 for the calendar year ~~under AS 43.55.165, as adjusted under AS 43.55.170, that are costs of exploring for, developing, or producing oil or gas deposits located within the lease or property; and~~applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170;

(B) ~~if the remainder calculated under (A) of this paragraph is greater than zero, the producer's lease expenditures for the calendar year under AS 43.55.165, as adjusted under AS 43.55.170, that are allocated to the lease or property under (e) - (g) of this section;~~

~~(2)~~ oil and gas produced during a calendar year from ~~a lease or property~~leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the ~~amount calculated by deducting from the~~ gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from ~~the lease~~those leases or ~~property~~properties, less the producer's lease expenditures under AS 43.55.165 for the calendar year ~~under AS 43.55.165, as adjusted under AS 43.55.170, that are costs of exploring for, developing, or producing oil deposits located within~~applicable to the ~~lease or property;~~

~~(3)~~ oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170;

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

(D) gas produced during a calendar year from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the gas taxable under AS 43.55.011(e) and produced by the producer from ~~the~~ that lease or property, less the producer's lease expenditures ~~for the calendar year~~ under AS 43.55.165 for the calendar year applicable to the gas produced by the producer from that lease or property, as adjusted under AS 43.55.170~~, that are costs of exploring for, developing, or producing gas deposits located within the lease or property.~~;

~~* **Sec. 53.** AS 43.55.160(b) is amended to read:~~

~~(b) A production tax value calculated under [(a) OF] this section may not be less than zero.~~

~~* **Sec. 54.** AS 43.55.160(e) is repealed and reenacted to read:~~

~~(e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that (1) would otherwise be deductible by a producer under (a)(1)(A) of this section in calculating a production tax value under (a)(1) of this section of oil and gas produced from a lease or property for a calendar year but whose deduction would cause the production tax value to be less than zero; (2) are the producer's costs incurred during the calendar year of exploring for, developing, or producing oil or gas deposits located within the producer's leases or properties in the state outside the Cook Inlet sedimentary basin that do not produce oil or gas during the calendar year; or (3) are the producer's costs incurred during the calendar year of exploring for oil or gas deposits located within land in the state outside the Cook Inlet sedimentary basin in which the producer does not own an operating right, operating interest, or working interest must be allocated to, and deducted in calculating the producer's production tax value of the oil and gas produced during the calendar year from, the producer's other leases or properties, in accordance with the provisions of (f) and (g) of this section, to the extent consistent with (b) of this section. Other than for a lease or property subject to AS 43.55.011(f) and except as otherwise provided under (h) of~~

~~this section, any remaining adjusted lease expenditures in excess of what may be deducted consistent with (b) of this section may be used to establish a carried-forward annual loss under AS 43.55.023(b).~~

~~*** Sec. 55.** AS 43.55.160 is amended by adding new subsections to read:~~

~~(f) This subsection applies to adjusted lease expenditures required to be allocated under (e) of this section that are the producer's costs of exploring for, developing, or producing oil or gas deposits located within the producer's leases or properties that include land north of 68 degrees North latitude or are the producer's costs of exploring for oil or gas deposits located within land in the state north of 68 degrees North latitude in which the producer does not own an operating right, operating interest, or working interest. To the extent consistent with (b) of this section, adjusted lease expenditures under this subsection that are~~

~~(1) not costs of exploring for, developing, or producing oil or gas deposits located within a lease or property subject to AS 43.55.011(f) must be allocated to one or more leases or properties from which the producer produces oil or gas during the calendar year that include land north of 68 degrees North latitude;~~

~~(2) costs of exploring for, developing, or producing oil or gas deposits located within a lease or property subject to AS 43.55.011(f) must be allocated to one or more other leases or properties from which the producer produces oil or gas during the calendar year that are within the same unit or overlie the same nonunitized reservoir.~~

~~(g) This subsection applies to adjusted lease expenditures required to be allocated under (e) of this section that are the producer's costs of exploring for, developing, or producing oil or gas deposits located within the producer's leases or properties outside the Cook Inlet sedimentary basin and no part of which is north of 68 degrees North latitude or are the producer's costs of exploring for oil or gas deposits located within land in the state outside the Cook Inlet sedimentary basin and not north of 68 degrees North latitude in which the producer does not own an operating right, operating interest, or working interest. To the extent consistent with (b) of this section, adjusted lease expenditures under this subsection must be allocated to one or more leases or properties that are outside the Cook Inlet sedimentary basin~~

~~and no part of which is north of 68 degrees North latitude from which the producer produces oil or gas during the calendar year.~~

~~(h) For purposes of this section, Cook Inlet excess adjusted lease expenditures for a calendar year are determined by adding (1) the adjusted lease expenditures that would otherwise be deductible by a producer in calculating production tax values under (a)(2) or (3) of this section for the calendar year but whose deduction would cause a production tax value to be less than zero; (2) the adjusted lease expenditures that are the producer's costs incurred during the calendar year of exploring for, developing, or producing oil or gas deposits located within the producer's leases or properties in the Cook Inlet sedimentary basin from which no oil or gas is produced during the calendar year; and (3) the adjusted lease expenditures that are the producer's costs incurred during the calendar year of exploring for oil or gas deposits located within land in the Cook Inlet sedimentary basin in which the producer does not own an operating right, operating interest, or working interest. For a calendar year for which a limitation under AS 43.55.011(j) or (k) on the tax levied by AS 43.55.011(e) would have the effect of reducing the producer's tax for oil or gas produced from one or more leases or properties in the Cook Inlet sedimentary basin below the amount of the tax that would be levied in the absence of that limitation, the producer shall perform the calculations set out in (i) of this section. The amount, if any, calculated under (i)(6) of this section is the only amount of Cook Inlet excess adjusted lease expenditures that may be used to establish a carried-forward annual loss under AS 43.55.023(b).~~

~~(i) A producer subject to (h) of this section shall perform the following calculations:~~

~~(1) calculate the total amount of Cook Inlet excess adjusted lease expenditures;~~

~~(2) multiply that total amount by 25 percent;~~

~~(3) calculate for each lease or property the amount by which a limitation under AS 43.55.011(j) or (k) would reduce the amount of the producer's tax levied by AS 43.55.011(e);~~

~~(4) calculate the total of the reductions calculated under (3) of this~~

~~subsection for all affected leases or properties;~~

~~(5) if the amount calculated under (2) of this subsection is greater than the amount calculated under (4) of this subsection, subtract the latter from the former; and~~

~~(6) multiply the amount, if any, calculated under (5) of this subsection by four.~~

~~*** Sec. 56.** AS 43.55.165(a) is repealed and reenacted to read:~~

~~(a) For purposes of this chapter, a producer's lease expenditures for a calendar year are~~

~~(1) costs, other than items listed in (e) of this section, that are~~

~~(A) incurred by the producer during the calendar year after March 31, 2006, to explore for, develop, or produce~~(2) **AS 43.55.020(a)(2)(B)** [AS 43.55.011(g)], the monthly production tax value of the taxable

(A) oil and gas produced during a month from leases or properties in the state that include land north of 68 degrees North latitude is the gross value at the point of production of the oil and gas taxable under **AS 43.55.011(e)** [AS 43.55.011(g)] and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170;

(B) oil and gas produced during a month from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under **AS 43.55.011(e)** [AS 43.55.011(g)] and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170;

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

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

*** Sec. 30.** AS 43.55.165(a) is amended to read:

(a) Except as provided under **(e)** [(c) - (e)] of this section, for the purposes of AS 43.55.160, a producer's lease expenditures for a calendar year are the ordinary and necessary costs upstream of the point of production of oil and gas that are incurred during the calendar year by the producer after March 31, 2006, and that are direct costs of exploring for, developing, or producing oil or gas deposits located within the producer's leases or properties in the state or, in the case of land in which the producer does not own ~~an operating right, operating interest, or~~ a working interest, ~~to explore for oil or gas deposits within other land in the state; and~~

~~(B) allowed by the department by regulation, based on the department's determination that the costs satisfy the following three requirements:~~

~~(i) the costs must be incurred upstream of the point of production of oil and gas;~~

~~(ii) the costs must be ordinary and necessary costs of exploring for, developing, or producing, as applicable, oil or gas deposits; and~~

~~(iii) the costs must be direct costs of exploring for, developing, or producing, as applicable, oil or gas deposits; and~~

~~(2) a reasonable allowance for that calendar year, as determined under regulations adopted by the department, for overhead expenses~~ that are ~~directly related to exploring for, developing, or producing, as applicable, the oil or gas deposits.~~

~~*** Sec. 57.** AS 43.55.165(b) is amended to read:~~

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

~~(1)~~ 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;]~~

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

~~(3) in~~of exploring for oil or gas deposits located within other land in the state. In determining whether costs are lease expenditures, the department shall consider, among other factors, ~~the~~

~~(A)~~ (1) the typical industry practices and standards in the state that determine the costs, other than items listed in (e) of this section, that an operator is allowed to bill a ~~**producer**~~ working interest owner that is not the operator, under unit operating agreements or similar operating agreements that were in effect before December 2, 2005, and were subject to negotiation with at least one ~~**producer**~~ working interest owner with substantial bargaining power, other than the operator; and

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

*** Sec. ~~58.~~31.** AS 43.55.165(e) is amended to read:

(e) For purposes 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**, violation of law, or failure to comply with an obligation under a lease, permit, or license issued by the state or federal government**;

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

(10) 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;

(11) surcharges levied under AS 43.55.201 or 43.55.300;

(12) 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;

(13) 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;

(14) a tax levied under AS 43.55.011;

(15) [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, **tract of land,** body of water, or right-of-way in conjunction with dismantlement, removal, surrender, or abandonment [, THAT IS ATTRIBUTABLE TO PRODUCTION OF OIL OR GAS OCCURRING BEFORE APRIL 1, 2006; THE PORTION IS CALCULATED AS A RATIO OF THE AMOUNT OF OIL AND GAS PRODUCTION, IN BARRELS OF OIL EQUIVALENT, ASSOCIATED WITH THE FACILITY, PIPELINE, WELL PAD, PLATFORM, OTHER STRUCTURE, LEASE, FIELD, UNIT, AREA, BODY OF WATER, OR RIGHT-OF-WAY OCCURRING BEFORE APRIL 1, 2006, TO THE TOTAL AMOUNT OF OIL AND GAS PRODUCTION, IN BARRELS OF OIL EQUIVALENT, ASSOCIATED WITH THAT FACILITY, PIPELINE, WELL PAD, PLATFORM, OTHER STRUCTURE, LEASE, FIELD, UNIT, AREA, BODY OF WATER, OR RIGHT-OF-WAY THROUGH THE END OF THE CALENDAR MONTH BEFORE COMMENCEMENT OF THE DISMANTLEMENT, REMOVAL, SURRENDER, OR ABANDONMENT]; a cost is not excluded under this paragraph if the dismantlement, removal, surrender, or abandonment for which the cost is incurred is undertaken for the purpose of replacing, renovating, or improving the facility, pipeline, well pad, platform, or other structure; [FOR THE PURPOSES OF THIS PARAGRAPH, "BARREL OF OIL EQUIVALENT" MEANS

(A) IN THE CASE OF OIL, ONE BARREL;

(B) IN THE CASE OF GAS, 6,000 CUBIC FEET;]

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

(17) costs incurred to satisfy a work commitment under an exploration

license under AS 38.05.132;

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

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

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

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

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

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

*** Sec.** ~~**59.** AS 43.55.165(h) is amended to read:~~

~~(h) The department shall adopt regulations that provide for reasonable methods of allocating costs between oil and gas and between leases or properties in those circumstances where **an allocation of costs is required to determine** [THE DETERMINATION OF THE] lease expenditures that are **costs of exploring for, developing, or producing oil deposits or costs of exploring for, developing, or producing gas deposits** [APPLICABLE TO OIL OR TO GAS], or that are **costs of exploring for, developing, or producing oil or gas deposits located within** [APPLICABLE TO OIL AND GAS PRODUCED FROM] different leases or properties [, REQUIRES AN ALLOCATION OF COSTS].~~

~~*** Sec. 60.**~~**32.** AS 43.55.170(a) is amended to read:

(a) **A** [UNLESS THE PAYMENT OR CREDIT HAS ALREADY BEEN SUBTRACTED IN CALCULATING BILLABLE OR BILLED COSTS UNDER AS 43.55.165(c) OR (d), A] producer's lease expenditures under AS 43.55.165 must be adjusted by subtracting payments or credits, other than tax credits, received by the producer or by an operator acting for the producer for

(1) the use by another person of a production facility in which the

producer has an ownership interest or the management by the producer of a production facility under a management agreement providing for the producer to receive a management fee;

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

(3) the sale or other transfer of

(A) an asset, including geological, geophysical, or well data or interpretations, acquired by the producer as a result of a lease expenditure or an expenditure that would be a lease expenditure if it were incurred after March 31, 2006; for purposes of this subparagraph,

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

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

(B) oil or gas

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

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

*** Sec. ~~61.~~<u>33.</u>** AS 43.55 is amended by adding a new section to article 4 to read:

**Sec. 43.55.890. Disclosure of tax information.** Notwithstanding any contrary provision of AS 40.25.100, and regardless of whether the information is considered under AS 43.05.230(e) to constitute statistics classified to prevent the identification of particular returns or reports, the department may publish the following information under this chapter, if aggregated among three or more producers or explorers, showing by month or calendar year and by lease or property, unit, or area of the state:

(1) the amount of oil or gas production;

(2) the amount of taxes levied under this chapter or paid under this chapter;

(3) the effective tax rates under this chapter;

(4) the gross value of oil or gas at the point of production;

(5) the transportation costs for oil or gas;

(6) qualified capital expenditures under AS 43.55.023(k);

(7) exploration expenditures under AS 43.55.025;

(8) production tax values of oil or gas under AS 43.55.160;

(9) lease expenditures under AS 43.55.165;

(10) adjustments to lease expenditures under AS 43.55.170;

(11) tax credits applicable or potentially applicable against taxes levied by this chapter.

*** Sec. ~~62.~~34.** AS 43.55.900 is amended by adding new paragraphs to read:

(22) "~~nonunitized reservoir" means a pool that is not wholly within a single unit;~~

~~(23) "pool" has the meaning given in AS 31.05.170;~~

~~(24)~~ "producer" means an owner of an operating right, operating interest, or working interest in a mineral interest in oil or gas;

(~~25~~23) "unit" means a group of tracts of land that is

(A) subject to a cooperative or a unit plan of development or operation that has been certified by the commissioner of natural resources under AS 38.05.180(p);

(B) subject to a cooperative or a unit plan of development or operation that has been certified by the United States Secretary of the Interior under 30 U.S.C. 226(m);

(C) subject to an agreement of the owners of interests in the tracts of land to validly integrate their interests to provide for the unitized management, development, and operation of the tracts of land as a unit, within the meaning of AS 31.05.110(a); or

(D) within the unit area of a unit created by order of the Alaska Oil and Gas Conservation Commission under AS 31.05.110(b).

*** Sec. ~~63.~~** ~~AS 43.55.023(f) is repealed.~~

~~*** Sec. 64.**~~**35.** AS 43.55.165(c) and 43.55.165(d) are repealed.

*** Sec. ~~65.~~36.** AS 43.55.011(~~l~~g), 43.55.011(h), 43.55.~~023(i~~011(l), and 43.55.160(c) are repealed.

*** Sec. ~~66.~~37.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. (a) Sections ~~58, 60~~23, 30, 31, 32, and ~~64~~35 of this Act apply to oil and gas produced after March 31, 2006.

(b) Sections ~~15 - 25, 32 - 35, 41, 42, 44, 52 - 57, 59~~14 - 19, 29, and ~~65~~36 of this Act apply to oil and gas produced after December 31, 2007.

(c) Sections ~~26 - 29 of this Act apply to expenditures incurred after December 31, 2007, that are the basis of tax credits that may be claimed against taxes levied for oil~~24 and ~~gas produced after December 31, 2007.~~

~~(d) Section 30 of this Act applies to transferable tax credit certificates issued under AS 43.55.023(d), as amended by sec. 28 of this Act, and to transferable tax credit certificates issued under AS 43.55.023(d), in effect before January 1, 2008, for which a cash refund has not been issued under AS 43.55.023(f) before January 1, 2008.~~

~~(e) Sections 36 - 39 and 43 of this Act apply to exploration expenditures incurred for work performed after December 31, 2007, that are the basis of tax credits that may be claimed against taxes levied for oil and gas produced after December 31, 2007.~~

~~(f) Sections 46 and 48~~25 of this Act apply to statements and reports under AS 43.55.030(a), as amended by sec. ~~46~~24 of this Act, and AS 43.55.030(e) and (f), as added by sec. ~~48~~25 of this Act, required to be filed after December 31, 2007.

(~~g~~d) AS 43.55.075(a), enacted by sec. ~~50~~27 of this Act, applies to any tax liability under AS 43.55 with respect to which the period of limitations on assessment under AS 43.05.260 had not expired before the effective date of secs. ~~14~~13 and ~~50~~27 of this Act.

*** Sec. ~~67.~~38.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: ASSIGNMENT OF OIL AND GAS AUDITORS IN THE DEPARTMENT OF REVENUE AND DEPARTMENT OF NATURAL RESOURCES. Notwithstanding any contrary provision of law, employees employed as oil and gas auditors performing production tax audits or as their immediate supervisors in the Department of Revenue and employees employed as oil and gas auditors performing royalty audits, including net profit share audits, or as their immediate supervisors in the Department of Natural Resources are assigned to the exempt service in accordance with AS 39.25.110(42), added by sec. ~~10~~9 of this Act, and may not be included in the general government or supervisory collective bargaining units of state employees except as provided in this section. All oil and gas auditors performing production tax audits or royalty audits and their immediate supervisors hired before the effective date of sec. ~~10~~9 of this Act have the option of (1) continuing in the general government or supervisory collective bargaining units and being subject to their respective collective bargaining agreements; or (2) being removed from those bargaining units. Those employees have 90 days from the effective date of sec. ~~10~~9 of this Act to exercise the option to continue in the collective bargaining units. The option taken under this section by the employee is irrevocable. The employees choosing to be removed from those bargaining units are removed after any notice period required by a collective bargaining agreement.

* **Sec. ~~68.~~39.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: RETROACTIVITY OF REGULATIONS. Notwithstanding any contrary provision of AS 44.62.240,

(1) if the Department of Revenue expressly designates in the regulation that the regulation applies retroactively to that date, a regulation adopted by the Department of Revenue to implement, interpret, make specific, or otherwise carry out

(A) secs. 23, 30, 31, ~~58, 60~~32, and ~~64~~35 of this Act may apply retroactively to April 1, 2006;

(B) secs. ~~15 - 30, 32 - 39, 41 - 46, 48, 52 - 57, 59, 63~~14 - 19, 24, 25, 29, and ~~65~~36 of this Act may apply retroactively to January 1, 2008;

(2) a regulation adopted by the Department of Natural Resources to

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implement, interpret, make specific, or otherwise carry out statutory provisions for the administration of oil and gas leases issued under AS 38.05.180(f)(3)(B), (D), or (E), to the extent the regulation deals with the treatment of oil and gas production taxes in determining net profits under those leases, may apply retroactively to April 1, 2006, if the Department of Natural Resources expressly designates in the regulation that the regulation applies retroactively to that date.

*** Sec.** ~~**69.** The uncodified law of the State of Alaska is amended by adding a new section to read:~~

~~TRANSITION: PENDING APPLICATIONS. (a) Notwithstanding a contrary provision of law, if an application made under AS 43.55.023(d), in effect before January 1, 2008, has not been granted or denied by the Department of Revenue before January 1, 2008, the application is subject to the time period for the Department of Revenue's decision on the application provided in AS 43.55.023(d), as amended by sec. 28 of this Act.~~

~~(b) If an application made under AS 43.55.023(f) is received by the Department of Revenue before January 1, 2008, and is still outstanding on that date, the application is considered to be an application under AS 43.55.028, enacted by sec. 45 of this Act.~~

~~*** Sec. 70.**~~**40.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: REGULATIONS. The Department of Natural Resources and the Department of Revenue may proceed to adopt regulations to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law implemented by the regulation.

*** Sec.** ~~**71.**~~**41.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY OF CERTAIN PROVISIONS OF THIS ACT. ~~(a) Section 40 of this Act is retroactive to July 1, 2003.~~

~~(b)~~ Sections 23, 30, 31, ~~58, 60, 64, 66(g)~~32, and ~~68~~35 of this Act are retroactive to April 1, 2006.

*** Sec.** ~~**72.**~~**42.** Sections ~~15 - 30, 32 - 39, 41 - 46, 48, 52 - 57, 59, 63~~14 - 19, 24, 25, 29, and ~~65~~36 of this Act take effect January 1, 2008.

*** Sec.** ~~**73.**~~**43.** Except as provided in sec. ~~72~~42 of this Act, this Act takes effect immediately under AS 01.10.070(c).

# ALASKA STATE LEGISLATURE


## HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Official Business

Representative Kurt Olson, Chair
State Capitol, Room 408
Juneau, AK 99801-1182
Phone 907-465-2693 Fax 907-465-3835


**Sunday, October 28, 2007**
**House Finance Committee Room 519**
**2 pm**

# AGENDA

**HB 2001 - Oil and Gas Production Tax Amendments**

- **Committee Action on HB 2001**


Committee Staff: Konrad Jackson (907) 465-4530 phone (907) 465-3835 fax

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| *47654 | Library extra | |
| 15 SETS TOTAL | | |

12/04 Library reduced number of sets delivered to the committees because the sets were not being updated.

1/07 Stew Rowland reduced number of Legal Services sets from three to two. Set #47654 was returned to Library and the number was assigned to the library "extra" set (which had no number at the time since it was pieced together from best parts of sets discarded in 2004).

* STORED IN LIBRARY - TERRY MILLER BLDG.

25-GH0014\K.3
Bullock
10/28/07

**AMENDMENT**

OFFERED IN THE HOUSE

Offered by: Rep. Samuels

TO: CSHB 2001(O&G), Draft Version "K"

Page 18, following line 9:

Insert a new bill section to read:

"* **Sec. 24.** AS 43.55.023 is amended by adding a new subsection to read:

(*l*) A person that is exempt from taxation under this chapter may not apply for a transferable tax credit certificate."

Renumber the following bill sections accordingly.

Page 31, line 9:

Delete "Sections 23, 30, 31, 32, and 35"

Insert "Sections 23, 24, 31 - 33, and 36"

Page 31, line 11:

Delete "Sections 14 - 19, 29, and 36"

Insert "Sections 14 - 19, 30, and 37"

Page 31, line 13:

Delete "Sections 24 and 25"

Insert "Sections 25 and 26"

Page 31, line 14:

Delete "sec. 24"

Insert "sec. 25"

Page 31, line 15:

Delete "sec. 25"

Insert "sec. 26"

Page 31, line 16:

Delete "sec. 27"

Insert "sec. 28"

Page 31, line 18:

Delete "secs. 13 and 27"

Insert "secs. 13 and 28"

Page 32, line 15:

Delete "secs. 23, 30, 31, 32, and 35"

Insert "secs. 23, 24, 31 - 33, and 36"

Page 32, line 17:

Delete "secs. 14 - 19, 24, 25, 29, and 36"

Insert "secs. 14 - 19, 25, 26, 30, and 37"

Page 33, lines 3 - 4:

Delete "Sections 23, 30, 31, 32, and 35"

Insert "Sections 23, 24, 31 - 33, and 36"

Page 33, line 5:

Delete "Sections 14 - 19, 24, 25, 29, and 36"

Insert "Sections 14 - 19, 25, 26, 30, and 37"

Page 33, line 6:

Delete "sec. 42"

1 Insert "sec. 43"

**AMENDMENT**

OFFERED IN THE HOUSE

OFFERED BY:
Rep. Ramras

TO: CSHB 2001(O&G), Draft Version "K"

Page 1, lines 3 - 4:

Delete "**and south of 68 degrees North latitude**"

Page 13, following line 20:

Insert a new subsection to read:

"(q) For a calendar year before 2022, the tax levied by (e) and (o) of this section for gas produced from a lease or property that is outside of the Cook Inlet sedimentary basin that is sold and processed into liquefied natural gas in the state at a facility with a maximum processing capacity that does not exceed 10,000,000,000 cubic feet a year may not exceed the product of the amount of taxable gas produced during the calendar year from the lease or property, multiplied by the average rate of tax imposed under this chapter for taxable gas produced from all leases or properties in the Cook Inlet sedimentary basin, multiplied by the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f). This subsection applies only to gas produced from a lease or property after December 31, 2007."

Page 14, line 27, following "production":

Insert "**;**

**(6) notwithstanding (1) of this subsection, that part of the installment payment determined by (2) and (3) of this subsection that is attributable to the production of gas that is subject to the limitations under AS 43.55.011(p) or (q) is the result obtained by multiplying the volume of gas**

L

**produced during the month by the average rate of tax imposed under this chapter for taxable gas produced from all leases or properties in the Cook Inlet sedimentary basin, multiplied by the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under (f) of this section**"

25-GH0014\K.5
Cook/Bullock
10/28/07

## AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 2001(O&G), Draft Version "K"

Page 12, following line 3:

Insert a new bill section to read:

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

(*l*) When a limitation under (j) or (k) of this section on the tax levied by (e) and **(o)** [(g)] of this section has the effect of reducing the producer's tax on oil or gas produced from a lease or property below the amount of tax that would be levied in the absence of that limitation, the amount of the reduction is applied first against the tax levied by **(o)** [(g)] of this section. However, that tax may not be reduced below zero."

Page 31, line 6:

Delete "43.55.011(*l*),"

Page 31, line 9:

Delete "Sections 23, 30, 31, 32, and 35"

Insert "Sections 24, 31 - 33, and 36"

Page 31, line 11:

Delete "Sections 14 - 19, 29, and 36"

Insert "Sections 14 - 20, 30, and 37"

Page 31, line 13:

Delete "Sections 24 and 25"

Insert "Sections 25 and 26"

Page 31, line 14:

Delete "sec. 24"

Insert "sec. 25"

Page 31, line 15:

Delete "sec. 25"

Insert "sec. 26"

Page 31, line 16:

Delete "sec. 27"

Insert "sec. 28"

Page 31, line 18:

Delete "secs. 13 and 27"

Insert "secs. 13 and 28"

Page 32, line 15:

Delete "secs. 23, 30, 31, 32, and 35"

Insert "secs. 24, 31 - 33, and 36"

Page 32, line 17:

Delete "secs. 14 - 19, 24, 25, 29, and 36"

Insert "secs. 14 - 20, 25, 26, 30, and 37"

Page 33, lines 3 - 4:

Delete "Sections 23, 30, 31, 32, and 35"

Insert "Sections 24, 31 - 33, and 36"

Page 33, line 5:

Delete "Sections 14 - 19, 24, 25, 29, and 36"

Insert "Sections 14 - 20, 25, 26, 30, and 37"

Page 33, line 6:

Delete "sec. 42"

Insert "sec. 43"

25-GH0014\K.6
Bullock
10/28/07

**AMENDMENT**

OFFERED IN THE HOUSE

TO: CSHB 2001(O&G), Draft Version "K"

Page 13, lines 7 - 9:

Delete ".225 percent of the difference between the gross value at the point of production for the month and the product of the total amount of production for that month in BTU equivalent barrels multiplied by $50"

Insert "the sum over all months of the calendar year of the amount calculated under this subsection. For each month for which this subsection applies, the tax is equal to .225 percent of the monthly gross value at the point of production of the taxable oil and gas multiplied by the number that represents the difference between (1) the quotient of the total monthly gross value at the point of production of the taxable oil and gas produced by the producer during that month divided by the amount of oil and gas produced by the producer in BTU equivalent barrels, and (2) $50. The tax levied under this subsection may not be less than zero or more than 25 percent of the gross value at the point of production of the taxable oil and gas"

October 29, 2007

Just a note for regarding amendment \K.6 to CS HB 2001 25-GH0014\K.

A drafting error occurred in amendment 25-GH0015\K.6.
A word was left out. On line 10, after the word "of", the word "taxable" should have been included.

This technical change was caught by the drafter and reviewers when finalizing the bill and has been corrected in the \L version.

This correction can be found in version \L on page 13, line 20.

That portion of the amendment was intended to express taxable value divided by taxable volume. Leaving the word taxable out of this line would have included royalty oil in the calculation and was not the intent.

# ALASKA STATE LEGISLATURE

## HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Official Business

Representative Kurt Olson, Chair
State Capitol, Room 408
Juneau, AK 99801-1182
Phone 907-465-2693 Fax 907-465-3835

Representative Ralph Samuels
Representative Nancy Dahlstrom
Representative Scott Kawasaki

Representative Jay Ramras
Representative Mark Neuman
Representative Mike Doogan

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10/28/07
Amendments to CS HB 2001 ver \K

Amendment No. 1 **\K.3**

Moved by: **Rep Samuels**
Objected by: **Rep Ramras**

**Objection removed – PASSED**

__Doogan
__Dahlstrom
__Samuels
__Olson
__Ramras
__Neuman
__Kawasaki

Amendment No. 2 **\K.4**

Moved by: **Rep Ramras**
Objected by: **Rep. Doogan**

**FAILS- 5N – 2Y**

N-Doogan
N-Dahlstrom
N-Samuels
N-Olson
Y-Ramras
N-Neuman
Y-Kawasaki

Amendment No. 3 **\K.6**

Moved by: **Rep. Samuels**
Objected by: **Rep. Ramras**

**Objection removed - PASSED**

__Doogan
__Dahlstrom
__Samuels
__Olson
__Ramras
__Neuman
__Kawasaki

Amendment No. 4 **\K.5**

Moved by: **Rep. Samuels**
Objected by: **Rep. Doogan**

**Objection removed – PASSED**

__Doogan
__Dahlstrom
__Samuels
__Olson
__Ramras
__Neuman
__Kawasaki