

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1018 SCOMM 28: JOINT GAS PIPELINE COMMITTEE, 1981-82

Pullman Kellogg

Division of Pullman Incorporated

Three Greenway Plaza East
Houston, Texas 77046
Telex 762556
Cable Monologg Houston

October 20, 1980

Rolf C. Nedelmann
Commercial Vice President

(713) 960-2286

Mr. Mark Wittow,
Study Manager
Joint Gas Pipeline Committee
1024 W. 6th Avenue
Anchorage, Alaska 99501

Dear Mr. Wittow,

We are most appreciative of your letter dated September 30, 1980 with which you enclosed the Request For Proposals - Alaska State Legislature, Gas Liquids Line Study.

We have reviewed this inquiry in depth and feel that we are not in the position to respond. Whereas Kellogg would have the capability to conduct the study effort with regard to the process plant itself, we are not a pipeline contractor and would, therefore, have to subcontract the pipeline portion of the study. In addition, we are currently performing work and are maintaining sales contact with several of the firms you list in Part VIII-G of your inquiry document.

We sincerely appreciate your consideration of Pullman Kellogg in connection with your needs for this study and hope that our decision to decline will not stand in the way of your contacting us again when you believe that we may assist you with your future needs.

Yours sincerely,



RCN:dg

Attachment

STONE & WEBSTER ENGINEERING CORPORATION

STONE & WEBSTER ENGINEERING CORPORATION - NEW YORK

ONE PENN PLAZA
250 WEST 34TH STREET
NEW YORK, NEW YORK 10001



BOSTON
NEW YORK
CHERRY HILL, N.J.
DENVER
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HOUSTON
PORTLAND, OREGON
SAN DIEGO
WASHINGTON, D.C.

TELEPHONE: 212-760-2000
W.U. TELEX: 12-8291
CABLE ADDRESS: STOWEBENG - NEW YORK

October 27, 1980

Mr. Mark Wittow
Alaska State Legislature
Gas Pipeline Committee
1024 West Sixth Avenue
Anchorage, Alaska 99501

Reference: September 30, 1980 request for proposals to study the design and costs of the extraction and transportation of Prudhoe Bay gas liquids to an instate petrochemical facility.

Dear Mr. Wittow:

Stone & Webster Engineering Corporation may be the most experienced and best qualified firm in the world to provide the Alaska State Legislature with a study of the design and costs for the extraction of Prudhoe Bay gas liquids, but we can not respond to your specific request because we are not pipeline people.

Our firm pioneered and patented the best of available technologies for the extraction of such liquids and their conversion to products of economic importance such as ethylene and related petrochemicals. For example, we have provided the process technology, engineering, procurement, construction and successful start-up of more than 50% of such facilities throughout the world.

Stone & Webster Corporation has excellent credentials for providing technologies which could maximize your return on investment. Moreover our capabilities are available to any company whom you would select to operate facilities in the best interests of the State of Alaska.

We would like to mention also that we are now completing the process design of the only facilities for Methanol production on the East Coast. Our company, and the technology to which we have license, were selected after careful study of all available technologies.

Should you have related or additional requirements, please keep our qualifications in mind and know that we would be very interested in hearing from you.

Very truly yours,

John S. DeMurley
Sales Representative

JSD/sdg



2515 A STREET
ANCHORAGE, AK. 99503
PH. 907-278-4245

October 3, 1980

Mr. Mark Wittow
Study Manager
Gas Pipeline Committee
1024 West 6th Avenue
Anchorage, Alaska 99501

Dear Mr. Wittow:

We appreciate your consideration of our firm in possibly submitting a proposal to study the design and costs regarding extraction and transportation of Prudhoe Bay gas liquids here within the State. However, upon review of the scope of work, it appears as though this type of study would be outside the range of expertise which we possess. Consequently, we will not be submitting a proposal on this project.

However, we would appreciate being kept in mind for possible future projects that may require the expertise of an Alaskan firm in the areas of surveying, civil engineering, structural engineering or architecture. We have enclosed a brief resume which indicates our areas of expertise to allow you to evaluate our qualifications for any future work.

Very truly yours,

Gordon D. Unwin, P.E.

GDU/cld
Enclosure
cc: Senator Mike Colletta
Representative Bill Miles

ARCHITECTURE
ENGINEERING
LAND SURVEYING

**PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT**

SECTION 1

METHODOLOGY

Williams Brothers Engineering Company proposes the study of a gas liquids pipeline and related facilities to transport Prudhoe Bay liquids to an instate petrochemical facility site be conducted with the following elements of work and the organization. This approach was developed to achieve the goal of establishing reasonable cost estimates for construction and operation of these proposed facilities. In this proposal, Williams Brothers has interpreted the scope of work to include verification of basic information and the examination of peripheral requirements to the extent necessary for complete evaluation of the alternatives. On this basis, the final report will provide a realistic cost of service for the various alternates and, also, produce a firm basis for the development of recommendations and assure the study has included development of all possible viable variations or alternates.

- Refine Schedule and Scope of Work

The initial steps will be to establish the scope of work, schedule and key parameters to insure the work reflects the requirements of the State of Alaska. Coordination between the Study Manager for the State of Alaska and Williams Brothers' study team will be necessary both initially and throughout the study. This coordination will ensure a continuing understanding of the requirements and objectives of the study and the effective use of resources within budget restrictions.

- Collect and Review Basic Information

- a. Obtain data for volumes of gas to be processed, gas analysis and other parameters for both Prudhoe Bay and Fairbanks. This information will include estimated variations over the project's life.



A Resource Sciences Company

- b. Review with North West Alaska their requirements of temperature and pressure at the exchange points in Prudhoe and in the Fairbanks area. Also, review the effect on North West Alaskan operation of the larger volume of high Btu gas moved to Fairbanks and the reduced calorific value of gas in the remainder of North West's pipeline. Determine the cost of transporting gas liquids as a vapor of high calorific content in the natural gas pipeline. Because the cost of transportation is based on heating units transported per mile, definition should be given to the allowance for removal of carbon dioxide which increases the pipeline's capacity.
- c. Review the volume and schedule of materials to be shipped into Alaska by North West Alaska Pipeline during construction. This review will evaluate penalties and bottlenecks to be avoided if construction of the two systems coincide.
- d. Obtain basic data on the proposed gas conditioning plant at the inlet to North West Alaska's pipeline. This data will enable an estimate and economic analysis to be made of combining the plant at Prudhoe with a plant to remove ethane plus liquids.
- e. Review and check the possible plant sites at Prudhoe Bay, the Fairbanks area and the various tidewater locations including collecting information on available services and facilities. This activity will be reviewed with representatives from appropriate state organizations and petrochemical companies.
- f. Review the general features of the pipeline routes to establish sensitive areas which may significantly increase cost or delay construction. For example, if the North West Alaskan Pipeline is laid through Atigun Pass, there will probably be insufficient space for a third pipeline.



A Resource Sciences Company

- g. Determine the owners of gases to be removed from the gas stream and the value, including severance taxes, of these gases both in the gas stream and as separated liquids.
- h. Confirm data for Alaskan shipping including tariffs, size and weight restrictions, and volume capability.
- i. Verify labor rates and construction cost adjustment factors in Alaska.
- j. Determine volumes of other natural gas liquids which may be available in the future on the North Slope. This review will include butanes and propanes currently used as fuel, which potentially could be available by substituting natural gas.

● Preliminary Engineering

Review existing hydraulic calculations, perform further hydraulic analysis and complete preliminary engineering. These efforts will form a basis for selection of the optimum pipeline system to serve the various plants and allow capacity for future transportation as the volume of liquid increases.

Efforts on the processing facilities, as schematically shown on Figure 1-1 (page 1-6), will include:

- a. Finalize preliminary process basis
- b. Prepare computer simulation of each plant
- c. Prepare conceptual designs and preliminary optimization of ethane recovery.
- d. Prepare preliminary cost estimates and economic analysis including the effect of phased in ethylene plant construction and the resulting stepwise ethane demand



- Schedule

Develop a schedule for construction of the various plants and pipeline sections. This schedule will reflect construction of the Alaskan Natural Gas System to minimize conflict with a liquids pipeline in movement of materials and use of resources. In areas of conflict, the penalties will be assessed in the form of extra costs and delays. The schedule will be extended to include future operation of the plants as the markets develop and product volumes increase.

- Cost Estimates/Economic Analysis

On the basis of the study data, estimate the capital and operating cost of the various plants and pipeline segments. For each alternate, the cost of service per unit of volume delivered will be developed for each year of operation during the life of the project. To illustrate this analysis, an example of a computer printout from Williams Brothers program is shown in Attachment 'A' (pages 1-8 to 1-19) at the back of this section. This analysis will reflect changes in the annual volumes transported and processed. The information will be presented in a format to separate pipeline costs of service from extraction plant cost of service. The three basic cases (shown on Figure 1-1) will be addressed and any beneficial variations will be investigated as required to produce a comprehensive analysis. Steps for analysis of the pipeline facilities are outlined on Figure 1-1 (pages 1-7).

- Presentation of Final Report

Summarize, in a form readily understood by individuals without an economic or engineering background, study methods and basis, the alternates evaluated, the significant results on facilities and the conclusions on the potential development of alternates. This summary will be published in the form of a final study report.



- Continuing Technical Advice and Assistance

Following completion of the study, Williams Brothers will be available as required to provide technical advice and assistance on a continuing basis. Due to the undefined scope of this activity, Williams Brothers excluded this effort from the cost estimate presented in Section 5.

ANNUAL COS - OF SERVICE - RETURN ON RATE BASE

22 INCH DIAMETER PIPE
OCTOBER, 1979

Sheet 9 of 12

OPERATING YEAR	15	16	17	18	19
RETURN ON RATE BASE AT 15.000	7975.	6577.	5653.	4572.	2870.
INCOME TAX	0.	0.	0.	0.	0.
DEPRECIATION (STRAIGHT LINE)	9317.	9317.	9317.	11350.	11350.
OPERATING EXPENSE	1340.	1340.	1761.	2085.	2085.
TAXES OTHER THAN INCOME	3179.	379.	3179.	3301.	3301.
AMORTIZATION OF DEBT FINANCE	0.	0.	0.	0.	0.
TOTAL COST OF SERVICE	21811.	20413.	19910.	21309.	19606.
YEAR NET THROUGHPUT (MMCF)	72700.	76200.	80100.	80400.	89200.
COST OF SERVICE CENT/MCF)	30.001	26.789	24.856	25.247	21.980
PROJECT TOTAL EXPENSES	457877.				
PROJECT TOTAL THROUGHPUT	1001900.				
PROJECT COST OF SERVICE	45.701				

PROFORMA INCOME STATEMENT SCHEDULE

22 INCH DIAMETER PIPE
OCTOBER, 1979

Sheet 10 of 12

OPERATING YEAR	1	2	3	4	5	6	7
COMMODITY INPUT (CENTS/MCF)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
COMMODITY OUTPUT (CENTS/MCF)	60.000	60.000	60.000	60.000	60.000	60.000	60.000
ANNUAL QUANTITIES (MMCF)	12000.	14100.	29000.	31100.	34100.	35300.	38800.
OPERATING REVENUES AT 43.303	7200.	6460.	17400.	18660.	20460.	21180.	23280.
OPERATING EXPENSE	1102.	1102.	1102.	1102.	1102.	1102.	1102.
TAX DEPRECIATION (1 OVER 20)	1789.	7543.	7543.	7543.	7543.	7543.	7543.
TAXES OTHER THAN INCOME	730.	2930.	2930.	2930.	2930.	2930.	2930.
SUB-TOTAL	3620.	11775.	11575.	11575.	11575.	11575.	11575.
OPERATING INCOME	3580.	-3115.	5825.	7085.	8885.	9605.	1175.
INCOME ADJUSTMENTS							
INTEREST CHARGED TO CONSTR.	0.	0.	0.	0.	0.	0.	0.
AMORTIZATION OF DEBT FIN.	0.	0.	0.	0.	0.	0.	0.
INTEREST EXPENSE	3295.	13224.	13224.	13224.	13224.	13224.	13132.
TAX LOSSES CARRIED FORWARD	0.	0.	0.	0.	0.	0.	0.
TAXABLE INCOME	284.	-16339.	-7399.	-6139.	-4339.	-3619.	-1427.
INCOME TAX RATE (PCT)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INCOME TAX	0.	0.	0.	0.	0.	0.	0.
OPERATING INCOME AFTER TAX	3580.	-3115.	5825.	7085.	8885.	9605.	11705.
NET INCOME	284.	-16339.	-7399.	-6139.	-4339.	-3619.	-1427.
BOOK DEPRECIATION (OVER 20)	1789.	7543.	7543.	7543.	7543.	7543.	7543.
CASH FLOW AFTER TAXES	2073.	-8796.	144.	1404.	3204.	3924.	6116.
DEBT PAYMENT	0.	0.	0.	0.	0.	0.	10199.
EQUITY PAYMENT	0.	0.	0.	0.	0.	1025.	1025.
CASH FLOW AFTER PAYMENT	2073.	-8796.	144.	1404.	3204.	2899.	-5108.
PRESENT WORTH (FAC. = .10000)	1885.	-770.	108.	959.	1989.	1636.	-2621.
DIVIDENDS	284.	0.	0.	0.	0.	0.	0.
DIVIDEND TAX AT 0.00 PCT.	0.	0.	0.	0.	0.	0.	0.
DIVIDENDS AFTER TAX	284.	0.	0.	0.	0.	0.	0.
RATE BASE	109765.	141374.	133831.	126289.	118746.	111203.	103661.
RETURN ON RATE BASE - PCT	3.26	-2.20	4.35	5.61	7.48	8.64	11.29
RETURN ON EQUITY - PCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00

PROPOSED INCOME STATEMENT SCHEDULE

22 INCH DIAMETER PIPE
OCTOBER, 1979

Sheet 11 of 12

OPERATING YEAR	8	9	10	11	12	13	14
COMMODITY INPUT (CENTS/MCF)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
COMMODITY OUTPUT (CENTS/MCF)	60.000	60.000	60.000	60.000	60.000	60.000	60.000
ANNUAL QUANTITIES (MMCF)	42600.	49200.	54800.	54800.	66000.	67600.	69900.
OPERATING REVENUES AT 43.3¢/3	25560.	29520.	32880.	32880.	39600.	40560.	41940.
OPERATING EXPENSE	1102.	1102.	1102.	1102.	1102.	1340.	1340.
TAX DEPRECIATION (1 OVER 20)	7543.	7543.	7543.	7543.	7543.	7543.	9317.
TAXES OTHER THAN INCOME	2930.	2930.	2930.	2930.	2930.	2930.	3179.
SUB-TOTAL	11575.	11575.	11575.	11575.	11575.	11813.	1584.
OPERATING INCOME	13985.	17945.	21305.	21305.	28025.	28747.	28104.
INCOME ADJUSTMENTS							
INTEREST CHARGED TO CONSTR.	0.	0.	0.	0.	0.	0.	0.
AMORTIZATION OF DEBT FIN.	0.	0.	0.	0.	0.	0.	0.
INTEREST EXPENSE	12122.	11112.	10101.	9091.	8081.	7071.	7186.
TAX LOSSES CARRIED FORWARD	1863.	6834.	8890.	0.	0.	0.	0.
TAXABLE INCOME	0.	0.	2514.	12214.	19944.	21676.	20918.
INCOME TAX RATE (PCT)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INCOME TAX	0.	0.	0.	0.	0.	0.	0.
OPERATING INCOME AFTER TAX	13985.	17945.	21305.	21305.	28025.	28747.	28104.
NET INCOME	1863.	6834.	11204.	12214.	19944.	21676.	20918.
BOOK DEPRECIATION (OVER 20)	7543.	7543.	7543.	7543.	7543.	7543.	9317.
CASH FLOW AFTER TAXES	9406.	14376.	18746.	19756.	27487.	29219.	30234.
DEBT PAYMENT	10199.	10199.	10199.	10199.	10199.	10199.	10199.
EQUITY PAYMENT	1025.	1025.	1025.	1025.	1025.	1025.	3179.
CASH FLOW AFTER PAYMENT	-1818.	3152.	7523.	8533.	16263.	17995.	16926.
PRESENT WORTH (FAC. = .1000n)	-848.	1337.	2900.	2991.	5182.	5213.	447.
DIVIDENDS	0.	332.	7523.	8533.	16263.	17995.	16926.
DIVIDEND TAX AT 0.00 PCT.	0.	0.	0.	0.	0.	0.	0.
DIVIDENDS AFTER TAX	0.	3152.	7523.	8533.	16263.	17995.	16926.
RATE BASE	96118.	88575.	81033.	73490.	65947.	64687.	62481.
RETURN ON RATE BASE - PCT	14.55	20.26	26.29	28.99	42.50	44.44	44.98
RETURN ON EQUITY - PCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00

PROFORMA INCOME STATEMENT SCHEDULE

22 INCH DIAMETER PIPE
OCTOBER, 1979

Sheet 12 of 12

OPERATING YEAR	15	16	17	18	19
COMMODITY INPUT (CENTS/MCF)	0.000	0.000	0.000	0.000	0.000
COMMODITY OUTPUT (CENTS/MCF)	60.000	60.000	60.000	60.000	60.000
ANNUAL QUANTITIES (MMCF)	72700.	76200.	80100.	84400.	89200.
OPERATING REVENUES AT 43.303	43620.	45720.	48060.	50640.	53520.
OPERATING EXPENSE	1340.	1340.	1761.	2085.	2085.
TAX DEPRECIATION (1 OVER 20)	9317.	9317.	9317.	11350.	11350.
TAXES OTHER THAN INCOME	3179.	3179.	3179.	3301.	3301.
SUB-TOTAL	13836.	13836.	14257.	16736.	16736.
OPERATING INCOME	29784.	31884.	33803.	33904.	36784.
INCOME ADJUSTMENTS					
INTEREST CHARGED TO CONSTR.	0.	0.	0.	0.	0.
AMORTIZATION OF DEBT FIN.	0.	0.	0.	0.	0.
INTEREST EXPENSE	5989.	4791.	3593.	2954.	1484.
TAX LOSSES CARRIED FORWARD	0.	0.	0.	0.	0.
TAXABLE INCOME	23795.	27093.	30210.	30950.	35299.
INCOME TAX RATE (PCT)	0.00	0.00	0.00	0.00	0.00
INCOME TAX	0.	0.	0.	0.	0.
OPERATING INCOME AFTER TAX	29784.	31884.	33803.	33904.	36784.
NET INCOME	23795.	27093.	30210.	30950.	35299.
BOOK DEPRECIATION (OVER 20)	9317.	9317.	9317.	11350.	11350.
CASH FLOW AFTER TAXES	33112.	36410.	39527.	42300.	46650.
DEBT PAYMENT	10199.	10499.	10199.	10199.	10199.
EQUITY PAYMENT	3109.	3109.	3109.	6212.	6293.
CASH FLOW AFTER PAYMENT	19804.	23102.	26219.	25889.	30158.
PRESENT WORTH (FAC. = .10000)	4741.	5028.	5187.	4656.	4931.
DIVIDENDS	19804.	23102.	26219.	25889.	30158.
DIVIDEND TAX AT 0.00 PCT.	0.	0.	0.	0.	0.
DIVIDENDS AFTER TAX	19804.	23102.	26219.	25889.	30158.
RATE BASE	53164.	43847.	37686.	30483.	19133.
RETURN ON RATE BASE - PCT	56.02	72.72	89.70	111.22	192.25
RETURN ON EQUITY - PCT	0.00	0.00	0.00	0.00	0.00
PROJECT INCOME TAXES	0.				
PROJECT DIVIDEND TAXES	0.				
PROJECT CASH FLOW AFTER PAY.	189565.				
PROJECT PRESENT WORTH CASH	42461.				
PROJECT PRESENT WORTH INV.	159695.				
COMPUTED PRESENT WORTH FAC.	100986.				
COMPUTED PRESENT WORTH CASH	164153.				
COMPUTED PRESENT WORTH INV.	164153.				

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STATE ARCHIVES TO VIEW THE ORIGINAL.

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Alaska State Legislature

House of Representatives

JT. GAS PIPELINE COMMITTEE

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

907/465-4844

March 17, 1981

George H. Beck
Williams Brothers Engineering, Co.
Resources Sciences Center
6600 S. Yale Ave.
Tulsa, Oklahoma 74177

Dear Mr. Beck:

This year's legislature has decided not to proceed with the Gas Liquids Line Study which you submitted a proposal for in October 1980. One of the primary reasons for the decision is the fact the Dow-Shell Group's present Petrochemical Feasibility Study effect has incorporated almost all of the concerns of the legislature.

The Co-Chairmen offer their apologies for the delays in reaching a final decision, and thank you for the time and effort devoted to your proposal.

Please contact me if you have further questions.

Sincerely,

A handwritten signature in cursive script that reads "Mark Wittow".

Mark Wittow
Special Assistant

MW/drz

cc: Pete Lehman
Project Director, Dow-Shell Group

SCOMM

28:6

Oil Tax Bills

Ninth Legislature

1975-6

Introduced: 2/4/75
Referred: Commerce and
Finance

THE HOUSE

BY MALONE

C>

HOUSE BILL NO. 116

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

A BILL

an Act entitled: "An Act relating to oil and gas development."

ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

Section 1. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.297. INSPECTION PERMITTED. (a) The department may, as a condition of granting a permit or lease provided for in secs. 135 - 165 of this chapter, require the applicant to

(1) allow full observation and inspection by a person employed by the department of all oil or gas exploration efforts, drilling or production facilities;

(2) allow a person employed by the department to be present during exploration, drilling or production efforts, and make adequate provisions for the board, lodging and transportation of that person;

(3) in the case of a vessel or other facility engaged in offshore oil or gas exploration, drilling or production, allow a person employed by the department to live on the vessel or facility;

(4) reimburse the state, on a regular basis, for all costs incurred in the administration of this section, including the costs of inspection;

(5) post a surety bond or other guarantee of payment;

(6) observe other conditions the department considers necessary to safeguard the public health, safety and general welfare.

(b) The department shall promulgate regulations to carry out the purpose of this section, including but not limited to

(1) the specific duties of the inspector;

C>

Introduced: 3/13/75
Referred: Resources

BY COWPER, BOWMAN, BRADLEY, BRADNER,
BROWN, COTTEN, DUNCAN, GARDINER,
GRUENING, KELLEY, MCKINNON, MALONE,
MILLER, NAUGHTON, PARKER, SMITH, PARR,
SULLIVAN AND OSTROSKY

THE HOUSE

HOUSE BILL NO. 297

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the oil and gas exploration,
production and pipeline transportation property tax;
and providing for an effective date."

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

- Section 1. AS 43.56.010(a) is amended to read:

(a) An annual tax of 20 mills is levied each tax year beginning January 1, 1974, on the full and true value of taxable property taxable under this chapter, except as provided in sec. 15 of this chapter.

- Sec. 2. AS 43.56 is amended by adding a new section to read:

Sec. 43.56.015. OIL AND GAS IN PLACE. (a) An annual tax of 20 mills is levied automatically at such time as the state's general fund cash balance is less than \$200,000,000, on the full and true value of (1) oil and gas leases within the state under which there are proven reserves; and (2) ownership interests in proven oil and gas reserves in place within the state. The tax due for the calendar year of the original levy is the full amount which is due for the year reduced pro rata by the number of days from January 1 to the date of the original levy. In years subsequent to the original levy the tax is levied each year beginning January 1.

(b) Oil and gas leases and ownership interests in proven oil or gas reserves are exempt from taxation under (a) of this section for a period of five years from (1) the date of the original lease of all or part of the property described in the lease or ownership interest being taxed, or (2) the date of the first completion, suspension, or abandon-

1 ment of a discovery well in a field or pool which in whole or in part
2 underlies or comprises the lease or ownership interest, whichever occurs
3 first.

4 (c) Producing oil or gas leases or ownership interests in proven
5 oil or gas reserves upon which a gross production tax under ch. 55 of
6 this title has been paid in an amount equal to or greater than the tax
7 due under (a) of this section are exempt from taxes under (a) of this
8 section for the same taxable year for which the gross production taxes
9 are due.

10 (d) Producing oil or gas leases or ownership interests in proven
11 oil or gas reserves upon which a gross production tax under ch. 55 of
12 this title has been paid in an amount which is less than the amount due
13 under (a) of this section as to the same leases or interests shall reduce
14 the tax due under (a) of this section as to the leases or interests by
15 the gross production tax actually paid in the assessment year after
16 subtraction of any credit allowable under (e) of this section.

17 (e) The tax paid under (a) of this section may be credited against
18 the gross production tax due under ch. 55 of this title as to the same
19 leases or properties; however, the credit used in any one tax year may
20 not exceed 50 per cent of the gross production tax due for that year.

21 * Sec. 3. AS 43.56.060 is amended by adding new subsections to read:

22 (h) The department shall assess property for the tax levied under
23 sec. 15 of this chapter within 60 days of the effective date of this Act
24 on the basis of information presently available to the department.

25 (i) The full and true value of property taxable under sec. 15 of
26 this chapter is the estimated price which the property would bring in an
27 open market and under the prevailing market conditions in a sale between
28 a willing buyer and a willing seller both conversant with the property
29 and with prevailing general price levels. In determining this value the

assessor shall take into account the discounted value of the expected future net income from the production of proven reserves under the property.

- Sec. 4. AS 43.56.100 is amended by adding a new subsection to read:

(c) The department shall send to every owner of taxable property named in the assessment roll a notice of the assessment made under sec. 60(h) of this chapter within 75 days of the effective date of this Act.

- Sec. 5. AS 43.56.120 is amended by adding a new subsection to read:

(c) If an owner appeals a ruling of the department made under an appeal of an assessment of property made for purposes of the tax levied under sec. 15 of this chapter, the owner, by filing a notice of appeal to the board, agrees to furnish the state with all its records and research information relating to the property which is the subject of the appeal, including but not limited to (1) well logs; (2) records of well testing and completion; and (3) geological and geophysical information including seismic data. The information contained in the records and research information shall be kept confidential by the board unless litigation is instituted after a decision by the board.

- Sec. 6. AS 43.56.150(c) is amended to read:

(c) The taxes [TAX] levied under secs. [SEC.] 10(a) and 15 of this chapter, interest and penalties collected with respect to these levies [THIS LEVY] shall be deposited in the general fund, except that two per cent of the taxes collected under sec. 15 of this chapter shall be deposited into the Alaska Native Fund established by sec. 6 of the Alaska Native Claims Settlement Act, P.L. 92 - 203.

- Sec. 7. AS 43.56.160 is amended to read:

Sec. 43.56.160. INTEREST AND PENALTY. When the tax levied by sec. 10(a) or sec. 15 of this chapter becomes delinquent, a penalty of 10 per cent shall be added. Interest on the delinquent taxes, exclusive of

1 penalty, shall be assessed at a rate of eight per cent a year.

2 * Sec. 8. AS 43.56.170 is amended to read:

3 Sec. 43.56.170. LIEN FOR TAX. The taxes [TAX] levied under secs.
4 [SEC.] 10(a) and 15 of this chapter and the interest and penalty provided
5 in sec. 160 of this chapter are first and paramount liens on the property
6 subject to tax under this chapter.

7 * Sec. 9. AS 43.56.180 is amended to read:

8 Sec. 43.56.180. REMEDY. The remedy of distraint of property set
9 out in AS 43.20.270 applies to the taxes [TAX] levied by secs. [SEC.]
10 10(a) and 15 of this chapter. However, only property subject to [THE]
11 tax may be distrained.

12 * Sec. 10. AS 43.56.210(6) is amended to read:

13 (6) "taxable property" means property described in sec. 15 of
14 this chapter or real and tangible personal property used or committed by
15 contract or other agreement for use within this state primarily in the
16 exploration for, production of, or pipeline transportation of gas or
17 unrefined oil (except for property used solely for the retail distri-
18 bution or liquefaction of natural gas), or in the operation or mainte-
19 nance of facilities used in the exploration for, production of, or
20 pipeline transportation of gas or unrefined oil, including machinery,
21 appliances, supplies, equipment, drilling rigs, wells (whether producing
22 or not), gathering lines and transmission lines, pumping stations,
23 compressor stations, power plants, topping plants, processing units,
24 roads, tank farms, tanker terminals, docks and other port facilities,
25 air strips and communication equipment and facilities, maintenance
26 equipment and facilities, and maintenance camps and other related facil-
27 ities; "taxable property" does not include permanent residences, office
28 buildings requiring substantial local government services, or gas pipe-
29 line systems operated as utilities and regulated by the Alaska Public

Utilities Commission;

- Sec. 11. AS 43.56.210 is amended by adding a new paragraph to read:

(8) "proven reserves" means the volume of oil or gas in a known deposit which geological and engineering information indicate to be reasonably expected to be produced under current economic and technological knowledge.

- Sec. 12. This Act takes effect immediately in accordance with AS 01.10.-

070(c).

- Sec. 13. This Act terminates January 1, 1982.

BY COWPER, BOWMAN, BRADLEY, BRADNER,
BROWN, COTTEN, DUNCAN, GARDINER,
GRUENING, KELLEY, MCKINNON, MALONE,
MILLER, NAUGHTON, PARKER, SMITH, PARR,
SULLIVAN AND OSTROSKY

IN THE HOUSE

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 297

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the oil and gas reserves ad valorem
tax and its relationship to other oil and gas taxation;
and providing for an effective date."

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

* Section 1. AS 43 is amended by adding a new chapter to read:

CHAPTER 58. OIL AND GAS RESERVES AD VALOREM TAX.

Sec. 43.58.010. AD VALOREM TAX. (a) An annual tax is levied each
tax year beginning January 1, 1976, on the full and true value of
taxable property under this chapter.

(b) The legislature shall annually determine by law the rate of
the levy before April 1.

(c) If on April 1 the legislature has not determined the rate of
levy, the rate of levy shall be zero for that year. The rate of levy
may not exceed 20 mills.

Sec. 43.58.020. EXEMPTIONS. The following interests in the
proven reserves of a lease or property shall be exempt from taxation
under this chapter:

- (1) any interest of the United States or the state;
- (2) any interest exempted from taxation by sec. 21 of the
Alaska Native Claims Settlement Act (P.L. 92-203; 43 U.S.C. sec. 1620);
- (3) all other interests in the proven reserves of a lease or
property during the five year period beginning with the earlier of:
 - (A) the date of the original lease, concession, contract
or any other agreement that is made for the oil and gas development

1 of a part or all of the land subject to that lease or property, or

2 (B) the date of the first completion, suspension, or
3 abandonment of a discovery well in a field or pool which in whole
4 or in part underlies or comprises the lease or ownership interest;

5 (4) taxable property under ch. 56 of this title;

6 (5) any and all interests conveyed pursuant to the Alaska
7 Native Claims Settlement Act (P.L. 92-203; 43 U.S.C. 1620), including
8 the interests of lessees of all or part of such interests.

9 Sec. 43.58.030. CREDIT AGAINST TAX. There shall be allowed, as a
10 credit against the tax levied under this chapter for a lease or property,
11 the amount of oil and gas properties production taxes paid under ch. 55
12 of this title for that lease or property for the 12 months before the
13 tax payment date under this chapter. The credit may not exceed the
14 amount of tax due under this chapter. For purposes of this section, the
15 credit shall be calculated without regard to the allowance of any credit
16 under AS 43.55.018 against the taxes levied by ch. 55 of this title.

17 Sec. 43.58.040. ASSESSMENT. (a) The department shall assess
18 taxable property under this chapter at its full and true value as of
19 January 1 of each year.

20 (b) The full and true value of taxable property under this chapter
21 is the estimated price which the property would bring in an open market
22 and under the then prevailing market conditions in a sale between a
23 willing seller and a willing buyer both conversant with the property and
24 with prevailing values. In determining this value, the department shall
25 consider all factors which may be known by the department to affect the
26 value of the proven reserves of the lease or property, including but not
27 limited to the present value of the expected discounted future net
28 income from the lease or property.

29 Sec. 43.58.050. ASSESSMENT ROLL. The department shall prepare

annually the assessment roll for taxation under this chapter. The roll shall contain:

- (1) a description of all taxable property;
- (2) the assessed value of all taxable property; and
- (3) the names and addresses of persons owning or otherwise holding an interest in taxable property.

Sec. 43.58.060. ASSESSMENT NOTICE. On or before April 15 of each year, the department shall send to every owner of taxable property named in the assessment roll a notice of assessment showing the assessed value of the property. The notice of assessment is effective on the date of its mailing.

Sec. 43.58.070. APPEAL. (a) A person aggrieved by the action of the department in making an assessment may request a hearing not later than 20 days after the effective date of the assessment notice.

(b) At the hearing the department may subpoena witnesses and may administer oaths and make inquiries necessary to determine the correctness of the assessment. At the hearing the appellant bears the burden of proof, and in the absence of this proof the assessment will be upheld. If the department determines that a correction is warranted, the department shall correct the assessment and the assessment roll.

(c) Within 30 days after the decision by the department after a hearing, either the department or a person aggrieved by the decision may appeal to the superior court for a trial de novo. The superior court shall grant priority on its dockets for the appeals over all civil cases then pending.

Sec. 43.58.080. CERTIFICATION. On or before June 15 of each year, the department shall certify the final assessment roll and mail to the operator or other person filing a return and paying tax on the taxable property a statement of the amount of tax due.

1 Sec. 43.58.090. SUPPLEMENTAL ASSESSMENT ROLLS. The department
2 shall include property omitted from the assessment roll on a supple-
3 mental roll, using the procedures set out in this chapter for the
4 original roll.

5 Sec. 43.58.100. INVESTIGATION. (a) The department may make an
6 investigation of property on which a return has been filed or on pro-
7 perty for which no return has been filed. In either case, the depart-
8 ment may make its own valuation of the taxable property, which is prima
9 facie evidence of full and true value.

10 (b) An employee or agent of the department may enter any premise
11 necessary for the investigation during reasonable hours and may examine
12 property and appropriate records. The owner of taxable property upon
13 request shall furnish to the employee or agent of the department reason-
14 able assistance required for the investigation. If refused entry or
15 assistance the superior court may, after reasonable notice to the owner,
16 order the owner to allow the entry or to furnish the assistance.

17 (c) For the purpose of the investigation, the operator or other
18 person filing a return and paying the tax on the taxable property or his
19 representative may be required to present himself for examination under
20 oath by the department.

21 Sec. 43.58.110. RETURNS AND PAYMENT OF TAX. (a) The operator of
22 a lease or property is primarily liable for payment of the tax levied by
23 this chapter. All other persons owning or otherwise holding an interest
24 or right in that lease or property are secondarily liable for payment of
25 the tax levied by this chapter.

26 (b) The operator of a lease or property shall submit returns on
27 the form prescribed by the department and shall make payment of the tax
28 levied under this chapter, on behalf of itself and all other persons
29 holding an interest or right in that lease or property. With the written

1 approval of the department, a non-operator of the lease or property may
2 submit returns or make payment of the tax levied under this chapter, on
3 behalf of himself and such other persons as the department may approve.
4 All returns shall be filed on or before February 1 of each year.

5 (c) The tax levied under this chapter is payable to the department
6 on or before June 30 of each year or in installments at the times and
7 under the conditions the department may by regulation require. This
8 provision applies even though the assessment is under appeal.

9 (d) With the prior written approval of the department, a person
10 submitting returns or making payments as required under this chapter for
11 more than one lease or property may regard those leases or properties as
12 a single lease or property for purposes of submitting those reports or
13 making those payments.

14 (e) An operator or other person making payment of the tax levied
15 under this chapter on behalf of one or more other persons owning or
16 otherwise holding an interest in a lease or property may withhold a
17 proportionate share of the payment from any proceeds or other benefits
18 from the lease or property owed to any person on whose behalf the pay-
19 ment is made. Unless otherwise specifically provided by written contract
20 or agreement, the person so withholding a proportionate share of the tax
21 levied under this chapter incurs no liability to those from whom it is
22 withheld by virtue of having made the withholding.

23 (f) By written notice the department may require a person filing
24 a return to submit additional information to the department no later
25 than 30 days after the notice.

26 Sec. 43.58.120. CIVIL PENALTY. Five per cent shall be added to
27 the tax for each 30-day period or fraction of that period during which
28 the taxpayer fails to file a return or pay the full amount of the tax,
29 or a portion or a deficiency of the tax due and payable as finally

1 determined by the department and required by this chapter, unless it is
2 shown that the failure is due to a reasonable cause and not to wilful
3 neglect. The penalty may not exceed 25 per cent in the aggregate. The
4 penalty shall be collected at the same time, in the same manner and as a
5 part of the original tax, but if the original tax is paid before the
6 neglect is discovered the penalty shall be collected in the same manner
7 as the original tax. The department shall describe by regulation circum-
8 stances which constitute reasonable cause for purposes of this section.

9 Sec. 43.58.130. INTEREST. When the tax levied in this chapter
10 becomes delinquent it bears interest at the rate of eight per cent a
11 year.

12 Sec. 43.58.140. LIEN. The tax, penalty and interest payable under
13 this chapter are first and paramount liens on the property subject to
14 tax under this chapter.

15 Sec. 43.58.150. REMEDY. The remedy of distraint of property set
16 out in AS 43.20.270 applies to the tax levied by this chapter.

17 Sec. 43.58.160. REGULATIONS. The department may adopt regulations
18 in accordance with the Administrative Procedure Act (AS 44.62) as
19 appropriate to administer and enforce this chapter.

20 Sec. 43.58.170. TERMINATION OF TAX. The tax imposed by this
21 chapter shall terminate on December 31, 1977.

22 Sec. 43.58.180. ACCRUAL OF EARLY DEVELOPMENT INCENTIVE CREDIT.
23 (a) An early development incentive credit, calculated in accordance
24 with this section, shall be applied to the tax payable under ch. 55 of
25 this title as provided in AS 43.55.018. The early development incentive
26 credit for a lease or property is zero until changed as provided in this
27 section.

28 (b) The early development incentive credit for a lease or property
29 shall be increased each calendar year by the amount of net tax paid

under this chapter.

(c) The early development incentive credit for a lease or property shall be reduced each month by the amount of tax credit allowed in that month under AS 43.55.018 for that lease or property.

Sec. 43.58.190. DEFINITIONS. In this chapter:

(1) "department" means the Department of Revenue;

(2) "gas" means all hydrocarbon substances not defined as oil in this chapter;

(3) "lease or property" means

(A) a lease or other property that includes mineral rights in oil and gas,

(B) a leasehold interest in oil and gas,

(C) a working interest, royalty interest, overriding royalty interest, production payments, net profit interest or any other interest in a lease, concession, joint venture or other agreement for oil and gas exploration, development or production,

(D) a working interest, royalty interest, overriding royalty interest, production payment, net profit interest or any other interest in an agreement for unitization or pooling under the provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954 as defined on the effective date of this paragraph;

(4) "net tax paid under this chapter" means the amount of tax payable under sec. 10 of this chapter, less the credit allowed under sec. 30 of this chapter without regard to interest or penalty;

(5) "oil" means crude petroleum oil and other hydrocarbons regardless of gravity which, when recovered, are recovered at the well-head in liquid form, and the liquid hydrocarbons known as distillate or condensate that are recovered by separation from gas other than at a gas processing plant;

1 (6) "operator" means the person conducting the exploration,
2 development or production operation for a lease or property;

3 (7) "proven reserves" means the volumes of oil and gas in a
4 known deposit which geological and engineering information indicate to
5 be recoverable in the future under prevailing economic conditions and
6 technology;

7 (8) "taxable property" means any interest in the proven
8 reserves of a lease or property.

9 Sec. 43.58.200. PAYMENT TO ALASKA NATIVE FUND. When the tax levied
10 under this chapter is payable, an amount not less than two per cent of
11 the tax shall be paid by the state from oil and gas royalty payments
12 into the Alaska Native Fund established by sec. 6 of the Alaska Native
13 Claims Settlement Act (P.L. 92-203, 85 Stat. 688, 43 USC 1601 et seq.)
14 until all payments paid into the fund equals \$500,000,000.

15 * Sec. 2. AS 43.55.010(b) is amended to read:

16 (b) Except as provided in ch. 58 of this title, the [THE] tax
17 imposed by this chapter is in place of all taxes now imposed by the
18 state or any of its municipalities, and neither the state nor a munici-
19 pality may impose a tax upon

20 (1) [deleted]

21 (2) producing oil or gas leases;

22 (3) oil or gas produced or extracted in the state;

23 (4) [deleted]

24 (5) the value of intangible drilling and exploration expenses.

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

26 Sec. 43.55.018. CREDIT AGAINST TAX. (a) There shall be allowed
27 as a credit against the taxes levied under this chapter for a lease or
28 property the early development incentive credit accrued for that lease
29 or property under AS 43.58.180. In no event may the credit allowed for

1 a lease or property exceed 50 per cent of the taxes levied under this
2 chapter for that lease or property.

3 (b) The credit shall be allowed on a monthly basis.

4 * Sec. 4. AS 43.55.140(8) is repealed and re-enacted to read:

5 (8) "lease or property" means

6 (A) a lease or other property that includes mineral
7 rights in oil and gas,

8 (B) a leasehold interest in oil and gas,

9 (C) a working interest, royalty interest, overriding
10 royalty interest, net profit interest or any other interest in a
11 lease, concession, joint venture or other agreement for oil and gas
12 exploration, development or production,

13 (D) a working interest, royalty interest, overriding
14 royalty interest, net profit interest or any other interest in an
15 agreement for unitization or pooling under the provisions of sec.
16 614(b)(3) of the Internal Revenue Code of 1954 as defined on the
17 effective date of this paragraph;

18 * Sec. 5. Sec. 29.53.050(b) is amended to read:

19 (b) No municipality, or combination of municipalities occupying
20 the same geographical area, in whole or in part, may levy taxes which
21 result in tax revenues from all sources exceeding either (1) \$1,000 a
22 year for each person residing within their boundaries or (2) when com-
23 bined with the value of property otherwise taxable by the municipality,
24 the product of 225 per cent of the average per capita assessed full and
25 true value in the state multiplied by the number of residents of the
26 taxing municipality. If two or more municipalities occupying the same
27 geographical area, in whole or in part, attempt to levy a tax the
28 combined levy of which would result in tax revenues from all sources
29 exceeding either (1) \$1,000 a year for each person residing within their

1 boundaries or (2) when combined with the value of property otherwise
2 taxable by the municipality, the product of 225 per cent of the average
3 per capita assessed full and true value of property in the state multi-
4 plied by the number of residents of the taxing municipality, the commis-
5 sioner of community and regional affairs shall apportion the lawful levy
6 and equitably divide these revenues on the basis of need, services
7 performed and other considerations in the public interest. For the
8 purpose of this subsection population shall be determined by the commis-
9 sioner of community and regional affairs based on the latest statistics
10 of the United States Bureau of the Census or on other reliable population
11 data. For purposes of this subsection the average per capita assessed
12 full and true value of property in the state shall be calculated without
13 regard to the assessed value of taxable property under AS 43.58.

14 * Sec. 6. Sec. 43.56.010(c) is amended to read:

15 (c) If the total value of assessed property of a municipality
16 taxing under AS 29.53.045(c) exceeds the product of 225 per cent of the
17 average per capita assessed full and true value of property in the state
18 (to be determined by the department and reported to each municipality by
19 January 15 of each year) multiplied by the number of residents of the
20 taxing municipality, the department shall designate the portion of the
21 tax base against which the local tax may be applied. For purposes of
22 this subsection the average per capita assessed full and true value of
23 property in the state shall be calculated without regard to the assessed
24 value of taxable property under ch. 58 of this title.

25 * Sec. 7. This Act takes effect on April 30, 1975.
26
27
28
29

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 297

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas reserves ad valorem
7 tax and its relationship to other oil and gas taxation;
8 and providing for an effective date."

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

10 * Section 1. AS 43 is amended by adding a new chapter to read:

11 CHAPTER 58. OIL AND GAS RESERVES AD VALOREM TAX.

12 Sec. 43.58.010. AD VALOREM TAX. (a) An annual tax is levied each
13 tax year beginning January 1, 1976, on the full and true value of
14 taxable property under this chapter.

15 (b) The legislature shall annually determine by law the rate of
16 the levy before April 1.

17 (c) If on April 1 the legislature has not determined the rate of
18 levy, the rate of levy shall be zero for that year. The rate of levy
19 may not exceed 20 mills.

20 Sec. 43.58.020. EXEMPTIONS. (a) The following interests in the
21 proven reserves of a lease or property shall be exempt from taxation
22 under this chapter:

23 (1) any interest of the United States or the state;

24 (2) any interest exempted from taxation by sec. 21 of the
25 Alaska Native Claims Settlement Act (P.L. 92-203; 43 U.S.C. sec. 1620);

26 (3) all other interests in the proven reserves of a lease or
27 property during the five year period beginning with the earlier of:

28 (A) the date of the original lease, concession, contract
29 or any other agreement that is made for the oil and gas development

1 of a part or all of the land subject to that lease or property, or

2 (B) the date of the first completion, suspension, or
3 abandonment of a discovery well in a field or pool which in whole
4 or in part underlies or comprises the lease or ownership interest;

5 (4) taxable property under ch. 56 of this title;

6 (5) any and all interests acquired by an Alaska Native
7 regional corporation under the Alaska Native Claims Settlement Act
8 (P.L. 92-203; 43 U.S.C. 1620).

9 (b) If any provision of this section or the application of any
10 provision of this section or circumstance is held invalid, the remainder
11 of this Act is void.

12 Sec. 43.58.030. CREDIT AGAINST TAX. There shall be allowed, as a
13 credit against the tax levied under this chapter for a lease or property,
14 the amount of oil and gas properties production taxes paid under ch. 55
15 of this title for that lease or property for the 12 months before the
16 tax payment date under this chapter. The credit may not exceed the
17 amount of tax due under this chapter. For purposes of this section, the
18 credit shall be calculated without regard to the allowance of any credit
19 under AS 43.55.018 against the taxes levied by ch. 55 of this title.

20 Sec. 43.58.040. ASSESSMENT. (a) The department shall assess
21 taxable property under this chapter at its full and true value as of
22 January 1 of each year.

23 (b) The full and true value of taxable property under this chapter
24 is the estimated price which the property would bring in an open market
25 and under the then prevailing market conditions in a sale between a
26 willing seller and a willing buyer both conversant with the property and
27 with prevailing values. In determining this value, the department shall
28 consider all factors which may be known by the department to affect the
29 value of the proven reserves of the lease or property, including but not

1 limited to the present value of the expected discounted future net
2 income from the lease or property.

3 Sec. 43.58.050. ASSESSMENT ROLL. The department shall prepare
4 annually the assessment roll for taxation under this chapter. The roll
5 shall contain:

- 6 (1) a description of all taxable property;
7 (2) the assessed value of all taxable property; and
8 (3) the names and addresses of persons owning or otherwise
9 holding an interest in taxable property.

10 Sec. 43.58.060. ASSESSMENT NOTICE. On or before April 15 of each
11 year, the department shall send to every owner of taxable property named
12 in the assessment roll a notice of assessment showing the assessed value
13 of the property. The notice of assessment is effective on the date of
14 its mailing.

15 Sec. 43.58.070. APPEAL. (a) A person aggrieved by the action of
16 the department in making an assessment may request a hearing not later
17 than 20 days after the effective date of the assessment notice.

18 (b) At the hearing the department may subpoena witnesses and may
19 administer oaths and make inquiries necessary to determine the correct-
20 ness of the assessment. At the hearing the appellant bears the burden
21 of proof, and in the absence of this proof the assessment will be
22 upheld. If the department determines that a correction is warranted,
23 the department shall correct the assessment and the assessment roll.

24 (c) Within 30 days after the decision by the department after a
25 hearing, either the department or a person aggrieved by the decision may
26 appeal to the superior court for a trial de novo. The superior court
27 shall grant priority on its dockets for the appeals over all civil cases
28 then pending.

29 Sec. 43.58.080. CERTIFICATION. On or before June 15 of each year,

1 the department shall certify the final assessment roll and mail to the
2 operator or other person filing a return and paying tax on the taxable
3 property a statement of the amount of tax due.

4 Sec. 43.58.090. SUPPLEMENTAL ASSESSMENT ROLLS. The department
5 shall include property omitted from the assessment roll on a supple-
6 mental roll, using the procedures set out in this chapter for the
7 original roll.

8 Sec. 43.58.100. INVESTIGATION. (a) The department may make an
9 investigation of property on which a return has been filed or on pro-
10 perty for which no return has been filed. In either case, the depart-
11 ment may make its own valuation of the taxable property, which is prima
12 facie evidence of full and true value.

13 (b) An employee or agent of the department may enter any premise
14 necessary for the investigation during reasonable hours and may examine
15 property and appropriate records. The owner of taxable property upon
16 request shall furnish to the employee or agent of the department reason-
17 able assistance required for the investigation. If refused entry or
18 assistance the superior court may, after reasonable notice to the owner,
19 order the owner to allow the entry or to furnish the assistance.

20 (c) For the purpose of the investigation, the operator or other
21 person filing a return and paying the tax on the taxable property or his
22 representative may be required to present himself for examination under
23 oath by the department.

24 Sec. 43.58.110. RETURNS AND PAYMENT OF TAX. (a) The operator of
25 a lease or property is primarily liable for payment of the tax levied by
26 this chapter. All other persons owning or otherwise holding an interest
27 or right in that lease or property are secondarily liable for payment of
28 the tax levied by this chapter.

29 (b) The operator of a lease or property shall submit returns on

1 the form prescribed by the department and shall make payment of the tax
2 levied under this chapter, on behalf of itself and all other persons
3 holding an interest or right in that lease or property. With the written
4 approval of the department, a non-operator of the lease or property may
5 submit returns or make payment of the tax levied under this chapter, on
6 behalf of himself and such other persons as the department may approve.
7 All returns shall be filed on or before February 1 of each year.

8 (c) The tax levied under this chapter is payable to the department
9 on or before June 30 of each year or in installments at the times and
10 under the conditions the department may by regulation require. This
11 provision applies even though the assessment is under appeal.

12 (d) With the prior written approval of the department, a person
13 submitting returns or making payments as required under this chapter for
14 more than one lease or property may regard those leases or properties as
15 a single lease or property for purposes of submitting those reports or
16 making those payments.

17 (e) An operator or other person making payment of the tax levied
18 under this chapter on behalf of one or more other persons owning or
19 otherwise holding an interest in a lease or property may withhold a
20 proportionate share of the payment from any proceeds or other benefits
21 from the lease or property owed to any person on whose behalf the pay-
22 ment is made. Unless otherwise specifically provided by written contract
23 or agreement, the person so withholding a proportionate share of the tax
24 levied under this chapter incurs no liability to those from whom it is
25 withheld by virtue of having made the withholding.

26 (f) By written notice the department may require a person filing
27 a return to submit additional information to the department no later
28 than 30 days after the notice.

29 Sec. 43.58.120. CIVIL PENALTY. Five per cent shall be added to

1 the tax for each 30-day period or fraction of that period during which
2 the taxpayer fails to file a return or pay the full amount of the tax,
3 or a portion or a deficiency of the tax due and payable as finally
4 determined by the department and required by this chapter, unless it is
5 shown that the failure is due to a reasonable cause and not to wilful
6 neglect. The penalty may not exceed 25 per cent in the aggregate. The
7 penalty shall be collected at the same time, in the same manner and as a
8 part of the original tax, but if the original tax is paid before the
9 neglect is discovered the penalty shall be collected in the same manner
10 as the original tax. The department shall describe by regulation circum-
11 stances which constitute reasonable cause for purposes of this section.

12 Sec. 43.58.130. INTEREST. When the tax levied in this chapter
13 becomes delinquent it bears interest at the rate of eight per cent a
14 year.

15 Sec. 43.58.140. LIEN. The tax, penalty and interest payable under
16 this chapter are first and paramount liens on the property subject to
17 tax under this chapter.

18 Sec. 43.58.150. REMEDY. The remedy of distraint of property set
19 out in AS 43.20.270 applies to the tax levied by this chapter.

20 Sec. 43.58.160. REGULATIONS. The department may adopt regulations
21 in accordance with the Administrative Procedure Act (AS 44.62) as
22 appropriate to administer and enforce this chapter.

23 Sec. 43.58.170. TERMINATION OF TAX. The tax imposed by this
24 chapter shall terminate on December 31, 1977.

25 Sec. 43.58.180. ACCRUAL OF EARLY DEVELOPMENT INCENTIVE CREDIT.

26 (a) An early development incentive credit, calculated in accordance
27 with this section, shall be applied to the tax payable under ch. 55 of
28 this title as provided in AS 43.55.018. The early development incentive
29 credit for a lease or property is zero until changed as provided in this

1 section,

2 (b) The early development incentive credit for a lease or property
3 shall be increased each calendar year by the amount of net tax paid
4 under this chapter.

5 (c) The early development incentive credit for a lease or property
6 shall be reduced each month by the amount of tax credit allowed in that
7 month under AS 43.55.018 for that lease or property.

8 Sec. 43.58.190. DEFINITIONS. In this chapter:

9 (1) "department" means the Department of Revenue;

10 (2) "gas" means all hydrocarbon substances not defined as oil
11 in this chapter;

12 (3) "lease or property" means

13 (A) a lease or other property that includes mineral
14 rights in oil and gas,

15 (B) a leasehold interest in oil and gas,

16 (C) a working interest, royalty interest, overriding
17 royalty interest, production payments, net profit interest or any
18 other interest in a lease, concession, joint venture or other
19 agreement for oil and gas exploration, development or production,

20 (D) a working interest, royalty interest, overriding
21 royalty interest, production payment, net profit interest or any
22 other interest in an agreement for unitization or pooling under the
23 provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954
24 as defined on the effective date of this paragraph;

25 (4) "net tax paid under this chapter" means the amount of tax
26 payable under sec. 10 of this chapter, less the credit allowed under
27 sec. 30 of this chapter without regard to interest or penalty;

28 (5) "oil" means crude petroleum oil and other hydrocarbons
29 regardless of gravity which, when recovered, are recovered at the well-

1 head in liquid form, and the liquid hydrocarbons known as distillate or
2 condensate that are recovered by separation from gas other than at a gas
3 processing plant;

4 (6) "operator" means the person conducting the exploration,
5 development or production operation for a lease or property;

6 (7) "proven reserves" means the volumes of oil and gas in a
7 known deposit which geological and engineering information indicate to
8 be recoverable if it is economically feasible to market it in the future;
9 "proven reserves" does not include oil and gas which is not economically
10 feasible to market in the future under reasonably foreseeable conditions;

11 (8) "taxable property" means any interest in the proven
12 reserves of a lease or property.

13 Sec. 43.58.200. PAYMENT TO ALASKA NATIVE FUND. When the tax levied
14 under this chapter is payable an amount not less than two per cent of
15 the tax shall be paid by the state from oil and gas royalty payments
16 into the Alaska Native Fund established by sec. 6 of the Alaska Native
17 Claims Settlement Act (P.L. 92-203, 85 Stat. 688, 43 USC 1601 et seq.)
18 until all payments paid into the fund equals \$500,000,000.

19 * Sec. 2. AS 43.55.010(b) is amended to read:

20 (b) Except as provided in ch. 58 of this title, the [THE] tax
21 imposed by this chapter is in place of all taxes now imposed by the
22 state or any of its municipalities, and neither the state nor a munici-
23 pality may impose a tax upon

24 (1) [deleted]

25 (2) producing oil or gas leases;

26 (3) oil or gas produced or extracted in the state;

27 (4) [deleted]

28 (5) the value of intangible drilling and exploration expenses

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

Sec. 43.55.018. CREDIT AGAINST TAX. (a) There shall be allowed as a credit against the taxes levied under this chapter for a lease or property the early development incentive credit accrued for that lease or property under AS 43.58.180. In no event may the credit allowed for a lease or property exceed 50 per cent of the taxes levied under this chapter for that lease or property.

(b) The credit shall be allowed on a monthly basis.

* Sec. 4. AS 43.55.140(8) is repealed and re-enacted to read:

(8) "lease or property" means

(A) a lease or other property that includes mineral rights in oil and gas,

(B) a leasehold interest in oil and gas,

(C) a working interest, royalty interest, overriding royalty interest, net profit interest or any other interest in a lease, concession, joint venture or other agreement for oil and gas exploration, development or production,

(D) a working interest, royalty interest, overriding royalty interest, net profit interest or any other interest in an agreement for unitization or pooling under the provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954 as defined on the effective date of this paragraph;

* Sec. 5. Sec. 29.53.050(b) is amended to read:

(b) No municipality, or combination of municipalities occupying the same geographical area, in whole or in part, may levy taxes which result in tax revenues from all sources exceeding either (1) \$1,000 a year for each person residing within their boundaries or (2) when combined with the value of property otherwise taxable by the municipality, the product of 225 per cent of the average per capita assessed full and true value in the state multiplied by the number of residents of the

1 taxing municipality. If two or more municipalities occupying the same
2 geographical area, in whole or in part, attempt to levy a tax the
3 combined levy of which would result in tax revenues from all sources
4 exceeding either (1) \$1,000 a year for each person residing within their
5 boundaries or (2) when combined with the value of property otherwise
6 taxable by the municipality, the product of 225 per cent of the average
7 per capita assessed full and true value of property in the state multi-
8 plied by the number of residents of the taxing municipality, the commis-
9 sioner of community and regional affairs shall apportion the lawful levy
10 and equitably divide these revenues on the basis of need, services
11 performed and other considerations in the public interest. For the
12 purpose of this subsection population shall be determined by the commis-
13 sioner of community and regional affairs based on the latest statistics
14 of the United States Bureau of the Census or on other reliable population
15 data. For purposes of this subsection the average per capita assessed
16 full and true value of property in the state shall be calculated without
17 regard to the assessed value of taxable property under AS 43.58.

18 * Sec. 6. Sec. 43.56.010(c) is amended to read:

19 (c) If the total value of assessed property of a municipality
20 taxing under AS 29.53.045(c) exceeds the product of 225 per cent of the
21 average per capita assessed full and true value of property in the state
22 (to be determined by the department and reported to each municipality by
23 January 15 of each year) multiplied by the number of residents of the
24 taxing municipality, the department shall designate the portion of the
25 tax base against which the local tax may be applied. For purposes of
26 this subsection the average per capita assessed full and true value of
27 property in the state shall be calculated without regard to the assessed
28 value of taxable property under ch. 58 of this title.

29 * Sec. 7. This Act takes effect on April 30, 1975.

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 297 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas reserves ad valorem
7 tax and its relationship to other oil and gas taxation;
8 and providing for an effective date."

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

10 * Section 1. AS 43 is amended by adding a new chapter to read:

11 CHAPTER 58. OIL AND GAS RESERVES AD VALOREM TAX.

12 Sec. 43.58.010. AD VALOREM TAX. (a) An annual tax is levied each
13 tax year beginning January 1, 1976, on the full and true value of
14 taxable property under this chapter.

15 (b) The legislature shall annually determine by law the rate of
16 the levy before April 1.

17 (c) If on April 1 the legislature has not determined the rate of
18 levy, the rate of levy shall be zero for that year. The rate of levy
19 may not exceed 20 mills.

20 Sec. 43.58.020. EXEMPTIONS. The following interests in the
21 proven reserves of a lease or property shall be exempt from taxation
22 under this chapter:

23 (1) any interest of the United States or the state;

24 (2) any interest exempted from taxation by the Alaska
25 Native Claims Settlement Act (P.L. 92-203; 43 U.S.C. sec. 1620) or
26 acquired under that Act by an Alaska Native regional or village cor-
27 poration;

28 (3) all other interests in the proven reserves of a lease or
29 property during the five year period beginning with the earlier of:

1 (A) the date of the original lease, concession, contract
2 or any other agreement that is made for the oil and gas development
3 of a part or all of the land subject to that lease or property, or

4 (B) the date of the first completion, suspension, or
5 abandonment of a discovery well in a field or pool which in whole
6 or in part underlies or comprises the lease or ownership interest;

7 (4) taxable property under ch. 56 of this title.

8 Sec. 43.58.030. CREDIT AGAINST TAX. There shall be allowed, as a
9 credit against the tax levied under this chapter for a lease or property,
10 the amount of oil and gas properties production taxes paid under ch. 55
11 of this title for that lease or property for the 12 months before the
12 tax payment date under this chapter. The credit may not exceed the
13 amount of tax due under this chapter. For purposes of this section, the
14 credit shall be calculated without regard to the allowance of any credit
15 under AS 43.55.018 against the taxes levied by ch. 55 of this title.

16 Sec. 43.58.040. ASSESSMENT. (a) The department shall assess
17 taxable property under this chapter at its full and true value as of
18 January 1 of each year.

19 (b) The full and true value of taxable property under this chapter
20 is the estimated price which the property would bring in an open market
21 and under the then prevailing market conditions in a sale between a
22 willing seller and a willing buyer both conversant with the property and
23 with prevailing values. In determining this value, the department shall
24 consider all factors which may be known by the department to affect the
25 value of the proven reserves of the lease or property, including but not
26 limited to the present value of the expected discounted future net
27 income from the lease or property.

28 Sec. 43.58.050. ASSESSMENT ROLL. The department shall prepare
29 annually the assessment roll for taxation under this chapter. The roll

1 shall contain:

- 2 (1) a description of all taxable property;
- 3 (2) the assessed value of all taxable property; and
- 4 (3) the names and addresses of persons owning or otherwise
- 5 holding an interest in taxable property.

6 Sec. 43.58.060. ASSESSMENT NOTICE. On or before April 15 of each

7 year, the department shall send to every owner of taxable property named

8 in the assessment roll a notice of assessment showing the assessed value

9 of the property. The notice of assessment is effective on the date of

10 its mailing.

11 Sec. 43.58.070. APPEAL. (a) A person aggrieved by the action of

12 the department in making an assessment may request a hearing not later

13 than 20 days after the effective date of the assessment notice.

14 (b) At the hearing the department may subpoena witnesses and may

15 administer oaths and make inquiries necessary to determine the correct-

16 ness of the assessment. At the hearing the appellant bears the burden

17 of proof, and in the absence of this proof the assessment will be

18 upheld. If the department determines that a correction is warranted,

19 the department shall correct the assessment and the assessment roll.

20 (c) Within 30 days after the decision by the department after a

21 hearing, either the department or a person aggrieved by the decision may

22 appeal to the superior court for a trial de novo. The superior court

23 shall grant priority on its dockets for the appeals over all civil cases

24 then pending.

25 Sec. 43.58.080. CERTIFICATION. On or before June 15 of each year,

26 the department shall certify the final assessment roll and mail to the

27 operator or other person filing a return and paying tax on the taxable

28 property a statement of the amount of tax due.

29 Sec. 43.58.090. SUPPLEMENTAL ASSESSMENT ROLLS. The department

1 shall include property omitted from the assessment roll on a supple-
2 mental roll, using the procedures set out in this chapter for the
3 original roll.

4 Sec. 43.58.100. INVESTIGATION. (a) The department may make an
5 investigation of property on which a return has been filed or on pro-
6 perty for which no return has been filed. In either case, the depart-
7 ment may make its own valuation of the taxable property, which is prima
8 facie evidence of full and true value.

9 (b) An employee or agent of the department may enter any premise
10 necessary for the investigation during reasonable hours and may examine
11 property and appropriate records. The owner of taxable property upon
12 request shall furnish to the employee or agent of the department reason-
13 able assistance required for the investigation. If refused entry or
14 assistance the superior court may, after reasonable notice to the owner,
15 order the owner to allow the entry or to furnish the assistance.

16 (c) For the purpose of the investigation, the operator or other
17 person filing a return and paying the tax on the taxable property or his
18 representative may be required to present himself for examination under
19 oath by the department.

20 Sec. 43.58.110. RETURNS AND PAYMENT OF TAX. (a) The operator of
21 a lease or property is primarily liable for payment of the tax levied by
22 this chapter. All other persons owning or otherwise holding an interest
23 or right in that lease or property are secondarily liable for payment of
24 the tax levied by this chapter.

25 (b) The operator of a lease or property shall submit returns on
26 the form prescribed by the department and shall make payment of the tax
27 levied under this chapter, on behalf of itself and all other persons
28 holding an interest or right in that lease or property. With the written
29 approval of the department, a non-operator of the lease or property may

submit returns or make payment of the tax levied under this chapter, on behalf of himself and such other persons as the department may approve. All returns shall be filed on or before February 1 of each year.

(c) The tax levied under this chapter is payable to the department on or before June 30 of each year or in installments at the times and under the conditions the department may by regulation require. This provision applies even though the assessment is under appeal.

(d) With the prior written approval of the department, a person submitting returns or making payments as required under this chapter for more than one lease or property may regard those leases or properties as a single lease or property for purposes of submitting those reports or making those payments.

(e) An operator or other person making payment of the tax levied under this chapter on behalf of one or more other persons owning or otherwise holding an interest in a lease or property may withhold a proportionate share of the payment from any proceeds or other benefits from the lease or property owed to any person on whose behalf the payment is made. Unless otherwise specifically provided by written contract or agreement, the person so withholding a proportionate share of the tax levied under this chapter incurs no liability to those from whom it is withheld by virtue of having made the withholding.

(f) By written notice the department may require a person filing a return to submit additional information to the department no later than 30 days after the notice.

Sec. 43.58.120. CIVIL PENALTY. Five per cent shall be added to the tax for each 30-day period or fraction of that period during which the taxpayer fails to file a return or pay the full amount of the tax, or a portion or a deficiency of the tax due and payable as finally determined by the department and required by this chapter, unless it is

1 shown that the failure is due to a reasonable cause and not to wilful
2 neglect. The penalty may not exceed 25 per cent in the aggregate. The
3 penalty shall be collected at the same time, in the same manner and as a
4 part of the original tax, but if the original tax is paid before the
5 neglect is discovered the penalty shall be collected in the same manner
6 as the original tax. The department shall describe by regulation circum-
7 stances which constitute reasonable cause for purposes of this section.

8 Sec. 43.58.130. INTEREST. When the tax levied in this chapter
9 becomes delinquent it bears interest at the rate of eight per cent a
10 year.

11 Sec. 43.58.140. LIEN. The tax, penalty and interest payable under
12 this chapter are first and paramount liens on the property subject to
13 tax under this chapter.

14 Sec. 43.58.150. REMEDY. The remedy of distraint of property set
15 out in AS 43.20.270 applies to the tax levied by this chapter.

16 Sec. 43.58.160. REGULATIONS. The department may adopt regulations
17 in accordance with the Administrative Procedure Act (AS 44.62) as
18 appropriate to administer and enforce this chapter.

19 Sec. 43.58.170. TERMINATION OF TAX. The tax imposed by this
20 chapter shall terminate on December 31, 1977.

21 Sec. 43.58.180. ACCRUAL OF EARLY DEVELOPMENT INCENTIVE CREDIT.

22 (a) An early development incentive credit, calculated in accordance
23 with this section, shall be applied to the tax payable under ch. 55 of
24 this title as provided in AS 43.55.018. The early development incentive
25 credit for a lease or property is zero until changed as provided in this
26 section.

27 (b) The early development incentive credit for a lease or property
28 shall be increased each calendar year by the amount of net tax paid
29 under this chapter.

1 (c) The early development incentive credit for a lease or property
2 shall be reduced each month by the amount of tax credit allowed in that
3 month under AS 43.55.018 for that lease or property.

4 Sec. 43.58.190. DEFINITIONS. In this chapter:

5 (1) "department" means the Department of Revenue;

6 (2) "gas" means all hydrocarbon substances not defined as oil
7 in this chapter;

8 (3) "lease or property" means

9 (A) a lease or other property that includes mineral
10 rights in oil and gas,

11 (B) a leasehold interest in oil and gas,

12 (C) a working interest, royalty interest, overriding
13 royalty interest, production payments, net profit interest or any
14 other interest in a lease, concession, joint venture or other
15 agreement for oil and gas exploration, development or production,

16 (D) a working interest, royalty interest, overriding
17 royalty interest, production payment, net profit interest or any
18 other interest in an agreement for unitization or pooling under the
19 provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954
20 as defined on the effective date of this paragraph;

21 (4) "net tax paid under this chapter" means the amount of tax
22 payable under sec. 10 of this chapter, less the credit allowed under
23 sec. 30 of this chapter without regard to interest or penalty;

24 (5) "oil" means crude petroleum and other hydrocarbons
25 regardless of gravity which, when recovered, are recovered at the well-
26 head in liquid form, and the liquid hydrocarbons known as distillate or
27 condensate that are recovered by separation from gas other than at a gas
28 processing plant;

29 (6) "operator" means the person conducting the exploration,

development or production operation for a lease or property;

(7) "proven reserves" means the volumes of oil and gas in a known deposit which geological and engineering information indicate to be recoverable if it is economically feasible to market it in the future; "proven reserves" does not include oil and gas which is not economically feasible to market in the future under reasonably foreseeable conditions;

(8) "taxable property" means any interest in the proven reserves of a lease or property.

Sec. 43.58.200. PAYMENT TO ALASKA NATIVE FUND. When the tax levied under this chapter is payable an amount equivalent to not less than two per cent of the tax shall be paid by the state from oil and gas royalties, bonuses and rentals into the Alaska Native Fund established by sec. 6 of the Alaska Native Claims Settlement Act (P.L. 92-203, 85 Stat. 688, 43 U.S.C. 1601 et seq.) until all payments paid into the fund equal \$500,000,000.

Sec. 43.58.210. SEVERABILITY. If any provision of this Act, or the applicability of it, is held invalid, the remainder of this Act shall not be affected.

* Sec. 2. AS 43.55.010(b) is amended to read:

(b) Except as provided in ch. 58 of this title, the [THE] tax imposed by this chapter is in place of all taxes now imposed by the state or any of its municipalities, and neither the state nor a municipality may impose a tax upon

(1) [deleted]

(2) producing oil or gas leases;

(3) oil or gas produced or extracted in the state;

(4) [deleted]

(5) the value of intangible drilling and exploration expenses.

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

1 Sec. 43.55.018. CREDIT AGAINST TAX. (a) There shall be allowed
2 as a credit against the taxes levied under this chapter for a lease or
3 property the early development incentive credit accrued for that lease
4 or property under AS 43.58.180. In no event may the credit allowed for
5 a lease or property exceed 50 per cent of the taxes levied under this
6 chapter for that lease or property.

7 (b) The credit shall be allowed on a monthly basis.

8 * Sec. 4. AS 43.55.140(8) is repealed and re-enacted to read:

9 (8) "lease or property" means

10 (A) a lease or other property that includes mineral
11 rights in oil and gas,

12 (B) a leasehold interest in oil and gas,

13 (C) a working interest, royalty interest, overriding
14 royalty interest, net profit interest or any other interest in a
15 lease, concession, joint venture or other agreement for oil and gas
16 exploration, development or production,

17 (D) a working interest, royalty interest, overriding
18 royalty interest, net profit interest or any other interest in an
19 agreement for unitization or pooling under the provisions of sec.
20 614(b)(3) of the Internal Revenue Code of 1954 as defined on the
21 effective date of this paragraph;

22 * Sec. 5. Sec. 29.53.050(b) is amended to read:

23 (b) No municipality, or combination of municipalities occupying
24 the same geographical area, in whole or in part, may levy taxes which
25 result in tax revenues from all sources exceeding either (1) \$1,000 a
26 year for each person residing within their boundaries or (2) when com-
27 bined with the value of property otherwise taxable by the municipality,
28 the product of 225 per cent of the average per capita assessed full and
29 true value in the state multiplied by the number of residents of the

1 taxing municipality. If two or more municipalities occupying the same
2 geographical area, in whole or in part, attempt to levy a tax the
3 combined levy of which would result in tax revenues from all sources
4 exceeding either (1) \$1,000 a year for each person residing within their
5 boundaries or (2) when combined with the value of property otherwise
6 taxable by the municipality, the product of 225 per cent of the average
7 per capita assessed full and true value of property in the state multi-
8 plied by the number of residents of the taxing municipality, the commis-
9 sioner of community and regional affairs shall apportion the lawful levy
10 and equitably divide these revenues on the basis of need, services
11 performed and other considerations in the public interest. For the
12 purpose of this subsection population shall be determined by the commis-
13 sioner of community and regional affairs based on the latest statistics
14 of the United States Bureau of the Census or on other reliable population
15 data. For purposes of this subsection the average per capita assessed
16 full and true value of property in the state shall be calculated without
17 regard to the assessed value of taxable property under AS 43.58.

18 * Sec. 6. Sec. 43.56.010(c) is amended to read:

19 (c) If the total value of assessed property of a municipality
20 taxing under AS 29.53.045(c) exceeds the product of 225 per cent of the
21 average per capita assessed full and true value of property in the state
22 (to be determined by the department and reported to each municipality by
23 January 15 of each year) multiplied by the number of residents of the
24 taxing municipality, the department shall designate the portion of the
25 tax base against which the local tax may be applied. For purposes of
26 this subsection the average per capita assessed full and true value of
27 property in the state shall be calculated without regard to the assessed
28 value of taxable property under ch. 58 of this title.

29 * Sec. 7. This Act takes effect immediately in accordance with

AS 01.10.070(c).

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Original sponsor: Cowper, Bowman,
Bradley, et al

Offered: 5/6/75
For Calendar 5/7/75

1 IN THE HOUSE

BY THE RULES COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 297 (Rules)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas reserves ad valorem
7 tax and its relationship to other oil and gas taxation;
8 and providing for an effective date."

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

10 * Section 1. AS 43 is amended by adding a new chapter to read:

11 CHAPTER 58. OIL AND GAS RESERVES AD VALOREM TAX.

12 Sec. 43.58.010. AD VALOREM TAX. (a) An annual tax is levied each
13 tax year beginning January 1, 1976, on the full and true value of
14 taxable property under this chapter.

15 (b) The rate of levy for the tax year beginning January 1, 1976
16 is 20 mills.

17 (c) The legislature shall annually determine by law the rate of
18 the levy for the succeeding year.

19 (d) The rate of levy may not exceed 20 mills.

20 Sec. 43.58.020. EXEMPTIONS. The following interests in the
21 proven reserves of a lease or property shall be exempt from taxation
22 under this chapter:

23 (1) any interest of the United States or the state;

24 (2) any interest in proven reserves during the five-year
25 period beginning with the date of the first completion, suspension, or
26 abandonment of a discovery well in an oil or gas field or pool which in
27 whole or in part underlies or comprises the lease or property;

28 (3) any interest in proven reserves until the earlier of
29 either of the following occurs:

1 (A) the issuance, upon application, of a permit for
2 construction of a facility to transport oil or gas from any well or
3 wells in an oil or gas field or pool which in whole or in part
4 underlies or comprises the lease or property to market; or

5 (B) the commencement of construction of a facility to
6 transport oil or gas from any well or wells in an oil or gas field
7 or pool which in whole or in part underlies or comprises the lease
8 or property to market;

9 (4) any interest in proven reserves as to which the issuance
10 of a permit for, or the commencement of construction of a facility to
11 transport oil or gas from any well or wells in an oil or gas field or
12 pool which in whole or in part underlies or comprises the lease or
13 property, or the use of those facilities, is enjoined, either temporar-
14 ily or permanently, by an order, judgment, decree, determination or
15 award of a federal, state or local court or administrative or regulatory
16 agency.

17 Sec. 43.58.030. CREDIT AGAINST TAX. There shall be allowed, as a
18 credit against the tax levied under this chapter for a lease or prop-
19 erty, the amount of oil and gas properties production taxes paid under
20 ch. 55 of this title for that lease or property for the 12 months before
21 the tax payment date under this chapter. The credit may not exceed the
22 amount of tax due under this chapter. For purposes of this section, the
23 credit shall be calculated without regard to the allowance of any credit
24 under AS 43.55.018 against the taxes levied by ch. 55 of this title.

25 Sec. 43.58.040. ASSESSMENT. (a) The department shall assess
26 taxable property under this chapter at its full and true value as of
27 January 1 of each year.

28 (b) The full and true value of taxable property under this chapter
29 is the estimated price which the property would bring in an open market

1 and under the then prevailing market conditions in a sale between a
2 willing seller and a willing buyer both conversant with the property and
3 with prevailing values. In determining this value, the department shall
4 consider all factors which may be known by the department to affect the
5 value of the proven reserves of the lease or property, including but not
6 limited to the present value of the expected discounted future net
7 income from the lease or property.

8 Sec. 43.58.050. ASSESSMENT ROLL. The department shall prepare
9 annually the assessment roll for taxation under this chapter. The roll
10 shall contain:

- 11 (1) a description of all taxable property;
- 12 (2) the assessed value of all taxable property; and
- 13 (3) the names and addresses of persons owning or otherwise
14 holding an interest in taxable property.

15 Sec. 43.58.060. ASSESSMENT NOTICE. On or before April 15 of each
16 year, the department shall send to every owner of taxable property named
17 in the assessment roll a notice of assessment showing the assessed value
18 of the property. The notice of assessment is effective on the date of
19 its mailing.

20 Sec. 43.58.070. APPEAL. (a) A person aggrieved by the action of
21 the department in making an assessment may request a hearing not later
22 than 20 days after the effective date of the assessment notice.

23 (b) At the hearing the department may subpoena witnesses and may
24 administer oaths and make inquiries necessary to determine the correct-
25 ness of the assessment. At the hearing the appellant bears the burden
26 of proof, and in the absence of this proof the assessment will be
27 upheld. If the department determines that a correction is warranted,
28 the department shall correct the assessment and the assessment roll.

29 (c) Within 30 days after the decision by the department after a

1 hearing, either the department or a person aggrieved by the decision may
2 appeal to the superior court for a trial de novo. The superior court
3 shall grant priority on its dockets for the appeals over all civil cases
4 then pending.

5 Sec. 43.58.080. CERTIFICATION. On or before June 15 of each year,
6 the department shall certify the final assessment roll and mail to the
7 operator or other person filing a return and paying tax on the taxable
8 property a statement of the amount of tax due.

9 Sec. 43.58.090. SUPPLEMENTAL ASSESSMENT ROLLS. The department
10 shall include property omitted from the assessment roll on a supple-
11 mental roll, using the procedures set out in this chapter for the
12 original roll.

13 Sec. 43.58.100. INVESTIGATION. (a) The department may make an
14 investigation of property on which a return has been filed or on pro-
15 perty for which no return has been filed. In either case, the depart-
16 ment may make its own valuation of the taxable property, which is prima
17 facie evidence of full and true value.

18 (b) An employee or agent of the department may enter any premise
19 necessary for the investigation during reasonable hours and may examine
20 property and appropriate records. The owner of taxable property upon
21 request shall furnish to the employee or agent of the department reason-
22 able assistance required for the investigation. If refused entry or
23 assistance the superior court may, after reasonable notice to the owner,
24 order the owner to allow the entry or to furnish the assistance.

25 (c) For the purpose of the investigation, the operator or other
26 person filing a return and paying the tax on the taxable property or his
27 representative may be required to present himself for examination under
28 oath by the department.

29 Sec. 43.58.110. RETURNS AND PAYMENT OF TAX. (a) The operator of

1 a lease or property is primarily liable for payment of the tax levied by
2 this chapter. All other persons owning or otherwise holding an interest
3 or right in that lease or property are secondarily liable for payment of
4 the tax levied by this chapter.

5 (b) The operator of a lease or property shall submit returns on
6 the form prescribed by the department and shall make payment of the tax
7 levied under this chapter, on behalf of itself and all other persons
8 holding an interest or right in that lease or property. With the
9 written approval of the department, a nonoperator of the lease or prop-
10 erty may submit returns or make payment of the tax levied under this
11 chapter, on behalf of himself and such other persons as the department
12 may approve. All returns shall be filed on or before February 1 of each
13 year.

14 (c) The tax levied under this chapter is payable to the department
15 on or before June 30 of each year or in installments at the times and
16 under the conditions the department may by regulation require. This
17 provision applies even though the assessment is under appeal.

18 (d) With the prior written approval of the department, a person
19 submitting returns or making payments as required under this chapter for
20 more than one lease or property may regard those leases or properties as
21 a single lease or property for purposes of submitting those reports or
22 making those payments.

23 (e) An operator or other person making payment of the tax levied
24 under this chapter on behalf of one or more other persons owning or
25 otherwise holding an interest in a lease or property may withhold a
26 proportionate share of the payment from any proceeds or other benefits
27 from the lease or property owed to any person on whose behalf the pay-
28 ment is made. Unless otherwise specifically provided by written con-
29 tract or agreement, the person so withholding a proportionate share of

1 the tax levied under this chapter incurs no liability to those from whom
2 it is withheld by virtue of having made the withholding.

3 (f) By written notice the department may require a person filing
4 a return to submit additional information to the department no later
5 than 30 days after the notice.

6 Sec. 43.58.120. CIVIL PENALTY. Five per cent shall be added to
7 the tax for each 30-day period or fraction of that period during which
8 the taxpayer fails to file a return or pay the full amount of the tax,
9 or a portion or a deficiency of the tax due and payable as finally
10 determined by the department and required by this chapter, unless it is
11 shown that the failure is due to a reasonable cause and not to wilful
12 neglect. The penalty may not exceed 25 per cent in the aggregate. The
13 penalty shall be collected at the same time, in the same manner and as a
14 part of the original tax, but if the original tax is paid before the
15 neglect is discovered the penalty shall be collected in the same manner
16 as the original tax. The department shall describe by regulation
17 circumstances which constitute reasonable cause for purposes of this
18 section.

19 Sec. 43.58.130. INTEREST. When the tax levied in this chapter
20 becomes delinquent it bears interest at the rate of eight per cent a
21 year.

22 Sec. 43.58.140. LIEN. The tax, penalty and interest payable under
23 this chapter are first and paramount liens on the property subject to
24 tax under this chapter.

25 Sec. 43.58.150. REMEDY. The remedy of distraint of property set
26 out in AS 43.20.270 applies to the tax levied by this chapter.

27 Sec. 43.58.160. REGULATIONS. The department may adopt regulations
28 in accordance with the Administrative Procedure Act (AS 44.62) as
29 appropriate to administer and enforce this chapter.

1 Sec. 43.58.170. TERMINATION OF TAX. The tax imposed by this
2 chapter shall terminate on December 31, 1977.

3 Sec. 43.58.180. ACCRUAL OF EARLY DEVELOPMENT INCENTIVE CREDIT.

4 (a) An early development incentive credit, calculated in accordance
5 with this section, shall be applied to the tax payable under ch. 55 of
6 this title as provided in AS 43.55.018. The early development incentive
7 credit for a lease or property is zero until changed as provided in this
8 section.

9 (b) The early development incentive credit for a lease or property
10 shall be increased each calendar year by the amount of net tax paid
11 under this chapter.

12 (c) The early development incentive credit for a lease or property
13 shall be reduced each month by the amount of tax credit allowed in that
14 month under AS 43.55.018 for that lease or property.

15 Sec. 43.58.190. DEFINITIONS. In this chapter:

16 (1) "department" means the Department of Revenue;

17 (2) "gas" means all hydrocarbon substances not defined as oil
18 in this chapter;

19 (3) "lease or property" means

20 (A) a lease or other property that includes mineral
21 rights in oil and gas,

22 (B) a leasehold interest in oil and gas,

23 (C) a working interest, royalty interest, overriding
24 royalty interest, production payments, net profit interest or any
25 other interest in a lease, concession, joint venture or other
26 agreement for oil and gas exploration, development or production,

27 (D) a working interest, royalty interest, overriding
28 royalty interest, production payment, net profit interest or any
29 other interest in an agreement for unitization or pooling under the

1 provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954
2 as defined on the effective date of this paragraph;

3 (4) "net tax paid under this chapter" means the amount of tax
4 payable under sec. 10 of this chapter, less the credit allowed under
5 sec. 30 of this chapter without regard to interest or penalty;

6 (5) "oil" means crude petroleum and other hydrocarbons
7 regardless of gravity which, when recovered, are recovered at the well-
8 head in liquid form, and the liquid hydrocarbons known as distillate or
9 condensate that are recovered by separation from gas other than at a gas
10 processing plant;

11 (6) "operator" means the person conducting the exploration,
12 development or production operation for a lease or property;

13 (7) "proven reserves" means the volumes of oil and gas in a
14 known deposit which geological and engineering information indicate to
15 be recoverable if it is economically feasible to market it in the future
16 under reasonably foreseeable conditions;

17 (8) "taxable property" means any interest in the proven
18 reserves of a lease or property.

19 Sec. 43.58.200. PAYMENT TO ALASKA NATIVE FUND. When the tax levied
20 under this chapter is payable an amount equivalent to not less than two
21 per cent of the tax shall be paid by the state from oil and gas royal-
22 ties, bonuses and rentals into the Alaska Native Fund established by
23 sec. 6 of the Alaska Native Claims Settlement Act (P.L. 92-203, 85
24 Stat. 688, 43 U.S.C. 1601 et seq.) until all payments paid into the fund
25 equal \$500,000,000.

26 * Sec. 2. AS 43.55.010(b) is amended to read:

27 (b) Except as provided in ch. 58 of this title, the [THE] tax
28 imposed by this chapter is in place of all taxes now imposed by the
29 state or any of its municipalities, and neither the state nor a municipi-

1 pality may impose a tax upon

2 (1) [deleted]

3 (2) producing oil or gas leases;

4 (3) oil or gas produced or extracted in the state;

5 (4) [deleted]

6 (5) the value of intangible drilling and exploration expenses.

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

8 Sec. 43.55.018. CREDIT AGAINST TAX. (a) There shall be allowed
9 as a credit against the taxes levied under this chapter for a lease or
10 property the early development incentive credit accrued for that lease
11 or property under AS 43.58.180. In no event may the credit allowed for
12 a lease or property exceed 50 per cent of the taxes levied under this
13 chapter for that lease or property.

14 (b) The credit shall be allowed on a monthly basis.

15 * Sec. 4. AS 43.55.140(8) is repealed and re-enacted to read:

16 (8) "lease or property" means

17 (A) a lease or other property that includes mineral
18 rights in oil and gas,

19 (B) a leasehold interest in oil and gas,

20 (C) a working interest, royalty interest, overriding
21 royalty interest, net profit interest or any other interest in a
22 lease, concession, joint venture or other agreement for oil and gas
23 exploration, development or production,

24 (D) a working interest, royalty interest, overriding
25 royalty interest, net profit interest or any other interest in an
26 agreement for unitization or pooling under the provisions of sec.
27 614(b)(3) of the Internal Revenue Code of 1954 as defined on the
28 effective date of this paragraph;

29 * Sec. 5. Sec. 29.53.050(b) is amended to read:

(b) No municipality, or combination of municipalities occupying the same geographical area, in whole or in part, may levy taxes which result in tax revenues from all sources exceeding either (1) \$1,000 a year for each person residing within their boundaries or (2) when combined with the value of property otherwise taxable by the municipality, the product of 225 per cent of the average per capita assessed full and true value in the state multiplied by the number of residents of the taxing municipality. If two or more municipalities occupying the same geographical area, in whole or in part, attempt to levy a tax the combined levy of which would result in tax revenues from all sources exceeding either (1) \$1,000 a year for each person residing within their boundaries or (2) when combined with the value of property otherwise taxable by the municipality, the product of 225 per cent of the average per capita assessed full and true value of property in the state multiplied by the number of residents of the taxing municipality, the commissioner of community and regional affairs shall apportion the lawful levy and equitably divide these revenues on the basis of need, services performed and other considerations in the public interest. For the purpose of this subsection population shall be determined by the commissioner of community and regional affairs based on the latest statistics of the United States Bureau of the Census or on other reliable population data. For purposes of this subsection the average per capita assessed full and true value of property in the state shall be calculated without regard to the assessed value of taxable property under AS 43.58.

* Sec. 6. Sec. 43.56.010(c) is amended to read:

(c) If the total value of assessed property of a municipality taxing under AS 29.53.045(c) exceeds the product of 225 per cent of the average per capita assessed full and true value of property in the state (to be determined by the department and reported to each municipality by

1 January 15 of each year) multiplied by the number of residents of the
2 taxing municipality, the department shall designate the portion of the
3 tax base against which the local tax may be applied. For purposes of
4 this subsection the average per capita assessed full and true value of
5 property in the state shall be calculated without regard to the assessed
6 value of taxable property under ch. 58 of this title.

7 * Sec. 7. Except as provided in this section, if a provision of this Act
8 for any reason is invalid or unenforceable, the invalidity or unenforce-
9 ability of that provision shall not affect the remainder of this Act or any
10 of the other provisions of this Act. However, if AS 43.58.020(2), (3) or
11 (4), or any of those paragraphs, should be for any reason held invalid or
12 unenforceable, this Act shall be void in its entirety and of no effect
13 whatsoever.

14 * Sec. 8. This Act takes effect immediately in accordance with AS 01.10.-
15 070(c).
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Original sponsor: Cowper, Bowman,
Bradley, et al

Offered: 5/15/75
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 SENATE CS FOR CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 297

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas reserves ad valorem
7 tax and its relationship to other oil and gas taxation;
8 and providing for an effective date."

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

10 * Section 1. AS 43 is amended by adding a new chapter to read:

11 CHAPTER 58. OIL AND GAS RESERVES AD VALOREM TAX.

12 Sec. 43.58.010. AD VALOREM TAX. (a) An annual tax is levied each
13 tax year beginning January 1, 1976, on the full and true value of
14 taxable property under this chapter.

15 (b) The legislature shall annually determine by law the rate of
16 the levy before June 1.

17 (c) The rate of levy may not exceed 20 mills.

18 Sec. 43.58.020. EXEMPTIONS. The following interests in the
19 proven reserves of a lease or property shall be exempt from taxation
20 under this chapter:

21 (1) any interest of the United States or the state;

22 (2) any interest in proven reserves during the five-year
23 period beginning with the date of the first completion, suspension, or
24 abandonment, whichever occurs first, of a discovery well in an oil or
25 gas field or pool which in whole or in part underlies or comprises the
26 lease or property;

27 (3) any interest in proven reserves until the earlier of
28 either of the following occurs:

29 (A) the issuance, upon application, of a permit for

1 construction of a facility to transport oil or gas from any well or
2 wells in an oil or gas field or pool which in whole or in part
3 underlies or comprises the lease or property to market; or

4 (B) the commencement of construction of a facility to
5 transport oil or gas from any well or wells in an oil or gas field
6 or pool which in whole or in part underlies or comprises the lease
7 or property to market;

9 (4) any interest in proven reserves as to which the issuance
10 of a permit for, or the commencement of construction of a facility to
11 transport oil or gas from any well or wells in an oil or gas field or
12 pool which in whole or in part underlies or comprises the lease or
13 property, or the use of those facilities, is enjoined, either temporar-
14 ily or permanently, by an order, judgment, decree, determination or
15 award of a federal, state or local court or administrative or regulatory
16 agency.

17 Sec. 43.58.030. CREDIT AGAINST TAX. There shall be allowed, as a
18 credit against the tax levied under this chapter for a lease or prop-
19 erty, the amount of oil and gas properties production taxes paid under
20 ch. 55 of this title for that lease or property for the 12 months before
21 the tax payment date under this chapter. The credit may not exceed the
22 amount of tax due under this chapter. For purposes of this section, the
23 credit shall be calculated without regard to the allowance of any credit
24 under AS 43.55.018 against the taxes levied by ch. 55 of this title.

25 Sec. 43.58.040. ASSESSMENT. (a) The department shall assess
26 taxable property under this chapter at its full and true value as of
27 January 1 of each year.

28 (b) The full and true value of taxable property under this chapter
29 is the estimated price which the property would bring in an open market
and under the then prevailing market conditions in a sale between a

1 willing seller and a willing buyer both conversant with the property and
2 with prevailing values. In determining this value, the department shall
3 consider all factors which may be known by the department to affect the
4 value of the proven reserves of the lease or property, including but not
5 limited to the present value of the expected discounted future net
6 income from the lease or property.

7 Sec. 43.58.050. ASSESSMENT ROLL. The department shall prepare
8 annually the assessment roll for taxation under this chapter. The roll
9 shall contain:

- 10 (1) a description of all taxable property;
11 (2) the assessed value of all taxable property; and
12 (3) the names and addresses of persons owning or otherwise
13 holding an interest in taxable property.

14 Sec. 43.58.060. ASSESSMENT NOTICE. On or before April 15 of each
15 year, the department shall send to every owner of taxable property named
16 in the assessment roll a notice of assessment showing the assessed value
17 of the property. The notice of assessment is effective on the date of
18 its mailing.

19 Sec. 43.58.070. APPEAL. (a) A person aggrieved by the action of
20 the department in making an assessment may request a hearing not later
21 than 20 days after the effective date of the assessment notice.

22 (b) At the hearing the department may subpoena witnesses and may
23 administer oaths and make inquiries necessary to determine the correct-
24 ness of the assessment. At the hearing the appellant bears the burden
25 of proof, and in the absence of this proof the assessment will be
26 upheld. If the department determines that a correction is warranted,
27 the department shall correct the assessment and the assessment roll.

28 (c) Within 30 days after the decision by the department after a
29 hearing, either the department or a person aggrieved by the decision may

1 appeal to the superior court. The superior court shall grant priority
2 on its dockets for the appeals over all civil cases then pending.

3 Sec. 43.58.080. CERTIFICATION. On or before June 15 of each year,
4 the department shall certify the final assessment roll and mail to the
5 operator or other person filing a return and paying tax on the taxable
6 property a statement of the amount of tax due.

7 Sec. 43.58.090. SUPPLEMENTAL ASSESSMENT ROLLS. The department
8 shall include property omitted from the assessment roll on a supple-
9 mental roll, using the procedures set out in this chapter for the
10 original roll.

11 Sec. 43.58.100. INVESTIGATION. (a) The department may make an
12 investigation of property on which a return has been filed or on pro-
13 perty for which no return has been filed. In either case, the depart-
14 ment may make its own valuation of the taxable property, which is prima
15 facie evidence of full and true value.

16 (b) An employee or agent of the department may enter any premise
17 necessary for the investigation during reasonable hours and may examine
18 property and appropriate records. The owner of taxable property upon
19 request shall furnish to the employee or agent of the department reason-
20 able assistance required for the investigation. If refused entry or
21 assistance the superior court may, after reasonable notice to the owner,
22 order the owner to allow the entry or to furnish the assistance.

23 (c) For the purpose of the investigation, the operator or other
24 person filing a return and paying the tax on the taxable property or his
25 representative may be required to present himself for examination under
26 oath by the department.

27 Sec. 43.58.110. RETURNS AND PAYMENT OF TAX. (a) The operator of
28 a lease or property is primarily liable for payment of the tax levied by
29 this chapter. All other persons owning or otherwise holding an interest

1 or right in that lease or property are secondarily liable for payment of
2 the tax levied by this chapter.

3 (b) The operator of a lease or property shall submit returns on
4 the form prescribed by the department and shall make payment of the tax
5 levied under this chapter, on behalf of itself and all other persons
6 holding an interest or right in that lease or property. With the
7 written approval of the department, a nonoperator of the lease or prop-
8 erty may submit returns or make payment of the tax levied under this
9 chapter, on behalf of himself and such other persons as the department
10 may approve. All returns shall be filed on or before February 1 of each
11 year.

12 (c) The tax levied under this chapter is payable to the department
13 on or before June 30 of each year or in installments at the times and
14 under the conditions the department may by regulation require. This
15 provision applies even though the assessment is under appeal.

16 (d) With the prior written approval of the department, a person
17 submitting returns or making payments as required under this chapter for
18 more than one lease or property may regard those leases or properties as
19 a single lease or property for purposes of submitting those reports or
20 making those payments.

21 (e) An operator or other person making payment of the tax levied
22 under this chapter on behalf of one or more other persons owning or
23 otherwise holding an interest in a lease or property may withhold a
24 proportionate share of the payment from any proceeds or other benefits
25 from the lease or property owed to any person on whose behalf the pay-
26 ment is made. Unless otherwise specifically provided by written con-
27 tract or agreement, the person so withholding a proportionate share of
28 the tax levied under this chapter incurs no liability to those from whom
29 it is withheld by virtue of having made the withholding.

1 (f) By written notice the department may require a person filing
2 a return to submit additional information to the department no later
3 than 30 days after the notice.

4 Sec. 43.58.120. CIVIL PENALTY. Five per cent shall be added to
5 the tax for each 30-day period or fraction of that period during which
6 the taxpayer fails to file a return or pay the full amount of the tax,
7 or a portion or a deficiency of the tax due and payable as finally
8 determined by the department and required by this chapter, unless it is
9 shown that the failure is due to a reasonable cause and not to wilful
10 neglect. The penalty may not exceed 25 per cent in the aggregate. The
11 penalty shall be collected at the same time, in the same manner and as a
12 part of the original tax, but if the original tax is paid before the
13 neglect is discovered the penalty shall be collected in the same manner
14 as the original tax. The department shall describe by regulation
15 circumstances which constitute reasonable cause for purposes of this
16 section.

17 Sec. 43.58.130. INTEREST. When the tax levied in this chapter
18 becomes delinquent it bears interest at the rate of eight per cent a
19 year.

20 Sec. 43.58.140. LIEN. The tax, penalty and interest payable under
21 this chapter are first and paramount liens on the property subject to
22 tax under this chapter.

23 Sec. 43.58.150. REMEDY. The remedy of distraint of property set
24 out in AS 43.20.270 applies to the tax levied by this chapter.

25 Sec. 43.58.160. REGULATIONS. The department may adopt regulations
26 in accordance with the Administrative Procedure Act (AS 44.62) as
27 appropriate to administer and enforce this chapter.

28 Sec. 43.58.170. TERMINATION OF TAX. The tax imposed by this
29 chapter shall terminate on December 31, 1977.

1 Sec. 43.58.180. ACCRUAL OF EARLY DEVELOPMENT INCENTIVE CREDIT.

2 (a) An early development incentive credit, calculated in accordance
3 with this section, shall be applied to the tax payable under ch. 55 of
4 this title as provided in AS 43.55.018. The early development incentive
5 credit for a lease or property is zero until changed as provided in this
6 section.

7 (b) The early development incentive credit for a lease or property
8 shall be increased each calendar year by the amount of net tax paid
9 under this chapter.

10 (c) The early development incentive credit for a lease or property
11 shall be reduced each month by the amount of tax credit allowed in that
12 month under AS 43.55.018 for that lease or property.

13 Sec. 43.58.190. DEFINITIONS. In this chapter:

14 (1) "department" means the Department of Revenue;

15 (2) "gas" means all hydrocarbon substances not defined as oil
16 in this chapter;

17 (3) "lease or property" means

18 (A) a lease or other property that includes mineral
19 rights in oil and gas,

20 (B) a leasehold interest in oil and gas,

21 (C) a working interest, royalty interest, overriding
22 royalty interest, production payments, net profit interest or any
23 other interest in a lease, concession, joint venture or other
24 agreement for oil and gas exploration, development or production,

25 (D) a working interest, royalty interest, overriding
26 royalty interest, production payment, net profit interest or any
27 other interest in an agreement for unitization or pooling under the
28 provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954
29 as defined on the effective date of this paragraph;

1 (4) "net tax paid under this chapter" means the amount of tax
2 payable under sec. 10 of this chapter, less the credit allowed under
3 sec. 30 of this chapter without regard to interest or penalty;

4 (5) "oil" means crude petroleum and other hydrocarbons
5 regardless of gravity which, when recovered, are recovered at the well-
6 head in liquid form, and the liquid hydrocarbons known as distillate or
7 condensate that are recovered by separation from gas other than at a gas
8 processing plant;

9 (6) "operator" means the person conducting the exploration,
10 development or production operation for a lease or property;

11 (7) "proven reserves" means the volumes of oil and gas in a
12 known deposit which geological and engineering information indicate to
13 be recoverable if it is economically feasible to market it in the future
14 under reasonably foreseeable conditions;

15 (8) "taxable property" means any interest in or the right to
16 produce or recover the proven reserves of a lease or property.

17 Sec. 43.58.200. PAYMENT TO ALASKA NATIVE FUND. When the tax levied
18 under this chapter is payable an amount equivalent to not less than two
19 per cent of the tax shall be paid by the state from oil and gas royal-
20 ties, bonuses and rentals into the Alaska Native Fund established by
21 sec. 6 of the Alaska Native Claims Settlement Act (P.L. 92-203, 85 Stat.
22 688, 43 U.S.C. 1601 et seq.) until all payments paid into the fund equal
23 \$500,000,000.

24 * Sec. 2. AS 43.55.010(b) is amended to read:

25 (b) Except as provided in ch. 58 of this title, the [THE] tax
26 imposed by this chapter is in place of all taxes now imposed by the
27 state or any of its municipalities, and neither the state nor a munici-
28 pality may impose a tax upon

29 (1) [deleted]

- (2) producing oil or gas leases;
- (3) oil or gas produced or extracted in the state;
- (4) [deleted]
- (5) the value of intangible drilling and exploration expenses.

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

Sec. 43.55.018. CREDIT AGAINST TAX. There shall be allowed as a credit against the taxes levied under this chapter for a lease or property the early development incentive credit accrued for that lease or property under AS 43.58.180. The credit shall be allowed on a monthly basis but in no event may the credit exceed 50 per cent of the taxes levied each month under this chapter for that lease or property. The credit shall be allowed until the entire early development incentive credit for the lease or property has been exhausted.

* Sec. 4. AS 43.55.140(8) is repealed and re-enacted to read:

(8) "lease or property" means

(A) a lease or other property that includes mineral rights in oil and gas,

(B) a leasehold interest in oil and gas,

(C) a working interest, royalty interest, overriding royalty interest, net profit interest or any other interest in a lease, concession, joint venture or other agreement for oil and gas exploration, development or production,

(D) a working interest, royalty interest, overriding royalty interest, net profit interest or any other interest in an agreement for unitization or pooling under the provisions of sec. 614(b)(3) of the Internal Revenue Code of 1954 as defined on the effective date of this paragraph;

* Sec. 5. Sec. 29.53.050(b) is amended to read:

(b) No municipality, or combination of municipalities occupying

1 the same geographical area, in whole or in part, may levy taxes which
2 will result in tax revenues from all sources exceeding either (1) \$1,000
3 a year for each person residing within their boundaries or (2) when com-
4 bined with the value of property otherwise taxable by the municipality,
5 the product of 225 per cent of the average per capita assessed full and
6 true value of property in the state multiplied by the number of residents
7 of the taxing municipality. If two or more municipalities occupying the
8 same geographical area, in whole or in part, attempt to levy a tax the
9 combined levy of which would result in tax revenues from all sources
10 exceeding either (1) \$1,000 a year for each person residing within their
11 boundaries or (2) when combined with the value of property otherwise
12 taxable by the municipality, the product of 225 per cent of the average
13 per capita assessed full and true value of property in the state multi-
14 plied by the number of residents of the taxing municipality, the commis-
15 sioner of community and regional affairs shall apportion the lawful levy
16 and equitably divide these revenues on the basis of need, services
17 performed and other considerations in the public interest. For the
18 purpose of this subsection, population shall be determined by the commis-
19 sioner of community and regional affairs based on the latest statistics
20 of the United States Bureau of the Census or on other reliable population
21 data. For purposes of this subsection the average per capita assessed
22 full and true value of property in the state shall be calculated without
23 regard to the assessed value of taxable property under AS 43.58.

24 * Sec. 6. Sec. 43.56.010(c) is amended to read:

25 (c) If the total value of assessed property of a municipality
26 taxing under AS 29.53.045(c) exceeds the product of 225 per cent of the
27 average per capita assessed full and true value of property in the state
28 (to be determined by the department and reported to each municipality by
29 January 15 of each year) multiplied by the number of residents of the

1 taxing municipality, the department shall designate the portion of the
2 tax base against which the local tax may be applied. For purposes of
3 this subsection the average per capita assessed full and true value of
4 property in the state shall be calculated without regard to the assessed
5 value of taxable property under ch. 58 of this title.

6 * Sec. 7. Except as provided in this section, if a provision of this Act
7 for any reason is invalid or unenforceable, the invalidity or unenforce-
8 ability of that provision shall not affect the remainder of this Act or any
9 of the other provisions of this Act. However, if AS 43.58.020(2), (3) or
10 (4), or any of those paragraphs, should be for any reason held invalid or
11 unenforceable, this Act shall be void in its entirety and of no effect
12 whatsoever.

13 * Sec. 8. This Act takes effect immediately in accordance with AS 01.10.-
14 070(c).
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Original sponsor: Cowper, Bowman,
Bradley, et al

Offered: 5/15/75
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 SENATE CS FOR CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 297 am S

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas reserves ad valorem
7 tax and its relationship to other oil and gas taxation;
8 and providing for an effective date."

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

10 * Section 1. AS 43 is amended by adding a new chapter to read:

11 CHAPTER 58. OIL AND GAS RESERVES AD VALOREM TAX.

12 Sec. 43.58.010. AD VALOREM TAX. (a) An annual tax is levied each
13 tax year beginning January 1, 1976, on the full and true value of
14 taxable property under this chapter.

15 (b) The legislature shall annually determine by law the rate of
16 the levy before June 1.

17 (c) The rate of levy may not exceed 20 mills.

18 Sec. 43.58.020. EXEMPTIONS. The following interests in the
19 proven reserves of a lease or property shall be exempt from taxation
20 under this chapter:

21 (1) any interest of the United States or the state;

22 (2) any interest in proven reserves during the five-year
23 period beginning with the date of the first completion, suspension, or
24 abandonment, whichever occurs first, of a discovery well in an oil or
25 gas field or pool which in whole or in part underlies or comprises the
26 lease or property;

27 (3) any interest in proven reserves until the earlier of
28 either of the following occurs:

29 (A) the issuance, upon application, of a permit for

1 construction of a facility to transport oil or gas from any well or
2 wells in an oil or gas field or pool which in whole or in part
3 underlies or comprises the lease or property to market; or

4 (B) the commencement of construction of a facility to
5 transport oil or gas from any well or wells in an oil or gas field
6 or pool which in whole or in part underlies or comprises the lease
7 or property to market;

8 (4) any interest in proven reserves as to which the issuance
9 of a permit for, or the commencement of construction of a facility to
10 transport oil or gas from any well or wells in an oil or gas field or
11 pool which in whole or in part underlies or comprises the lease or
12 property, or the use of those facilities, is enjoined, either temporar-
13 ily or permanently, by an order, judgment, decree, determination or
14 award of a federal, state or local court or administrative or regulatory
15 agency.

16 Sec. 43.58.030. CREDIT AGAINST TAX. There shall be allowed, as a
17 credit against the tax levied under this chapter for a lease or prop-
18 erty, the amount of oil and gas properties production taxes paid under
19 ch. 55 of this title for that lease or property for the 12 months before
20 the tax payment date under this chapter. The credit may not exceed the
21 amount of tax due under this chapter. For purposes of this section, the
22 credit shall be calculated without regard to the allowance of any credit
23 under AS 43.55.018 against the taxes levied by ch. 55 of this title.

24 Sec. 43.58.040. ASSESSMENT. (a) The department shall assess
25 taxable property under this chapter at its full and true value as of
26 January 1 of each year.

27 (b) The full and true value of taxable property under this chapter
28 is the estimated price which the property would bring in an open market
29 and under the then prevailing market conditions in a sale between a

1 willing seller and a willing buyer both conversant with the property and
2 with prevailing values. In determining this value, the department shall
3 consider all factors which may be known by the department to affect the
4 value of the proven reserves of the lease or property, including but not
5 limited to the present value of the expected discounted future net
6 income from the lease or property.

7 Sec. 43.58.050. ASSESSMENT ROLL. The department shall prepare
8 annually the assessment roll for taxation under this chapter. The roll
9 shall contain:

- 10 (1) a description of all taxable property;
11 (2) the assessed value of all taxable property; and
12 (3) the names and addresses of persons owning or otherwise
13 holding an interest in taxable property.

14 Sec. 43.58.060. ASSESSMENT NOTICE. On or before April 15 of each
15 year, the department shall send to every owner of taxable property named
16 in the assessment roll a notice of assessment showing the assessed value
17 of the property. The notice of assessment is effective on the date of
18 its mailing.

19 Sec. 43.58.070. APPEAL. (a) A person aggrieved by the action of
20 the department in making an assessment may request a hearing not later
21 than 20 days after the effective date of the assessment notice.

22 (b) At the hearing the department may subpoena witnesses and may
23 administer oaths and make inquiries necessary to determine the correct-
24 ness of the assessment. At the hearing the appellant bears the burden
25 of proof, and in the absence of this proof the assessment will be
26 upheld. If the department determines that a correction is warranted,
27 the department shall correct the assessment and the assessment roll.

28 (c) Within 30 days after the decision by the department after a
29 hearing, either the department or a person aggrieved by the decision may

1 appeal to the superior court. The superior court shall grant priority
2 on its dockets for the appeals over all civil cases then pending.

3 Sec. 43.58.080. CERTIFICATION. On or before June 15 of each year,
4 the department shall certify the final assessment roll and mail to the
5 operator or other person filing a return and paying tax on the taxable
6 property a statement of the amount of tax due.

7 Sec. 43.58.090. SUPPLEMENTAL ASSESSMENT ROLLS. The department
8 shall include property omitted from the assessment roll on a supple-
9 mental roll, using the procedures set out in this chapter for the
10 original roll.

11 Sec. 43.58.100. INVESTIGATION. (a) The department may make an
12 investigation of property on which a return has been filed or on pro-
13 perty for which no return has been filed. In either case, the depart-
14 ment may make its own valuation of the taxable property, which is prima
15 facie evidence of full and true value.

16 (b) An employee or agent of the department may enter any premise
17 necessary for the investigation during reasonable hours and may examine
18 property and appropriate records. The owner of taxable property upon
19 request shall furnish to the employee or agent of the department reason-
20 able assistance required for the investigation. If refused entry or
21 assistance the superior court may, after reasonable notice to the owner,
22 order the owner to allow the entry or to furnish the assistance.

23 (c) For the purpose of the investigation, the operator or other
24 person filing a return and paying the tax on the taxable property or his
25 representative may be required to present himself for examination under
26 oath by the department.

27 Sec. 43.58.110. RETURNS AND PAYMENT OF TAX. (a) The operator of
28 a lease or property is primarily liable for payment of the tax levied by
29 this chapter. All other persons owning or otherwise holding an interest

1 or right in that lease or property are secondarily liable for payment of
2 the tax levied by this chapter.

3 (b) The operator of a lease or property shall submit returns on
4 the form prescribed by the department and shall make payment of the tax
5 levied under this chapter, on behalf of itself and all other persons
6 holding an interest or right in that lease or property. With the
7 written approval of the department, a nonoperator of the lease or prop-
8 erty may submit returns or make payment of the tax levied under this
9 chapter, on behalf of himself and such other persons as the department
10 may approve. All returns shall be filed on or before February 1 of each
11 year.

12 (c) The tax levied under this chapter is payable to the department
13 on or before June 30 of each year or in installments at the times and
14 under the conditions the department may by regulation require. This
15 provision applies even though the assessment is under appeal.

16 (d) With the prior written approval of the department, a person
17 submitting returns or making payments as required under this chapter for
18 more than one lease or property may regard those leases or properties as
19 a single lease or property for purposes of submitting those reports or
20 making those payments.

21 (e) An operator or other person making payment of the tax levied
22 under this chapter on behalf of one or more other persons owning or
23 otherwise holding an interest in a lease or property may withhold a
24 proportionate share of the payment from any proceeds or other benefits
25 from the lease or property owed to any person on whose behalf the pay-
26 ment is made. Unless otherwise specifically provided by written con-
27 tract or agreement, the person so withholding a proportionate share of
28 the tax levied under this chapter incurs no liability to those from whom
29 it is withheld by virtue of having made the withholding.

1 (f) By written notice the department may require a person filing
2 a return to submit additional information to the department no later
3 than 30 days after the notice.

4 Sec. 43.58.115. PAYMENTS IN LIEU OF TAX. The operator may each
5 year, at its option, in lieu of paying the tax provided for in this
6 chapter, make an advance payment of royalties due to the state under
7 the lease or property to which the tax pertains in the same manner,
8 amount and at the same time as the tax, penalty and interest otherwise
9 payable under this chapter. This election shall be effective for all
10 purposes of law and of the lease or property upon (1) the filing with
11 the commissioner of revenue and the commissioner of natural resources,
12 on or before February 1 of each year, a written notice of election by
13 or on behalf of the operator to pay that amount as advance payment of
14 royalties and (2) payment to the commissioner of revenue of that
15 amount. AS 38.05.182 and 38.05.183 and AS 38.06 shall not be applicable
16 to this advance payment of royalties. If the operator elects this
17 option, the advance payment of royalties in lieu of the tax shall be
18 allowed as a credit against future royalty payments due from the lease
19 or property. In no event may the credit against royalty payments
20 under the lease or property allowed in any year exceed the amount of
21 the credit allowed under AS 43.55.018 for the lease or property. As a
22 condition of this election by the operator, the state, its assigns or
23 designees shall have the right to purchase at the time of production,
24 upon six months prior written notice to the operator by the commissioner
25 of natural resources, and at the field market price or value at the
26 well as determined under the terms of the lease or property, any part
27 or all of the royalty oil or gas represented by the advance payment of
28 royalties. Any such purchase by the state shall be made after the
29 commissioner of natural resources determines, with the prior written

1 approval of the Alaska Royalty Oil and Gas Development Advisory Board,
2 that the best interest of the state requires the purchase, and AS 38.05.
3 182 and 38.05.183 and AS 38.06 shall be applicable to any oil and gas
4 purchased in this manner by the state.

5 Sec. 43.58.120. CIVIL PENALTY. Five per cent shall be added to
6 the tax for each 30-day period or fraction of that period during which
7 the taxpayer fails to file a return or pay the full amount of the tax,
8 or a portion or a deficiency of the tax due and payable as finally
9 determined by the department and required by this chapter, unless it
10 is shown that the failure is due to a reasonable cause and not to
11 wilful neglect. The penalty may not exceed 25 per cent in the aggregate.
12 The penalty shall be collected at the same time, in the same manner
13 and as a part of the original tax, but if the original tax is paid
14 before the neglect is discovered the penalty shall be collected in the
15 same manner as the original tax. The department shall describe by
16 regulation circumstances which constitute reasonable cause for purposes
17 of this section.

18 Sec. 43.58.130. INTEREST. When the tax levied in this chapter
19 becomes delinquent it bears interest at the rate of eight per cent a
20 year.

21 Sec. 43.58.140. LIEN. The tax, penalty and interest payable
22 under this chapter are first and paramount liens on the property
23 subject to tax under this chapter.

24 Sec. 43.58.150. REMEDY. The remedy of distraint of property set
25 out in AS 43.20.270 applies to the tax levied by this chapter.

26 Sec. 43.58.160. REGULATIONS. The department may adopt regulations
27 in accordance with the Administrative Procedure Act (AS 44.62) as
28 appropriate to administer and enforce this chapter.

29 Sec. 43.58.170. TERMINATION OF TAX. The tax imposed by this