



1618 HOUSE RULES

1 Coast price per barrel of oil is at least \$16 per barrel; and

2 (B) amounts due and payable because of a payment deferral
3 under this paragraph bear interest at the rate of a 10-year note of the United
4 States treasury at the time of the deferral.

5 (g) Before February 1 of each year, the commissioner shall review the prices
6 described in (e) and (f) of this section and the related denominators set out in
7 (e)(2)(D)(i) and (ii) of this section and recommend to the legislature whether the prices
8 and denominators should be adjusted.

9 (h) Notwithstanding (e) of this section, the tax rate for heavy oil is the volume
10 adjusted tax rate provided in this subsection. The volume adjusted tax rate for heavy
11 oil is determined by multiplying the economic limit factor determined for the oil
12 production of the lease or property under AS 43.55.013 by the tax rate set out in
13 (e)(2)(A)(i) and (ii) of this section. In this subsection, "heavy oil" means oil equal to or
14 less than 20 degrees API gravity.

15 (i) A producer of North Slope oil may apply for a reduction of the tax due
16 under (e), (j), and (k) of this section on the production of North Slope oil

17 (1) if and to the extent that the amount calculated under (A) of this
18 paragraph is greater than the amount calculated under (B) of this paragraph, but a
19 reduction of the tax may not result in collection of tax due under this section that is
20 less than the amount calculated under (B) of this paragraph:

21 (A) the amount of tax on the production of the oil that results
22 from applying the provisions of (e) of this section;

23 (B) the amount of tax on the production of the oil that would
24 result from applying the provisions of (a)(2) and (b)(2) of this section as if the
25 oil were not North Slope oil; and

26 (2) if the commissioner in consultation with the commission of natural
27 resources determines that the application meets the requirements of
28 AS 38.05.180(j)(1)(A), (j)(1)(B), or (j)(1)(C).

29 (j) When the commissioner receives an application under (i) of this section,
30 the commissioner

31 (1) may not approve a tax reduction

1 (A) unless the applicant makes a clear and convincing showing
2 that the tax reduction meets the requirements of (i) of this section and this
3 subsection and is in the best interests of the state;

4 (B) that reduces the amount of the tax recovered to less than the
5 amount determined under (i)(1)(B) of this section;

6 (C) without including an explicit condition that the tax
7 reduction is not assignable without the prior written approval, which may not
8 be unreasonably withheld, of the commissioner; in the preliminary and final
9 findings and determinations prepared under this subsection, the commissioner
10 shall set out the conditions under which the tax reduction may be assigned:

11 (2) shall require the applicant to submit financial and technical data
12 that demonstrate that the requirements of (i) of this section and this subsection are
13 met; the commissioner

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

18 (B) shall, at the request of the applicant, keep confidential
19 under AS 38.05.035(a)(9) and AS 43.05.230 the dates described in (A) of this
20 paragraph; the confidential data may be disclosed by the commissioner to
21 legislators and to the legislative auditor and, if authorized by the chair or vice-
22 chair of the Legislative Budget and Audit Committee, to the director of the
23 division of legislative finance, the permanent employees of their respective
24 divisions who are responsible for evaluating a tax reduction, and to agents or
25 contractors of the legislative auditor or the legislative finance director who are
26 engaged under contract to evaluate the tax reduction if each signs an
27 appropriate confidentiality agreement;

28 (3) may require the applicant for the tax reduction under (i) of this
29 section and this subsection to pay for the services of an independent contractor,
30 selected by the applicant from a list of qualified consultants compiled by the
31 commissioner, to evaluate hydrocarbon development, production, transportation, and

1 economics and to assist the commissioner in evaluating the application and financial
2 and technical data; if, under this paragraph, the commissioner requires payment for the
3 services of an independent contractor, the total cost of the services to be paid for by
4 the applicant may not exceed \$150,000 for each application, and the commissioner
5 shall determine the relevant scope of the work to be performed by the contractor;
6 selection of an independent contractor under this paragraph is not subject to AS 36.30;

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

11 (5) shall offer to appear before the Legislative Budget and Audit
12 Committee, on a day that is not earlier than 10 days and not later than 20 days after
13 giving public notice under (4) of this subsection, to provide the committee a review of
14 the commissioner's preliminary findings and determination on the tax reduction
15 application and administrative process; if the Legislative Budget and Audit Committee
16 accepts the commissioner's offer, the committee shall give notice of the committee's
17 meeting to all members of the legislature;

18 (6) shall make copies of the preliminary findings and determination
19 available to

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

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

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

25 (7) shall, within 30 days after the close of the public comment period
26 under (4) of this subsection,

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

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

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

3 (D) make copies of the final findings and determination
4 available to each person who submitted comment under (4) of this subsection
5 and who has filed a request for the copies.

6 (k) In this section, "North Slope oil" means oil produced from a portion of a
7 reservoir located north of 68 degrees North latitude.

8 * Sec. 7. AS 43.55.012(b) is amended to read:

9 (b) The cents-per-barrel amount set out in AS 43.55.011(c)(1) and (2)
10 [AS 43.55.011(c)] applies to oil of 27 degrees API gravity. For each degree of API
11 gravity less than 27 degrees, the cents-per-barrel amount shall be reduced by \$.005
12 and for each degree of API gravity greater than 27 degrees the cents-per-barrel amount
13 shall be increased by \$.005 except that oil above 40 degrees API gravity shall be taxed
14 as 40 degree oil. In applying the gravity adjustment under this subsection, fractional
15 degrees of API gravity shall be disregarded.

16 * Sec. 8. AS 43.55.025(b) is amended to read:

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

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

28 (2) if for an exploration well,

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

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

1 and

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

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

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

15 * Sec. 9. AS 43.55.201 is amended to read:

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

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

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

28 * Sec. 10. AS 43.55.201 is amended by adding a new subsection to read:

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

1 * **Sec. 11.** AS 43.55.221(d) is amended to read:

2 (d) If the commissioner of administration reports that the sum reported under
3 (b) of this section equals or exceeds \$71,000,000 as adjusted under AS 43.55.225
4 [\$50,000,000], the commissioner of revenue shall suspend imposition and collection
5 of the surcharge levied and collected under AS 43.55.201. Suspension of the
6 imposition and collection of the surcharge begins on the first day of the calendar
7 quarter next following the commissioner's receipt of the commissioner of
8 administration's report under (b) of this section. Before the first day of a suspension
9 authorized by this subsection, the commissioner shall make a reasonable effort to
10 notify all persons who are known to the department to be paying the surcharge under
11 AS 43.55.201 that the surcharge will be suspended.

12 * **Sec. 12.** AS 43.55.221(e) is amended to read:

13 (e) Except as provided in AS 43.55.231, if the commissioner of administration
14 reports that the sum reported under (b) of this section is less than \$71,000,000 as
15 adjusted under AS 43.55.225 [\$50,000,000], the commissioner of revenue shall
16 require imposition and collection of the surcharge authorized under AS 43.55.201. If
17 the surcharge is not in effect, reimposition of the surcharge begins on the first day of
18 the calendar quarter next following the commissioner's receipt of the commissioner of
19 administration's report under (b) of this section. Before the first day of reimposition of
20 the surcharge authorized by this subsection, the commissioner shall make a reasonable
21 effort to notify all persons who are known to the department to be required to pay the
22 surcharge under AS 43.55.201 that the surcharge will be reimposed.

23 * **Sec. 13.** AS 43.55 is amended by adding a new section to read:

24 **Sec. 43.55.225. Adjustment of dollar amounts.** (a) The dollar amounts in
25 AS 43.55.221(d) and (e) change, as provided in this section, according to and to the
26 extent of changes in the Consumer Price Index for all urban consumers for the
27 Anchorage metropolitan area compiled by the Bureau of Labor Statistics, United
28 States Department of Labor (the index). The index for January 2006 is the reference
29 base index.

30 (b) The dollar amounts change on October 1 of each year according to the
31 percentage change between the index for January of that year and the most recent

1 index used to determine whether to change the dollar amounts. After calculation of the
2 new amounts, the resulting amounts shall be rounded to the nearest cent.

3 (c) If the index is revised, the percentage of change is calculated on the basis
4 of the revised index. If a revision of the index changes the reference base index, a
5 revised reference base index is determined by multiplying the reference base index
6 applicable by the rebasing factor furnished by the Bureau of Labor Statistics, United
7 States Department of Labor. If the index is superseded, the index referred to in this
8 section is the one represented by the Bureau of Labor Statistics as reflecting most
9 accurately changes in the purchasing power of the dollar for Alaska consumers.

10 (d) The department shall adopt a regulation announcing,

11 (1) on or before June 30 of each year, the changes in dollar amounts
12 required by (b) of this section; and

13 (2) promptly after the changes occur, changes in the index required by
14 (c) of this section, including, if applicable, the numerical equivalent of the reference
15 base index under a revised reference base index and the designation or title of any
16 index superseding the index.

17 * Sec. 14. AS 43.55.300 is amended to read:

18 **Sec. 43.55.300. Surcharge levied.** (a) Every producer of oil shall pay a
19 surcharge of \$0.05 [\$0.03] per barrel of oil produced from each lease or property in the
20 state, less any oil the ownership or right to which is exempt from taxation.

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

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

30 * Sec. 15. AS 43.55.300 is amended by adding a new subsection to read:

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

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

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

5 **RETROACTIVITY.** Sections 3 - 10, 14, and 15 of this Act are retroactive to
6 January 1, 2006, and apply to oil produced after December 31, 2005.

7 * **Sec. 17.** This Act takes effect immediately under AS 01.10.070(c)."

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AMENDMENT

Kerthula

OFFERED IN THE HOUSE

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

1 Page 1, line 1, following "Act":

2 Insert "amending the powers and duties of the Alaska Oil and Gas Conservation
3 Commission;"

4
5 Page 2, following line 8:

6 Insert a new bill section to read:

7 "* Sec. 2. AS 31.05.030(d) is amended to read:

8 (d) The commission may require

9 (1) identification of ownership of wells, producing leases, tanks,
10 plants, and drilling structures;

11 (2) the making and filing of reports, well logs, drilling logs, electric
12 logs, lithologic logs, directional surveys, and all other subsurface information on a
13 well drilled for oil or gas, or for the discovery of oil or gas, or for geologic
14 information, and the required reports and information shall be filed within 30 days
15 after the completion, abandonment, or suspension of the well;

16 (3) the drilling, casing, and plugging of wells in a manner that will
17 prevent the escape of oil or gas out of one stratum into another, the intrusion of water
18 into an oil or gas stratum, the pollution of fresh water supplies by oil, gas, or salt
19 water, and prevent blowouts, cavings, seepages and fires;

20 (4) the furnishing of a reasonable bond with sufficient surety
21 conditions for the performance of the duty to plug each dry or abandoned well or the
22 repair of wells causing waste;

23 (5) the operation of wells with efficient gas-oil and water-oil ratios,

1 and may fix these ratios;

2 (6) the gauging or other measuring of oil and gas to determine the
3 quality and quantity of oil and gas;

4 (7) every person who produces oil or gas in the state to keep and
5 maintain for a period of five years in the state complete and accurate records of the
6 quantities of oil and gas produced, which shall be available for examination by the
7 Department of Natural Resources or its agents at all reasonable times;

8 (8) the measuring and monitoring of oil and gas pool pressures;

9 (9) the filing and approval of a plan of development and operation for
10 a field or pool in order to prevent waste, ensure [INSURE] a greater ultimate recovery
11 of oil and gas, and protect the correlative rights of persons owning interests in the
12 tracts of land affected;

13 (10) working interest owners to provide, at cost plus a reasonable
14 rate of return determined under regulations adopted by the commission and
15 without causing substantial injury to the owner, access by or for the benefit of
16 others to production and other facilities whenever necessary; for purposes of this
17 paragraph, the commission's regulations must be consistent with the standards of
18 the Regulatory Commission of Alaska adopted to implement AS 42.05.311(u); the
19 commission may act under this paragraph

20 (A) to

21 (i) maximize the economic and physical recovery of
22 the state's oil and gas resources;

23 (ii) maximize competition among parties seeking to
24 explore and develop the state's oil and gas resources;

25 (iii) minimize the adverse affects of exploration,
26 development, production, and transportation activity; or

27 (iv) otherwise protect the best interest of the state;

28 (B) only if the commission finds that directing the working
29 interest owner to provide access by or for the benefit of others would not
30 materially interfere with the owner's paramount use of the facility; and

31 (C) only if the commission finds that the facility has excess

1 capacity or that it is feasible to expand the facility with the expansion costs
2 and any additional operating costs to be borne by the entities that use the
3 added capacity in proportion to the amount of use by each entity."
4

5 Renumber the following bill sections accordingly.

6

7 Renumber internal references to bill sections in accordance with this amendment. Below are
8 all internal bill section references in this bill:

9 Page 1, line 9

10 Page 2, line 5

11 Page 39, lines 4, 5, 7, 8, 12, 14, 19, 26, and 29

12 Page 40, lines 4, 6, 13, 16, 22, 23, 28, and 30

13 Page 41, lines 5, 6, 24, and 25

Amend 11

AMENDMENT

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OFFERED IN THE HOUSE
TO: CSHB 3001

BY REPRESENTATIVE KERTTULA

- 1 Page 31, line 16-22:
- 2 Delete ail material.

24-GH2096U

Bullock

8/1/06

CS FOR HOUSE BILL NO. 3001()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - THIRD SPECIAL SESSION

BY**Offered:****Referred:****Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR****A BILL****FOR AN ACT ENTITLED**

1 "An Act relating to the production tax on oil and gas and to conservation surcharges on
2 oil; relating to criminal penalties for violating conditions governing access to and use of
3 confidential information relating to the production tax; amending the definition of 'gas'
4 as that definition applies in the Alaska Stranded Gas Development Act; making
5 conforming amendments; and providing for an effective date."

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

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

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

12 (b) It is the intent of the legislature that the division or other unit of the Department of
13 Environmental Conservation assigned responsibility for administration of the programs under

1 AS 46.08 that are principally supported by the conservation surcharges on oil levied under
2 AS 43.55.201 - 43.55.299 and 43.55.300 - 43.55.310

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

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

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

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

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

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

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

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

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

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

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

1 (Internal Revenue Code); and

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

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

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

12 (f) For the purposes of (e) of this section,

13 (1) the tax rate for a calendar year under (e) of this section is the
14 weighted average of the percentage rate under (2) of this subsection applicable to the
15 producer's base production, if any, for the calendar year and the percentage rate under
16 (3) of this subsection applicable to the producer's incremental production, if any, for
17 the calendar year, with each percentage rate weighted proportionally to the amount of
18 the production to which it applies; however, the tax rate for 2006, 2007, and 2008 may
19 not exceed 22 1/2 percent;

20 (2) the percentage rate for each year applicable to a producer's base
21 production is 25 percent;

22 (3) the percentage rate applicable to a producer's incremental
23 production is

24 (A) for 2006 through 2011, 15 percent;

25 (B) for 2012 through 2030, one-half percentage point greater
26 than the percentage rate for the immediately preceding year;

27 (C) for 2031 and later years, 25 percent;

28 (4) except as otherwise provided under (b) of this subsection, a
29 producer's base production

30 (A) for a calendar year after 2005 and before 2031 is

31 $.75 \times TP \times (.95)^{\exp(n - 2005)}$

1 where:

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

5 n = for calendar years 2006 through 2030, the number that represents the
6 calendar year for which the tax is being computed;

7 (B) for calendar year 2031 and later is zero;

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

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

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

31 (h) For purposes of (g) of this section, the price index for a month is calculated

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

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

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

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

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

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

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

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

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

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

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

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

1 levied by (g) of this section. However, that tax may not be reduced below zero.

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

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

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

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

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

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

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

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

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

10 (1) producing oil or gas leases;

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

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

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

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

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

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

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

28 (B) the total of the monthly production values calculated under
29 AS 43.55.160(a)(2) of all oil and gas taxable under AS 43.55.011(e) and
30 produced by the producer from leases or properties in the state during the
31 month, multiplied by the tax rate determined under AS 43.55.011(f) for the

1 calendar year, assuming that the producer's incremental production for the
2 calendar year is the amount calculated according to the following formula, but
3 not less than zero:

$$4 \quad IP = 12 \times (MP - i/12 \times BP)$$

5 where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 (b) A producer or explorer may elect to take a tax credit in the amount of 20
5 percent of a carried-forward annual loss. A credit under this subsection may be applied
6 against a tax due under AS 43.55.011(e). For purposes of this subsection, a carried-
7 forward annual loss is the amount of a producer's or explorer's adjusted lease
8 expenditures under AS 43.55.165 and 43.55.170 for a previous calendar year that was
9 not deductible for that calendar year under AS 43.55.160(b) and (e).

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

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

31 (e) A person to which a transferable tax credit certificate is issued under (d) of

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

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

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

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

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

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

30 (g) The issuance of a transferable tax credit certificate under (d) of this section
31 or the issuance of a cash refund certificate under (f) of this section does not limit the

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

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

16 (i) For the purposes of this section,

17 (1) a producer's or explorer's transitional investment expenditures are
18 the sum of the expenditures the producer or explorer incurred after March 31, 2001,
19 and before April 1, 2006, that would be qualified capital expenditures if they were
20 incurred after March 31, 2006, less the sum of the payments or credits the producer or
21 explorer received before April 1, 2006, for the sale or other transfer of assets,
22 including geological, geophysical, or well data or interpretations, acquired by the
23 producer or explorer as a result of expenditures the producer or explorer incurred
24 before April 1, 2006, that would be qualified capital expenditures, if they were
25 incurred after March 31, 2006;

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

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

1 investment expenditure

2 (A) for any calendar year that ends after the later of

3 (i) 2013; or

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

9 (B) more than once; or

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

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

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

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

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

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

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

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

31 or

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

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

4 (A) the cost of previously acquiring which was a lease
5 expenditure under AS 43.55.165 or would have been a lease expenditure under
6 AS 43.55.165 if it had been incurred after March 31, 2006; for purposes of this
7 subparagraph, "asset" includes geological, geophysical, and well data and
8 interpretations; or

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

13 **Sec. 43.55.024. Additional nontransferable tax credits.** (a) For a calendar
14 year for which a producer's tax liability under AS 43.55.011(e) on oil and gas
15 produced from leases or properties outside the Cook Inlet sedimentary basin and south
16 of 68 degrees North latitude exceeds zero before application of any credits under this
17 chapter, a producer that is qualified under (c) of this section may apply a tax credit
18 against that liability of not more than \$6,000,000.

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

21 (1) 2016; or

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

28 (c) On written application by a producer, including any information the
29 department may require, the department shall determine whether the producer
30 qualifies under this section for a calendar year. To qualify under this section, a
31 producer must demonstrate that its operation in the state or its ownership of an interest

1 in a lease or property in the state as a distinct producer entity would not result in the
2 division among multiple producer entities of any production tax liability under
3 AS 43.55.011(e) that reasonably would be expected to be attributed to a single
4 producer entity if the tax credit provisions of (a) of this section did not exist.

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

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

11 (f) In (a) and (b) of this section, and only as to expenditures incurred to explore
12 for an oil or gas deposit located within land in which an explorer does not own a
13 working interest, the term "producer" includes "explorer."

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

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

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

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

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

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

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

30 (b) To qualify for the production tax credit under (a) of this section, an
31 exploration expenditure must be incurred for work performed on or after July 1, 2003.

1 and before July 1, 2016 [2007], except that an exploration expenditure for a Cook Inlet
2 prospect must be incurred for work performed on or after July 1, 2005, [AND
3 BEFORE JULY 1, 2010, AND EXCEPT THAT AN EXPLORATION
4 EXPENDITURE, IN WHOLE OR IN PART, SOUTH OF 68 DEGREES, 15
5 MINUTES, NORTH LATITUDE, AND NOT PART OF A COOK INLET
6 PROSPECT MUST BE INCURRED FOR WORK PERFORMED ON OR AFTER
7 JULY 1, 2003, AND BEFORE JULY 1, 2010,] and

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

10 (2) if for an exploration well,

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

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

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

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

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

28 * Sec. 16. AS 43.55.025(f) is amended to read:

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

30 (1) an explorer shall, in a form prescribed by the department and
31 within six months of the completion of the exploration activity, claim the credit and

1 submit information sufficient to demonstrate to the department's satisfaction that the
2 claimed exploration expenditures qualify under this section;

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

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

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

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

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

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

31 (5) if the department is satisfied that the explorer's claimed

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

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

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

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

19 (i) For a production tax credit under this section,
20 (1) the amount of the credit that may be applied against the production
21 tax for each tax month may not exceed the total production tax liability under
22 AS 43.55.011(e) of the taxpayer applying the credit for the same month; and
23 (2) an amount of the production tax credit that is greater than the total
24 tax liability under AS 43.55.011(e) of the taxpayer applying the credit for a tax month
25 may be carried forward and applied against the taxpayer's production tax liability
26 under AS 43.55.011(e) in one or more immediately following months.

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

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

1 prescribed by [OR ACCEPTABLE TO] the department, giving, with other
2 information required, the following:

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

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

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

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

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

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

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

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

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

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

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

29 (1) require a person engaged in production and the agent or employee
30 of the person, and the purchaser of oil or gas, or the owner of a royalty interest in oil
31 or gas to furnish, whether by the filing of regular statements or reports or

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

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

11 (B) impose appropriate conditions limiting

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

16 (ii) the use of the information to use for that
 17 purpose:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 under AS 43.55.165 for the calendar year applicable to the oil and gas
2 produced by the producer from that lease or property, as adjusted under
3 AS 43.55.170;

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

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

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

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

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

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

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

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

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

21 (d) Irrespective of whether a producer produces taxable oil or gas during a
22 calendar year or month, the producer is considered to have generated a positive
23 production tax value if a calculation described in (a) of this section yields a positive
24 number because the producer's adjusted lease expenditures for a calendar year under
25 AS 43.55.165 and 43.55.170 are less than zero as a result of the producer's receiving a
26 payment or credit under AS 43.55.170 or otherwise. An explorer that has taken a tax
27 credit under AS 43.55.023(b) or that has obtained a transferable tax credit certificate
28 under AS 43.55.023(d) for the amount of a tax credit under AS 43.55.023(b) is
29 considered a producer, subject to the tax levied under AS 43.55.011(e), to the extent
30 that the explorer generates a positive production tax value as the result of the
31 explorer's receiving a payment or credit under AS 43.55.170.

1 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
2 would otherwise be deductible by a producer in a calendar year but whose deduction
3 would cause an annual production tax value calculated under (a)(1) of this section of
4 taxable oil or gas produced during the calendar year to be less than zero may be used
5 to establish a carried-forward annual loss under AS 43.55.023(b). In this subsection,
6 "producer" includes "explorer."

7 **Sec. 43.55.165. Lease expenditures.** (a) Except as provided under (c) - (e) of
8 this section, for the purposes of AS 43.55.160, a producer's lease expenditures for a
9 calendar year are the ordinary and necessary costs upstream of the point of production
10 of oil and gas that are incurred during the calendar year by the producer after
11 March 31, 2006, and that are direct costs of exploring for, developing, or producing oil
12 or gas deposits located within the producer's leases or properties in the state or, in the
13 case of land in which the producer does not own a working interest, that are direct
14 costs of exploring for oil or gas deposits located within other land in the state. In
15 determining whether costs are lease expenditures, the department shall consider,
16 among other factors,

17 (1) the typical industry practices and standards in the state that
18 determine the costs, other than items listed in (e) of this section, that an operator is
19 allowed to bill a working interest owner that is not the operator, under unit operating
20 agreements or similar operating agreements that were in effect before December 2,
21 2005, and were subject to negotiation with at least one working interest owner with
22 substantial bargaining power, other than the operator; and

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

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

28 (1) direct costs include

29 (A) an expenditure, when incurred, to acquire an item if the
30 acquisition cost is otherwise a direct cost, notwithstanding that the expenditure
31 may be required to be capitalized rather than treated as an expense for financial

1 accounting or federal income tax purposes;

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

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

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

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

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

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

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

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

30 (D) for a producer that is the operator, would be billable to the
31 producer by the operator in accordance with the terms of the agreement if that

1 lease or property were subject to the agreement and if the producer were not
2 the operator; and

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

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

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

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

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

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

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

2 (1) depreciation, depletion, or amortization;

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

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

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

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

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

11 (7) fines or penalties imposed by law;

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

15 (9) donations;

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

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

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

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

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

28 (15) a tax levied under AS 43.55.011;

29 (16) the portion of costs incurred for dismantlement, removal,
30 surrender, or abandonment of a facility, pipeline, well pad, platform, or other
31 structure, or for the restoration of a lease, field, unit, area, body of water, or right-of-

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

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

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

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

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

25 (f) For purposes of AS 43.55.023 (a) and (b) and only as to expenditures
26 incurred to explore for an oil or gas deposit located within land in which an explorer
27 does not own a working interest, the term "producer" in this section includes
28 "explorer."

29 (g) The department shall specify or approve a reasonable allocation method
30 for determining the portion of a cost that is appropriately treated as a lease expenditure
31 under this section if a cost that would otherwise constitute a lease expenditure under

1 this section is incurred to explore for, develop, or produce

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

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

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

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

16 (j) For purposes of this section,

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

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

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

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

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

1 management fee;

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

8 (3) the sale or other transfer of

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

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

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

21 (B) oil or gas

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

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

26 (b) Except as otherwise provided under this subsection, if one or more
27 payments or credits subject to this section are received by a producer or by an operator
28 acting for the producer during a calendar year and if either the total amount of the
29 payments or credits exceeds the amount of the producer's applicable lease
30 expenditures for that calendar year or the producer has no lease expenditures for that
31 calendar year, the producer shall nevertheless subtract those payments or credits from

1 the lease expenditures or from zero, respectively, and the producer's applicable
2 adjusted lease expenditures for that calendar year are a negative number and shall be
3 applied to the pertinent calculation under AS 43.55.160(a) as a negative number.

4 (c) For purposes of AS 43.55.023(a) and (b) and only as to expenditures
5 incurred to explore for an oil or gas deposit located within land in which an explorer
6 does not own a working interest, the term "producer" in this section includes
7 "explorer."

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

9 (1) the effects of the provisions of this chapter on oil and gas
10 exploration, development, and production in the state, on investment expenditures for
11 oil and gas exploration, development, and production in the state, on the entry of new
12 producers into the oil and gas industry in the state, on state revenue, and on tax
13 administration and compliance, giving particular attention to the tax rates provided
14 under AS 43.55.011, the tax credits provided under AS 43.55.023 – 43.55.025, and the
15 deductions for and adjustments to lease expenditures provided under AS 43.55.160 –
16 43.55.170; and

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

20 (b) The department shall prepare a report on or before the first day of the 2011
21 regular session of the legislature on the results of the study made under (a) of this
22 section, including recommendations as to whether any changes should be made to this
23 chapter. The department shall notify the legislature that the report prepared under this
24 subsection is available.

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

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

29 (b) The surcharge imposed by (a) of this section is in addition to the tax
30 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
31 from each lease or property during the preceding month. The surcharge [SHALL

1 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
2 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.300 -
3 43.55.310.

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

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

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

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

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

16 (b) The surcharge imposed by (a) of this section is in addition to the tax
17 imposed by AS 43.55.011 and is due on the last day of the month on oil produced
18 from each lease or property during the preceding month. The surcharge [SHALL
19 BE PAID IN THE SAME MANNER AS THE TAX IMPOSED BY AS 43.55.011 -
20 43.55.150; AND] is in addition to the surcharge imposed by AS 43.55.201 -
21 43.55.231.

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

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

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

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

31 (6) "gas" means

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

2 (B) all hydrocarbons that

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

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

8 (C) all other hydrocarbons produced from a well not defined as
9 oil;

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

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

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

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

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

17 (10) "oil" means

18 (A) crude petroleum oil; and

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

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

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

25 (18) "BTU equivalent barrel" means

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

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

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

31 (20) "explorer" means a person who, in exploring for new oil or gas

1 reserves, incurs expenditures;

2 (21) "gas processing"

3 (A) means processing a gaseous mixture of hydrocarbons

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

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

10 (B) does not include gas treatment;

11 (22) "gas processing plant" means a facility that

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

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

16 (23) "gas treatment"

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

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

22 (C) does not include

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

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

27 (24) "heating value" means the gross number of BTU's evolved by
28 complete combustion of an amount of gas;

29 (25) "landowner's royalty interest" means

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

31 (B) a royalty interest that is

1 (i) held by a surface owner of land from which oil or
2 gas is produced; and

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

5 (26) "oil and gas lease" includes an oil and gas lease, a gas only lease,
6 and an oil only lease;

7 (27) "point of production" means

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

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

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

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

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

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

30 * Sec. 34. AS 43.55.011(a), 43.55.011(b), 43.55.011(c), 43.55.012, 43.55.013, 43.55.016,
31 43.55.025(k)(1), 43.55.025(k)(3), 43.55.900(1), 43.55.900(8), 43.55.900(11), 43.55.900(12),

1 and 43.55.900(16) are repealed.

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

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

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

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

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

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

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

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

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

28 (d) Notwithstanding any contrary provision of AS 43.55.030(a), as amended by sec.
29 19 of this Act, for oil and gas produced after March 31, 2006, and before January 1, 2007, the
30 person paying the tax shall file with the Department of Revenue, at the time an amount of tax
31 is due

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

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

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

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

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

15 (f) Notwithstanding any contrary provision of AS 43.55.201(c), as amended by sec.
16 26 of this Act, or AS 43.55.300(c), as amended by sec. 28 of this Act, for oil produced after
17 March 31, 2006, and before January 1, 2007, at the time an amount of surcharge is due

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

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

24 (g) For purposes of taxes to be calculated and due under (c)(1) of this section and
25 statements to be filed under (d)(1) of this section, regulations that were adopted by the
26 Department of Revenue under AS 43.55, as the provisions of that chapter read on March 31,
27 2006, and that were in effect on that date apply to those taxes and statements.

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

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

3 **TRANSITION: RETROACTIVITY OF REGULATIONS.** Notwithstanding any
4 contrary provision of AS 44.62.240, a regulation adopted by the Department of Revenue to
5 implement, interpret, make specific, or otherwise carry out the provisions of secs. 5, 7 - 10, 12
6 - 14, 16 - 20, 24 - 34, and 36 of this Act may apply retroactively to April 1, 2006, if the
7 Department of Revenue expressly designates in the regulation that the regulation applies
8 retroactively to that date.

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

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

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

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

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

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

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

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

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

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

Dollar Per barrel investment will determine tax rate between 20% and 25%
for year of investment

Per Bbl Investment	Amount below 25%	Tax Rate
\$ -	0.00%	25.00%
\$ 0.50	0.00%	25.00%
\$ 1.00	0.00%	25.00%
\$ 1.50	0.50%	24.50%
\$ 2.00	1.00%	24.00%
\$ 2.50	1.50%	23.50%
\$ 3.00	2.00%	23.00%
\$ 3.50	2.50%	22.50%
\$ 4.00	3.00%	22.00%
\$ 4.50	3.50%	21.50%
\$ 5.00	4.00%	21.00%
\$ 5.50	4.50%	20.50%
\$ 6.00	5.00%	20.00%
\$ 6.50	5.00%	20.00%
\$ 7.00	5.00%	20.00%

Capital Spending on the North Slope, 2001 - 2006

BP			
Year	Volume	Investment	\$/bbl
2001	122 2048	\$612	\$5 008
2002	125 8920	\$358	\$2 844
2003	129 9084	\$257	\$1 978
2004	126 1286	\$264	\$2 093
2005	114 7406	\$284	\$2 475
2006 est	106 9320	\$326	\$3 049
Averages		\$350	\$2 908

ConocoPhillips			
Year	Volume	Investment	\$/bbl
2001	144 2077	\$603	\$4 181
2002	145 0393	\$460	\$3 172
2003	140 6935	\$365	\$2 594
2004	135 4255	\$484	\$3 574
2005	129 2072	\$561	\$4 342
2006 est	120 4140	\$608	\$5 049
Averages		\$514	\$3 819

Exxon/Mobil			
Year	Volume	Investment	\$/bbl
2001	84 3135	\$175	\$2 076
2002	77 8699	\$162	\$2 080
2003	74 0578	\$142	\$1 917
2004	69 6960	\$173	\$2 482
2005	62 7572	\$150	\$2 390
2006 est	58 4860	\$175	\$2 992
Averages		\$163	\$2 323

Others			
Year	Volume	Investment	\$/bbl
2001	13 3438	\$120	\$8 993
2002	15 2663	\$120	\$7 860
2003	15 1419	\$86	\$5 680
2004	14 9356	\$89	\$5 959
2005	15 2026	\$110	\$7 236
2006 est	14 1680	\$281	\$19 833
Averages		\$134	\$9 260

Capital Spending on the North Slope, 2001 - 2006

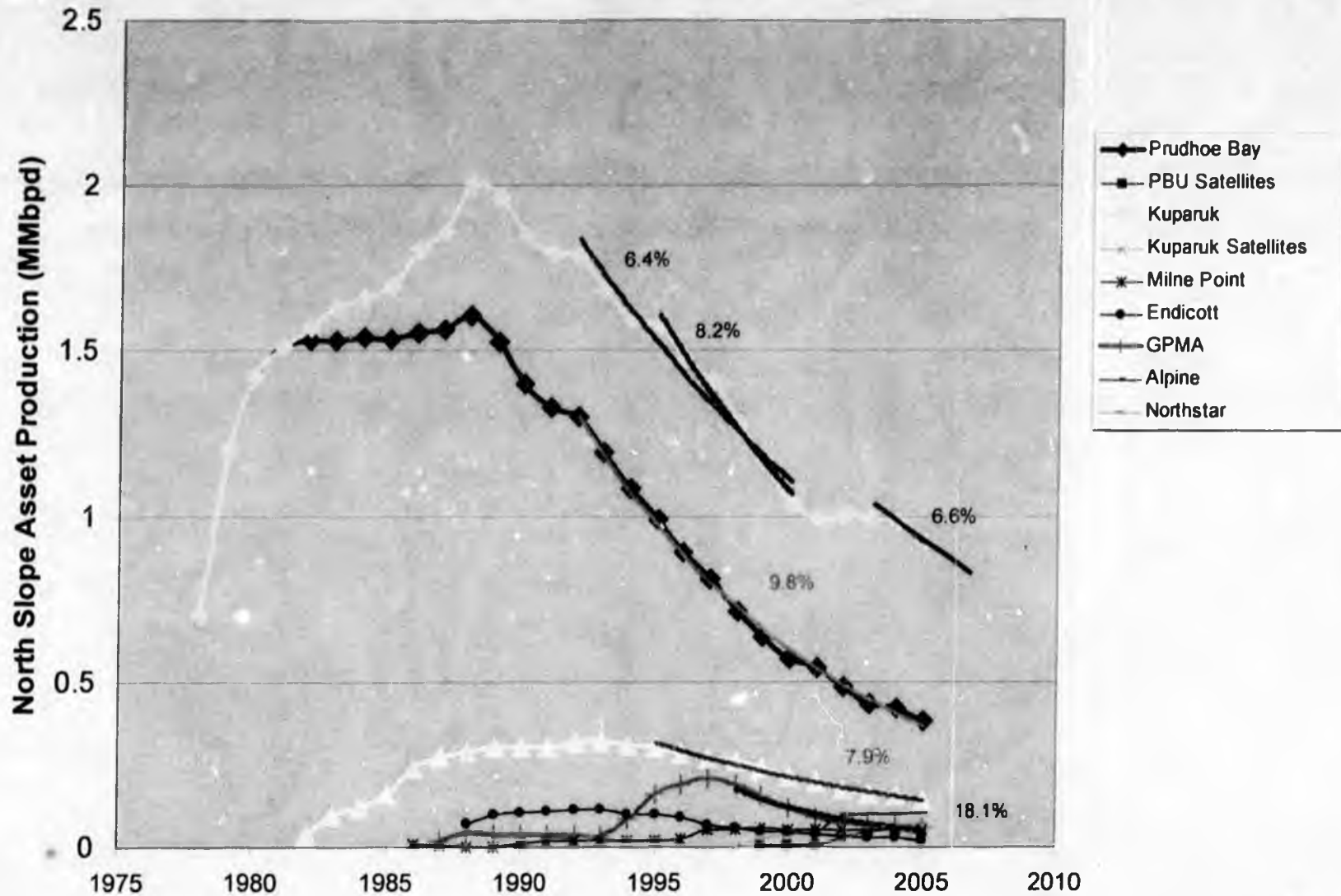
ALL COMPANIES			
Year	Volume (in mmbbls.yr)	Investment	\$/bbl
2001	364 0698	\$1 510	\$4 148
2002	364 0675	\$1 100	\$3 021
2003	359 8016	\$850	\$2 362
2004	346 1857	\$1 010	\$2 918
2005	321 9078	\$1 105	\$3 433
2006 est	300 0000	\$1 390	\$4 633
Averages		\$1 160 83	\$3 419

Source: Volumes - DOR; Investment - ConocoPhillips estimates

Million Bbls daily production	Million Bbls Annual production	Millions of Dollar of Annual Investment																
		\$ 400	\$ 500	\$ 600	\$ 700	\$ 800	\$ 900	\$ 1,000	\$ 1,100	\$ 1,200	\$ 1,300	\$ 1,400	\$ 1,500	\$ 1,600	\$ 1,700	\$ 1,800	\$ 1,900	\$ 2,000
0.900	328 500	1.22	1.52	1.83	2.13	2.44	2.74	3.04	3.35	3.65	3.96	4.28	4.57	4.87	5.18	5.48	5.78	6.09
0.850	310 250	1.29	1.61	1.93	2.26	2.58	2.90	3.22	3.55	3.87	4.19	4.51	4.83	5.16	5.48	5.80	6.12	6.45
0.800	292 000	1.37	1.71	2.05	2.40	2.74	3.08	3.42	3.77	4.11	4.45	4.79	5.14	5.48	5.82	6.16	6.51	6.85
0.750	273 750	1.46	1.83	2.19	2.56	2.92	3.29	3.65	4.02	4.38	4.75	5.11	5.48	5.84	6.21	6.58	6.94	7.31
0.700	255 500	1.57	1.96	2.35	2.74	3.13	3.52	3.91	4.31	4.70	5.09	5.48	5.87	6.26	6.65	7.05	7.44	7.83
0.650	237 250	1.69	2.11	2.53	2.95	3.37	3.79	4.21	4.64	5.06	5.48	5.90	6.32	6.74	7.17	7.59	8.01	8.43
0.600	219 000	1.83	2.28	2.74	3.20	3.65	4.11	4.57	5.02	5.48	5.94	6.39	6.85	7.31	7.76	8.22	8.68	9.13
0.550	200 750	1.99	2.49	2.99	3.49	3.99	4.48	4.98	5.48	5.98	6.48	6.97	7.47	7.97	8.47	8.97	9.46	9.96
0.500	182 500	2.19	2.74	3.29	3.84	4.38	4.93	5.48	6.03	6.58	7.12	7.67	8.22	8.77	9.32	9.86	10.41	10.96
0.450	164 250	2.44	3.04	3.65	4.26	4.87	5.48	6.09	6.70	7.31	7.91	8.52	9.13	9.74	10.35	10.96	11.57	12.18
0.400	146 000	2.74	3.42	4.11	4.79	5.48	6.16	6.85	7.53	8.22	8.90	9.59	10.27	10.96	11.64	12.33	13.01	13.70
0.350	127 750	3.13	3.91	4.70	5.48	6.26	7.05	7.83	8.61	9.39	10.18	10.96	11.74	12.52	13.31	14.09	14.87	15.66
0.300	109 500	3.65	4.57	5.48	6.39	7.31	8.22	9.13	10.05	10.96	11.87	12.79	13.70	14.61	15.53	16.44	17.35	18.26
0.250	91 250	4.38	5.48	6.58	7.67	8.77	9.86	10.96	12.05	13.15	14.25	15.34	16.44	17.53	18.63	19.73	20.82	21.92
0.200	73 000	5.48	6.85	8.22	9.59	10.96	12.33	13.70	15.07	16.44	17.81	19.18	20.55	21.92	23.29	24.66	26.03	27.40

Shaded areas without respect to anti-gold plating brake

North Slope Production and Individual Field Decline Rates



bp



"Produce or Pay" Proposal

1st August 2006

Key Messages



- A 20% PPT tax rate is high. We only agreed to it to progress gas.
- This proposal is much higher and will not lead to maximum benefits for Alaskans (investment, production, jobs, state revenue, etc)
- While the structure recognizes the importance of production, it is somewhat simplistic and relies on unrealistic assumptions / concepts:
 - The incentive is better focused on inputs (investment). Investment also has other benefits beyond new production to Alaskan businesses
 - A 5% decline rate does not reflect the current North Slope reality
 - Increasing taxes on new oil increases risk and is bad policy
 - Retaining progressivity makes it more difficult for Alaska to attract the capital it needs

The tax rate is too high and not in the best interests of Alaska



- Producers only agreed to 20% as a way to move ahead with the gas pipeline

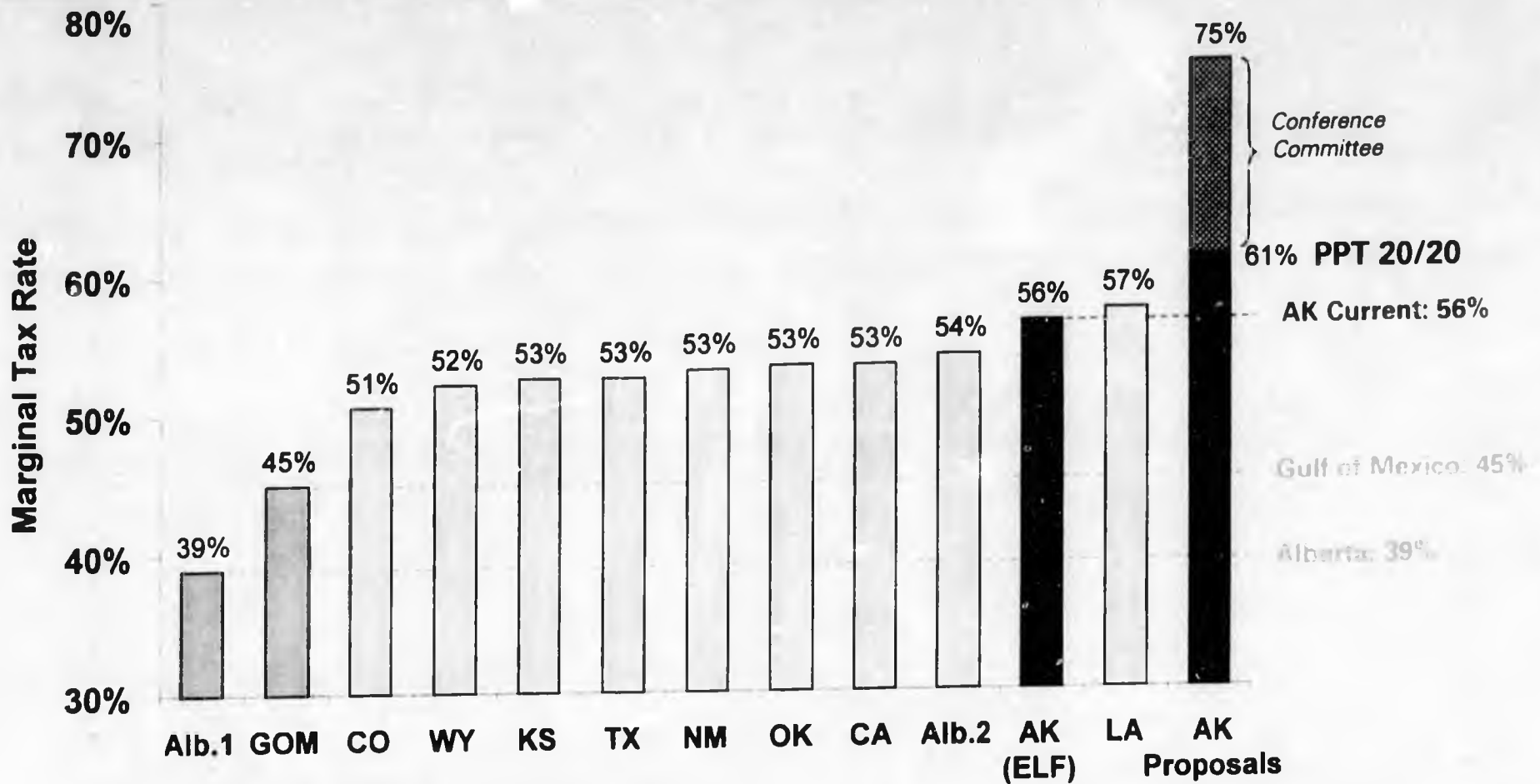
- A lower tax rate would be better for Alaska
 - Lower taxes will help attract the huge amounts of capital needed to stem production decline

 - Lower taxes means more investment, more production, more jobs, more State Revenue and a healthier economy in Alaska

- With a 20% tax rate Alaska will have the highest tax rate & the highest cost structure in the US. This new proposal increase taxes still further. Progressivity will increase the burden even beyond that.

Progressivity makes Alaska even less competitive

bp



*Alb: ALBERTA HEAVY OIL (pre and post-payout)

Alberta & Gulf of Mexico are booming while Alaska production is declining

Increasing taxes will not attract investment to Alaska

Structure is simplistic



Production is an output, investment is an input

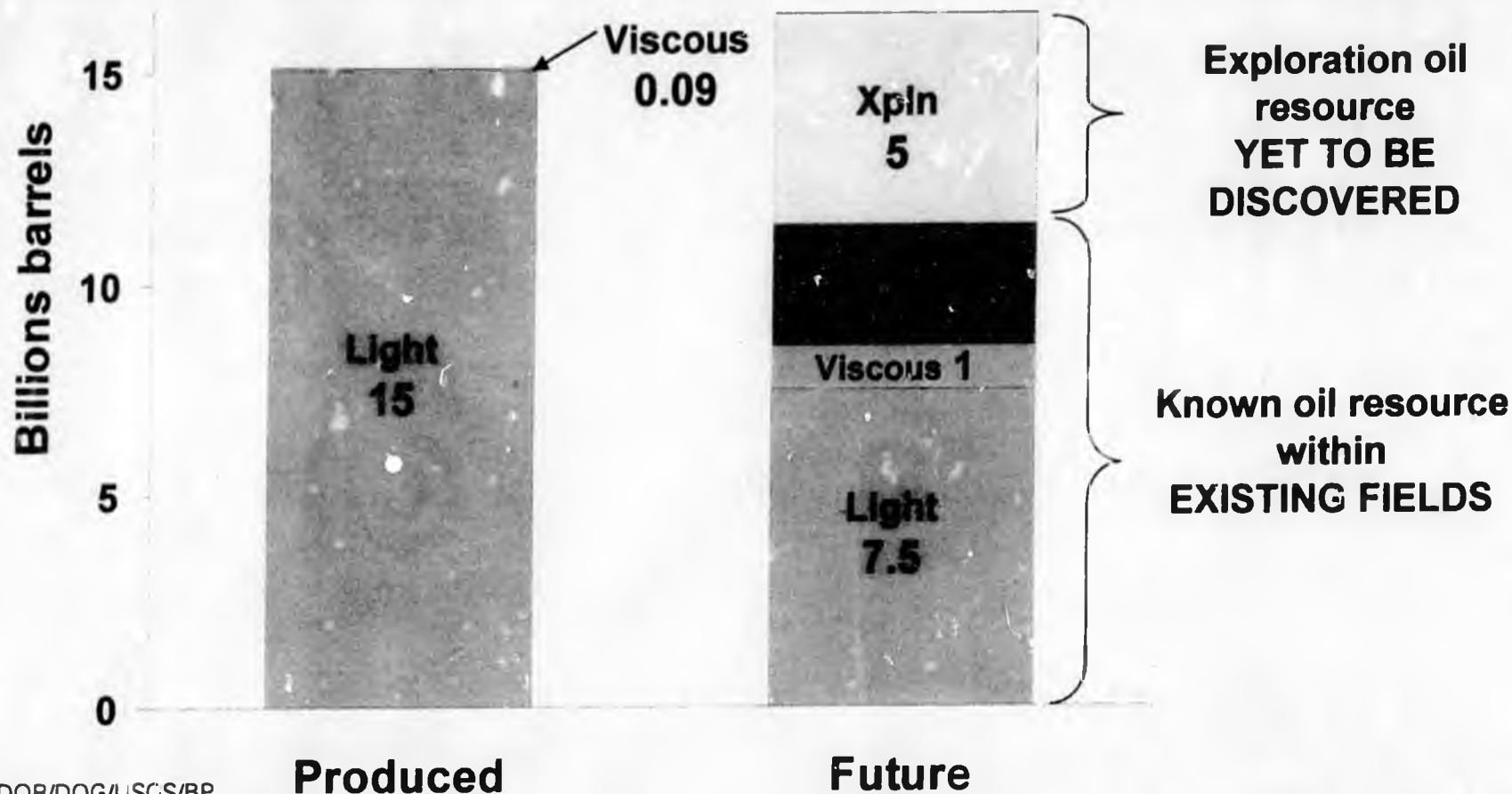
- Producers have control only over the input (investment) and can only forecast the output (production)
- The linkage of tax rate to production introduces additional uncertainty and thus risk for the investor
- Added risk and uncertainty make investments less attractive and will make Alaska less attractive compared to its competitors
- The structure could work but only if the numbers are right
- Care must be taken to avoid unintended consequences (e.g. impact on viscous oil?)

The future North Slope will be different to the past

bp

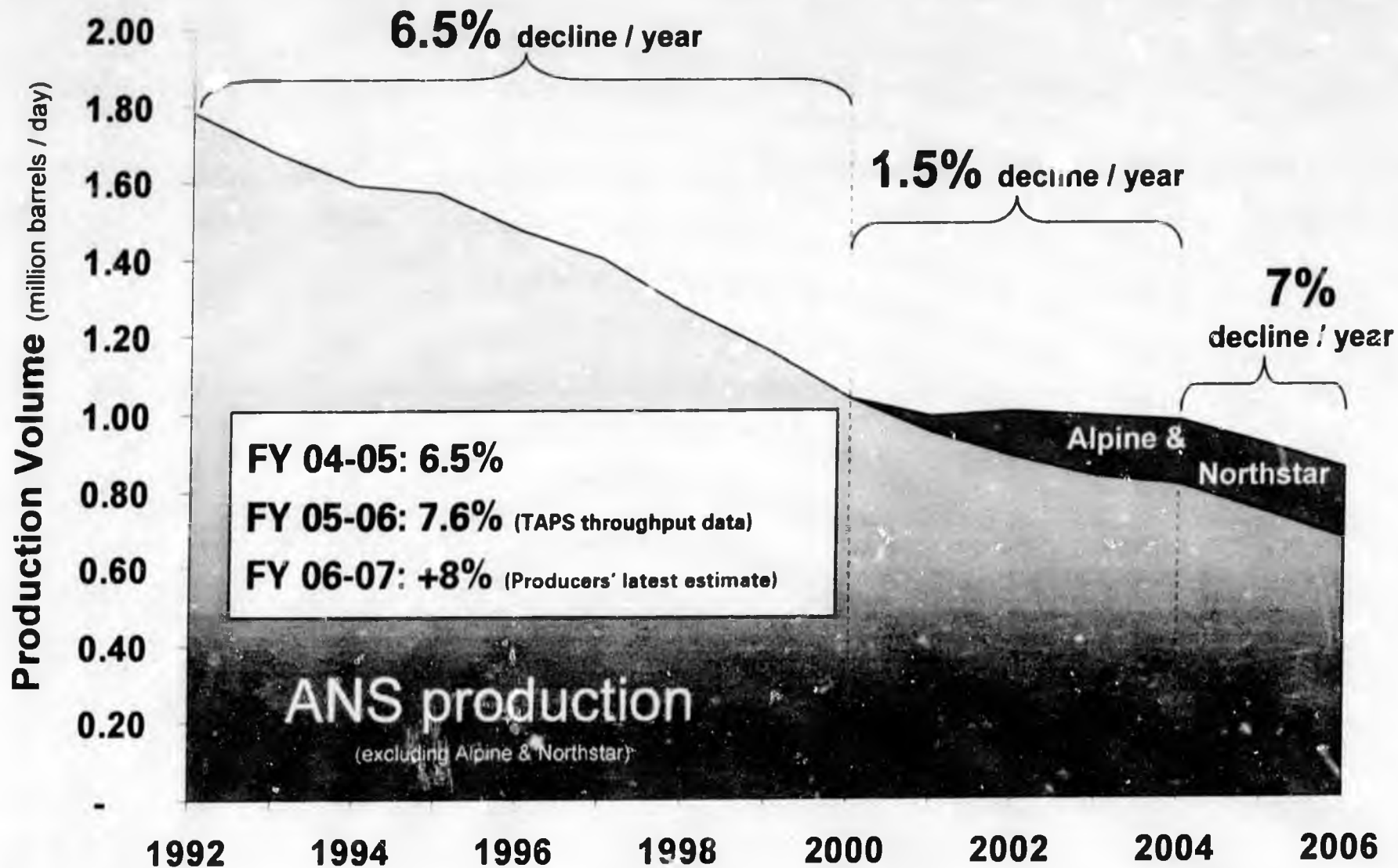


- Future production will become more and more challenging as light oil targets become smaller and less economic and the proportion of viscous oil increases
- Future production from known resources in existing fields will greatly exceed that from exploration



Source: DOR/DOG/USGS/BP

5% decline rate does not reflect current North Slope reality



Increasing taxes on new oil is bad policy



- Increasing the tax rate when production will be further declined, costs increasing and wells less productive is directionally wrong. This is the time when additional incentives should be being considered to keep the fields going. It is not the time to increase the tax burden even more!
- Alternatively, keeping the tax rate at 15% for all new oil would be a much better outcome for Alaska
- The right tax regime for the oil business is one which promotes investment, and maximizes production and hence State Revenue. A flat 15% PPT tax rate for all new oil would be a step in the right direction.

Lower taxes means more investment, more production, more jobs, more State Revenue and a healthier economy in Alaska

bp



State Revenue over life of North Slope oil business

Decline PPT tax rate	15%	9%	6%	3%
	0%			\$23bn
15%		\$20bn	\$30bn	\$64bn
20%		\$22bn	\$33bn	
25%				

By promoting investment and maximizing production, Alaska will benefit much more than by increasing short-term revenue through high taxes

Key Messages



- A 20% PPT tax rate is high. We only agreed to it to progress gas.
- This proposal is much higher and will not lead to maximum benefits for Alaskans (investment, production, jobs, state revenue, etc)
- While the structure recognizes the importance of production, it is somewhat simplistic and relies on unrealistic assumptions / concepts:
 - The incentive is better focused on inputs (investment). Investment also has other benefits beyond new production to Alaskan businesses
 - A 5% decline rate does not reflect the current North Slope reality
 - Increasing taxes on new oil increases risk and is bad policy
 - Retaining progressivity makes it more difficult for Alaska to attract the capital it needs

Recommendations Investment Methodology



A more direct incentive would be to tie the tax rate to reinvestment.

- Investment is in the direct control of industry
- Increased production is the goal and increased investment is the means
- In addition to increased production, increased investment benefits the Alaska economy, businesses and creates jobs for Alaskans
- A tax rate based on reinvestment reduces investor's risk
- Gold plating can be prevented in a straight forward fashion
- Tax based upon investment creates a more level playing field and may avoid unforeseen adverse consequences of a decline based tax rate

Issues: Decline Methodology



Should the decline methodology be adopted, the following issues should be addressed:

- A decline rate of at least 10% is required to reflect current mature North Slope fields
- A rolling five year historical average would provide a more reasonable base than a single year base period
- Given the period required to develop new barrels, an increase on the tax rate on new oil creates a disincentive. We recommend that this built in tax increase be eliminated.
- Progressivity makes it more difficult to attract the additional capital Alaska needs. Progressivity should be dropped or reduced to a much lower rate.
- Tax rates for new and old oil should be lowered to ensure the blended tax rate is competitive with other US & global provinces.

North Slope Field Decline Rates with Investment



A single reference year is not indicative of mature field decline

Base production five year averages:

- Prudhoe base 8.6% decline
- Kuparuk base 7.7%
- Milne 4.4%
- Endicott base 11.1%
- Point McIntire base 10.8%

MMbd	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10 yr. Avg.	5 Yr Avg.
North Slope													
Prudhoe Bay		-9.2%	-11.9%	-10.8%	-10.2%	-6.4%	-9.8%	-11.1%	-3.2%	-9.1%	-9.7%	-9.0%	-8.6%
Kuparuk		-5.7%	-2.6%	-7.3%	-12.0%	-7.1%	-10.7%	-9.1%	-3.1%	-8.4%	-7.0%	-7.3%	-7.7%
Milne Point		136.4%	1.9%	3.8%	-3.6%	-1.9%	0.0%	-1.9%	0.0%	-2.0%	-18.0%	11.5%	-4.4%
Endicott		-23.6%	-14.7%	-17.2%	-4.2%	-19.6%	-10.8%	-12.1%	0.0%	-27.6%	-4.8%	-13.5%	-11.1%
GPMA		10.1%	-8.7%	-17.9%	-26.0%	-23.9%	-16.7%	-13.3%	-6.2%	-8.2%	-10.7%	-12.0%	-10.8%
Northstar								200.0%	15.8%	4.5%	-20.3%		

•Source: DOR Spring 2006 Revenue Sources Book

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Subchapter C Determination of Interest Rate; Compounding of Interest §§6621-6622

§6621 Determination of rate of interest.

Internal Revenue Code**§ 6621 Determination of rate of interest.****(a) General rule.****(1) Overpayment rate.**

The overpayment rate established under this section shall be the sum of—

- (A) the Federal short-term rate determined under subsection (b) , plus
- (B) 3 percentage points (2 percentage points in the case of a corporation).

To the extent that an overpayment of tax by a corporation for any taxable period (as defined in subsection (c)(3) , applied by substituting "overpayment" for "underpayment") exceeds \$10,000, subparagraph (B) shall be applied by substituting "0.5 percentage point" for "2 percentage points".

(2) Underpayment rate.

The underpayment rate established under this section shall be the sum of—

- (A) the Federal short-term rate determined under subsection (b) , plus
- (B) 3 percentage points

(b) Federal short-term rate.

For purposes of this section —

(1) General rule.

The Secretary shall determine the Federal short-term rate for the first month in each calendar quarter.

(2) Period during which rate applies.

(A) In general. Except as provided in subparagraph (B) , the Federal short-term rate determined under paragraph (1) for any month shall apply during the first calendar quarter beginning after such month.

(B) Special rule for individual estimated tax. In determining the addition to tax under section 6654 for failure to pay estimated tax for any taxable year, the Federal short-

term rate which applies during the 3rd month following such taxable year shall also apply during the first 15 days of the 4th month following such taxable year.

(3) Federal short-term rate.

The federal short-term rate for any month shall be the Federal short-term rate determined during such month by the Secretary in accordance with section 1274(d). Any such rate shall be rounded to the nearest full percent (or, if a multiple of 1/2 of 1 percent, such rate shall be increased to the next highest full percent).

(c) Increase in underpayment rate for large corporate underpayments.

(1) In general.

For purposes of determining the amount of interest payable under section 5601 on any large corporate underpayment for periods after the applicable date, paragraph (2) of subsection (a) shall be applied by substituting "5 percentage points" for "3 percentage points".

(2) Applicable date.

For purposes of this subsection —

(A) In general. The applicable date is the 30th day after the earlier of —

(i) the date on which the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent, or

(ii) the date on which the deficiency notice under section 6212 is sent.

The preceding sentence shall be applied without regard to any such letter or notice which is withdrawn by the Secretary.

(B) Special rules.

(i) Nondeficiency procedures. In the case of any underpayment of any tax imposed by this title to which the deficiency procedures do not apply, subparagraph (A) shall be applied by taking into account any letter or notice provided by the Secretary which notifies the taxpayer of the assessment or proposed assessment of the tax.

(ii) Exception where amounts paid in full. For purposes of subparagraph (A), a letter or notice shall be disregarded if, during the 30-day period beginning on the day on which it was sent, the taxpayer makes a payment equal to the amount shown as due in such letter or notice, as the case may be.

(iii) Exception for letters or notices involving small amounts. For purposes of this paragraph, any letter or notice shall be disregarded if the amount of the deficiency or proposed deficiency (or the assessment or proposed assessment) set forth in such letter or notice is not greater than \$100,000 (determined by not taking into account any interest, penalties, or additions to tax).

(3) Large corporate underpayment.

For purposes of this subsection —

(A) In general. The term "large corporate underpayment" means any underpayment of a tax by a C corporation for any taxable period if the amount of such

underpayment for such period exceeds \$100,000.

(B) Taxable period. For purposes of subparagraph (A) , the term "taxable period" means—

(i) in the case of any tax imposed by subtitle A, the taxable year, or

(ii) in the case of any other tax, the period to which the underpayment relates.

(d) Elimination of interest on overlapping periods of tax overpayments and underpayments.

To the extent that, for any period, interest is payable under subchapter A and allowable under subchapter B on equivalent underpayments and overpayments by the same taxpayer of tax imposed by this title, the net rate of interest under this section on such amounts shall be zero for such period.

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§6622 Interest compounded daily.

Internal Revenue Code**§ 6622 Interest compounded daily.****(a) General rule.**

In computing the amount of any interest required to be paid under this title or sections 1961(c) (1) or 2411 of title 28, United States Code , by the Secretary or by the taxpayer, or any other amount determined by reference to such amount of interest, such interest and such amount shall be compounded daily.

(b) Exception for penalty for failure to file estimated tax.

Subsection (a) shall not apply for purposes of computing the amount of any addition to tax under section 6654 or 6655 .

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_____ **BILL NO.** _____

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - THIRD SPECIAL SESSION**

BY

Offered:

Sponsor(s):

**A BILL
FOR AN ACT ENTITLED**

1 **"An Act relating to the production tax on oil and gas and to conservation surcharges on**
2 **oil; relating to criminal penalties for violating conditions governing access to and use of**
3 **confidential information relating to the production tax; amending the definition of 'gas'**
4 **as that definition applies in the Alaska Stranded Gas Development Act; making**
5 **conforming amendments; and providing for an effective date."**

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

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

9 **LEGISLATIVE INTENT.** (a) It is the intent of the legislature through sec. 11 of this
10 Act to confirm by clarification the long-standing interpretation of AS 43.55 020(f) by the
11 Department of Revenue.

12 (b) It is the intent of the legislature that the division or other unit of the Department of
13 Environmental Conservation assigned responsibility for administration of the programs under

1 AS 46.08 that are principally supported by the conservation surcharges on oil levied under:
2 AS 43.55.201 - 43.55.299 and 43.55.300 - 43.55.310

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

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

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

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

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

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

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

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

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

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

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