

ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 RES 12690

Discount rate
5%

Current System

Table 5.27. WEST SAK

5% Discounted Government Take (Income only)

WTI US \$	WTI Can \$	Gas Price Can \$	Heavy oil price Can \$	COST-7	COST-6	COST-5	COST-4	COST-3	COST-2	COST-1
20	22.73	\$1.89	\$14.35							64.33%
30	34.09	\$2.84	\$24.32			69.77%	63.56%	61.41%	60.49%	59.82%
40	45.45	\$3.79	\$34.28	64.13%	62.57%	61.60%	60.94%	60.45%	59.75%	59.31%
50	56.82	\$4.73	\$44.25	61.80%	61.32%	60.95%	60.44%	60.00%	59.82%	59.76%
60	68.18	\$5.68	\$54.22	61.83%	61.48%	61.15%	60.96%	60.95%	60.96%	60.91%
70	79.55	\$6.63	\$64.18	62.50%	62.28%	62.29%	62.31%	62.35%	62.32%	62.25%
80	90.91	\$7.58	\$74.15	63.65%	63.66%	63.68%	63.71%	63.70%	63.63%	63.66%
90	102.27	\$8.52	\$84.11	65.01%	65.02%	65.05%	65.06%	65.02%	65.03%	65.12%
100	113.64	\$9.47	\$94.08	66.35%	66.38%	66.43%	66.39%	66.39%	66.47%	66.58%

Current System

The current system is designed to be sensitive to costs and thereby make the investment in heavy oil developments attractive.

The current system was is also designed to be price progressive.

Current System

The PPT credits encourage investments by new investors in new oil and gas exploration and development and to encourage re-investment by existing companies. The PPT is therefore a consolidated system.

The main goal is to reduce the decline of oil production.

sp get more oil in the pipeline

Transparency

The transparency provisions related to cost projections, publication of data, short term audits and an exempt class for auditors seem good provisions.

They should be strongly supported.

These changes can be implemented now.

- not changing fiscal terms
- excellent to
- make auditors exempt
- stronger Admin

*Pedro's
Reports
from last
round*

PPT amendments

In case the Alaska Legislature decides that it wants to change the PPT anyway, I would advise basing such amendments on my earlier recommendations contained in the reports of:

- February 14, 2006
- March 5, 2006 and
- May 1, 2006

prev. recommendation

PPT Amendments

In my February 14, 2006 report I recommended a 25% PPT rate.

had proposed
25/20
Rate credit

Since, this recommendation was made government takes have increased in the US GOM and Ireland and several developing countries. Alberta will also increase government take as a result of the royalty review.

I therefore reconfirm this recommendation

Govt takes going up all over the world - still advocate 25%

PPT Amendments

In my February 14, 2006 report I did **not** recommend the so-called **clawback** provision. Internally, I advised strongly against this provision. It does not make sense to reward a company for past investments.

Therefore deleting the Transitional Investment Expenditures credits is a good step.

*delete
TIE credits*

*Fiscal systems
must be based
on "from now
forward"*

*Progressive
feature*

*"Hybrid"
system (like Pika)
already proposed*

PPT Amendments

In my March 5, 2006 report (which was written after the 20/20 concept had been decided by the Governor) I recommended:

- A price progressive Basic Production Tax based on the gross value of production **in addition to the PPT.**
- The price progressive Basic Production Tax would be deductible from the PPT.

*- basic Prod tax
based on GROSS
- plus progressive*

strongly
recommends
Hybrid 5/11

PPT Amendments

The price progressive Basic Production Tax was based on the following formula:

$$\text{BPT rate} = (\text{WTI} - 50) \times 0.25\%$$

At the current price of \$ 84 per barrel WTI this would be equal to 8.5% on the gross value of oil at the production point.

Be not
"wishy washy"
do a real
gross + net

(not Pat's
"hidden" gross)

(8.5% on gross
+ 25% on net)
Pachas
Hybrid system

Implemented in Alberta

PPT Amendments

I believe that price progressive features based on the gross value of the production are more effective than features based on net.

I recently recommended a similar severance tax to the Alberta royalty review panel and this recommendation was accepted. The Alberta Government is now considering these recommendations.

PPT Amendments

The current progressive feature in the PPT law based on the net value is an ineffective mechanism. It is highly unpredictable and subject to cost verification difficulties. Bringing the price down from \$40 to \$ 30 is a relatively weak measure. I do not recommend this.

PPT Amendments

"I proposed a level playing field that's good policy"

I therefore reconfirm my recommendation for a price progressive feature based on gross in addition to the 25% PPT Rate.

However, such a feature would need to have a modifier in the formula in order to soften the impact on heavy oils.

modify for heavy oils

get realistic
about govt take
for Gas !!

PPT Amendments

The May 1, 2006 report recommended the Gross Revenue Exclusion ("GRE") for pipeline gas (not for condensates and liquids) of 64% of the gross value of the prior to the application of the PPT for gas other than from Cook Inlet.

(for all the gas)

Gas that needs to be transported over long distances has very different economics than oil.

cannot apply
to gas as oil
transportation
system too expensive

Trinidad & Tobago
Malay
Indo
Qatar

← all understand
tax for gas can't
be the same as oil: different economics

PPT Amendments

Most jurisdictions that need to export gas over large distances have a government take that is lower for gas than for oil. If Alaska wants to compete with a gas project internationally, it has to start with a reasonable fiscal system for gas.

I therefore reconfirm my GRE recommendations.

Failure to forecast cost increases

Much discussion took place about the so-called failure to forecast cost increases. In this respect I like to emphasize that I provided the Legislature ample and precise warning about cost increases. The following three slides are repeat slides of my presentations in 2006.

May 10, 2006 slide: Alaska Gas Project

Cost overrun risks

The economic evaluations are based on a \$ 21 billion project as originally presented.

However, cost have already escalated significantly, in particular steel prices and regional escalation in Alberta.

"pipeline in trouble
cause WORLD has changed"

May 10 slide: Alaska Gas Project

Huge risks

The combination of gas price risk and cost overrun risk creates a possibility that the project may not be built over the next decade even with a stranded gas contract.

① price itself
② structure of market in N. America

today gas prices on BTU basis are only 35-40% of oil

- electricity generation can be produced by clean coal which is competing w/ gas

- gas = \$1 to 2 per million BTU
oil =
per barrel \$80 =

Charlie statement

did you say "Gas Pipeline is not feasible"

I invited Pedro to comment

PvM "deeply concerned about pipeline"

not economic @ @2001 costs now doubled

today we have economics that prove line is uneconomic

June 15 slide: Risk Assessment: Summary

In summary the view of EconOne is:

50% cost overrun – very low probability

FIF low gas price – very low probability

Project uneconomic – very low probability

My view is:

50% cost overrun – very likely

FIF low gas price - fair probability

Project uneconomic – fair probability

Failure to forecast cost increases

Despite the fact that I predicted strong cost increases generally and internationally, there was no evidence in early 2006 of strong local inflationary pressures on the North Slope (as compared to Alberta, for instance).

- "cannot have it both ways"

Galvin —
now accepts there are huge cost increases —

in Mexico quadrupled (.5M²³ day for deep water)
Alberta (increases too) 2nd

Should do audit first then say whether → On North Slope didn't see great cost increases —

Failure to forecast cost increases

Therefore, I believe that it is imperative to carry out sound audits prior to reaching any conclusions on whether costs were significantly under estimated or not.

It might very well be that companies over-declared their costs for their first PPT declarations and that after proper audits the revenues to Alaska will be revised upward.

*Imperative
to do audits
first ~~of~~
declaring
enormous cost
increases*

*- Co's could have
over declared
- Always the year
it works w/ their
low; co's push
boundaries*

Failure to forecast cost increases

I am concerned about the fact that the earlier PPT law weakened the level of interest for late payments in 43.55.020(g). The current bill maintains this.

So this is an added incentive to over declare costs.

penalty of over declaring must be increased — put it in new bill

10% floor on large fields

The PPT is designed as a consolidated tax. Only in this way, does the tax promote the re-investment in Alaska.

The 10% floor on large fields turn the PPT into a tax that is essentially ring-fenced for the large fields. This is an administrative nightmare as is evidenced by the amendment of 43.55.165 (h) and it also removes the benefits of promoting re-investment in Alaska by the large corporations.

This makes no sense. I would strongly recommend not to apply this provision.

this is a political move doesn't really do anything for us.

Do a "straight up" gross + net system or just forget this floor "it makes no sense"

tax credits over two years

This is a silly an unnecessary provision.

The policy is to encourage new oil and gas developments on the North Slope. There is no change in overall government revenues over time, if credits are allowed over two years rather than one. However, it is a much stronger incentive to give the credits in the year the investments are incurred.

I would strongly recommend not to apply this provision.

for small
co's it's REALLY
important to
give full credit -
"Just a bean
counters attempt
to look smart"

“corrosion” issue

*figure
could be
50¢ - w/new
info can adjust*

This is great politics, but difficult administration. Essentially, the PPT tax collectors would be placed in a constant battle to determine these costs.

The corrosion issue was already fixed in the PPT law by making the first \$ 0.30 per BOE capital costs non-deductible. This was in lieu of the corrosion costs. This is easy to administer. If this overall figure seems too low, than this figure can be changed. Also an amount for non-deductible operating costs can be added.

Extra incentives for exploration

Beyond the 20% capital investment credit, there is in my view no need for further incentives in exploration.

don't give
10 or 80 or 90%
of exploration
needs to oil cos
(which is what all
the credits add
up to)

“Joint Administration”

*share info
but don't
set up joint
administration*

The Bill provides for more exchange of information between DNR and DOR. This is good.

However, the bill seems to implement some type of joint administration by DNR and DOR of the PPT. This is unnecessary and very confusing and will lead to bottlenecks.

SB

2001

(FILE 6)

PASSAGE &

AMEND'S

FINAL DOCUM'TS

Subject	CS House Bill 2001 (P&G am)	SOS CS House Bill 2001 (P&G am)
		White = no difference between H & S
		SENATE SECTION NUMBERS ARE NOT UPDATED
Intent, Savings	<p>AS 38.05.035(a) - Intent to create a priority and expedite tax appeal and collection procedures for DOR.</p> <p>(b) Confirmation of DOR's interpretation of statute of limitations for retroactive tax changes.</p> <p>(c) Intent that non-deductible costs under AS 43.55.011(i) include costs incurred for planning, processing and management functions that are to properly consider changing operating conditions.</p>	<p>CS Sec 1. Legislative intent.</p> <p>(a) House version intent with additional language regarding possible legislative changes.</p> <p>(b) Confirmation of DOR's interpretation of statute of limitations for retroactive tax changes (same as House).</p> <p>(c) ADDS Intent that costs include indirect costs of production and distribution.</p> <p>AS ADDS Intent that costs include indirect costs of production and distribution.</p> <p>Public education about the DOR/PERMITS timing of the permit application statewide energy needs in light of rising energy costs.</p> <p>DELETED House (c).</p>
DNR-DOR Information Sharing	Sec. 2. Amends AS 38.05.035(a). Adds authority for DNR to share oil & gas info with DOR.	CS Sec. 2. SAME AS HOUSE
Conforming Amendments	Secs. 3-9. Conforming technical amendments.	CS Secs. 3-9. SAME AS HOUSE
Auditors	CS Sec. 10. Amends AS 39.25.110. Adds oil and gas audit masters employed in a professional capacity by DOR & DNR to the exempt service.	CS Sec. 10. SAME AS HOUSE -- In separate sections, both House and Senate limit the number of audit masters to four for DOR and two for DNR.
Conforming Amendments	CS Sec. 11. Amends AS 41.09.010(d). Conforming technical amendments.	CS Sec. 11. SAME AS HOUSE
Energy Assistance	CS Sec. 12. Add new section AS 42.65.040. LIMEAP funding option.	DELETED
Information Disclosure	NOT IN HOUSE VERSION	<p>CS Sec. 12. CHANGE FROM HOUSE</p> <p>Amends AS 43.55.230(a). Adds AS 43.55.230(b) language in tax rate schedule under AS 43.55.230(a) (retroactive date).</p> <p>-- Language was in original bill.</p>
DOR-DNR Information Sharing	CS Sec. 13. Amends AS 43.05.230(h). Adds authority for DOR to share production tax info with DNR.	CS Sec. 13. SAME AS HOUSE
Assessments Statute of Limitations	CS Sec. 14. Amends AS 43.05.260(a). Creates an exemption to allow DOR to conduct production tax assessments beyond three years after a return is filed. -- In separate section, DOR is given six years to conduct the assessments.	CS Sec. 14. SAME AS HOUSE
Tax Rate	CS Sec. 15. 20% tax rate Effective 1/1/2008	CS Sec. 15. SAME AS HOUSE: 20% tax rate CHANGE FROM HOUSE: Retroactive to 7/1/2007
Tax Floor	CS Sec. 16. Amends AS 43.55.011(f). Retains current tax floor, exempts private royalty interests (AS 43.55.011(i)) and gas used instate from the floor.	CS Sec. 16. SAME AS HOUSE (with slight wording changes).
Progressivity AS 43.55.011(g) & (h)	CS Sec. 17 and 18. Repeals & reenacts AS 43.55.011(g) and (h). Progressivity is triggered at \$30 net value on a monthly basis with 0.4% increase per dollar; progressivity tax rate is capped at 20% for a month. Effective 1/1/2008	CS Sec 17. CHANGE FROM HOUSE Progressivity is triggered at \$25 net value on a monthly basis with 0.4% increase per dollar of \$2.50 net value, the rate of increase changes to 0.1% per dollar; capped at 20% effective tax rate (including progressivity). Retroactive to 7/1/2007
Cook Inlet Conforming Amendments	CS Sec. 19. Amends AS 43.55.011(j) (Cook Inlet tax ceiling). Conforming technical amendment; deletes reference to AS 43.55.011(g) (progressivity) because reference is no longer applicable.	CS Sec. 18. SAME AS HOUSE

Subject	CS House Bill 2001 (FIN) am	SCS CS House Bill 2001 (FIN) am
Cook Inlet Conforming Amendments	CS Sec. 20. Amends AS 43.55.011(k) (Cook Inlet tax ceiling). Conforming technical amendment; deletes reference to AS 43.55.011(g) (progressivity) because reference is no longer applicable.	CS Sec. 19. SAME AS HOUSE
Cook Inlet Tax Credits	CS Sec. 21. Amends AS 43.55.011(m) (application of tax credits to Cook Inlet gas). Conforming technical amendment; deletes reference to AS 43.55.011(g) (progressivity) because reference is no longer applicable.	CS Sec. 20. CHANGE FROM HOUSE Repeals & reenacts AS 43.55.011(m). Replaces current language with the requirement that DOR establish by regulation a method for application of Cook Inlet tax credits.
Gas Used Instate	CS Sec. 22. Adds new subsection AS 43.55.011(o). Extends Cook Inlet tax ceilings in .011(j)(2) to gas used instate.	CS Sec. . SAME AS HOUSE - conforming changes made throughout bill
Tax Payment	CS Sec. 23. Repeals & reenacts AS 43.55.020(a). Conforming amendments to make installment payment calculations consistent with changes to the production tax.	CS Sec. 21. CHANGE FROM HOUSE Repeals & reenacts AS 43.55.020(a). Conforming amendments to make installment payments consistent with changes to the production tax in the Senate version.
Tax Payment	CS Sec. 24. Amends AS 43.55.020(g) (interest on unpaid installment payments). Conforming technical amendment.	CS Sec. 22. SAME AS HOUSE
Tax Payment	CS Sec. 25. Amends AS 43.55.020(h) (interest on overpayment of installment payments). Conforming technical amendment.	CS Sec. 23. SAME AS HOUSE
Capital Expenditure (Cap Ex) Tax Credits	NOT IN HOUSE VERSION	CS Sec. 24. CHANGE FROM HOUSE Amends AS 43.55.023(a). 20% tax credit for qualified capital expenditures (same as current law); spreads use of tax credits over two years; moves and adds to info requirements; requires submission of information that is required under AS 43.55.023(f)(2).
Cap Ex Tax Credits Carried-forward Annual Loss	CS Sec. 26. Amends AS 43.55.023(b). Matches carried-forward annual loss to production tax rate of 25%.	CS Sec. 25. SAME AS HOUSE
Cap Ex Tax Credits Transfer of Credits	NOT IN HOUSE VERSION	CS Sec. 26. CHANGE FROM HOUSE Amends AS 43.55.023(d) (transferable tax credit certificates). Adds option to obtain cash payment under the new oil and gas tax credit fund and more time for agency approval; modifies reporting requirements; spreads use of tax credits over two years.
Cap Ex Tax Credits Transfer of Credits	NOT IN HOUSE VERSION	CS Sec. 27. CHANGE FROM HOUSE Amends AS 43.55.023(e) (transfer of tax credits). Conforming technical amendment.
Cap Ex Tax Credits Purchase	NOT IN HOUSE VERSION	CS Sec. . CHANGE FROM HOUSE Amends AS 43.55.023(g). Adds language to reflect DOR authority to purchase tax credits granted under new oil and gas tax credit fund. - Language in original bill.
Cap Ex Tax Credits TIE Credits	CS Sec. 27. Amends AS 43.55.023(i). Limits transitional investment credits to taxpayers that did not have commercial production before January 1, 2008, and to 1/10 of qualified capital expenditures incurred after March 31, 2006 and before January 1, 2008.	CS Sec. . SAME AS HOUSE
Cap Ex Tax Credits Tax Exempt Entities	CS Sec. 28. Amends AS 43.55.023. Adds subsection (l). Exempts Alaska Retirement Management Board from limitations under AS 43.55.023(e) regarding transferable tax credits.	CS Sec. 29. CHANGE FROM HOUSE Amends AS 43.55.023. Adds subsection (l). Makes clear a tax exempt entity may not obtain a transferable tax credit (language in original bill). DELETES House language
Mid-Alaska Tax Credits	NOT IN HOUSE VERSION	CS Secs. 30-33. CHANGE FROM HOUSE Amends AS 43.55.024 (small producer tax credit for production outside Cook Inlet and North Slope). Subsection (a): technical correction; (c), (e), (g): conforming technical amendments. - Language in original bill.

Subject	CS House Bill 2001 (FH) am	SCS CS House Bill 2001 (FH) am
Exploration Tax Credits	CS Sec. 29. Amends AS 43.55.025(a). Raises the 20% exploration tax credit to 30%, and makes the existing 2016 sunset of the tax program uniformly applied.	CS Sec. 34. SAME AS HOUSE
Exploration Tax Credits	CS Sec. 30. Amends AS 43.55.025(b). Applies to exploration expenditures incurred for work performed after 12/31/2007; extends eligibility to delinquent wells drilled within 60 days; requires that an exploration well be completed, suspended, or shut down to qualify for a tax credit; disallows tax credits for specified costs.	CS Sec. 35. CHANGE FROM HOUSE Amends AS 43.55.025(b). House language except extends to exploration expenditures performed after 12/31/2007.
Exploration Tax Credits	CS Sec. 31. Repeals & reenacts AS 43.55.025(c). Provides a clearer definition for new exploration objectives and requires DNR evaluation; allows DNR to request specified information.	CS Sec. 36. CHANGE FROM HOUSE Repeals & reenacts AS 43.55.025(c). Generally House language.
Exploration Tax Credits	CS Sec. 32. Amends AS 43.55.025(f). Requires submission of information the DNR commissioner finds necessary; limits well data confidentiality to 24 months; gives DNR commissioner discretion to maintain confidentiality of information; provides for confidentiality of data acquired from private land; provides confidentiality for 30 days for seismic data; clarifies public availability of basic credit info.	CS Sec. 37. CHANGE FROM HOUSE Amends AS 43.55.025(f). House language except expands description of information required to be submitted.
Exploration Tax Credits	NOT IN HOUSE VERSION	CS Sec. 38. CHANGE FROM HOUSE Amends AS 43.55.025(g). Clarifies a tax-exempt entity may not transfer a credit certificate. - Language in original bill.
Exploration Tax Credits	NOT IN HOUSE VERSION	CS Sec. 39. CHANGE FROM HOUSE Amends AS 43.55.025(h). Conforming technical change.
Exploration Tax Credits	CS Sec. 33. Repeals & reenacts AS 43.55.025(i). Prohibits application of tax credit to reduce tax liability below zero; allows carry forward of tax credits.	CS Sec. 40. SAME AS HOUSE
Exploration Tax Credits	CS Sec. 34. Amends AS 43.55.025(k). Defines "preexisting well."	CS Sec. 41. SAME AS HOUSE
Exploration Tax Credits	CS Sec. 35. Amends AS 43.55.025. Adds a new subsection (l). Provides for a new five percent tax credit for oil seismic data that DNR determines is in state's interest to acquire. Adds new subsection (m) relating to AFMB tax credit refunds.	CS Sec. 42. CHANGE FROM HOUSE Amends AS 43.55.025. House language except deletes new subsection (m).
Oil & Gas Tax Credit Fund	NOT IN HOUSE VERSION	CS Sec. . CHANGE FROM HOUSE Adds AS 43.55.026. Creates an oil and gas tax credit fund funded by an appropriation of a percentage of production tax revenues. - In a separate section, repeals AS 43.55.023(f) (limits cash refunds by the state to \$25,000,000 for tax credits issued to small producers). - Language was in original bill
Reporting Requirements	CS Sec. 36. Amends AS 43.55.030(a). Makes clear every taxpayer must file an annual return; expands info requirements.	CS Sec. 43. SAME AS HOUSE
Reporting Requirements Penalties	CS Sec. 37. Amends AS 43.55.030(d). Adds late filing penalty of \$1,000/day.	CS Sec. 44. SAME AS HOUSE
Reporting Requirement	CS Sec. 38. Amends AS 43.55.030. Adds new subsections. (e) requires annual expenditure statement; and (f) authorizes DOR to require monthly filing of info.	CS Sec. 45. SAME AS HOUSE
Reporting Requirements and Penalties	CS Sec. 39. Amends AS 43.55.040. Clarifies DOR has authority to require filing of reports necessary to forecast state revenue; adds additional \$1,000 per day penalty after DOR provides notice of failure to file; also adds that interest accrues to the penalty.	CS Sec. 46. CHANGE FROM HOUSE Amends AS 43.55.040. Same as House except adds a requirement for a producer of more than 100,000 barrels a day to report Alaska oil and gas gross value and deductible lease expenditures.

Subject	CS House Bill 2001 (FIS) am	SCS CS House Bill 2001 (FIS) am
Tax Understatement Penalty	CS Sec. 39. Adds new section AS 43.55.70. Prohibits a producer or explorer from receiving tax credits if certain judgments are not satisfied.	
Assessment Statute of Limitations	CS Sec. 41. Amends AS 43.55. Adds a new section, AS 43.55.075, that expands statute of limitations for conducting tax assessments from three years to six years.	CS Sec. 47. SAME AS HOUSE
Prohibition on Tax Credits	CS Sec. 41. Adds new section AS 43.55.075. Prohibits a producer or explorer from receiving tax credits if certain judgments are not satisfied.	NOT IN SENATE VERSION
Electronic Filing Advisory Bulletins Whistle-blowers	CS Sec. 42. Amends AS 43.55.116. Adds new language (e) & (f) that authorizes DOR to require electronic filings and payments; (g) that gives DOR authority to issue advisory bulletins; and (h) adds whistleblower language: limit of \$1,000,000 compensation or 10% of additional amount collected; penalizes bad faith action by whistleblower.	CS Sec. 48. CHANGE FROM HOUSE Amends AS 43.55.116. Same as House except changes whistleblower compensation limit to \$80,000 (or 10% of additional amount collected).
Transportation Costs	CS Sec. 43. Amends AS 43.55.150(a) and (b). Provides for DOR to determine reasonable costs of transportation; limits tariffs treated as prima facie reasonable to those adjudicated just and reasonable.	CS Sec. 49. SAME AS HOUSE
Tax Determination	CS Sec. 44. Amends AS 43.55.160(a). Provides separate calculation of taxable value for gas used in state and conforms to changes in the progressivity tax; deletes monthly calculation language.	CS Sec. 50. CHANGE FROM HOUSE Amends AS 43.55.160(a). Retains monthly calculation language.
Tax Determination	NOT IN HOUSE VERSION	CS Sec. 51. CHANGE FROM HOUSE Amends AS 43.55.160(a). Conforms to original language.
Tax Determination	CS Sec. 45. Amends AS 43.55.160(e). Conforming amendment.	CS Sec. 52. CHANGE FROM HOUSE Amends AS 43.55.160(e). Conforming amendment and adds language that requires DOR to establish by regulation a method for application of Cook, West tax credits.
Lease Expenditures	CS Sec. 46. Repeals & reenacts AS 43.55.165(a). Describes deductible lease expenditures; requires that costs must be incurred in the state; requires that deductible lease expenditures be affirmatively allowed through regulation; allows overhead expenses.	CS Sec. 53. SAME AS HOUSE
Lease Expenditures	CS Sec. 47. Amends AS 43.55.165(b). Provides standards DOR may consider for determining lease expenditures; deletes overhead expenses (moved to 165(a)).	CS Sec. 54. SAME AS HOUSE
Lease Expenditures	CS Sec. 48. Amends AS 43.55.165(e) (non-deductible lease expenditures). Changed to include the following excluded costs: (a)(8) deductions for repair and replacement costs that arise from criminal negligence and violations of law, including the Clean Water Act, (a)(19) costs to construct, acquire or operate a refinery or topping plant, (a)(20) lobbying, public relations, public relations advertising, and public advocacy; (a)(12) for internal transactions, taxpayer must show any costs do not exceed market value. - AS 43.55.165(c) and (d) repealed in separate section (allowed DOR to substitute costs that are billable or actually billed through unit operating agreements in place of regulations enacted using the general lease expenditure standards).	CS Sec. 55. CHANGE FROM HOUSE Amends AS 43.55.165(e). Under (a)(2), allows deduction of net profits paid to the state under net profit share leases; (a)(8) changed to original bill language to disallow costs incurred for violations of law, or failure to comply with leases, permits or licenses; (a)(12) House original transaction requirements retained with wording changes; (a)(19) has original bill's original cost language; retains House disallowance refinery costs and costs of lobbying, public relations, public relations advertising and public advocacy. - (a)(8) and (a)(19) retroactive to April 1, 2006.
Lease Expenditures	CS Sec. 49. Amends AS 43.55.165(h). Conforming amendments to be consistent with tax provisions relating to gas used in state and other changes.	CS Sec. 56. SAME AS HOUSE
Standard Deduction	CS Sec. 50. Adds 43.55.165(k) and (l). Adds a standard deduction for operating costs on legacy fields. (House floor amendment also added AS 43.55.180(b) that required a report in 2010 but missing from bill).	CS Sec. 57. SAME AS HOUSE with 2010 sunset and technical changes.
Lease Expenditure Adjustments	CS Sec. 51. Amends AS 43.55.170(a). Conforming amendment necessitated by repeal of AS 43.55.165(c) and (d).	CS Sec. 58. SAME AS HOUSE

	CS House Bill 2001 (FH) am	SCS CS House Bill 2001 (FH) am
Information Disclosure	CS Sec. 52. Amends AS 43.55. Adds new section AS 43.55.890; makes clear DOR may publish production tax info that is aggregated among at least three taxpayers.	CS Sec. 58. SAME AS HOUSE
Applicability to Municipal Entities	NOT IN HOUSE VERSION	CS Sec. 53. CHANGE FROM HOUSE Adds new section AS 43.55.925. Municipal entities are subject to the same production tax that it sets to another party; a municipal entity subject to this tax is subject to the same tax.
Definitions	CS Sec. 54. Amends AS 43.55.901. Defines for "producer," "use," "progressivity tax rate" and "used in the state."	CS Sec. 59. CHANGE FROM HOUSE Amends AS 43.55.900. Defines House definitions for "progressivity tax rate" and "used in the state."
Conforming Sections	Repeals and Applicability -- of note, repealed report due in 2011 (not in Senate version)	Repeals and Applicability
Auditors Intent	CS Sec. 55. Provides legislative intent that the maximum number of exempt audit masters is four for DOR and two for DNR; allows DOA to develop a classification plan.	CS Sec. 63. SAME AS HOUSE regarding number of audit masters. CS Sec. 64. CHANGE FROM HOUSE: retains House language regarding a classification plan with changes to the wording so that audit masters are not supervisors.
Transition Payment of Tax	NOT IN HOUSE VERSION	CS Sec. 61. Adds language giving taxpayer to April 1, 2008 to pay balance of tax for the period June 30, 2007 and before effective date.
Transition Retroactivity of Regulations	CS Sec. 57. Allows regulations adopted by DNR to apply retroactively to April 1, 2008.	CS Sec. 62. CHANGE FROM HOUSE Allows regulations adopted by both DOR and DNR to be applied retroactively to the effective date of the statutory provisions being implemented.
Transition Regulations	CS Sec. 58. Authorizes DNR and DOR to proceed with adopting regulations.	CS Sec. 63. SAME AS HOUSE
Retroactivity	NO RETROACTIVE SECTIONS.	CS Sec. 64. Provides for the retroactivity of certain provisions. -- of note, production tax is retroactive to July 1, 2007.
Revisor's Instructions	CS Sec. 59. Revisor's instructions.	NOT IN SENATE VERSION
Effective Dates	CS Sec. 60. Specified sections take effect January 1, 2008.	CS Sec. 65. Amended TIE credit language takes effect January 1, 2008.
Effective Dates	CS Sec. 61. Provisions that contain sections take effect immediately.	CS Sec. 66. All sections except sec. 26 (TIE credits) take effect immediately.

CS/SCS for Calendar Back-up

RE: HB 2001

To Be Published Today

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SENATE CS FOR CS FOR HOUSE BILL NO. 2001(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - SECOND SPECIAL SESSION

BY THE SENATE FINANCE COMMITTEE

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 the sharing between agencies of certain information relating to the
3 production tax and to oil and gas or gas only leases; expanding the period in which the
4 Department of Revenue may assess the amount of oil and gas production tax and
5 conservation surcharges; relating to state oil and gas audit masters; relating to oil and
6 gas auditors and certain oil and gas auditor supervisors; making conforming
7 amendments; and providing for an effective date."

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

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

11 **LEGISLATIVE INTENT.** (a) It is the intent of the legislature that AS 43.55.075(b),
12 enacted by sec. 47 of this Act, confirm by clarification the long-standing interpretation of
13 AS 43.05.260 by the Department of Revenue relating to limitation of assessments for the

1 production tax on oil and gas and conservation surcharges on oil.

2 (b) It is the intent of the legislature that the amount of money received by the state as
3 a result of the retroactivity of certain provisions under sec. 68 of this Act that exceeds the
4 amount of money the state would have received if those provisions had not taken effect until
5 January 1, 2008, will be appropriated to the public education fund (AS 14.17.300).

6 (c) It is the intent of the legislature that the legislature will responsibly invest the
7 amounts received after December 31, 2007, as the result of the enactment of this Act that
8 exceed the amounts that would have been received under AS 43.55.011 - 43.55.180, as those
9 provisions read on June 30, 2007, as if those provisions had been applied after December 31,
10 2007, by making appropriations to the following:

11 (1) the public education fund (AS 14.17.300);

12 (2) the budget reserve fund (art. IX, sec. 17, Constitution of the State of
13 Alaska);

14 (3) to extinguish the amount of the employers' unfunded liability in the
15 teachers' defined benefit retirement plan and the public employees' defined benefit retirement
16 plan;

17 (4) the development and implementation of a long-range fiscal plan for the
18 state; and

19 (5) for statewide energy needs of Alaskans to assist with rising energy costs.

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

21 (a) The director shall

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

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

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

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

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

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

8 (7) have jurisdiction over state land, except that land acquired by the
9 Alaska World War II Veterans Board and the Agricultural Loan Board or the
10 departments or agencies succeeding to their respective functions through foreclosure
11 or default; to this end, the director possesses the powers and, with the approval of the
12 commissioner, shall perform the duties necessary to protect the state's rights and
13 interest in state land, including the taking of all necessary action to protect and
14 enforce the state's contractual or other property rights;

15 (8) [REPEALED]

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

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

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

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

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

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

31 (F) requests for information or applications by public agencies

1 for land ~~that~~ [WHICH] is being considered for use for a public purpose;

2 ~~(9)~~ [(10)] account for the fees, licenses, taxes, or other money
3 received in the administration of this chapter including the sale or leasing of land,
4 identify their source, and promptly transmit them to the proper fiscal department after
5 crediting them to the proper fund; receipts from land application filing fees and
6 charges for copies of maps and records shall be deposited immediately in the general
7 fund of the state by the director;

8 ~~(10)~~ [(11)] select and employ or obtain at reasonable compensation
9 cadastral, appraisal, or other professional personnel the director considers necessary
10 for the proper operation of the division;

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

18 (12) on request, furnish records, files, and other information
19 related to the administration of AS 38.05.180 to the Department of Revenue for
20 use in forecasting state revenue under or administering AS 43.55, whether or not
21 those records, files, and other information are required to be kept confidential
22 under (8) of this subsection; in the case of records, files, or other information
23 required to be kept confidential under (8) of this subsection, the Department of
24 Revenue shall maintain the confidentiality that the Department of Natural
25 Resources is required to extend to records, files, and other information under (8)
26 of this subsection

27 [(13) REPEALED

28 (14) REPEALED].

29 * Sec. 3. AS 38.05.036(b) is amended to read:

30 (b) The Department of Revenue may obtain from the department information
31 relating to royalty and net profits payments and to exploration incentive credits under

1 this chapter or under AS 41.09, whether or not that information is confidential. The
2 Department of Revenue may use the information in carrying out its functions and
3 responsibilities under AS 43, and shall hold that information confidential to the extent
4 required by an agreement with the department or by AS 38.05.035(a)(8)
5 [AS 38.05.035(a)(9)], AS 41.09.010(d), or AS 43.05.230.

6 * Sec. 4. AS 38.05.036(f) is amended to read:

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

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

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

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

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

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

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

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

1 (j) The commissioner

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

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

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

8 (ii) the field or pool has not previously produced oil or
9 gas for sale; and

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

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

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

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

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

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

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

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

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

11 (6) shall require the lessee or lessees to submit, with the application
12 for the royalty reduction, financial and technical data that demonstrate that the
13 requirements of this subsection are 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 keep the data confidential under AS 38.05.035(a)(8)
19 [AS 38.05.035(a)(9)] at the request of the lessee or lessees making application
20 for the royalty reduction; the confidential data may be disclosed by the
21 commissioner to legislators and to the legislative auditor and as directed by
22 the chair or vice-chair of the Legislative Budget and Audit Committee to the
23 director of the division of legislative finance, the permanent employees of
24 their respective divisions who are responsible for evaluating a royalty
25 reduction, and to agents or contractors of the legislative auditor or the
26 legislative finance director who are engaged under contract to evaluate the
27 royalty reduction, if they sign an appropriate confidentiality agreement;

28 (7) may

29 (A) require the lessee or lessees making application for the
30 royalty reduction under (1)(A) of this subsection to pay for the services of an
31 independent contractor, selected by the lessee or lessees from a list of

1 qualified consultants compiled by the commissioner, to evaluate hydrocarbon
2 development, production, transportation, and economics and to assist the
3 commissioner in evaluating the application and financial and technical data;
4 if, under this subparagraph, the commissioner requires payment for the
5 services of an independent contractor, the total cost of the services to be paid
6 for by the lessee or lessees may not exceed \$150,000 for each application, and
7 the commissioner shall determine the relevant scope of the work to be
8 performed by the contractor; selection of an independent contractor under this
9 subparagraph is not subject to AS 36.30;

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

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

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

1 committee's meeting to all members of the legislature;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

30 (42) oil and gas audit masters employed in a professional capacity by
31 the Department of Revenue and the Department of Natural Resources to collect oil

1 and gas revenue by developing policy, conducting studies, drafting proposed
2 regulations, enforcing regulations, and directing audits by oil and gas revenue
3 auditors.

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

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

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

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

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

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

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

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

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

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

31 (h) The commissioner shall, upon request, furnish to the Department of

1 Natural Resources copies of tax returns, reports, and other documents filed under
2 AS 43.55 or AS 43.65, and the Department of Revenue's determinations and
3 workpapers under those chapters. The Department of Natural Resources shall
4 maintain the confidentiality that the Department of Revenue is required to extend to
5 the returns, reports, documents, determinations, and workpapers furnished to the
6 Department of Natural Resources under this subsection.

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

8 (a) Except as provided in (c) of this section, [AND] AS 43.20.200(b), and
9 AS 43.55.075, the amount of a tax imposed by this title must be assessed within three
10 years after the return was filed, whether or not a return was filed on or after the date
11 prescribed by law. If the tax is not assessed before the expiration of the applicable
12 [THREE-YEAR] period, proceedings may not be instituted in court for the collection
13 of the tax.

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

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

23 * Sec. 16. AS 43.55.011(f) is amended to read:

24 (f) The levy of tax under this section for [ON A PRODUCER OF] oil and gas
25 produced north of 68 degrees North latitude, other than oil and gas production
26 subject to (i) of this section, may not be less than

27 (1) four percent of the gross value at the point of production when the
28 average price per barrel for Alaska North Slope crude oil for sale on the United States
29 West Coast during the calendar year for which the tax is due is more than \$25;

30 (2) three percent of the gross value at the point of production when the
31 average price per barrel for Alaska North Slope crude oil for sale on the United States

1 West Coast during the calendar year for which the tax is due is over \$20 but not over
2 \$25;

3 (3) two percent of the gross value at the point of production when the
4 average price per barrel for Alaska North Slope crude oil for sale on the United States
5 West Coast during the calendar year for which the tax is due is over \$17.50 but not
6 over \$20;

7 (4) one percent of the gross value at the point of production when the
8 average price per barrel for Alaska North Slope crude oil for sale on the United States
9 West Coast during the calendar year for which the tax is due is over \$15 but not over
10 \$17.50; or

11 (5) zero percent of the gross value at the point of production when the
12 average price per barrel for Alaska North Slope crude oil for sale on the United States
13 West Coast during the calendar year for which the tax is due is \$15 or less.

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

15 (g) The tax rate applied to the monthly production tax value of oil and gas
16 under (e) of this section for each month of the calendar year in which the tax is levied
17 is 25 percent plus, for each month for which the monthly average production tax
18 value for each BTU equivalent barrel is more than

19 (1) \$30 but not more than \$90, 0.4 percent multiplied by the number
20 that represents the difference between the average production tax value for each BTU
21 equivalent barrel of the taxable oil and gas for that month and \$30;

22 (2) \$90, the sum of 24 percent and the product of 0.1 percent
23 multiplied by the number that represents the difference between the average
24 production tax value for each BTU equivalent barrel of the taxable oil and gas for that
25 month and \$90, except that the sum determined under this paragraph may not exceed
26 50 percent.

27 * Sec. 18. AS 43.55.011(j) is amended to read:

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

31 (1) for a lease or property that first commenced commercial

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

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

16 * Sec. 19. AS 43.55.011(k) is amended to read:

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

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

28 (2) for a lease or property that first commences commercial
29 production of oil after March 31, 2006, the product obtained by multiplying (A) the
30 amount of taxable oil produced during the calendar year from the lease or property,
31 times (B) the average rate of tax that was imposed under this chapter for [ON]

1 taxable oil produced from all leases or properties in the Cook Inlet sedimentary basin
2 for the 12-month period ending on March 31, 2006, times (C) the average prevailing
3 value for oil produced and delivered in the Cook Inlet area for the 12-month period
4 ending on March 31, 2006, as determined by the department under AS 43.55.020(f).

5 * Sec. 20. AS 43.55.011(m) is repealed and reenacted:

6 (m) Notwithstanding any contrary provision of AS 38.05.180(i),
7 AS 41.09.010, AS 43.55.024, or 43.55.025, the department shall provide by
8 regulation a method to ensure that for a calendar year for which a producer's tax
9 liability is limited by AS 43.55.011(j) or (k), tax credits otherwise available under
10 AS 38.05.180(i), AS 41.09.010, AS 43.55.024, or 43.55.025 and allocated to oil or
11 gas subject to the limitations in AS 43.55.011(j) and (k) are accounted for as though
12 the credits had been applied first against a tax liability calculated without regard to
13 the limitations under AS 43.55.011(j) and (k) so as to reduce the tax liability to the
14 maximum amount provided for under AS 43.55.011(j) for the production of gas or
15 AS 43.55.011(k) for the production of oil. The regulation must provide for a
16 reasonable method to allocate tax credits to oil or gas subject to AS 43.55.011(j) and
17 (k). Only the amount of a tax credit remaining after the accounting provided for under
18 this subsection may be used for a later calendar year, transferred to another person, or
19 applied against a tax levied on the production of oil or gas not subject to
20 AS 43.55.011(j) or (k) to the extent otherwise allowed.

21 * Sec. 21. AS 43.55.020(a) is repealed and reenacted to read:

22 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
23 shall pay the tax as follows:

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

31 (A) for oil and gas produced from leases or properties in the

1 state outside the Cook Inlet sedimentary basin, other than leases or properties
2 subject to AS 43.55.011(f), the greater of

3 (i) zero; or

4 (ii) the total tax rate for the month determined in
5 AS 43.55.011(g) multiplied by the remainder obtained by subtracting
6 1/12 of the producer's adjusted lease expenditures for the calendar year
7 of production under AS 43.55.165 and 43.55.170 that are deductible
8 for the leases or properties under AS 43.55.160 from the gross value at
9 the point of production of the oil and gas produced from the leases or
10 properties during the month for which the installment payment is
11 calculated;

12 (B) for oil and gas produced from leases or properties subject
13 to AS 43.55.011(f), the greatest of

14 (i) zero;

15 (ii) zero percent, one percent, two percent, three
16 percent, or four percent, as applicable, of the gross value at the point of
17 production of the oil and gas produced from all leases or properties
18 during the month for which the installment payment is calculated; or

19 (iii) the total tax rate for the month determined in
20 AS 43.55.011(g) multiplied by the remainder obtained by subtracting
21 1/12 of the producer's adjusted lease expenditures for the calendar year
22 of production under AS 43.55.165 and 43.55.170 that are deductible
23 for those leases or properties under AS 43.55.160 from the gross value
24 at the point of production of the oil and gas produced from those leases
25 or properties during the month for which the installment payment is
26 calculated;

27 (C) for oil and gas produced from each lease or property
28 subject to AS 43.55.011(j) or (k), the greater of

29 (i) zero; or

30 (ii) the total tax rate for the month determined in
31 AS 43.55.011(g) multiplied by the remainder obtained by subtracting