

CS FOR SENATE BILL NO. 145(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 4/4/12

Referred: Finance

Sponsor(s): SENATORS WAGONER AND COGHILL, Thomas, McGuire, Dyson

A BILL

FOR AN ACT ENTITLED

1 **"An Act providing for a credit against the oil and gas production tax for costs incurred**
2 **for conducting seismic exploration and drilling certain oil or natural gas exploration**
3 **wells in certain basins; relating to certain nontransferable oil and gas production tax**
4 **credits; and providing a special tax rate for new oil or gas production south of 68**
5 **degrees North latitude."**

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

7 *** Section 1.** AS 43.55.011(e) is amended to read:

8 (e) There is levied on the producer of oil or gas a tax for all oil and gas
9 produced each calendar year from each lease or property in the state, less any oil and
10 gas the ownership or right to which is exempt from taxation or constitutes a
11 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), [AND]
12 (o), and (p) of this section, the tax is equal to the sum of
13 (1) the annual production tax value of the taxable oil and gas as

1 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

2 (2) the sum, over all months of the calendar year, of the tax amounts
3 determined under (g) of this section.

4 * **Sec. 2.** AS 43.55.011 is amended by adding a new subsection to read:

5 (p) After December 31, 2012, for the five years immediately following the
6 commencement of commercial production from a lease or property or unit that did not
7 have oil or gas production before January 1, 2013, the levy of tax under this section
8 for oil and gas produced south of 68 degrees North latitude, other than gas subject to
9 (i) or (j) of this section, gas subject to (o) of this section, or oil subject to (k) of this
10 section, is four percent of the gross value at the point of production.

11 * **Sec. 3.** AS 43.55.024(b) is amended to read:

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

14 (1) 2021 [2016]; or

15 (2) the ninth calendar year after the calendar year during which the
16 producer first has commercial oil or gas production before May 1, 2021 [2016], from
17 at least one lease or property in the state outside the Cook Inlet sedimentary basin, no
18 part of which is north of 68 degrees North latitude, if the producer did not have
19 commercial oil or gas production from a lease or property in the state outside the Cook
20 Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, before
21 April 1, 2006.

22 * **Sec. 4.** AS 43.55.025(a) is amended to read:

23 (a) Subject to the terms and conditions of this section, a credit against the
24 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that
25 qualify under (b) of this section in an amount equal to one of the following:

26 (1) 30 percent of the total exploration expenditures that qualify only
27 under (b) and (c) of this section;

28 (2) 30 percent of the total exploration expenditures that qualify only
29 under (b) and (d) of this section;

30 (3) 40 percent of the total exploration expenditures that qualify under
31 (b), (c), and (d) of this section;

1 (4) 40 percent of the total exploration expenditures that qualify only
2 under (b) and (e) of this section; [OR]

3 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
4 section, of the total exploration expenditures described in (b)(1) and (2) of this section
5 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
6 section;

7 **(6) the lesser of \$22,500,000 or 80 percent of the total exploration**
8 **drilling expenditures described in (n) of this section and that qualify under (b)**
9 **and (c) of this section; or**

10 **(7) the lesser of \$7,500,000 or 75 percent of the total seismic**
11 **exploration expenditures described in (o) of this section and that qualify under**
12 **(b) of this section.**

13 * **Sec. 5.** AS 43.55.025(c) is amended to read:

14 (c) To be eligible for **a** [THE 30 PERCENT] production tax credit authorized
15 by (a)(1), **(3), or (6)** of this section [OR THE 40 PERCENT PRODUCTION TAX
16 CREDIT AUTHORIZED BY (a)(3) OF THIS SECTION], exploration expenditures
17 must

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

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

20 (A) before the well is spudded,

21 (i) the explorer shall submit to the commissioner of
22 natural resources the information necessary to determine whether the
23 geological objective of the well is a potential oil or gas trap that is
24 distinctly separate from any trap that has been tested by a preexisting
25 well;

26 (ii) at the time of the submittal of information under (i)
27 of this subparagraph, the commissioner of natural resources may
28 request from the explorer that specific data sets, ancillary data, and
29 reports including all results, and copies of well data collected and data
30 analyses for the well be provided to the Department of Natural
31 Resources upon completion of the drilling; in this sub-subparagraph,

1 well data include all analyses conducted on physical material, and well
 2 logs collected from the well and sample analyses; testing geophysical
 3 and velocity data including vertical seismic profiles and check shot
 4 surveys; testing data and analyses; age data; geochemical analyses; and
 5 access to tangible material; and

6 (iii) the commissioner of natural resources must make
 7 an affirmative determination as to whether the geological objective of
 8 the well is a potential oil or gas trap that is distinctly separate from any
 9 trap that has been tested by a preexisting well and what information
 10 under (ii) of this subparagraph must be submitted by the explorer after
 11 completion, abandonment, or suspension under AS 31.05.030; the
 12 commissioner of natural resources shall make that determination within
 13 60 days after receiving all the necessary information from the explorer
 14 based on the information received and on other information the
 15 commissioner of natural resources considers relevant;

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

21 (C) after completion, suspension, or abandonment under
 22 AS 31.05.030 of the exploration well, the commissioner of natural resources
 23 must determine that the well was consistent with achieving the explorer's
 24 stated geological objective.

25 * **Sec. 6.** AS 43.55.025 is amended by adding new subsections to read:

26 (n) The persons that drill the first four exploration wells in the state and within
 27 the areas described in (p) of this section on state or private lands for the purpose of
 28 discovering oil or gas that penetrate and evaluate a prospect in a basin described in (p)
 29 of this section are eligible for a credit under (a)(6) of this section. A credit under this
 30 subsection may not be taken for more than two exploration wells in a single area
 31 described in (p)(1) - (6) of this section. Exploration expenditures eligible for the credit

1 in this subsection must be incurred for work performed after June 1, 2012. A person
2 planning to drill an exploration well on private land and to apply for a credit under this
3 subsection shall obtain written consent from the owner of the oil and gas interest for
4 the full public release of all well data after the expiration of the confidentiality period
5 applicable to information collected under (f) of this section and in conjunction with
6 and compliance with the data submission requirements in (f)(2) of this section. The
7 written consent of the owner of the oil and gas interest must be submitted to the
8 commissioner of natural resources before approval of the proposed exploration well.
9 In addition to the requirements in (c) of this section and submission of the written
10 consent of the owner of the oil and gas interest, a person planning to drill an
11 exploration well shall obtain approval from the commissioner of natural resources
12 before the well is spudded. The commissioner of natural resources shall make a
13 written determination approving or rejecting an exploration well within 60 days after
14 receiving the request for approval or as soon as is practicable thereafter. Before
15 approving the exploration well, the commissioner of natural resources shall consider
16 the following: the location of the well; the proximity to a community in need of a local
17 energy source; the proximity of existing infrastructure; the experience and safety
18 record of the explorer in conducting operations in remote or roadless areas; the
19 projected cost schedule; whether seismic mapping and seismic data sufficiently
20 identify a particular trap for exploration; whether the targeted and planned depth and
21 range are designed to penetrate and fully evaluate the hydrocarbon potential of the
22 proposed prospect and reach the level below which economic hydrocarbon reservoirs
23 are likely to be found, or reach 12,000 feet or more true vertical depth; and whether
24 the exploration plan provides for a full evaluation of the wellbore below surface casing
25 to the depth of the well. Whether the exploration well for which a credit is requested
26 under this subsection is located within an area and a basin described under (p) of this
27 section shall be determined by the commissioner of natural resources and reported to
28 the commissioner. A taxpayer that obtains a credit under this subsection may not claim
29 a tax credit under AS 43.55.023 or another provision in this section for the same
30 exploration expenditure.

31 (o) The persons that conduct the first four seismic exploration projects in the

1 state and within the areas described in (p) of this section for the purpose of discovering
2 oil or gas in a basin are eligible for the credit under (a)(7) of this section. A credit
3 under this subsection may not be taken for more than one seismic exploration project
4 in a single area described in (p)(1) - (6) of this section. Exploration expenditures
5 eligible for the credit in this subsection must be incurred for work performed after
6 June 1, 2012. A person planning to conduct a seismic exploration project on private
7 land and to apply for a credit under this subsection shall obtain written consent from
8 the owner of the oil and gas interest for the full public release of all geophysical data
9 and compliance with the data submission requirements in (f)(2) of this section.
10 Notwithstanding (f)(2)(C)(ii) of this section, to qualify for a credit under this
11 subsection, a person shall submit the written consent of the owner of the oil and gas
12 interest for the release of data if applicable, and all data required under (f)(2) of this
13 section to the Department of Natural Resources and shall agree in writing that all
14 seismic data requirements submitted under the requirements of (f)(2) of this section
15 may be made public two years after receiving a credit under this subsection. A person
16 intending to qualify for the tax credit under this subsection shall obtain approval from
17 the commissioner of natural resources before the commencement of the seismic
18 exploration activities. The commissioner of natural resources shall make a written
19 determination approving or rejecting a seismic project within 60 days after receiving
20 the request for approval or as soon as is practicable thereafter. Before approving a
21 seismic exploration project, the commissioner shall consider the following: the
22 location of the project; the projected cost schedule; the data acquisition and data
23 processing plan; the reasons for choosing the particular area for seismic exploration;
24 and the experience and safety record of the person in conducting seismic exploration
25 operations in remote or roadless areas. Whether the seismic exploration project for
26 which a credit is requested under this subsection is located in a basin described in (p)
27 of this section shall be determined by the commissioner of natural resources and
28 reported to the commissioner. A taxpayer that obtains a credit under this subsection
29 may not claim a tax credit under AS 43.55.023 or another provision in this section for
30 the same exploration expenditure.

31 (p) The activity that is the basis for a credit claimed under (a)(6) and (n) of

1 this section or (a)(7) and (o) of this section must be for the exploration of a basin and
2 within the following areas whose central points are determined using the World
3 Geographic System of 1984 datum,

4 (1) 100 miles from 66.896128 degrees North, -162.598187 degrees
5 West;

6 (2) 150 miles from 64.839474 degrees North, -147.72094 degrees
7 West;

8 (3) 50 miles from 62.776428 degrees North, -164.495201 degrees
9 West;

10 (4) 50 miles from 62.110357 degrees North, -145.530551 degrees
11 West;

12 (5) 100 miles from 58.189868 degrees North, -157.371104 degrees
13 West;

14 (6) 100 miles from 56.005988 degrees North, -160.56083 degrees
15 West.