SENATE BILL NO. 202

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY SENATORS WIELECHOWSKI, Gardner, Ellis, French

Introduced: 2/24/14
Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to the oil and gas production tax; relating to oil and gas production tax credits; amending the minimum tax on oil and gas production; relating to the determination of the production tax value of oil and gas; relating to oil and gas leases; relating to the financing by the Alaska Industrial Development and Export Authority of oil processing facilities on the North Slope; and providing for an effective date."

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

*** Section 1.** AS 29.60.850(b) is amended to read:

(b) Each fiscal year, the legislature may appropriate to the community revenue sharing fund **an amount equal to 20 percent of the** money received by the state during the previous calendar year under **AS 43.55.011(g)** [AS 43.20.030(c)]. The amount may not exceed

(1) $60,000,000; or

(2) the amount that, when added to the fund balance on June 30 of the

previous fiscal year, equals $180,000,000.

*** Sec. 2.** AS 38.05.180(h) is amended to read:

(h) The commissioner **<u>shall</u>** [MAY] include terms in **<u>a</u>** [ANY] lease **<u>that impose</u>** [IMPOSING] a minimum work commitment on the lessee **<u>to implement the plan of development submitted by the lessee with a bid for an oil and gas or gas only lease. The terms of the minimum work commitment must</u>** [. EXCEPT AS PROVIDED IN (m) OF THIS SECTION, THESE TERMS MUST BE MADE PUBLIC BEFORE THE SALE, AND MAY] include appropriate penalty provisions to take effect in the event the lessee does not fulfill the minimum work commitment. If it is demonstrated that a lease has been proven unproductive by actions of adjacent lease holders, the commissioner may set aside a work commitment. The commissioner may waive for a period not to exceed one two-year period any term of a minimum work commitment if the commissioner makes a written finding either that conditions preventing drilling or exploration were beyond the lessee's reasonable ability to foresee or control or that the lessee has demonstrated through good faith efforts an intent and ability to drill or develop the lease during the term of the waiver.

*** Sec. 3.** AS 38.05.180(x) is amended to read:

(x) A lessee conducting or permitting any exploration for, or development or production of, oil or gas on state land shall provide the commissioner access to all noninterpretive data obtained from that lease**<u>; shall provide the commissioner access to all information necessary to perform an economic analysis under (ii)(2) of this section, including the capital, operating, production, and development costs and an estimate of total reserves;</u>** and shall provide copies of that data **<u>and information</u>**, as the commissioner may request. The confidentiality provisions of AS 38.05.035 apply to the information obtained under this subsection.

*** Sec. 4.** AS 38.05.180 is amended by adding new subsections to read:

(hh) The commissioner shall require each bidder for an oil and gas lease or gas only lease and each lessee applying for an extension or renewal of an oil and gas lease or gas only lease to submit a plan of development for exploring, developing, and producing from the lease within the period of the lease or the extension or renewal of the lease. The commissioner shall review each plan of development and determine whether the proposed plan of development is reasonably expected to develop the lease in the best interest of the state. The plan of development shall be included in a lease along with penalties for failing to comply with the plan of development and other terms of the lease. A bidder may not be a qualified bidder for the purposes of (f)(1) of this section if the commissioner finds that the bidder has not submitted a proposed plan of development that is in the best interest of the state or that the person that submitted the plan of development is not reasonably capable of implementing the plan.

(ii) The commissioner shall

(1) review each oil and gas lease or gas only lease each year for the purpose of determining whether a lease is being developed in the best interest of the state, whether the lessee is complying with the plan of development applicable to the lease, and whether revision of a plan of development, including the planned rate of development, would provide the maximum benefit to the people of the state;

(2) every five years, perform an economic analysis on each participating area and determine whether the participating area is capable of increased production in paying quantities over the current rate of production or plan of development;

(3) enforce the terms of each oil and gas lease or gas only lease, including imposing any applicable penalty or other remedy for noncompliance, within a reasonable time after finding that a lessee is out of compliance with the terms of the lease;

(4) submit a report to the legislature before the first day of each regular session that lists each oil and gas or gas only lessee that is found to be out of compliance and the action by the commissioner to bring the lessee back into compliance or to terminate the lease.

(jj) For the purposes of (hh) and (ii) of this section, a plan of development for a cooperative or unit under (p) of this section is the plan of development for a lease within the cooperative or unit, except where a different plan of development is established for a lease within the cooperative or unit.

(kk) For purposes of (ii) of this section,

(1) "participating area" means that part of an oil and gas lease unit area

to which production is allocated in the manner described in a unit agreement;

(2) "production in paying quantities" means production in quantities sufficient to yield a return in excess of drilling, development, and operating costs.

*** Sec. 5.** AS 43.05.225 is amended to read:

Sec. 43.05.225. Interest. Unless otherwise provided,

(1) **<u>when a tax levied in this title becomes delinquent, it</u>** [A DELINQUENT TAX UNDER THIS TITLE,

(A) BEFORE JANUARY 1, 2014,] bears interest in each calendar quarter at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater, compounded quarterly as of the last day of that quarter; [OR

(B) ON AND AFTER JANUARY 1, 2014, BEARS INTEREST IN EACH CALENDAR QUARTER AT THE RATE OF THREE PERCENTAGE POINTS ABOVE THE ANNUAL RATE CHARGED MEMBER BANKS FOR ADVANCES BY THE 12TH FEDERAL RESERVE DISTRICT AS OF THE FIRST DAY OF THAT CALENDAR QUARTER;]

(2) the interest rate is 12 percent a year for

(A) delinquent fees payable under AS 05.15.095(c); and

(B) unclaimed property that is not timely paid or delivered, as allowed by AS 34.45.470(a).

*** Sec. 6.** AS 43.55.011(e) is amended to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), (k), (o), and (p) of this section, **<u>the tax is equal to</u>**

(1) [BEFORE JANUARY 1, 2014, THE TAX IS EQUAL TO] the sum of

[(A)] the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1)**, as adjusted by AS 43.55.162,** multiplied by 25 percent; and

(2) [(B)] the sum, over all months of the calendar year, of the tax amounts determined under (g) of this section [;

(2) ON AND AFTER JANUARY 1, 2014, THE TAX IS EQUAL TO THE ANNUAL PRODUCTION TAX VALUE OF THE TAXABLE OIL AND GAS AS CALCULATED UNDER AS 43.55.160(a)(1) MULTIPLIED BY 35 PERCENT].

*** Sec. 7.** AS 43.55.011(f) is repealed and reenacted to read:

(f) Except for oil and gas subject to (i) of this section and gas subject to (o) of this section, the provisions of this subsection apply to oil and gas produced from each lease or property within a unit or nonunitized reservoir that has cumulatively produced 400,000,000 BTU equivalent barrels of oil or gas by the close of the most recent calendar year and from which the average daily oil and gas production from the unit or nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU equivalent barrels. Notwithstanding any contrary provision of law, a producer may not apply tax credits to reduce its total tax liability under (e) and (g) of this section for oil and gas produced from all leases or properties within the unit or nonunitized reservoir below 10 percent of the total gross value at the point of production of that oil and gas. If the amount of tax calculated by multiplying the tax rates in (e) and (g) of this section by the total production tax value of the oil and gas taxable under (e) and (g) of this section produced from all of the producer's leases or properties within the unit or nonunitized reservoir is less than 10 percent of the total gross value at the point of production of that oil and gas, the tax levied by (e) and (g) of this section for that oil and gas is equal to 10 percent of the total gross value at the point of production of that oil and gas.

*** Sec. 8.** AS 43.55.011(g) is amended to read:

(g) For each month of a calendar year [BEFORE 2014] for which the producer's average monthly production tax value under AS 43.55.160(a)(2) of a BTU equivalent barrel of the taxable oil and gas is more than $30, the amount of tax for purposes of **(e)(2)** [(e)(1)(B)] of this section is determined by multiplying the monthly production tax value of the taxable oil and gas produced during the month**, as**

adjusted by AS 43.55.162, by the tax rate calculated as follows:

(1) if the producer's average monthly production tax value of a BTU equivalent barrel of the taxable oil and gas for the month is not more than **$67.50** [$92.50], the tax rate is 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value of a BTU equivalent barrel and $30; [OR]

(2) **if the producer's average monthly production tax value of a BTU equivalent barrel of the taxable oil and gas for the month is more than $67.50 and not more than $87.50, the tax rate is the sum of 15 percent and the product of 0.25 percent multiplied by the number that represents the difference between the average monthly production tax value of a BTU equivalent barrel and $67.50; or**

(3) if the producer's average monthly production tax value of a BTU equivalent barrel of the taxable oil and gas for the month is more than **$87.50** [$92.50], the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between the average monthly production tax value of a BTU equivalent barrel and **$87.50** [$92.50], except that the sum determined under this paragraph may not exceed **25** [50] percent.

*** Sec. 9.** AS 43.55.011(i) is amended to read:

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

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

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

(3) if the department determines that, for purposes of reducing the producer's tax liability under (1) or (2) of this subsection, the producer has received or will receive consideration from the royalty owner offsetting all or a part of the

producer's royalty obligation, other than a deduction under **<u>AS 43.55.020(m)</u>** [AS 43.55.020 RELATED TO A SETTLEMENT WITH A ROYALTY OWNER] of the amount of a tax paid, then, notwithstanding (1) and (2) of this subsection, the tax is equal to 25 percent of the gross value at the point of production of the oil and gas.

*** Sec. 10.** AS 43.55.011(o) is amended to read:

(o) Notwithstanding other provisions of this section, for a calendar year before 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas produced from a lease or property outside the Cook Inlet sedimentary basin and used in the state [, OTHER THAN GAS SUBJECT TO (p) OF THIS SECTION,] may not exceed the amount of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

*** Sec. 11.** AS 43.55.011(p) is amended to read:

(p) For the seven years immediately following the commencement of commercial production of oil or gas produced from leases or properties in the state that are outside the Cook Inlet sedimentary basin and that do not include land located north of 68 degrees North latitude, where that commercial production began after December 31, 2012, and before January 1, **<u>2022</u>** [2027], the levy of tax under (e) of this section for oil and gas may not exceed four percent of the gross value at the point of production.

*** Sec. 12.** AS 43.55.020(a) is amended to read:

(a) For a calendar year, a producer subject to tax under **<u>AS 43.55.011(e) - (i) or (p)</u>** [AS 43.55.011] shall pay the tax as follows:

(1) [BEFORE JANUARY 1, 2014,] an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) for oil and gas not subject to AS 43.55.011(o) or (p) produced from leases or properties in the state outside the Cook Inlet sedimentary basin, other than leases or properties subject to AS 43.55.011(f), the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the **leases or properties** [OIL AND GAS] under AS 43.55.160 **and 1/12 of the adjustment to the production tax value for the calendar year under AS 43.55.162** from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated;

(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), **10 percent of the gross value at the point of production of that oil and gas** [THE GREATEST OF

(i) ZERO;

(ii) ZERO PERCENT, ONE PERCENT, TWO PERCENT, THREE PERCENT, OR FOUR PERCENT, AS APPLICABLE, OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS PRODUCED FROM THE LEASES OR PROPERTIES DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED; OR

(iii) THE SUM OF 25 PERCENT AND THE TAX RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g) MULTIPLIED BY THE REMAINDER OBTAINED BY SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE FOR THE OIL AND GAS UNDER AS 43.55.160 FROM THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL

AND GAS PRODUCED FROM THOSE LEASES OR PROPERTIES DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED];

(C) for oil or gas subject to AS 43.55.011(j), (k), [OR] (o)**, or (p)**, for each lease or property, the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160 **and 1/12 of the adjustment to the production tax value for the calendar year under AS 43.55.162** for the oil or gas, **as applicable** [RESPECTIVELY], produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

[(D) FOR OIL AND GAS SUBJECT TO AS 43.55.011(p), THE LESSER OF

(i) THE SUM OF 25 PERCENT AND THE TAX RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g) MULTIPLIED BY THE REMAINDER OBTAINED BY SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE FOR THE OIL AND GAS UNDER AS 43.55.160 FROM THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS PRODUCED FROM THE LEASES OR PROPERTIES DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED, BUT NOT LESS THAN ZERO; OR

(ii) FOUR PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS

PRODUCED FROM THE LEASES OR PROPERTIES DURING THE MONTH, BUT NOT LESS THAN ZERO;]

(2) an amount calculated under (1)(C) of this subsection for oil or gas <u>**produced from a lease or property**</u>

<u>**(A)**</u> subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;

<u>**(B) subject to AS 43.55.011(p) may not exceed four percent of the gross value at the point of production of the oil or gas;**</u>

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

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

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

(4) any amount of tax levied by <u>**AS 43.55.011(e) or (i)**</u> [AS 43.55.011], net of any credits applied as allowed by law, that exceeds the total of the amounts due as installment payments of estimated tax is due on March 31 of the year following the calendar year of production [;

(5) ON AND AFTER JANUARY 1, 2014, AN INSTALLMENT PAYMENT OF THE ESTIMATED TAX LEVIED BY AS 43.55.011(e), NET OF ANY TAX CREDITS APPLIED AS ALLOWED BY LAW, IS DUE FOR EACH MONTH OF THE CALENDAR YEAR ON THE LAST DAY OF THE FOLLOWING MONTH; EXCEPT AS OTHERWISE PROVIDED UNDER (6) OF THIS SUBSECTION, THE AMOUNT OF THE INSTALLMENT PAYMENT IS THE SUM OF THE FOLLOWING AMOUNTS, LESS 1/12 OF THE TAX CREDITS THAT ARE ALLOWED BY LAW TO BE APPLIED AGAINST THE TAX LEVIED BY AS 43.55.011(e) FOR THE CALENDAR YEAR, BUT THE AMOUNT OF THE INSTALLMENT PAYMENT MAY NOT BE LESS THAN ZERO:

(A) FOR OIL AND GAS NOT SUBJECT TO AS 43.55.011(o) OR (p) PRODUCED FROM LEASES OR PROPERTIES IN THE STATE OUTSIDE THE COOK INLET SEDIMENTARY BASIN, OTHER THAN LEASES OR PROPERTIES SUBJECT TO AS 43.55.011(f), THE GREATER OF

(i) ZERO; OR

(ii) 35 PERCENT MULTIPLIED BY THE REMAINDER OBTAINED BY SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE FOR THE OIL AND GAS UNDER AS 43.55.160 FROM THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS PRODUCED FROM THE LEASES OR PROPERTIES DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED;

(B) FOR OIL AND GAS PRODUCED FROM LEASES OR PROPERTIES SUBJECT TO AS 43.55.011(f), THE GREATEST OF

(i) ZERO;

(ii) ZERO PERCENT, ONE PERCENT, TWO PERCENT, THREE PERCENT, OR FOUR PERCENT, AS APPLICABLE, OF THE GROSS VALUE AT THE POINT OF

PRODUCTION OF THE OIL AND GAS PRODUCED FROM THE LEASES OR PROPERTIES DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED; OR

(iii) 35 PERCENT MULTIPLIED BY THE REMAINDER OBTAINED BY SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE FOR THE OIL AND GAS UNDER AS 43.55.160 FROM THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS PRODUCED FROM THOSE LEASES OR PROPERTIES DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED, EXCEPT THAT, FOR THE PURPOSES OF THIS CALCULATION, A REDUCTION FROM THE GROSS VALUE AT THE POINT OF PRODUCTION MAY APPLY FOR OIL AND GAS SUBJECT TO AS 43.55.160(f) OR (g);

(C) FOR OIL OR GAS SUBJECT TO AS 43.55.011(j), (k), OR (o), FOR EACH LEASE OR PROPERTY, THE GREATER OF

(i) ZERO; OR

(ii) 35 PERCENT MULTIPLIED BY THE REMAINDER OBTAINED BY SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE UNDER AS 43.55.160 FOR THE OIL OR GAS, RESPECTIVELY, PRODUCED FROM THE LEASE OR PROPERTY FROM THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL OR GAS, RESPECTIVELY, PRODUCED FROM THE LEASE OR PROPERTY DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED;

(D) FOR OIL AND GAS SUBJECT TO AS 43.55.011(p),

THE LESSER OF

(i) 35 PERCENT MULTIPLIED BY THE REMAINDER OBTAINED BY SUBTRACTING 1/12 OF THE PRODUCER'S ADJUSTED LEASE EXPENDITURES FOR THE CALENDAR YEAR OF PRODUCTION UNDER AS 43.55.165 AND 43.55.170 THAT ARE DEDUCTIBLE FOR THE OIL AND GAS UNDER AS 43.55.160 FROM THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS PRODUCED FROM THE LEASES OR PROPERTIES DURING THE MONTH FOR WHICH THE INSTALLMENT PAYMENT IS CALCULATED, BUT NOT LESS THAN ZERO; OR

(ii) FOUR PERCENT OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS PRODUCED FROM THE LEASES OR PROPERTIES DURING THE MONTH, BUT NOT LESS THAN ZERO;

(6) AN AMOUNT CALCULATED UNDER (5)(C) OF THIS SUBSECTION FOR OIL OR GAS SUBJECT TO AS 43.55.011(j), (k), OR (o) MAY NOT EXCEED THE PRODUCT OBTAINED BY CARRYING OUT THE CALCULATION SET OUT IN AS 43.55.011(j)(1) OR (2) OR 43.55.011(o), AS APPLICABLE, FOR GAS OR SET OUT IN AS 43.55.011(k)(1) OR (2), AS APPLICABLE, FOR OIL, BUT SUBSTITUTING IN AS 43.55.011(j)(1)(A) OR (2)(A) OR 43.55.011(o), AS APPLICABLE, THE AMOUNT OF TAXABLE GAS PRODUCED DURING THE MONTH FOR THE AMOUNT OF TAXABLE GAS PRODUCED DURING THE CALENDAR YEAR AND SUBSTITUTING IN AS 43.55.011(k)(1)(A) OR (2)(A), AS APPLICABLE, THE AMOUNT OF TAXABLE OIL PRODUCED DURING THE MONTH FOR THE AMOUNT OF TAXABLE OIL PRODUCED DURING THE CALENDAR YEAR].

*** Sec. 13.** AS 43.55.020(g) is amended to read:

(g) Notwithstanding any contrary provision of AS 43.05.225,

[(1) BEFORE JANUARY 1, 2014,] an unpaid amount of an installment payment required under (a)(1) - (3) of this section that is not paid when due bears interest **<u>(1)</u>** [(A)] at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the date the installment payment is due until March 31 following the calendar year of production, and **<u>(2)</u>** [(B)] as provided for a delinquent tax under AS 43.05.225 after that March 31**<u>.</u>** **<u>Interest</u>** [; INTEREST] accrued under **<u>(1)</u>** [(A)] of this **<u>subsection</u>** [PARAGRAPH] that remains unpaid after that March 31 is treated as an addition to tax that bears interest under **<u>(2)</u>** [(B)] of this **<u>subsection. An</u>** [PARAGRAPH; AN] unpaid amount of tax due under (a)(4) of this section that is not paid when due bears interest as provided for a delinquent tax under AS 43.05.225 [;

(2) ON AND AFTER JANUARY 1, 2014, AN UNPAID AMOUNT OF AN INSTALLMENT PAYMENT REQUIRED UNDER (a)(3), (5), OR (6) OF THIS SECTION THAT IS NOT PAID WHEN DUE BEARS INTEREST (A) AT THE RATE PROVIDED FOR AN UNDERPAYMENT UNDER 26 U.S.C. 6621 (INTERNAL REVENUE CODE), AS AMENDED, COMPOUNDED DAILY, FROM THE DATE THE INSTALLMENT PAYMENT IS DUE UNTIL MARCH 31 FOLLOWING THE CALENDAR YEAR OF PRODUCTION, AND (B) AS PROVIDED FOR A DELINQUENT TAX UNDER AS 43.05.225 AFTER THAT MARCH 31; INTEREST ACCRUED UNDER (A) OF THIS PARAGRAPH THAT REMAINS UNPAID AFTER THAT MARCH 31 IS TREATED AS AN ADDITION TO TAX THAT BEARS INTEREST UNDER (B) OF THIS PARAGRAPH; AN UNPAID AMOUNT OF TAX DUE UNDER (a)(4) OF THIS SECTION THAT IS NOT PAID WHEN DUE BEARS INTEREST AS PROVIDED FOR A DELINQUENT TAX UNDER AS 43.05.225].

*** Sec. 14.** AS 43.55.020(h) is amended to read:

(h) Notwithstanding any contrary provision of AS 43.05.280,

(1) an overpayment of an installment payment required under (a)(1) - (3) [, (5) OR (6)] of this section bears interest at the rate provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from the later of the date the installment payment is due or the date the overpayment is made, until the earlier of

(A) the date it is refunded or is applied to an underpayment; or

(B) March 31 following the calendar year of production;

(2) except as provided under (1) of this subsection, interest with respect to an overpayment is allowed only on any net overpayment of the payments required under (a) of this section that remains after the later of March 31 following the calendar year of production or the date that the statement required under AS 43.55.030(a) is filed;

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

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

*** Sec. 15.** AS 43.55.020 is amended by adding a new subsection to read:

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

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

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

*** Sec. 16.** AS 43.55.023(a) is amended to read:

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

(1) notwithstanding that a qualified capital expenditure may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a qualified capital expenditure may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of **<u>10</u>** [20] percent of that expenditure; **<u>however, not more than half of the tax credit may be applied for a single calendar year;</u>**

(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2); and

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2) [;

(3) A CREDIT FOR A QUALIFIED CAPITAL EXPENDITURE INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE MAY BE TAKEN ONLY IF THE EXPENDITURE IS INCURRED BEFORE JANUARY 1, 2014].

*** Sec. 17.** AS 43.55.023(b) is amended to read:

(b) **<u>A</u>** [BEFORE JANUARY 1, 2014, A] producer or explorer may elect to take a tax credit in the amount of 25 percent of a carried-forward annual loss. [FOR LEASE EXPENDITURES INCURRED ON AND AFTER JANUARY 1, 2014, AND BEFORE JANUARY 1, 2016, TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE, A PRODUCER OR EXPLORER MAY ELECT TO TAKE A TAX CREDIT IN THE AMOUNT OF 45 PERCENT OF A CARRIED-FORWARD ANNUAL LOSS. FOR LEASE EXPENDITURES INCURRED ON AND AFTER JANUARY 1, 2016, TO

EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE, A PRODUCER OR EXPLORER MAY ELECT TO TAKE A TAX CREDIT IN THE AMOUNT OF 35 PERCENT OF A CARRIED-FORWARD ANNUAL LOSS. FOR LEASE EXPENDITURES INCURRED ON OR AFTER JANUARY 1, 2014, TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED SOUTH OF 68 DEGREES NORTH LATITUDE, A PRODUCER OR EXPLORER MAY ELECT TO TAKE A TAX CREDIT IN THE AMOUNT OF 25 PERCENT OF A CARRIED-FORWARD ANNUAL LOSS.] A credit under this subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of this subsection, a carried-forward annual loss is the amount of a producer's or explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a previous calendar year that was not deductible in calculating production tax values for that calendar year under AS 43.55.160.

*** Sec. 18.** AS 43.55.023(d) is amended to read:

(d) A person that is entitled to take a tax credit under this section that wishes to transfer the unused credit to another person or obtain a cash payment under AS 43.55.028 may apply to the department for [A] transferable tax credit **<u>certificates</u>** [CERTIFICATE]. An application under this subsection must be in a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than 120 days after the latest of (1) March 31 of the year following the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; or (3) the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant **<u>two</u>** [A] transferable tax credit **<u>certificates, each for half of</u>** [CERTIFICATE FOR] the amount of the credit. **<u>The credit shown on one of the two certificates is available</u>**

<u>**for immediate use. The credit shown on the second of the two certificates may not be applied against a tax for a calendar year earlier than the calendar year following the calendar year in which the certificate is issued, and the certificate must contain a conspicuous statement to that effect.**</u> A certificate issued under this subsection does not expire.

*** Sec. 19.** AS 43.55.023(g) is amended to read:

(g) The issuance of a transferable tax credit certificate under (d) [OF THIS SECTION] or <u>**(q)**</u> [FORMER (m)] of this section or the purchase of a certificate under AS 43.55.028 does not limit the department's ability to later audit a tax credit claim to which the certificate relates or to adjust the claim if the department determines, as a result of the audit, that the applicant was not entitled to the amount of the credit for which the certificate was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit that exceeds that to which the applicant was entitled, or the applicant's available valid outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased under this subsection, the increase bears interest under AS 43.05.225 from the date the transferable tax credit certificate was issued. For purposes of this subsection, an applicant that is an explorer is considered a producer subject to the tax levied by AS 43.55.011(e).

*** Sec. 20.** AS 43.55.023(n) is amended to read:

(n) For the purposes of (*l*) <u>**and (q)**</u> of this section, a well lease expenditure incurred in the state south of 68 degrees North latitude is a lease expenditure that is

(1) directly related to an exploration well, a stratigraphic test well, a producing well, or an injection well other than a disposal well, located in the state south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure and an intangible drilling and development cost authorized under 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well includes an expenditure for well sidetracking, well deepening, well completion or recompletion, or well workover, regardless of whether the well is or has been a producing well; or

(2) an expense for seismic work conducted within the boundaries of a production or exploration unit.

*** Sec. 21.** AS 43.55.023(o) is amended to read:

(o) In this section, "qualified capital expenditure"

(1) means, except as otherwise provided in (2) of this subsection, an expenditure that is a lease expenditure under AS 43.55.165 **that is directly attributable to a well, well pad, processing facility, pump station, or other capital construction project directly attributable to oil production;** and is

(A) incurred for geological or geophysical exploration; or

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

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

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

(2) does not include an expenditure incurred to acquire an asset (A) the cost of previously acquiring which was a lease expenditure under AS 43.55.165 or would have been a lease expenditure under AS 43.55.165 if it had been incurred after March 31, 2006; for purposes of this subparagraph, "asset" includes geological, geophysical, and well data and interpretations; [OR] (B) that has previously been placed in service in the state; **or (C) an expenditure that is not directly attributable to oil production, such as an expenditure for the construction or maintenance of a road, airstrip, or employee housing;** an expenditure to acquire an asset is not excluded under this paragraph if not more than an immaterial portion of the asset meets a description under this paragraph.

*** Sec. 22.** AS 43.55.023 is amended by adding a new subsection to read:

(q) For a lease expenditure incurred in the state south of 68 degrees North latitude after June 30, 2010, that qualifies for tax credits under (a) and (b) of this section, and for a well lease expenditure incurred in the state south of 68 degrees

North latitude that qualifies for a tax credit under (*l*) of this section, the department shall issue a transferable tax credit certificate to the person entitled to the credit for the full amount of the credit. The transferable tax credit certificate does not expire.

*** Sec. 23.** AS 43.55.024(d) is amended to read:

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

(1) __**2022**__ [2016]; or

(2) if the producer did not have commercial oil or gas production from a lease or property in the state before April 1, 2006, the ninth calendar year after the calendar year during which the producer first has commercial oil or gas production before May 1, __**2022**__ [2016], from at least one lease or property in the state.

*** Sec. 24.** AS 43.55.024(e) is amended to read:

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

*** Sec. 25.** AS 43.55.025(a) is amended to read:

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

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

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

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

(4) 40 percent of the total exploration expenditures that qualify only

under (b) and (e) of this section;

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

(6) the lesser of $25,000,000 or 80 percent of the total exploration drilling expenditures described in (m) of this section and that qualify under (b) and **<u>(c)</u>** [(c)(1), (c)(2)(A), AND (c)(2)(C)] of this section; or

(7) the lesser of $7,500,000 or 75 percent of the total seismic exploration expenditures described in (n) of this section and that qualify under (b) of this section.

*** Sec. 26.** AS 43.55.025(b) is amended to read:

(b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed after June 30, 2008, and before July 1, **<u>2022</u>** [2016], [EXCEPT THAT TO QUALIFY FOR THE PRODUCTION TAX CREDIT UNDER (a)(1), (2), (3), OR (4) OF THIS SECTION FOR EXPLORATION CONDUCTED OUTSIDE OF THE COOK INLET SEDIMENTARY BASIN AND SOUTH OF 68 DEGREES NORTH LATITUDE, AN EXPLORATION EXPENDITURE MUST BE INCURRED FOR WORK PERFORMED AFTER JUNE 30, 2008, AND BEFORE JANUARY 1, 2022,] and

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

(2) if for an exploration well,

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

(B) may be for either a well that encounters an oil or gas deposit or a dry hole;

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

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

(3) may not be for administration, supervision, engineering, or lease operating costs; geological or management costs; community relations or environmental costs; bonuses, taxes, or other payments to governments related to the well; costs, including repairs and replacements, arising from or associated with fraud, wilful misconduct, gross negligence, criminal negligence, or violation of law, including a violation of 33 U.S.C. 1319(c)(1) or 1321(b)(3) (Clean Water Act); or other costs that are generally recognized as indirect costs or financing costs; and

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

*** Sec. 27.** AS 43.55.025(m) is amended to read:

(m) The persons that drill the first four exploration wells in the state and within the areas described in (o) of this section on state lands, private lands, or federal onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a prospect in a basin described in (o) of this section are eligible for a credit under (a)(6) of this section. A credit under this subsection may not be taken for more than two exploration wells in a single area described in (o)(1) - (6) of this section. Exploration expenditures eligible for the credit in this subsection must be incurred for work performed after June 1, 2012, and before July 1, 2016. A person planning to drill an exploration well on private land and to apply for a credit under this subsection shall obtain written consent from the owner of the oil and gas interest for the full public release of all well data after the expiration of the confidentiality period applicable to information collected under (f) of this section. The written consent of the owner of the oil and gas interest must be submitted to the commissioner of natural resources before approval of the proposed exploration well. In addition to the requirements in <u>**(c)**</u> [(c)(1), (c)(2)(A), AND (c)(2)(C)] of this section and submission of the written consent of the owner of the oil and gas interest, a person planning to drill an exploration well shall obtain approval from the commissioner of natural resources before the well is spudded. The commissioner of natural resources shall make a written determination approving or rejecting an exploration well within 60 days after receiving the request for approval or as soon as is practicable thereafter. Before approving the exploration well, the commissioner of natural resources shall consider the following: the location of the well; the proximity to a community in need of a local energy source; the proximity of existing infrastructure; the experience and safety record of the explorer in conducting operations in remote or roadless areas; the projected cost schedule; whether seismic mapping and seismic data sufficiently identify a particular trap for exploration; whether the targeted and planned depth and range are designed to penetrate and fully evaluate the hydrocarbon potential of the proposed prospect and reach the level below which economic hydrocarbon reservoirs are likely to be found, or reach 12,000 feet or more true vertical depth; and whether the exploration plan provides for a full evaluation of the wellbore below surface casing to the depth of the well. Whether the exploration well for which a credit is requested under this subsection is located within an area and a basin described under (o) of this section shall be determined by the commissioner of natural resources and reported to the commissioner. A taxpayer that obtains a credit under this subsection may not claim a tax credit under AS 43.55.023 or another provision in this section for the same exploration expenditure.

*** Sec. 28.** AS 43.55 is amended by adding a new section to read:

Sec. 43.55.026. Heavy oil research and development tax credit. (a) A taxpayer may apply 20 percent of the taxpayer's expenditure attributable to this state for research and development related to improving methods of producing heavy oil in the state for the taxable year that exceeds the base amount, but not to exceed $10,000,000, as a credit against the state tax liability imposed on the taxpayer under this chapter.

(b) Research and development expenditures in this section are attributable to this state if the research and development is being conducted in this state or the payroll of employees conducting the research and development is in this state. In this subsection, payroll of an employee is in this state if compensation is paid to an employee in this state and reported as paid in this state in the quarterly contribution report under AS 23.20 to the Department of Labor and Workforce Development.

(c) If the tax credit under this section exceeds the taxpayer's tax liability after other tax credits are taken under this chapter for the year in which the expenditure is incurred, the excess of the tax credit over the liability may be carried forward for up to seven years. If an unused credit is carried forward to a tax year from an earlier year, the credit arising in the earliest year is applied first against the tax liability for the year.

(d) A person may not claim a credit under this section for research and development expenditures that were deducted in the calculation of tax liability under AS 43.55.011(e).

(e) Each year, if three or more taxpayers claim the credit authorized under this section during the immediately preceding year, the department shall report to the legislature the number of taxpayers who claimed credits under this section in the prior year, the total cumulative amount of credits granted to all taxpayers under this section for the prior tax year, a description of the research and development projects for which the credit was granted, and the total cumulative number of employees conducting the research and development for which all taxpayers claim the credit.

(f) The commissioner shall establish in regulation a method for apportioning research expenditures of a producer related to heavy oil production in and outside of the state. When developing the regulations, the commissioner may consider the relative amounts of heavy oil the producer is seeking to produce in areas in and outside of the state or consider another reasonable basis on which fairly to apportion costs for research related to in-state oil production and oil produced outside of the state.

(g) In this section, "base amount" means the average of research and development expenditures related to improving methods of producing heavy oil and attributable to this state for the three tax years immediately preceding the taxable year for which the credit is being claimed.

*** Sec. 29.** AS 43.55.028(e) is amended to read:

(e) The department, on the written application of a person to whom a transferable tax credit certificate has been issued under AS 43.55.023(d) or **(q)**

[FORMER AS 43.55.023(m)] or to whom a production tax credit certificate has been issued under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to purchase, in whole or in part, the certificate if the department finds that

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

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

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

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

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

*** Sec. 30.** AS 43.55.028(g) is amended to read:

(g) The department may adopt regulations to carry out the purposes of this section, including standards and procedures to allocate available money among applications for purchases under this chapter and claims for refunds and payments under AS 43.20.046 or 43.20.047 when the total amount of the applications for purchase and claims for refund exceed the amount of available money in the fund. The regulations adopted by the department may not, when allocating available money in the fund under this section, distinguish an application for the purchase of a credit certificate issued under **AS 43.55.023(g)** [FORMER AS 43.55.023(m)] or a claim for a refund or payment under AS 43.20.046 or 43.20.047.

*** Sec. 31.** AS 43.55.030(a) is amended to read:

(a) A producer that produces oil or gas from a lease or property in the state during a calendar year, whether or not any tax payment is due under AS 43.55.020(a) for that oil or gas, shall file with the department on March 31 of the following year a statement, under oath, in a form prescribed by the department, giving, with other information required **by the department under a regulation adopted by the department**, the following:

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

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

(3) the gross amount of oil and the gross amount of gas produced from each lease or property, and the percentage of the gross amount of oil and gas owned by the producer;

(4) the gross value at the point of production of the oil and of the gas produced from each lease or property owned by the producer and the costs of transportation of the oil and gas;

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

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

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

(8) any claims for tax credits to be applied; [AND]

(9) calculations showing the amounts, if any, that were or are due under AS 43.55.020(a) and interest on any underpayment or overpayment**; and**

(10) for each expenditure that is the basis for a credit claimed under AS 43.55.023 or 43.55.025, a description of the expenditure, a detailed description of the purpose of the expenditure, and a description of the lease or property for which the expenditure was incurred; notwithstanding AS 40.25.100(a) and AS 43.05.230(a), information submitted under this paragraph may be disclosed to the public and shall be disclosed to the legislature in a report submitted within 10 days after the convening of the next regular legislative session following the date a statement is filed under this section.

*** Sec. 32.** AS 43.55.030(e) is amended to read:

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

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

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

(3) for each expenditure that is the basis for a credit claimed under this chapter, a description of the expenditure, a detailed description of the purpose of the expenditure, and a description of the lease or property for which the expenditure was incurred; notwithstanding AS 40.25.100(a) and AS 43.05.230(a), information submitted under this paragraph may be disclosed to the public and shall be disclosed to the legislature in a report submitted within 10 days after the convening of the next regular legislative session following the date a statement is filed under this section.

*** Sec. 33.** AS 43.55.160(a) is amended to read:

(a) Except as provided in (b) [, (f), AND (g)] of this section, **and subject to adjustment under AS 43.55.162,** for the purposes of

(1) AS 43.55.011(e), the annual production tax value of taxable oil, gas, or oil and gas produced during a calendar year in a category for which a separate annual production tax value is required to be calculated under this paragraph is the gross value at the point of production of that oil, gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil and gas in that category produced by the

producer during the calendar year, as adjusted under AS 43.55.170; a separate annual production tax value shall be calculated for

(A) oil and gas produced from leases or properties in the state that include land north of 68 degrees North latitude, other than gas produced before 2022 and used in the state;

(B) oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude [AND THAT QUALIFIES FOR A TAX CREDIT UNDER AS 43.55.024(a) AND (b)]; this subparagraph does not apply to

(i) gas produced before 2022 and used in the state; or

(ii) oil and gas subject to AS 43.55.011(p);

(C) oil produced before 2022 from each lease or property in the Cook Inlet sedimentary basin;

(D) gas produced before 2022 from each lease or property in the Cook Inlet sedimentary basin;

(E) gas produced before 2022 from each lease or property in the state outside the Cook Inlet sedimentary basin and used in the state [, OTHER THAN GAS SUBJECT TO AS 43.55.011(p)];

(F) oil and gas subject to AS 43.55.011(p) produced from leases or properties in the state;

(G) oil and gas produced from leases or properties in the state no part of which is north of 68 degrees North latitude, other than oil or gas described in (B), (C), (D), (E), or (F) of this paragraph;

(2) AS 43.55.011(g), [FOR OIL AND GAS PRODUCED BEFORE JANUARY 1, 2014,] the monthly production tax value of the taxable

(A) oil and gas produced during a month from leases or properties in the state that include land north of 68 degrees North latitude is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(B) oil and gas produced during a month from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

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

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

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

*** Sec. 34.** AS 43.55 is amended by adding a new section to read:

Sec. 43.55.162. Reductions to production tax value. (a) The annual production tax value of oil produced from a lease or property north of 68 degrees North latitude by the producer is reduced, during the first seven consecutive years after the start of commercial production by 20 percent of the gross value at the point of production of oil produced during the calendar year. This subsection does not apply to a lease or property that

(1) was in commercial production before January 1, 2007;

(2) is located within a unit area that has never had commercial production; or

(3) is located within a unit for more than 20 years before the first commercial production on the lease or property.

(b) The annual production tax value of oil or gas produced by a producer is reduced during the first five consecutive years after the start of commercial production by 10 percent if the oil or gas is produced from a participating area established after December 31, 2012, that is within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before January 1, 2012. This subsection does not apply to production from a lease or property located within a unit for more than 20 years before the first commercial production on the lease or property.

(c) The annual production tax value of heavy oil produced by a producer is reduced by 10 percent of the gross value at the point of production of heavy oil produced, for the calendar year, from a lease or property that is located within a unit area existing on January 1, 2014.

(d) For a calendar year after 2012, the annual production tax value of oil produced by a producer that produced oil in 2012 is reduced by 10 percent of the gross value at the point of production of the volume of oil produced during the calendar year in excess of the total volume produced by the producer in 2012. The volume of oil produced by a producer in 2012 is the average daily statewide production of the producer, excluding from the calculation the days on which production is significantly reduced, multiplied by the number of days in the calendar year. For the purposes of this subsection, production is significantly reduced when the production volume of oil for the day is less than one-half of the quotient of the total volume of oil production that is produced by the producer for the year and the number of days in the calendar year. A producer that increases its volume of production through the purchase, merger, or other acquisition of another producer is the sum of the producer's total target volume and the total target volume for the producer that is purchased, merged with, or otherwise acquired; however, if the producer that is purchased, merged with, or otherwise acquired did not have a target volume determined under this section, the volume of the increased production that is attributable to the purchase, merger, or other acquisition may not be considered for the purpose of determining whether the producer that acquired the additional production has increased the volume of production above its target volume.

(e) A reduction in production tax value provided by this section may not be combined with any other reduction in production tax value provided by this section in the same year. Oil or gas from a lease or property that produces oil or gas that results in a production tax reduction under (a) of this section is ineligible for a production tax reduction under (b) and (c) of this section and may not be used in the calculation of production volume under (d) of this section.

(f) A reduction in production tax value provided by this section may not reduce the

(1) production tax value of a producer below zero; or

(2) total tax liability of a producer below the amount specified in AS 43.55.011(f).

(g) The rate of tax under AS 43.55.011(g) shall be determined before the application of the adjustment provided by this section.

(h) In this section,

(1) "commercial production" means the production of oil for the purpose of sale or other beneficial use, except when the sale or beneficial use is incidental to the testing of an unproved well or unproved completion interval;

(2) "participating area" means that part of an oil and gas lease unit to which production is allocated in the manner described in a unit agreement.

*** Sec. 35.** AS 43.55.990 is amended by adding a new paragraph to read:

(14) "heavy oil" means oil with an American Petroleum Institute gravity of less than 18 degrees.

*** Sec. 36.** AS 43.56.160 is amended to read:

Sec. 43.56.160. Interest and penalty. When the tax levied by AS 43.56.010(a) becomes delinquent, a penalty of 10 percent shall be added. **<u>Interest</u>** [BEFORE JANUARY 1, 2014, INTEREST] on the delinquent taxes, exclusive of penalty, shall be assessed at a rate of eight percent a year. [ON AND AFTER JANUARY 1, 2014, INTEREST ON THE DELINQUENT TAXES, EXCLUSIVE OF PENALTY, SHALL BE ASSESSED AT THE RATE SPECIFIED IN AS 43.05.225.]

*** Sec. 37.** AS 44.88.080 is amended to read:

Sec. 44.88.080. Powers of the authority. In furtherance of its corporate purposes, the authority has the following powers in addition to its other powers:

(1) to sue and be sued;

(2) to have a seal and alter it at pleasure;

(3) to make and alter bylaws for its organization and internal management;

(4) to adopt regulations governing the exercise of its corporate powers;

(5) to acquire an interest in a project as necessary or appropriate to provide financing for the project, whether by purchase, gift, or lease;

(6) to lease to others a project acquired by it for the rentals and upon the terms and conditions the authority may consider advisable, including, without limitation, provisions for options to purchase or renew;

(7) to issue bonds and otherwise to incur indebtedness, in accordance with AS 44.88.090, in order to pay the cost of a project or development projects or in order to provide money for the authority's purposes under this chapter; the authority may also secure payment of the bonds or other indebtedness as provided in this chapter;

(8) to sell, by installment sale or otherwise, exchange, donate, convey, or encumber, in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, including a project, when, in the judgment of the authority, the action is in furtherance of its

corporate purposes;

(9) to accept gifts, grants, or loans from, and enter into contracts or other transactions regarding them with, a federal agency, an agency or instrumentality of the state, a municipality, a private organization, or other source;

(10) to deposit or invest its funds, subject to agreements with bondholders;

(11) to enter into contracts or agreements with respect to the exercise of any of its powers, and do all things necessary or convenient to carry out its corporate purposes and exercise the powers granted in this chapter;

(12) to purchase or insure loans to finance the costs of manufacturing, industrial, and business enterprise projects;

(13) to enter into loan agreements with respect to one or more projects upon the terms and conditions the authority considers advisable;

(14) to acquire, manage, and operate projects as the authority considers necessary or appropriate to serve a public purpose;

(15) to assist private lenders to make loans to finance the costs of projects through loan commitments, short-term financing, or otherwise;

(16) to accept gifts, grants, or loans from a federal agency, from an agency or instrumentality of the state or of a municipality, or from any other source;

(17) to enter into contracts or other transactions with a federal agency, with an agency or instrumentality of the state or of a municipality, or with a private organization or other entity consistent with the exercise of any power under this chapter;

(18) to facilitate the expansion of a secondary market for the resale of federally or commercially insured loans made to finance the costs of projects in the state held by federal and state chartered financial institutions or by the Alaska Commercial Fishing and Agriculture Bank;

(19) to charge fees or other forms of remuneration for the use or possession of the projects described in (14) of this section in accordance with the agreements described in (11) and (17) of this section, other agreements pertaining to the projects, covenants, or representations made in bond documents pertaining to the

projects, or regulations of the authority pertaining to the projects;

(20) to participate with government or private industry in programs for technical assistance, loans, technology, transfer, or other programs related to the exportation of goods, services, or raw materials of the state with respect to its financing activities;

(21) to provide export finance training for office staff and other individuals involved in export finance assistance, including the training sessions that may be provided by the United States Export-Import Bank or other organizations;

(22) to coordinate to the maximum extent possible its efforts to promote the export of goods, services, and raw materials of the state with programs and goals of the United States Export-Import Bank, the International Trade Administration of the United States Department of Commerce, the Foreign Credit Insurance Association, and other private and public programs designed to provide export assistance and export-related financing;

(23) to guarantee loans related to qualified export transactions under regulations adopted by the authority;

(24) to provide financing assistance, in cooperation with federal, state, and private institutions, as provided in this chapter for small business enterprises;

(25) to make cooperative agreements with the Department of Transportation and Public Facilities, acting on behalf of the international airports revenue fund established under AS 37.15.430, to acquire, equip, operate, maintain, construct, or install facilities that will enhance the competitiveness of the international airports, including a cooperative agreement to lend amounts from the international airports revenue fund to finance the development or improvement of utilities serving the airports;

(26) to screen potential applicants for a new business incentive grant and recommend the award of the grants under AS 45.81.020;

(27) to oversee the administration of outstanding grants awarded by the Alaska Science and Technology Foundation under former AS 37.17.010 - 37.17.110;

(28) to oversee the administration of outstanding BIDCO assistance grants and loans made by the Alaska Science and Technology Foundation under

former AS 37.17.200 - 37.17.390;

(29) to guarantee loans made to the Alaska Insurance Guaranty Association (AS 21.80.040), with these guarantees limited to loans necessary to make the association financially able to meet cash flow needs up to a maximum outstanding principal balance at any time of $30,000,000;

(30) with legislative approval and notwithstanding AS 44.88.060, to purchase from the Alaska Energy Authority as an investment of the revolving fund, loans of the power project fund established under AS 42.45.010;

(31) to consider, when exercising the powers listed in this section, the interests of local governments affected by the authority's activities to share in the benefits of these activities, with appropriate consideration of the authority's ability to meet debt obligations, issue new debt, and fulfill the authority's purposes;

(32) to provide development project financing for all or a portion of the cost of a development project as provided in AS 44.88.172**;**

(33) to acquire an interest in a project as necessary or appropriate to provide working or venture capital for an oil or natural gas development project under AS 44.88.800 and 44.88.810, whether by purchase, gift, or lease.

*** Sec. 38.** AS 44.88 is amended by adding a new section to read:

Sec. 44.88.089. Legislative approval of loan for North Slope oil processing facility. (a) The Alaska Industrial Development and Export Authority may issue a loan to a producer of oil or gas to finance the construction and improvement of an oil processing facility on the Alaska North Slope and flow lines and other surface infrastructure for the facility. A loan under this section shall

(1) be issued to a producer that produces less than 100,000 barrels of oil a day;

(2) be issued for the purpose of financing a facility to facilitate production from a unit established after January 1, 2015; and

(3) have an interest rate that does not exceed the prime rate of interest plus one percent.

(b) In this section, "prime rate" means the lowest United States money center prime rate of interest that is published in the Wall Street Journal.

*** Sec. 39.** AS 44.88 is amended by adding new sections to read:

Article 9A. Interest in Oil and Gas Resources.

Sec. 44.88.800. Acquisition of interest in businesses. (a) The authority may acquire, through purchase or other means, an interest in a lease held by a corporation or other business entity in an oil or natural gas field in the state that has been explored, but only if the authority determines the leaseholder has made reasonable efforts to obtain financing from the private sector to develop the lease and those efforts have, in whole or part, been unsuccessful. The authority shall exercise due diligence in acquiring a leasehold interest under this section.

(b) If the authority acquires a leasehold interest under this section, the authority may use the authority's assets, as appropriate, to aid in the development of the oil or natural gas field in which the business entity has a leasehold interest.

Sec. 44.88.810. Alaska resource development fund. (a) The Alaska resource development fund is established in the authority for the purpose of developing oil and gas resources, and consists of appropriations to the fund. The authority shall manage the fund and may create separate accounts within it. Income of the fund or of enterprises of the authority shall be separately accounted for and may be appropriated to the fund.

(b) The authority may use money from the fund to carry out the purpose of the fund set out in (a) of this section.

*** Sec. 40.** AS 44.88.900(11) is amended to read:

(11) "project" means

(A) a plant or facility used or intended for use in connection with making, processing, preparing, transporting, or producing in any manner, goods, products, or substances of any kind or nature or in connection with developing or utilizing a natural resource, or extracting, smelting, transporting, converting, assembling, or producing in any manner, minerals, raw materials, chemicals, compounds, alloys, fibers, commodities and materials, products, or substances of any kind or nature;

(B) a plant or facility used or intended for use in connection with a business enterprise;

(C) commercial activity by a business enterprise;

(D) a plant or facility demonstrating technological advances of new methods and procedures and prototype commercial applications for the exploration, development, production, transportation, conversion, and use of energy resources;

(E) infrastructure for a new tourism destination facility or for the expansion of a tourism destination facility; in this subparagraph, "tourism destination facility" does not include a hotel or other overnight lodging facility;

(F) a plant or facility, other than a plant or facility described in (D) of this paragraph, for the generation, transmission, development, transportation, conversion, or use of energy resources;

(G) a plant or facility that enhances, provides for, or promotes economic development with respect to transportation, communications, community public purposes, technical innovations, prototype commercial applications of intellectual property, or research;

(H) a plant or facility used or intended for use as a federal facility, including a United States military, national guard, or coast guard facility;

(I) infrastructure for an area that is designated as a military facility zone under AS 26.30;

(J) development of an oil and gas field by providing working or venture capital in exchange for an equity interest;

*** Sec. 41.** AS 43.20.049; AS 43.55.020(*l*), 43.55.024(i), 43.55.024(j), 43.55.160(f), 43.55.160(g); AS 43.98.040, 43.98.050, 43.98.060, and 43.98.070 are repealed.

*** Sec. 42.** Sections 34 - 38, ch. 10, SLA 2013, are repealed.

*** Sec. 43.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. (a) Section 2 of this Act and AS 38.05.180(hh), enacted by sec. 4 of this Act, apply to a proposed lease sale and the renewal or extension of a lease on or after the effective date of this Act.

(b) The reductions in production tax value under AS 43.55.162, enacted by sec. 34 of this Act, apply to oil or gas produced after December 31, 2014.

*** Sec. 44.** AS 44.88.089 is repealed June 30, 2018.

*** Sec. 45.** This Act takes effect January 1, 2015.