

CS FOR SENATE BILL NO. 192(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 3/5/12

Referred: Finance

Sponsor(s): SENATE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the oil and gas production tax; relating to the minimum tax on oil
2 and gas production; providing that the tax rate applicable to the production of oil as the
3 average production tax value of oil, gas produced in the Cook Inlet sedimentary basin,
4 and gas produced outside of the Cook Inlet sedimentary basin and used in the state
5 increases above \$30 shall be 0.35 percent multiplied by the number that represents the
6 difference between that average monthly production tax value and \$30, or the sum of 25
7 percent and the product of 0.1 percent multiplied by the number that represents the
8 difference between that average monthly production tax value and \$101.43, except that
9 the total rate determined in the calculation may not exceed 35 percent; providing for an
10 increase in the rate of tax on the production of gas as the average production tax value
11 on a BTU equivalent barrel basis of gas produced outside of the Cook Inlet sedimentary
12 basin and not used in the state increases above \$30; relating to payments of the oil and

1 gas production tax; relating to the lease expenditures that may be deducted when
 2 determining production tax value; relating to the allocation of lease expenditures and
 3 adjustments to lease expenditures; relating to the availability of funds from the oil and
 4 gas production tax for appropriation to the community revenue sharing fund; providing
 5 for a reduction in production tax value for certain oil; relating to the duties of the
 6 Alaska Oil and Gas Conservation Commission; relating to a petroleum information
 7 management system; relating to the duties of the Department of Natural Resources, the
 8 Department of Revenue, and the Department of Labor and Workforce Development
 9 that relate to providing the Alaska Oil and Gas Conservation Commission with certain
 10 information relating to oil and gas; and providing for an effective date."

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

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

13 (b) Each fiscal year, the legislature may appropriate to the community revenue
 14 sharing fund an amount equal to **the lesser of** 20 percent of the money received by the
 15 state during the previous calendar year under **both** AS 43.55.011(g) **and (p), or the**
 16 **difference between the amount of money received by the state during the**
 17 **previous calendar for oil and gas production subject to AS 43.55.011(f) and 25**
 18 **percent of the production tax value determined under AS 43.55.160 for oil and**
 19 **gas production subject to AS 43.55.011(f) produced during the previous calendar**
 20 **year, except the difference may not be less than zero.** The amount **appropriated**
 21 may not exceed

22 (1) \$60,000,000; or

23 (2) the amount that, when added to the fund balance on June 30 of the
 24 previous fiscal year, equals \$180,000,000.

25 * **Sec. 2.** AS 31.05.030 is amended by adding a new subsection to read:

26 (n) The commission shall develop and maintain the petroleum information
 27 management system required under AS 31.05.031.

1 * **Sec. 3.** AS 31.05 is amended by adding a new section to read:

2 **Sec. 31.05.031. Petroleum information management system.** (a) The
3 commission shall develop and maintain an electronic petroleum information
4 management system to collect, secure, distribute, store, retrieve, and archive
5 information related to oil and gas exploration, development, and production in the
6 state. The purposes of the petroleum information management system are to improve
7 the administration of the oil and gas production tax and to facilitate exploration,
8 development, and production of oil and gas resources. The petroleum information
9 management system shall be accessible by the public.

10 (b) To the extent the information is available and is not confidential, the
11 petroleum information management system must include the following information:

12 (1) unit and joint operating agreements;

13 (2) state oil and gas exploration licenses and oil and gas leases;

14 (3) for exploration activities,

15 (A) exploration work programs and budgets;

16 (B) seismic data;

17 (C) drilling reports;

18 (D) logs;

19 (E) well tests;

20 (F) geological models and maps;

21 (4) for development activities,

22 (A) development plans with operating and capital expenditure
23 projections;

24 (B) construction progress reports;

25 (C) drilling reports;

26 (D) reservoir characterization;

27 (5) for production activities,

28 (A) production work programs and budgets;

29 (B) oil and gas sales, revenue, and pricing;

30 (C) transportation agreements;

31 (D) production data;

1 (E) injection data;
 2 (F) operating and capital expenditures;
 3 (G) facility maps and studies;
 4 (6) for abandonment of oil and gas wells, leases, and production and
 5 transportation facilities,
 6 (A) abandonment plans and budgets;
 7 (B) progress reports;
 8 (7) for oil and gas related employment information,
 9 (A) the number of resident and nonresident hires for each year;
 10 (B) training opportunities; and
 11 (8) other information the commission determines necessary and
 12 relevant to the oil and gas production tax and to the exploration, development, and
 13 production of oil and gas resources.

14 (c) The Department of Natural Resources, the Department of Revenue, and the
 15 Department of Labor and Workforce Development, in consultation with the
 16 commission, shall provide information described in (b) of this section that is not
 17 confidential and within each department's control to the commission for inclusion in
 18 the petroleum information management system. The information provided by a
 19 department under this subsection shall be in a form suitable for the commission to
 20 include in the petroleum information management system.

21 * **Sec. 4.** AS 31.05.093(c) is amended to read:

22 (c) The commission shall determine the regulatory cost charges levied under
 23 this section so that the total amount to be collected approximately equals the
 24 appropriations made for the operating costs of the commission under this chapter for
 25 the fiscal year. **For the purpose of determining the regulatory costs charges under**
 26 **this subsection, the operating costs for the petroleum information management**
 27 **system (AS 31.05.031) may not be included in the operating costs of the**
 28 **commission.**

29 * **Sec. 5.** AS 43.55.011(e) is amended to read:

30 (e) There is levied on the producer of oil or gas a tax for all oil and gas
 31 produced each calendar year from each lease or property in the state, less any oil and

1 gas the ownership or right to which is exempt from taxation or constitutes a
 2 landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of
 3 this section, the tax is equal to the sum of

4 (1) the annual production tax value of the taxable oil and gas as
 5 calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

6 (2) the sum, over all months of the calendar year, of the tax amounts
 7 determined under

8 **(A) subsection (g) of this section; and**

9 **(B) subsection (p) of this section.**

10 * **Sec. 6.** AS 43.55.011(f) is repealed and reenacted to read:

11 (f) Except for oil and gas subject to (i) of this section and gas subject to (o) of
 12 this section, the provisions of this subsection apply to oil and gas produced from each
 13 lease or property within a unit or nonunitized reservoir that has cumulatively produced
 14 1,000,000,000 BTU equivalent barrels of oil or gas by the close of the most recent
 15 calendar year and from which the average daily oil and gas production from the unit or
 16 nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU
 17 equivalent barrels. Notwithstanding any contrary provision of law, a producer may not
 18 apply tax credits to reduce its total tax liability under (e) and (g) of this section for oil
 19 and gas produced from all leases or properties within the unit or nonunitized reservoir
 20 below 10 percent of the total gross value at the point of production of that oil and gas.
 21 If the amount of tax calculated by multiplying the tax rates in (e) and (g) of this
 22 section by the total production tax value of the oil and gas taxable under (e) and (g) of
 23 this section produced from all of the producer's leases or properties within the unit or
 24 nonunitized reservoir is less than 10 percent of the total gross value at the point of
 25 production of that oil and gas, the tax levied by (e) and (g) of this section for that oil
 26 and gas is equal to 10 percent of the total gross value at the point of production of that
 27 oil and gas.

28 * **Sec. 7.** AS 43.55.011(g) is amended to read:

29 (g) For each month of the calendar year for which the producer's average
 30 monthly production tax value under **AS 43.55.160(a)(2)(A) - (E) of a**
 31 [AS 43.55.160(a)(2) PER] BTU equivalent barrel of [THE] taxable oil and gas is more

1 than \$30, the amount of tax for purposes of (e)(2)(A) [(e)(2)] of this section is
 2 determined by multiplying the monthly production tax value of the taxable oil [AND
 3 GAS] produced during the month, gas produced during the month from a lease or
 4 property in the Cook Inlet sedimentary basin, and gas produced during the
 5 month from a lease or property outside the Cook Inlet sedimentary basin and
 6 used in the state by the tax rate calculated as follows:

7 (1) if the producer's average monthly production tax value under
 8 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
 9 and gas for the month is not more than \$101.43 [\$92.50], the tax rate is 0.35 [0.4]
 10 percent multiplied by the number that represents the difference between the
 11 producer's [THAT] average monthly production tax value under
 12 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of taxable oil and gas
 13 and \$30; [OR]

14 (2) if the producer's average monthly production tax value under
 15 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of [THE] taxable oil
 16 and gas for the month is more than \$101.43 [\$92.50], the tax rate is the sum of 25
 17 percent and the product of 0.1 percent multiplied by the number that represents the
 18 difference between the producer's average monthly production tax value under
 19 AS 43.55.160(a)(2)(A) - (E) of a [PER] BTU equivalent barrel of taxable oil and gas
 20 and \$101.43 [\$92.50], except that the sum determined under this paragraph may not
 21 exceed 35 [50] percent;

22 (3) for purposes of this subsection, the average monthly
 23 production tax value under AS 43.55.160(a)(2)(A) - (E) of a BTU equivalent
 24 barrel of taxable oil and gas is calculated by

25 (A) adding all of the monthly production tax values
 26 determined under AS 43.55.160(a)(2)(A) - (E); and

27 (B) dividing the sum calculated under (A) of this paragraph
 28 by the total amount, in BTU equivalent barrels, of

29 (i) taxable oil produced by the producer during the
 30 month;

31 (ii) taxable gas produced by the producer during the

1 month from a lease or property in the Cook Inlet sedimentary
 2 basin; and
 3 (iii) taxable gas produced by the producer during
 4 the month from a lease or property outside the Cook Inlet
 5 sedimentary basin and used in the state.

6 * **Sec. 8.** AS 43.55.011 is amended by adding a new subsection to read:

7 (p) For each month of the calendar year for which the producer's average
 8 monthly production tax value under AS 43.55.160(a)(2)(F) and (G) of a BTU
 9 equivalent barrel of taxable gas is more than \$30, the amount of tax on the production
 10 of gas for purposes of (e)(2)(B) of this section is determined by multiplying the
 11 monthly production tax value of the taxable gas produced during the month other than
 12 gas produced from a lease or property in the Cook Inlet sedimentary basin or gas
 13 produced outside the Cook Inlet sedimentary basin and used in the state by the tax rate
 14 calculated as follows:

15 (1) if the producer's average monthly production tax value under
 16 AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas for the
 17 month is not more than \$101.43, the tax rate is 0.35 percent multiplied by the number
 18 that represents the difference between the producer's average monthly production tax
 19 value under AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of gas and \$30;

20 (2) if the producer's average monthly production tax value under
 21 AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas for the
 22 month is more than \$101.43, the tax rate is the sum of 25 percent and the product of
 23 0.1 percent multiplied by the number that represents the difference between the
 24 producer's average monthly production tax value under AS 43.55.160(a)(2)(F) and (G)
 25 of a BTU equivalent barrel of gas and \$101.43, except that the sum determined under
 26 this paragraph may not exceed 35 percent;

27 (3) for purposes of this subsection, the average monthly production tax
 28 value under AS 43.55.160(a)(2)(F) and (G) of a BTU equivalent barrel of taxable gas
 29 is calculated by

30 (A) adding the monthly production tax value determined under
 31 AS 43.55.160(a)(2)(F) to the monthly production tax value determined under

1 AS 43.55.160(a)(2)(G); and

2 (B) dividing the sum calculated under (A) of this paragraph by
3 the total amount, in BTU equivalent barrels, of the taxable gas produced by the
4 producer during the month, other than gas produced from a lease or property in
5 the Cook Inlet sedimentary basin or gas produced outside the Cook Inlet
6 sedimentary basin and used in the state.

7 * **Sec. 9.** AS 43.55.020(a) is repealed and reenacted to read:

8 (a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i)
9 and (p) shall pay the tax as follows:

10 (1) an installment payment of the estimated tax levied by
11 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
12 month of the calendar year on the last day of the following month; except as otherwise
13 provided under (2) of this subsection, the amount of the installment payment is the
14 sum of the following amounts in (A) - (C) of this paragraph, less 1/12 of the tax
15 credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e)
16 for the calendar year, but the amount of the installment payment may not be less than
17 zero:

18 (A) the monthly production tax value for the month calculated
19 under AS 43.55.160(a)(2)(B) multiplied by the sum of 25 percent and the tax
20 rate calculated for the month under AS 43.55.011(g), added to the monthly
21 production tax value for the month calculated under AS 43.55.160(a)(2)(G)
22 multiplied by the sum of 25 percent and the tax rate calculated for the month
23 under AS 43.55.011(p);

24 (B) the greater of

25 (i) 10 percent, under AS 43.55.011(f), of the gross value
26 at the point of production of the oil and gas produced during the month
27 from all leases or properties in the state that include land north of 68
28 degrees North latitude, other than oil and gas subject to
29 AS 43.55.011(i) and gas subject to AS 43.55.011(o); or

30 (ii) the monthly production tax value for the month
31 calculated under AS 43.55.160(a)(2)(A) multiplied by the sum of 25

1 percent and the tax rate calculated for the month under
2 AS 43.55.011(g), added to the monthly production tax value for the
3 month calculated under AS 43.55.160(a)(2)(F) multiplied by the sum of
4 25 percent and the tax rate calculated for the month under
5 AS 43.55.011(p); and

6 (C) for each lease or property, for gas subject to
7 AS 43.55.011(j), oil subject to AS 43.55.011(k), and gas subject to
8 AS 43.55.011(o), the monthly production tax value for the month calculated
9 under AS 43.55.160(a)(2)(C), (D), or (E), as applicable, multiplied by the sum
10 of 25 percent and the tax rate calculated for the month under AS 43.55.011(g);

11 (2) an amount calculated under (1)(C) of this subsection for oil or gas
12 produced from a particular lease or property may not exceed the product obtained by
13 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
14 applicable for gas, or set out in AS 43.55.011(k)(1) or (2), as applicable for oil, but
15 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
16 amount of taxable gas produced during the month for the amount of taxable gas
17 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
18 (2)(A), as applicable, the amount of taxable oil produced during the month for the
19 amount of taxable oil produced during the calendar year;

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

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

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

1 (4) any amount of tax levied by AS 43.55.011(e) or (i), net of any
 2 credits applied as allowed by law, that exceeds the total of the amounts due as
 3 installment payments of estimated tax is due on March 31 of the year following the
 4 calendar year of production.

5 * **Sec. 10.** AS 43.55.020(d) is amended to read:

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

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

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

23 * **Sec. 11.** AS 43.55.160(a) is amended to read:

24 (a) Except as provided in (b) of this section **and subject to an adjustment**
 25 **under AS 43.55.162**, for the purposes of

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

27 (A) oil [AND GAS] produced during a calendar year from
 28 leases or properties in the state that include land north of 68 degrees North
 29 latitude is the gross value at the point of production of the oil [AND GAS]
 30 taxable under AS 43.55.011(e) and produced by the producer from those leases
 31 or properties, less the producer's lease expenditures under AS 43.55.165 for the

1 calendar year applicable to the oil [AND GAS] produced by the producer from
 2 those leases or properties, **and the portion allocated under (g) of this section**
 3 **of the producer's lease expenditures under AS 43.55.165 for the calendar**
 4 **year incurred to explore land that is not a lease or property, or to explore**
 5 **or develop a lease or property before commencement of commercial**
 6 **production of oil or gas from the lease or property, if that land or any part**
 7 **of the lease or property is located north of 68 degrees North latitude,** as
 8 adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY
 9 TO GAS SUBJECT TO AS 43.55.011(o);]

10 (B) oil [AND GAS] produced during a calendar year from
 11 leases or properties in the state outside the Cook Inlet sedimentary basin, no
 12 part of which is north of 68 degrees North latitude, is the gross value at the
 13 point of production of the oil [AND GAS] taxable under AS 43.55.011(e) and
 14 produced by the producer from those leases or properties, less the producer's
 15 lease expenditures under AS 43.55.165 for the calendar year applicable to the
 16 oil [AND GAS] produced by the producer from those leases or properties, **and**
 17 **the portion allocated under (g) of this section of the producer's lease**
 18 **expenditures under AS 43.55.165 for the calendar year incurred to explore**
 19 **land that is not a lease or property, or to explore or develop a lease or**
 20 **property before commencement of commercial production of oil or gas**
 21 **from the lease or property, if that land or lease or property is located**
 22 **outside the Cook Inlet sedimentary basin, and the land and all parts of the**
 23 **lease or property are not north of 68 degrees North latitude,** as adjusted
 24 under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY TO
 25 GAS SUBJECT TO AS 43.55.011(o);]

26 (C) oil produced during a calendar year from a lease or
 27 property in the Cook Inlet sedimentary basin is the gross value at the point of
 28 production of the oil taxable under AS 43.55.011(e) and produced by the
 29 producer from that lease or property, less the producer's lease expenditures
 30 under AS 43.55.165 for the calendar year applicable to the oil produced by the
 31 producer from that lease or property, **and the portion allocated under (g) of**

1 this section of the producer's lease expenditures under AS 43.55.165 for
2 the calendar year incurred to explore land that is not a lease or property,
3 or to explore or develop a lease or property before commencement of
4 commercial production of oil or gas from the lease or property, if that
5 land or lease or property is located in the Cook Inlet sedimentary basin, as
6 adjusted under AS 43.55.170;

7 (D) gas produced during a calendar year from a lease or
8 property in the Cook Inlet sedimentary basin is the gross value at the point of
9 production of the gas taxable under AS 43.55.011(e) and produced by the
10 producer from that lease or property, less the producer's lease expenditures
11 under AS 43.55.165 for the calendar year applicable to the gas produced by the
12 producer from that lease or property, and the portion allocated under (g) of
13 this section of the producer's lease expenditures under AS 43.55.165 for
14 the calendar year incurred to explore land that is not a lease or property,
15 or to explore or develop a lease or property before commencement of
16 commercial production of oil or gas from the lease or property, if that
17 land or lease or property is located in the Cook Inlet sedimentary basin, as
18 adjusted under AS 43.55.170;

19 (E) gas produced during a calendar year from a lease or
20 property in the state outside the Cook Inlet sedimentary basin and used in the
21 state is the gross value at the point of production of that gas taxable under
22 AS 43.55.011(e) and produced by the producer from that lease or property, less
23 the producer's lease expenditures under AS 43.55.165 for the calendar year
24 applicable to that gas produced by the producer from that lease or property,
25 and the portion allocated under (g) of this section of the producer's lease
26 expenditures under AS 43.55.165 for the calendar year incurred to explore
27 land that is not a lease or property, or to explore or develop a lease or
28 property before commencement of commercial production of oil or gas
29 from the lease or property, if that land or lease or property is located
30 outside the Cook Inlet sedimentary basin, as adjusted under AS 43.55.170;

31 (F) gas produced during a calendar year from leases or

1 properties in the state that include land north of 68 degrees North latitude
 2 is the gross value at the point of production of the gas taxable under
 3 AS 43.55.011(e) and produced by the producer from those leases or
 4 properties, less the producer's lease expenditures under AS 43.55.165 for
 5 the calendar year applicable to the gas produced by the producer from
 6 those leases or properties, and the portion allocated under (g) of this
 7 section of the producer's lease expenditures under AS 43.55.165 for the
 8 calendar year incurred to explore land that is not a lease or property, or
 9 to explore or develop a lease or property before commencement of
 10 commercial production of oil or gas from the lease or property, if that
 11 land or any part of the lease or property is located north of 68 degrees
 12 North latitude, as adjusted under AS 43.55.170; this subparagraph does
 13 not apply to gas subject to AS 43.55.011(o);

14 (G) gas produced during a calendar year from leases or
 15 properties in the state outside the Cook Inlet sedimentary basin, no part of
 16 which is north of 68 degrees North latitude, is the gross value at the point
 17 of production of the gas taxable under AS 43.55.011(e) and produced by
 18 the producer from those leases or properties, less the producer's lease
 19 expenditures under AS 43.55.165 for the calendar year applicable to the
 20 gas produced by the producer from those leases or properties, and the
 21 portion allocated under (g) of this section of the producer's lease
 22 expenditures under AS 43.55.165 for the calendar year incurred to explore
 23 land that is not a lease or property, or to explore or develop a lease or
 24 property before commencement of commercial production of oil or gas
 25 from the lease or property, if that land or lease or property is located
 26 outside the Cook Inlet sedimentary basin, and the land and all parts of the
 27 lease or property are not north of 68 degrees North latitude, as adjusted
 28 under AS 43.55.170; this subparagraph does not apply to gas subject to
 29 AS 43.55.011(o);

30 (2) AS 43.55.011(g) and (p), the monthly production tax value of the
 31 taxable

1 (A) oil [AND GAS] produced during a month from leases or
2 properties in the state that include land north of 68 degrees North latitude is the
3 gross value at the point of production of the oil [AND GAS] taxable under
4 AS 43.55.011(e) and produced by the producer from those leases or properties,
5 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
6 calendar year applicable to the oil [AND GAS] produced by the producer from
7 those leases or properties, **and 1/12 of the portion allocated under (g) of this**
8 **section of the producer's lease expenditures under AS 43.55.165 for the**
9 **calendar year incurred to explore land that is not a lease or property, or**
10 **to explore or develop a lease or property before commencement of**
11 **commercial production of oil or gas from the lease or property, if that**
12 **land or any part of the lease or property is located north of 68 degrees**
13 **North latitude,** as adjusted under AS 43.55.170; [THIS SUBPARAGRAPH
14 DOES NOT APPLY TO GAS SUBJECT TO AS 43.55.011(o);]

15 (B) oil [AND GAS] produced during a month from leases or
16 properties in the state outside the Cook Inlet sedimentary basin, no part of
17 which is north of 68 degrees North latitude, is the gross value at the point of
18 production of the oil [AND GAS] taxable under AS 43.55.011(e) and produced
19 by the producer from those leases or properties, less 1/12 of the producer's
20 lease expenditures under AS 43.55.165 for the calendar year applicable to the
21 oil [AND GAS] produced by the producer from those leases or properties, **and**
22 **1/12 of the portion allocated under (g) of this section of the producer's**
23 **lease expenditures under AS 43.55.165 for the calendar year incurred to**
24 **explore land that is not a lease or property, or to explore or develop a**
25 **lease or property before commencement of commercial production of oil**
26 **or gas from the lease or property, if that land or lease or property is**
27 **located outside the Cook Inlet sedimentary basin, and the land and all**
28 **parts of the lease or property are not north of 68 degrees North latitude,** as
29 adjusted under AS 43.55.170; [THIS SUBPARAGRAPH DOES NOT APPLY
30 TO GAS SUBJECT TO AS 43.55.011(o);]

31 (C) oil produced during a month from a lease or property in the

1 Cook Inlet sedimentary basin is the gross value at the point of production of
2 the oil taxable under AS 43.55.011(e) and produced by the producer from that
3 lease or property, less 1/12 of the producer's lease expenditures under
4 AS 43.55.165 for the calendar year applicable to the oil produced by the
5 producer from that lease or property, **and 1/12 of the portion allocated under**
6 **(g) of this section of the producer's lease expenditures under AS 43.55.165**
7 **for the calendar year incurred to explore land that is not a lease or**
8 **property, or to explore or develop a lease or property before**
9 **commencement of commercial production of oil or gas from the lease or**
10 **property, if that land or lease or property is located in the Cook Inlet**
11 **sedimentary basin,** as adjusted under AS 43.55.170;

12 (D) gas produced during a month from a lease or property in
13 the Cook Inlet sedimentary basin is the gross value at the point of production
14 of the gas taxable under AS 43.55.011(e) and produced by the producer from
15 that lease or property, less 1/12 of the producer's lease expenditures under
16 AS 43.55.165 for the calendar year applicable to the gas produced by the
17 producer from that lease or property, **and 1/12 of the portion allocated under**
18 **(g) of this section of the producer's lease expenditures under AS 43.55.165**
19 **for the calendar year incurred to explore land that is not a lease or**
20 **property, or to explore or develop a lease or property before**
21 **commencement of commercial production of oil or gas from the lease or**
22 **property, if that land or lease or property is located in the Cook Inlet**
23 **sedimentary basin,** as adjusted under AS 43.55.170;

24 (E) gas produced during a month from a lease or property **in**
25 **the state** outside the Cook Inlet sedimentary basin and used in the state is the
26 gross value at the point of production of that gas taxable under
27 AS 43.55.011(e) and produced by the producer from that lease or property, less
28 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar
29 year applicable to that gas produced by the producer from that lease or
30 property, **and 1/12 of the portion allocated under (g) of this section of the**
31 **producer's lease expenditures under AS 43.55.165 for the calendar year**

1 incurred to explore land that is not a lease or property, or to explore or
2 develop a lease or property before commencement of commercial
3 production of oil or gas from the lease or property, if that land or lease or
4 property is located outside of the Cook Inlet sedimentary basin, as adjusted
5 under AS 43.55.170;

6 (F) gas produced during a month from leases or properties
7 in the state that include land north of 68 degrees North latitude is the
8 gross value at the point of production of the gas taxable under
9 AS 43.55.011(e) and produced by the producer from those leases or
10 properties, less 1/12 of the producer's lease expenditures under
11 AS 43.55.165 for the calendar year applicable to the gas produced by the
12 producer from those leases or properties, and 1/12 of the portion allocated
13 under (g) of this section of the producer's lease expenditures under
14 AS 43.55.165 for the calendar year incurred to explore land that is not a
15 lease or property, or to explore or develop a lease or property before
16 commencement of commercial production of oil or gas from the lease or
17 property, if that land or any part of the lease or property is located north
18 of 68 degrees North latitude, as adjusted under AS 43.55.170; this
19 subparagraph does not apply to gas subject to AS 43.55.011(o);

20 (G) gas produced during a month from leases or properties
21 in the state outside the Cook Inlet sedimentary basin, no part of which is
22 north of 68 degrees North latitude, is the gross value at the point of
23 production of the gas taxable under AS 43.55.011(e) and produced by the
24 producer from those leases or properties, less 1/12 of the producer's lease
25 expenditures under AS 43.55.165 for the calendar year applicable to the
26 gas produced by the producer from those leases or properties, and 1/12 of
27 the portion allocated under (g) of this section of the producer's lease
28 expenditures under AS 43.55.165 for the calendar year incurred to explore
29 land that is not a lease or property, or to explore or develop a lease or
30 property before commencement of commercial production of oil or gas
31 from the lease or property, if that land or lease or property is located

1 outside the Cook Inlet sedimentary basin, and the land and all parts of the
 2 lease or property are not north of 68 degrees North latitude, as adjusted
 3 under AS 43.55.170; this subparagraph does not apply to gas subject to
 4 AS 43.55.011(o).

5 * **Sec. 12.** AS 43.55.160 is amended by adding new subsections to read:

6 (f) For purposes of (a) of this section, a lease expenditure is applicable to oil
 7 or gas produced from a lease or property, or to oil or gas produced from leases or
 8 properties in an area of the state, if the lease expenditure is

9 (1) a cost to explore, develop, or produce oil or gas from that lease or
 10 property, or to explore, develop, or produce oil or gas from one of those leases or
 11 properties in that area of the state, respectively; and

12 (2) incurred on or after the commencement of commercial production
 13 of oil or gas from the lease or property.

14 (g) For purposes of (a) of this section, a lease expenditure incurred during a
 15 calendar year to explore land that is not a lease or property, or to explore or develop a
 16 lease or property before commencement of commercial production of oil or gas from
 17 the lease or property, shall be allocated as provided in a regulation adopted by the
 18 department under AS 43.55.165(h) to and among oil, gas subject to AS 43.55.011(o),
 19 and gas not subject to AS 43.55.011(o) produced by the producer during that calendar
 20 year from leases or properties in the same area of the state as the land being explored
 21 or the lease or property being explored or developed, respectively.

22 (h) For purposes of (f) and (g) of this section, an area of the state is one of the
 23 following:

24 (1) land north of 68 degrees North latitude;

25 (2) land outside the Cook Inlet sedimentary basin not including any
 26 land north of 68 degrees North latitude; or

27 (3) the Cook Inlet sedimentary basin.

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

29 **Sec. 43.55.162. Adjustment to production tax value for increasing oil**
 30 **production.** (a) The production tax value of oil delivered to and transported by the
 31 Trans Alaska Pipeline System, as calculated under AS 43.55.160(a)(1)(A) and (B) and

1 AS 43.55.160(a)(2)(A) and (B), may be reduced by an amount determined by the
2 department under this section.

3 (b) A producer shall report to the department the total adjusted amount of
4 annual oil production and adjusted amount of the average daily statewide oil
5 production delivered by the producer for transport to the Trans Alaska Pipeline
6 System for both the calendar year immediately preceding the year for which the tax is
7 being determined and the year for which the tax is being determined. The report shall
8 be filed at the time the statement required under AS 43.55.030(a) is filed.

9 (c) When calculating the

10 (1) adjusted amount of the average daily statewide production under
11 (b) of this section, the producer shall exclude from the calculation the days on which
12 the rate of production is significantly reduced and the volume of production on those
13 days for which the rate of production is significantly reduced; for the purposes of this
14 paragraph, the rate of production is significantly reduced when the production of oil
15 delivered by the producer to the Trans Alaska Pipeline System for the day is less than
16 one-half of the average daily production for the year calculated by dividing the total
17 oil production that is produced by the producer and delivered to the Trans Alaska
18 Pipeline System for the year by the number of days in the year;

19 (2) adjusted amount of total annual oil production that is delivered by
20 the producer to the Trans Alaska Pipeline System, the producer shall multiply the
21 adjusted amount of average daily production determined under (1) of this subsection
22 by the number of days in the applicable calendar year; and

23 (3) adjusted amount of total annual oil production that is delivered by
24 the producer to the Trans Alaska Pipeline System for the year for which the tax is
25 being determined under (2) of this subsection, the producer may not include the
26 amount of production resulting from the purchase, merger, or other acquisition of
27 another producer and any production attributable to the producer from a unit in which
28 the producer did not participate in the calendar year immediately preceding the year
29 for which the tax is being determined; however, the increased production that may not
30 be included by a producer under this paragraph may be included in the adjusted
31 amount of total annual oil production for the year when determining the amount by

1 which production increases in the next succeeding year.

2 (d) After receiving a report by the producer under (b) of this section, the
3 department may reduce the production tax value determined under

4 (1) AS 43.55.160(a)(1)(A) and (B) by \$10 for each barrel of oil
5 delivered by the producer to the Trans Alaska Pipeline system during the year for
6 which the tax is being determined that exceeds the adjusted total annual production for
7 the calendar year immediately preceding the year for which the tax is being
8 determined; and

9 (2) AS 43.55.160(a)(2)(A) and (B) by \$10 for each barrel of oil
10 delivered to the Trans Alaska Pipeline System for each month in the year for which
11 the tax is being determined that exceeds 1/12 of the number of barrels by which the
12 adjusted total annual production for the year for which the tax is being determined
13 exceeds the adjusted total annual production for the calendar year immediately
14 preceding the year for which the tax is being determined.

15 (e) The department shall notify the producer of the amount of tax reduction
16 allowed as a result of a reduction in production tax value determined by the
17 department under (d) of this section. At the request of the producer, the department
18 may refund any amount due to the producer as a result of the reduction in production
19 tax value or credit the amount of the tax reduction against the liability of the taxpayer
20 for a tax due under this title.

21 (f) A tax reduction that results from a reduction in the production tax value
22 under this section may not be considered when a producer is required to calculate and
23 pay any amount due under AS 43.55.020(a). However, at the request of the producer, a
24 credit allowed under (e) of this section may be applied against a payment due under
25 AS 43.55.020(a) for a period after the department determines the amount of reduction
26 in the production tax value.

27 (g) When determining the average monthly production tax value in
28 AS 43.55.011(g), the average monthly production tax value shall be determined before
29 applying any adjustment under (d) of this section.

30 (h) The department may adopt regulations specifying the information that
31 must be included in the report filed by a producer under (b) of this section and other

1 regulations necessary for the administration of this section.

2 * **Sec. 14.** AS 43.55.165(h) is amended to read:

3 (h) The department shall adopt regulations that provide for reasonable
4 methods of allocating costs between oil and gas, between gas subject to
5 AS 43.55.011(o) and other gas, and between leases or properties in those
6 circumstances where an allocation of costs is required to determine lease expenditures
7 that are costs of exploring for, developing, or producing oil deposits or costs of
8 exploring for, developing, or producing gas deposits, or that are costs of exploring for,
9 developing, or producing oil or gas deposits located within different leases or
10 properties. **When adopting a regulation for determining a reasonable method of**
11 **allocating lease expenditures between the production of oil and the production of**
12 **gas, the department shall, to the extent possible, provide for the allocation of**
13 **lease expenditures in proportion to the gross value at the point of production for**
14 **oil produced and gas produced.**

15 * **Sec. 15.** AS 43.55.170 is amended by adding a new subsection to read:

16 (d) The department shall adopt regulations that provide for reasonable
17 methods of allocating the adjustments to a producer's lease expenditures in (a) of this
18 section and the payments and credits described in (b) of this section between oil and
19 gas, between gas subject to AS 43.55.011(o) and other gas, and between leases or
20 properties in those circumstances where an allocation of costs is required to determine
21 lease expenditures that are costs of exploring for, developing, or producing oil
22 deposits, or costs of exploring for, developing, or producing gas deposits, or that are
23 costs of exploring for, developing, or producing oil or gas deposits located within
24 different leases or properties. When determining a reasonable method of allocating the
25 adjustments to a producer's lease expenditures between the production of oil and the
26 production of gas, the department shall consider allocating the adjustments in
27 proportion to the lease expenditures allocated to the production of oil and the
28 production of gas under regulations adopted by the department under
29 AS 43.55.165(h).

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

1 IMPLEMENTATION OF THE PETROLEUM INFORMATION MANAGEMENT
2 SYSTEM; RECOMMENDATION FOR STATUTORY CHANGES. The Alaska Oil and Gas
3 Conservation Commission shall develop and implement a work plan for the development of
4 the petroleum information management system required by AS 31.05.031, enacted by sec. 3
5 of this Act, so that the system is operational before January 1, 2014.

6 * **Sec. 17.** The uncodified law of the State of Alaska is amended by adding a new section to
7 read:

8 APPLICABILITY. The reduction in production tax value under AS 43.55.162,
9 enacted by sec. 13 of this Act, applies to qualifying oil produced after December 31, 2012. In
10 this section, "qualifying oil" means oil delivered to the Trans Alaska Pipeline System the
11 production tax value of which is calculated under AS 43.55.160(a)(1)(A) and (B) and
12 43.55.160(a)(2)(A) and (B).

13 * **Sec. 18.** This Act takes effect January 1, 2013.