

HOUSE CS FOR CS FOR SENATE BILL NO. 21(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 4/12/13

Referred: Today's Calendar

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the interest rate applicable to certain amounts due for fees, taxes,**
2 **and payments made and property delivered to the Department of Revenue; relating to**
3 **appropriations from taxes paid under the Alaska Net Income Tax Act; providing a tax**
4 **credit against the corporation income tax for qualified oil and gas service industry**
5 **expenditures; relating to the oil and gas production tax rate; relating to gas used in the**
6 **state; relating to monthly installment payments of the oil and gas production tax;**
7 **relating to oil and gas production tax credits for certain losses and expenditures;**
8 **relating to oil and gas production tax credit certificates; relating to nontransferable tax**
9 **credits based on production; relating to the oil and gas tax credit fund; relating to**
10 **annual statements by producers and explorers; establishing an Oil and Gas**
11 **Competitiveness Review Board; relating to the determination of annual oil and gas**
12 **production tax value including adjustments based on a percentage of gross value at the**

1 point of production from certain leases or properties; and making conforming
2 amendments."

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

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

5 (b) Each fiscal year, the legislature may appropriate to the community revenue
6 sharing fund [AN AMOUNT EQUAL TO 20 PERCENT OF THE] money received by
7 the state during the previous calendar year under AS 43.20.030(c) [AS 43.55.011(g)].
8 The amount may not exceed

9 (1) \$60,000,000; or

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

12 * **Sec. 2.** AS 43.05.225 is amended to read:

13 **Sec. 43.05.225. Interest.** Unless otherwise provided,

14 (1) a delinquent tax under this title,

15 (A) before January 1, 2014, [WHEN A TAX LEVIED IN
16 THIS TITLE BECOMES DELINQUENT, IT] bears interest in each [A]
17 calendar quarter at the rate of five percentage points above the annual rate
18 charged member banks for advances by the 12th Federal Reserve District as of
19 the first day of that calendar quarter, or at the annual rate of 11 percent,
20 whichever is greater, compounded quarterly as of the last day of that quarter;
21 or

22 (B) on and after January 1, 2014, bears interest in each
23 calendar quarter at the rate of three percentage points above the annual
24 rate charged member banks for advances by the 12th Federal Reserve
25 District as of the first day of that calendar quarter;

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

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

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

30 * **Sec. 3.** AS 43.20 is amended by adding a new section to read:

1 **Sec. 43.20.049. Qualified oil and gas service industry expenditure credit.**

2 (a) For a tax year beginning after December 31, 2013, a taxpayer may apply a credit
3 against the tax due under this chapter for a qualified oil and gas service industry
4 expenditure incurred in the state. The total amount of credit a taxpayer may receive in
5 a tax year may not exceed the lesser of 10 percent of qualified oil and gas service
6 industry expenditures incurred in the state during the tax year or \$10,000,000.

7 (b) A taxpayer may not apply more than \$10,000,000 in tax credits under this
8 section in a tax year. A tax credit or portion of a tax credit under this section may not
9 be used to reduce the taxpayer's tax liability under this chapter below zero. Any
10 unused tax credit or portion of a tax credit under this section may be applied in later
11 tax years, except that any unused tax credit or portion of a tax credit may not be
12 carried forward for more than five tax years immediately following the tax year in
13 which the qualified oil and gas service industry expenditures were incurred.

14 (c) An expenditure that is the basis of the credit under this section may not be
15 the basis for

- 16 (1) a deduction against the tax levied under this chapter;
17 (2) a credit or deduction under another provision of this title; or
18 (3) any federal credit claimed under this title.

19 (d) Notwithstanding any contrary provision of AS 40.25.100(a) or
20 AS 43.05.230(e), for a year that three or more taxpayers claim a tax credit under this
21 section, the department may publish the aggregated amount of tax credits claimed
22 under this section and a description of the qualified oil and gas service industry
23 expenditures that were the basis for a tax credit under this section.

24 (e) In this section,

25 (1) "manufacture" means to perform substantial industrial operations in
26 the state to transform raw material into tangible personal property with a useful life of
27 three years or more for use in the exploration for, development of, or production of oil
28 or gas deposits;

29 (2) "modification" means an adjustment, equipping, or other alteration
30 to existing tangible personal property that has a useful life of three years or more and
31 is for use in the exploration for, development of, or production of oil or gas deposits;

1 "modification" does not include minor product alterations or inventory activities;

2 (3) "qualified oil and gas service industry expenditure" means an
3 expenditure directly attributable to an in-state manufacture or in-state modification of
4 tangible personal property used in the exploration for, development of, or production
5 of oil or gas deposits, but does not include components or equipment used for or in the
6 process of that manufacturing or modification.

7 * **Sec. 4.** AS 43.55.011(e) is amended to read:

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

13 (1) **before January 1, 2014, the tax is equal to** the sum of

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

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

18 (2) **on and after January 1, 2014, the tax is equal to the annual**
19 **production tax value of the taxable oil and gas as calculated under**
20 **AS 43.55.160(a)(1) multiplied by 35 percent.**

21 * **Sec. 5.** AS 43.55.011(g) is amended to read:

22 (g) For each month of a [THE] calendar year **before 2014** for which the
23 producer's average monthly production tax value under AS 43.55.160(a)(2) **of a** [PER]
24 BTU equivalent barrel of the taxable oil and gas is more than \$30, the amount of tax
25 for purposes of **(e)(1)(B)** [(e)(2)] of this section is determined by multiplying the
26 monthly production tax value of the taxable oil and gas produced during the month by
27 the tax rate calculated as follows:

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

1 equivalent barrel and \$30; or

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

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

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

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

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

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

25 * **Sec. 7.** AS 43.55.011(o) is amended to read:

26 (o) Notwithstanding other provisions of this section, for a calendar year before
 27 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas
 28 produced from a lease or property outside the Cook Inlet sedimentary basin and used
 29 in the state, **other than gas subject to (p) of this section,** may not exceed the amount
 30 of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

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

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

8 * **Sec. 9.** AS 43.55.020(a) is amended to read:

9 (a) For a calendar year, a producer subject to tax under **AS 43.55.011**
 10 [AS 43.55.011(e) - (i) OR (p)] shall pay the tax as follows:

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

18 (A) for oil and gas **not subject to AS 43.55.011(o) or (p)**
 19 produced from leases or properties in the state outside the Cook Inlet
 20 sedimentary basin [BUT NOT SUBJECT TO AS 43.55.011(o) OR (p)], other
 21 than leases or properties subject to AS 43.55.011(f), the greater of

22 (i) zero; or

23 (ii) the sum of 25 percent and the tax rate calculated for
 24 the month under AS 43.55.011(g) multiplied by the remainder obtained
 25 by subtracting 1/12 of the producer's adjusted lease expenditures for the
 26 calendar year of production under AS 43.55.165 and 43.55.170 that are
 27 deductible for the **oil and gas** [LEASES OR PROPERTIES] under
 28 AS 43.55.160 from the gross value at the point of production of the oil
 29 and gas produced from the leases or properties during the month for
 30 which the installment payment is calculated;

31 (B) for oil and gas produced from leases or properties subject

1 to AS 43.55.011(f), the greatest of

2 (i) zero;

3 (ii) zero percent, one percent, two percent, three
4 percent, or four percent, as applicable, of the gross value at the point of
5 production of the oil and gas produced from **the** [ALL] leases or
6 properties during the month for which the installment payment is
7 calculated; or

8 (iii) the sum of 25 percent and the tax rate calculated for
9 the month under AS 43.55.011(g) multiplied by the remainder obtained
10 by subtracting 1/12 of the producer's adjusted lease expenditures for the
11 calendar year of production under AS 43.55.165 and 43.55.170 that are
12 deductible for **the oil and gas** [THOSE LEASES OR PROPERTIES]
13 under AS 43.55.160 from the gross value at the point of production of
14 the oil and gas produced from those leases or properties during the
15 month for which the installment payment is calculated;

16 (C) for oil **or** [AND] gas [PRODUCED FROM EACH LEASE
17 OR PROPERTY] subject to AS 43.55.011(j), (k), **or** (o) [, OR (p)], **for each**
18 **lease or property**, the greater of

19 (i) zero; or

20 (ii) the sum of 25 percent and the tax rate calculated for
21 the month under AS 43.55.011(g) multiplied by the remainder obtained
22 by subtracting 1/12 of the producer's adjusted lease expenditures for the
23 calendar year of production under AS 43.55.165 and 43.55.170 that are
24 deductible under AS 43.55.160 for **the** oil or gas, respectively,
25 produced from the lease or property from the gross value at the point of
26 production of the oil or gas, respectively, produced from the lease or
27 property during the month for which the installment payment is
28 calculated;

29 **(D) for oil and gas subject to AS 43.55.011(p), the lesser of**

30 **(i) the sum of 25 percent and the tax rate calculated**
31 **for the month under AS 43.55.011(g) multiplied by the remainder**

1 obtained by subtracting 1/12 of the producer's adjusted lease
 2 expenditures for the calendar year of production under
 3 AS 43.55.165 and 43.55.170 that are deductible for the oil and gas
 4 under AS 43.55.160 from the gross value at the point of production
 5 of the oil and gas produced from the leases or properties during the
 6 month for which the installment payment is calculated, but not less
 7 than zero; or

8 (ii) four percent of the gross value at the point of
 9 production of the oil and gas produced from the leases or
 10 properties during the month, but not less than zero;

11 (2) an amount calculated under (1)(C) of this subsection for oil or gas
 12 [PRODUCED FROM A LEASE OR PROPERTY

13 (A)] subject to AS 43.55.011(j), (k), or (o) may not exceed the
 14 product obtained by carrying out the calculation set out in AS 43.55.011(j)(1)
 15 or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1)
 16 or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A)
 17 or 43.55.011(o), as applicable, the amount of taxable gas produced during the
 18 month for the amount of taxable gas produced during the calendar year and
 19 substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of
 20 taxable oil produced during the month for the amount of taxable oil produced
 21 during the calendar year;

22 [(B) SUBJECT TO AS 43.55.011(p) MAY NOT EXCEED
 23 FOUR PERCENT OF THE GROSS VALUE AT THE POINT OF
 24 PRODUCTION OF THE OIL OR GAS;]

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

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

1 during the month; and

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

6 (4) any amount of tax levied by AS 43.55.011 [AS 43.55.011(e) OR
7 (i)], net of any credits applied as allowed by law, that exceeds the total of the amounts
8 due as installment payments of estimated tax is due on March 31 of the year following
9 the calendar year of production;

10 (5) on and after January 1, 2014, an installment payment of the
11 estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed
12 by law, is due for each month of the calendar year on the last day of the following
13 month; except as otherwise provided under (6) of this subsection, the amount of
14 the installment payment is the sum of the following amounts, less 1/12 of the tax
15 credits that are allowed by law to be applied against the tax levied by
16 AS 43.55.011(e) for the calendar year, but the amount of the installment payment
17 may not be less than zero:

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

22 (i) zero; or

23 (ii) 35 percent multiplied by the remainder obtained
24 by subtracting 1/12 of the producer's adjusted lease expenditures
25 for the calendar year of production under AS 43.55.165 and
26 43.55.170 that are deductible for the oil and gas under
27 AS 43.55.160 from the gross value at the point of production of the
28 oil and gas produced from the leases or properties during the
29 month for which the installment payment is calculated;

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

1 (i) zero;

2 (ii) zero percent, one percent, two percent, three
3 percent, or four percent, as applicable, of the gross value at the
4 point of production of the oil and gas produced from the leases or
5 properties during the month for which the installment payment is
6 calculated; or

7 (iii) 35 percent multiplied by the remainder obtained
8 by subtracting 1/12 of the producer's adjusted lease expenditures
9 for the calendar year of production under AS 43.55.165 and
10 43.55.170 that are deductible for the oil and gas under
11 AS 43.55.160 from the gross value at the point of production of the
12 oil and gas produced from those leases or properties during the
13 month for which the installment payment is calculated, except that,
14 for the purposes of this calculation, a reduction from the gross
15 value at the point of production may apply for oil and gas subject
16 to AS 43.55.160(f) or (g);

17 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
18 each lease or property, the greater of

19 (i) zero; or

20 (ii) 35 percent multiplied by the remainder obtained
21 by subtracting 1/12 of the producer's adjusted lease expenditures
22 for the calendar year of production under AS 43.55.165 and
23 43.55.170 that are deductible under AS 43.55.160 for the oil or gas,
24 respectively, produced from the lease or property from the gross
25 value at the point of production of the oil or gas, respectively,
26 produced from the lease or property during the month for which
27 the installment payment is calculated;

28 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

29 (i) 35 percent multiplied by the remainder obtained
30 by subtracting 1/12 of the producer's adjusted lease expenditures
31 for the calendar year of production under AS 43.55.165 and

1 43.55.170 that are deductible for the oil and gas under
 2 AS 43.55.160 from the gross value at the point of production of the
 3 oil and gas produced from the leases or properties during the
 4 month for which the installment payment is calculated, but not less
 5 than zero; or

6 (ii) four percent of the gross value at the point of
 7 production of the oil and gas produced from the leases or
 8 properties during the month, but not less than zero;

9 (6) an amount calculated under (5)(C) of this subsection for oil or
 10 gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
 11 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
 12 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil,
 13 but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable,
 14 the amount of taxable gas produced during the month for the amount of taxable
 15 gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A)
 16 or (2)(A), as applicable, the amount of taxable oil produced during the month for
 17 the amount of taxable oil produced during the calendar year.

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

19 (d) **Before January 1, 2014, in** [IN] making settlement with the royalty owner
 20 for oil and gas that is taxable under AS 43.55.011, the producer may deduct the
 21 amount of the tax paid on taxable royalty oil and gas, or may deduct taxable royalty oil
 22 or gas equivalent in value at the time the tax becomes due to the amount of the tax
 23 paid. If the total deductions of installment payments of estimated tax for a calendar
 24 year exceed the actual tax for that calendar year, the producer shall, before April 1 of
 25 the following year, refund the excess to the royalty owner. Unless otherwise agreed
 26 between the producer and the royalty owner, the amount of the tax paid under
 27 AS 43.55.011(e) - (g) on taxable royalty oil and gas for a calendar year, other than oil
 28 and gas the ownership or right to which constitutes a landowner's royalty interest, is
 29 considered to be the gross value at the point of production of the taxable royalty oil
 30 and gas produced during the calendar year multiplied by a figure that is a quotient, in
 31 which

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

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

6 * **Sec. 11.** AS 43.55.020(g) is amended to read:

7 (g) Notwithstanding any contrary provision of AS 43.05.225,

8 **(1) before January 1, 2014,** an unpaid amount of an installment
9 payment required under (a)(1) - (3) of this section that is not paid when due bears
10 interest **(A) [(1)]** at the rate provided for an underpayment under 26 U.S.C. 6621
11 (Internal Revenue Code), as amended, compounded daily, from the date the
12 installment payment is due until March 31 following the calendar year of production,
13 and **(B) [(2)]** as provided for a delinquent tax under AS 43.05.225 after that March 31;
14 **interest** [. INTEREST] accrued under **(A) [(1)]** of this **paragraph** [SUBSECTION]
15 that remains unpaid after that March 31 is treated as an addition to tax that bears
16 interest under **(B) [(2)]** of this **paragraph; an** [SUBSECTION. AN] unpaid amount of
17 tax due under (a)(4) of this section that is not paid when due bears interest as provided
18 for a delinquent tax under AS 43.05.225;

19 **(2) on and after January 1, 2014, an unpaid amount of an**
20 **installment payment required under (a)(3), (5), or (6) of this section that is not**
21 **paid when due bears interest (A) at the rate provided for an underpayment**
22 **under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily,**
23 **from the date the installment payment is due until March 31 following the**
24 **calendar year of production, and (B) as provided for a delinquent tax under**
25 **AS 43.05.225 after that March 31; interest accrued under (A) of this paragraph**
26 **that remains unpaid after that March 31 is treated as an addition to tax that**
27 **bears interest under (B) of this paragraph; an unpaid amount of tax due under**
28 **(a)(4) of this section that is not paid when due bears interest as provided for a**
29 **delinquent tax under AS 43.05.225.**

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

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

1 (1) an overpayment of an installment payment required under (a)(1) -
 2 (3), (5) or (6) of this section bears interest at the rate provided for an overpayment
 3 under 26 U.S.C. 6621 (Internal Revenue Code), as amended, compounded daily, from
 4 the later of the date the installment payment is due or the date the overpayment is
 5 made, until the earlier of

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

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

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

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

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

19 * **Sec. 13.** AS 43.55.020 is amended by adding a new subsection to read:

20 (l) On and after January 1, 2014, in making settlement with the royalty owner
 21 for oil and gas that is taxable under AS 43.55.011, the producer may deduct the
 22 amount of the tax paid on taxable royalty oil and gas, or may deduct taxable royalty oil
 23 or gas equivalent in value at the time the tax becomes due to the amount of the tax
 24 paid. If the total deductions of installment payments of estimated tax for a calendar
 25 year exceed the actual tax for that calendar year, the producer shall, before April 1 of
 26 the following year, refund the excess to the royalty owner. Unless otherwise agreed
 27 between the producer and the royalty owner, the amount of the tax paid under
 28 AS 43.55.011(e) on taxable royalty oil and gas for a calendar year, other than oil and
 29 gas the ownership or right to which constitutes a landowner's royalty interest, is
 30 considered to be the gross value at the point of production of the taxable royalty oil
 31 and gas produced during the calendar year multiplied by a figure that is a quotient, in

1 which

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

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

7 * **Sec. 14.** AS 43.55.023(a) is amended to read:

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

10 (1) notwithstanding that a qualified capital expenditure may be a
11 deductible lease expenditure for purposes of calculating the production tax value of oil
12 and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under
13 AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or
14 explorer that incurs a qualified capital expenditure may also elect to apply a tax credit
15 against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that
16 expenditure; [HOWEVER, NOT MORE THAN HALF OF THE TAX CREDIT MAY
17 BE APPLIED FOR A SINGLE CALENDAR YEAR;]

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

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

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

25 **(3) a credit for a qualified capital expenditure incurred to explore**
26 **for, develop, or produce oil or gas deposits located north of 68 degrees North**
27 **latitude may be taken only if the expenditure is incurred before January 1, 2014.**

28 * **Sec. 15.** AS 43.55.023(b) is amended to read:

29 (b) **Before January 1, 2014, a** [A] producer or explorer may elect to take a
30 tax credit in the amount of 25 percent of a carried-forward annual loss. **For lease**
31 **expenditures incurred on and after January 1, 2014, and before January 1, 2016,**

1 to explore for, develop, or produce oil or gas deposits located north of 68 degrees
 2 North latitude, a producer or explorer may elect to take a tax credit in the
 3 amount of 45 percent of a carried-forward annual loss. For lease expenditures
 4 incurred on and after January 1, 2016, to explore for, develop, or produce oil or
 5 gas deposits located north of 68 degrees North latitude, a producer or explorer
 6 may elect to take a tax credit in the amount of 35 percent of a carried-forward
 7 annual loss. For lease expenditures incurred on or after January 1, 2014, to
 8 explore for, develop, or produce oil or gas deposits located south of 68 degrees
 9 North latitude, a producer or explorer may elect to take a tax credit in the
 10 amount of 25 percent of a carried-forward annual loss. A credit under this
 11 subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of
 12 this subsection, a carried-forward annual loss is the amount of a producer's or
 13 explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a
 14 previous calendar year that was not deductible in calculating production tax values for
 15 that calendar year under AS 43.55.160.

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

17 (d) A [EXCEPT AS LIMITED BY (i) OF THIS SECTION, A] person that is
 18 entitled to take a tax credit under this section that wishes to transfer the unused credit
 19 to another person or obtain a cash payment under AS 43.55.028 may apply to the
 20 department for a transferable tax credit certificate [CERTIFICATES]. An application
 21 under this subsection must be in a form prescribed by the department and must include
 22 supporting information and documentation that the department reasonably requires.
 23 The department shall grant or deny an application, or grant an application as to a lesser
 24 amount than that claimed and deny it as to the excess, not later than 120 days after the
 25 latest of (1) March 31 of the year following the calendar year in which the qualified
 26 capital expenditure or carried-forward annual loss for which the credit is claimed was
 27 incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for
 28 the calendar year in which the qualified capital expenditure or carried-forward annual
 29 loss for which the credit is claimed was incurred; or (3) the date the application was
 30 received by the department. If, based on the information then available to it, the
 31 department is reasonably satisfied that the applicant is entitled to a credit, the

1 department shall issue the applicant a [TWO] transferable tax credit **certificate for**
 2 [CERTIFICATES, EACH FOR HALF OF] the amount of the credit. [THE CREDIT
 3 SHOWN ON ONE OF THE TWO CERTIFICATES IS AVAILABLE FOR
 4 IMMEDIATE USE. THE CREDIT SHOWN ON THE SECOND OF THE TWO
 5 CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR
 6 YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE
 7 CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE
 8 CERTIFICATE MUST CONTAIN A CONSPICUOUS STATEMENT TO THAT
 9 EFFECT.] A certificate issued under this subsection does not expire.

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

11 (g) The issuance of a transferable tax credit certificate under (d) **of this**
 12 **section** or **former** (m) of this section or the purchase of a certificate under
 13 AS 43.55.028 does not limit the department's ability to later audit a tax credit claim to
 14 which the certificate relates or to adjust the claim if the department determines, as a
 15 result of the audit, that the applicant was not entitled to the amount of the credit for
 16 which the certificate was issued. The tax liability of the applicant under
 17 AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit
 18 that exceeds that to which the applicant was entitled, or the applicant's available valid
 19 outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced
 20 by that amount. If the applicant's tax liability is increased under this subsection, the
 21 increase bears interest under AS 43.05.225 from the date the transferable tax credit
 22 certificate was issued. For purposes of this subsection, an applicant that is an explorer
 23 is considered a producer subject to the tax levied by AS 43.55.011(e).

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

25 (n) For the purposes of (l) [AND (m)] of this section, a well lease expenditure
 26 incurred in the state south of 68 degrees North latitude is a lease expenditure that is

27 (1) directly related to an exploration well, a stratigraphic test well, a
 28 producing well, or an injection well other than a disposal well, located in the state
 29 south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure
 30 and an intangible drilling and development cost authorized under 26 U.S.C. (Internal
 31 Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made

1 under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well
2 includes an expenditure for well sidetracking, well deepening, well completion or
3 recompletion, or well workover, regardless of whether the well is or has been a
4 producing well; or

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

7 * **Sec. 19.** AS 43.55.023 is amended by adding a new subsection to read:

8 (p) Before January 1, 2014, the provisions of (d) of this section may be limited
9 by (i) of this section.

10 * **Sec. 20.** AS 43.55.024(e) is amended to read:

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

19 * **Sec. 21.** AS 43.55.024 is amended by adding new subsections to read:

20 (i) A producer may apply against the producer's tax liability for the calendar
21 year under AS 43.55.011(e) a tax credit of \$5 for each barrel of oil taxable under
22 AS 43.55.011(e) that meets one or more of the criteria in AS 43.55.160(f) or (g) and
23 that is produced during a calendar year after December 31, 2013. A tax credit
24 authorized by this subsection may not reduce a producer's tax liability for a calendar
25 year under AS 43.55.011(e) below zero.

26 (j) A producer may apply against the producer's tax liability for the calendar
27 year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for
28 each barrel of oil taxable under AS 43.55.011(e) that does not meet any of the criteria
29 in AS 43.55.160(f) or (g) and that is produced during a calendar year after
30 December 31, 2013, from leases or properties north of 68 degrees North latitude. A tax
31 credit under this subsection may not reduce a producer's tax liability for a calendar

1 year under AS 43.55.011(e) below the amount calculated under AS 43.55.011(f). The
2 amount of the tax credit for a barrel of taxable oil subject to this subsection produced
3 during a month of the calendar year is

4 (1) \$8 for each barrel of taxable oil if the average gross value at the
5 point of production for the month is less than \$80 a barrel;

6 (2) \$7 for each barrel of taxable oil if the average gross value at the
7 point of production for the month is greater than or equal to \$80 a barrel, but less than
8 \$90 a barrel;

9 (3) \$6 for each barrel of taxable oil if the average gross value at the
10 point of production for the month is greater than or equal to \$90 a barrel, but less than
11 \$100 a barrel;

12 (4) \$5 for each barrel of taxable oil if the average gross value at the
13 point of production for the month is greater than or equal to \$100 a barrel, but less
14 than \$110 a barrel;

15 (5) \$4 for each barrel of taxable oil if the average gross value at the
16 point of production for the month is greater than or equal to \$110 a barrel, but less
17 than \$120 a barrel;

18 (6) \$3 for each barrel of taxable oil if the average gross value at the
19 point of production for the month is greater than or equal to \$120 a barrel, but less
20 than \$130 a barrel;

21 (7) \$2 for each barrel of taxable oil if the average gross value at the
22 point of production for the month is greater than or equal to \$130 a barrel, but less
23 than \$140 a barrel;

24 (8) \$1 for each barrel of taxable oil if the average gross value at the
25 point of production for the month is greater than or equal to \$140 a barrel, but less
26 than \$150 a barrel;

27 (9) zero if the average gross value at the point of production for the
28 month is greater than or equal to \$150 a barrel.

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

30 (a) Subject to the terms and conditions of this section, a credit against the
31 production tax levied by AS 43.55.011(e) is allowed for exploration expenditures that

1 qualify under (b) of this section in an amount equal to one of the following:

2 (1) 30 percent of the total exploration expenditures that qualify only
3 under (b) and (c) of this section;

4 (2) 30 percent of the total exploration expenditures that qualify only
5 under (b) and (d) of this section;

6 (3) 40 percent of the total exploration expenditures that qualify under
7 (b), (c), and (d) of this section;

8 (4) 40 percent of the total exploration expenditures that qualify only
9 under (b) and (e) of this section;

10 (5) 80, 90, or 100 percent, or a lesser amount described in (l) of this
11 section, of the total exploration expenditures described in (b)(1) and (2) of this section
12 and not excluded by (b)(3) and (4) of this section that qualify only under (l) of this
13 section;

14 (6) the lesser of \$25,000,000 or 80 percent of the total exploration
15 drilling expenditures described in (m) of this section and that qualify under (b) and
16 (c)(1), (c)(2)(A), and (c)(2)(C) [(c)] of this section; or

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

20 * **Sec. 23.** AS 43.55.025(b) is amended to read:

21 (b) To qualify for the production tax credit under (a)(5), (6), or (7) [(a)] of this
22 section, an exploration expenditure must be incurred for work performed after
23 June 30, 2008, and before July 1, 2016, or, for work qualifying under (a)(1), (2), (3),
24 or (4) of this section, for work performed in an area outside of the Cook Inlet
25 sedimentary basin and south of 68 degrees North latitude, after June 30, 2008,
26 and before January 1, 2022, and

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

29 (2) if for an exploration well,

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

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

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

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

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

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

21 * **Sec. 24.** AS 43.55.025(m) is amended to read:

22 (m) The persons that drill the first four exploration wells in the state and
23 within the areas described in (o) of this section on state lands, private lands, or federal
24 onshore lands for the purpose of discovering oil or gas that penetrate and evaluate a
25 prospect in a basin described in (o) of this section are eligible for a credit under (a)(6)
26 of this section. A credit under this subsection may not be taken for more than two
27 exploration wells in a single area described in (o)(1) - (6) of this section. Exploration
28 expenditures eligible for the credit in this subsection must be incurred for work
29 performed after June 1, 2012, and before July 1, 2016. A person planning to drill an
30 exploration well on private land and to apply for a credit under this subsection shall
31 obtain written consent from the owner of the oil and gas interest for the full public

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

27 * **Sec. 25.** AS 43.55.028(e) is amended to read:

28 (e) The department, on the written application of a person to whom a
 29 transferable tax credit certificate has been issued under AS 43.55.023(d) or **former**
 30 **AS 43.55.023(m)** [(m)] or to whom a production tax credit certificate has been issued
 31 under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to

1 purchase, in whole or in part, the certificate if the department finds that

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

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

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

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

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

15 * **Sec. 26.** AS 43.55.028(g) is amended to read:

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

25 * **Sec. 27.** AS 43.55.030(e) is amended to read:

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

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

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

7 * **Sec. 28.** AS 43.55.160(a) is amended to read:

8 (a) Except as provided in (b), **(f), and (g)** of this section, for the purposes of

9 (1) AS 43.55.011(e), the annual production tax value of [THE] taxable
 10 oil, gas, or oil and gas [SUBJECT TO THIS PARAGRAPH] produced during a
 11 calendar year **in a category for which a separate annual production tax value is**
 12 **required to be calculated under this paragraph** is the gross value at the point of
 13 production of **that** [THE] oil, gas, or oil and gas taxable under AS 43.55.011(e), less
 14 the producer's lease expenditures under AS 43.55.165 for the calendar year applicable
 15 to the oil, gas, or oil and gas **in that category** [, AS APPLICABLE,] produced by the
 16 producer **during the calendar year** [FROM LEASES OR PROPERTIES], as adjusted
 17 under AS 43.55.170; **a separate annual production tax value must be calculated**
 18 **for** [THIS PARAGRAPH APPLIES TO]

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

22 (B) oil and gas produced from leases or properties in the state
 23 outside the Cook Inlet sedimentary basin, no part of which is north of 68
 24 degrees North latitude **and that qualifies for a tax credit under**
 25 **AS 43.55.024(a) and (b)**; this subparagraph does not apply to [GAS]

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

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

28 (C) oil produced before 2022 from **each** [A] lease or property
 29 in the Cook Inlet sedimentary basin;

30 (D) gas produced before 2022 from **each** [A] lease or property
 31 in the Cook Inlet sedimentary basin;

1 (E) gas produced before 2022 from each [A] lease or property
2 in the state outside the Cook Inlet sedimentary basin and used in the state,
3 other than gas subject to AS 43.55.011(p);

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

6 (G) oil and gas produced from leases or properties in the
7 state [A LEASE OR PROPERTY] no part of which is north of 68 degrees
8 North latitude, other than oil or gas described in (B), (C), (D), (E), or (F) of
9 this paragraph;

10 (2) AS 43.55.011(g), for oil and gas produced before January 1,
11 2014, the monthly production tax value of the taxable

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

20 (B) oil and gas produced during a month from leases or
21 properties in the state outside the Cook Inlet sedimentary basin, no part of
22 which is north of 68 degrees North latitude, is the gross value at the point of
23 production of the oil and gas taxable under AS 43.55.011(e) and produced by
24 the 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 oil and
26 gas produced by the producer from those leases or properties, as adjusted under
27 AS 43.55.170; this subparagraph does not apply to gas subject to
28 AS 43.55.011(o);

29 (C) oil produced during a month from a lease or property in the
30 Cook Inlet sedimentary basin is the gross value at the point of production of
31 the oil taxable under AS 43.55.011(e) and produced by the producer from that

1 lease or property, less 1/12 of the producer's lease expenditures under
 2 AS 43.55.165 for the calendar year applicable to the oil produced by the
 3 producer from that lease or property, as adjusted under AS 43.55.170;

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

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

17 * **Sec. 29.** AS 43.55.160 is amended by adding new subsections to read:

18 (f) On and after January 1, 2014, in the calculation of an annual production tax
 19 value of a producer under (a)(1) of this section, the gross value at the point of
 20 production of oil or gas produced from a lease or property north of 68 degrees North
 21 latitude meeting one or more of the following criteria is reduced by 20 percent: (1) the
 22 oil or gas is produced from a lease or property that does not contain a lease that was
 23 within a unit on January 1, 2003; (2) the oil or gas is produced from a participating
 24 area established after December 31, 2011, that is within a unit formed under
 25 AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a
 26 reservoir that had previously been in a participating area established before
 27 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
 28 existing participating area by the Department of Natural Resources on and after
 29 January 1, 2014, and the producer demonstrates to the department that the volume of
 30 oil or gas produced is from acreage added to an existing participating area. This
 31 subsection does not apply to gas produced before 2022 that is used in the state. A

1 reduction under this subsection may not reduce the gross value at the point of
 2 production below zero. In this subsection, "participating area" means a reservoir or
 3 portion of a reservoir producing or contributing to production as approved by the
 4 Department of Natural Resources.

5 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
 6 section, in the calculation of an annual production tax value of a producer under (a)(1)
 7 of this section, the gross value at the point of production of oil or gas produced from a
 8 lease or property that does not contain a lease that was within a unit on January 1,
 9 2003, is reduced by 10 percent if the oil or gas is produced from a unit made up solely
 10 of leases that have a royalty share of more than 12.5 percent in amount or value of the
 11 production removed or sold from the lease as determined under AS 38.05.180(f). This
 12 subsection does not apply if the royalty obligation for one or more of the leases in the
 13 unit has been reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of
 14 the calendar year for which the annual production tax is calculated. This subsection
 15 does not apply to gas produced before 2022 that is used in the state. A reduction under
 16 this subsection may not reduce the gross value at the point of production below zero.

17 * **Sec. 30.** AS 43.56.160 is amended to read:

18 **Sec. 43.56.160. Interest and penalty.** When the tax levied by AS 43.56.010(a)
 19 becomes delinquent, a penalty of 10 percent shall be added. **Before January 1, 2014,**
 20 **interest** [INTEREST] on the delinquent taxes, exclusive of penalty, shall be assessed
 21 at a rate of eight percent a year. **On and after January 1, 2014, interest on the**
 22 **delinquent taxes, exclusive of penalty, shall be assessed at the rate specified in**
 23 **AS 43.05.225.**

24 * **Sec. 31.** AS 43.98 is amended by adding new sections to read:

25 **Article 2. Oil and Gas Competitiveness Review Board.**

26 **Sec. 43.98.040. Oil and Gas Competitiveness Review Board.** (a) The Oil and
 27 Gas Competitiveness Review Board is established in the department.

28 (b) The board shall consist of 11 members as follows:

29 (1) two members nominated by the two leading nonprofit trade
 30 associations representing the oil and gas industry in the state and appointed by the
 31 governor, with one member nominated by each association;

1 (2) the chair of the Alaska Oil and Gas Conservation Commission or
2 the chair's designee;

3 (3) three members of the public appointed by the governor, including
4 one member who is a petroleum engineer, one member who is a geologist, and one
5 member who is a financial analyst;

6 (4) the commissioner of environmental conservation or the
7 commissioner's designee;

8 (5) the commissioner of natural resources or the commissioner's
9 designee;

10 (6) the commissioner of revenue or the commissioner's designee;

11 (7) two members of the public who do not represent the oil and gas
12 industry, appointed by the governor.

13 (c) The governor shall, every two years, designate one of the members as
14 chair.

15 (d) Members of the board appointed under (b)(1), (3), and (7) of this section
16 serve for four years. An individual who has served on the board may be reappointed.

17 (e) A vacancy on the board shall be filled in the manner of the original
18 appointment.

19 (f) A member of the board may be removed and replaced at the discretion of
20 the governor.

21 (g) The members of the board appointed under (b)(1), (3), and (7) of this
22 section serve without compensation but shall receive per diem and travel expenses
23 authorized for boards and commissions under AS 39.20.180.

24 (h) The board may enter into contracts for professional services. The
25 department shall provide staff for administrative support for the board.

26 (i) The board shall meet at least once in a calendar year.

27 **Sec. 43.98.050. Duties.** The duties of the board include the following:

28 (1) establish and maintain a salient collection of information related to
29 oil and gas exploration, development, and production in the state and related to tax
30 structures, rates, and credits in other regions with oil and gas resources;

31 (2) review historical, current, and potential levels of investment in the

1 state's oil and gas sector;

2 (3) identify factors that affect investment in oil and gas exploration,
3 development, and production in the state, including tax structure, rates, and credits;
4 royalty requirements; infrastructure; workforce availability; and regulatory
5 requirements;

6 (4) review the competitive position of the state to attract and maintain
7 investment in the oil and gas sector in the state as compared to the competitive
8 position of other regions with oil and gas resources;

9 (5) in order to facilitate the work of the board, establish procedures to
10 accept and keep confidential information that is beneficial to the work of the board,
11 including the creation of a secure data room and confidentiality agreements to be
12 signed by individuals having access to confidential information;

13 (6) make written findings and recommendations to the Alaska State
14 Legislature before

15 (A) January 31, 2015, or as soon thereafter as practicable,
16 regarding

17 (i) changes to the state's regulatory environment and
18 permitting structure that would be conducive to encouraging increased
19 investment while protecting the interests of the people of the state and
20 the environment;

21 (ii) the status of the oil and gas industry labor pool in
22 the state and the effectiveness of workforce development efforts by the
23 state;

24 (iii) the status of the oil-and-gas-related infrastructure
25 of the state, including a description of infrastructure deficiencies; and

26 (iv) the competitiveness of the state's fiscal oil and gas
27 tax regime when compared to other regions of the world;

28 (B) January 31, 2021, or as soon thereafter as practicable,
29 regarding

30 (i) changes to the state's fiscal regime that would be
31 conducive to increased and ongoing long-term investment in and

1 development of the state's oil and gas resources;

2 (ii) alternative means for increasing the state's ability to
3 attract and maintain investment in and development of the state's oil
4 and gas resources; and

5 (iii) a review of the current effectiveness and future
6 value of any provisions of the state's oil and gas tax laws that are
7 expiring in the next five years.

8 **Sec. 43.98.060. Information to be provided to board.** (a) The commissioner
9 of natural resources, the commissioner of revenue, the commissioner of environmental
10 conservation, and other commissioners and state agencies that have responsibility for
11 and maintain information related to oil and gas investment and activity in the state
12 shall, at the request of the board, provide information required by the board to carry
13 out the duties described in AS 43.98.050.

14 (b) At the request of the board, and except for information that is confidential
15 under AS 40.25.100(a) or AS 43.05.230 and information required to be held
16 confidential by the Alaska Oil and Gas Conservation Commission, a commissioner
17 may disclose to the board information that is otherwise confidential after each member
18 of the board and each staff member for the board with access to the information signs
19 a confidentiality agreement prepared by the commissioner making the disclosure.
20 Information that is confidential under AS 43.05.230 may not be disclosed to the board.

21 **Sec. 43.98.070. Definition.** In AS 43.98.040 - 43.98.070, "board" means the
22 Oil and Gas Competitiveness Review Board.

23 * **Sec. 32.** AS 43.55.023(m) is repealed.

24 * **Sec. 33.** AS 43.55.020(d), 43.55.023(i), and 43.55.023(p) are repealed January 1, 2014.

25 * **Sec. 34.** AS 43.98.040, 43.98.050, 43.98.060, and 43.98.070 are repealed February 28,
26 2021.

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

29 **APPLICABILITY.** (a) Section 7 of this Act and AS 43.55.160(a)(1)(E), as amended
30 by sec. 28 of this Act, apply to oil and gas produced after December 31, 2012.

31 (b) AS 43.55.023(a)(1), as amended by sec. 14 of this Act, and secs. 16 - 19 of this

1 Act apply to expenditures incurred on and after January 1, 2013.

2 * **Sec. 36.** The uncodified law of the State of Alaska is amending by adding a new section to
3 read:

4 TRANSITION: REGULATIONS. The Department of Revenue may adopt regulations
5 to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure
6 Act), but not before the effective date of the respective provision of this Act.

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

9 TRANSITION: OIL AND GAS COMPETITIVENESS REVIEW BOARD. The
10 governor shall appoint the initial members of the Oil and Gas Competitiveness Review Board,
11 established in sec. 31 of this Act, before January 1, 2014. The initial terms of the members of
12 the board appointed under AS 43.98.040(b)(1), (3), and (7) shall be four years.

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

15 RETROACTIVITY. Sections 7, 16 - 19, 25, and 32 of this Act, AS 43.55.023(a)(1), as
16 amended by sec. 14 of this Act, and AS 43.55.160(a)(1)(E), as amended by sec. 28 of this
17 Act, are retroactive to January 1, 2013.