

AMENDMENT

OFFERED IN THE SENATE FINANCE
COMMITTEE

BY _____

TO: CSSB 185(RES)

1 Page 1, line 2, following "land":

2 Insert "; and providing for a credit for certain exploration expenses against
3 production taxes on oil and gas produced from a lease or property in the state."

4

5 Page 4, following line 27:

6 Insert a new bill section to read:

7 "* Sec. 2. AS 43.55 is amended by adding a new section to read:

8 **Sec. 43.55.014. Oil and gas exploration tax credit.** (a) Subject to the terms
9 and conditions of this section, on any oil and gas produced after July 1, 2005, a credit
10 against the tax due under this chapter is allowed in an amount equal to 20 percent of the
11 total exploration expenditures that qualify under (b) and (c) of this section and an
12 additional 20 percent of the total exploration expenditures that qualify under (b) and (d)
13 of this section, or in an amount equal to 40 percent of the total exploration expenditures
14 that qualify under (e) of this section, for a total production tax credit that does not exceed
15 40 percent of the total qualified exploration expenditures.

16 (b) To qualify for the production tax credit under (a) of this section, an
17 exploration expenditure must be incurred for work performed after July 1, 2004 and
18 before June 30, 2008, and

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

21 (2) if for a well,

22 (A) must be incurred by an explorer that holds an interest in the

1 exploration well for which the production tax credit is claimed;

2 (B) may be for either an oil or gas discovery well or a dry hole;
3 and

4 (C) must be for goods, services, or rentals of personal property
5 reasonably required for the surface preparation, drilling, casing, and logging of an
6 exploration well, and in the case of a dry hole, for the expenses required for
7 abandonment;

8 (3) may not be for testing, cementing, stimulation, or completion costs,
9 administration, supervision, engineering, lease operating costs, geological or management
10 costs, community relations or environmental costs, taxes or other payments to
11 governments related to the well, or other costs that are generally recognized as indirect
12 costs or financing costs; and

13 (4) may not be incurred for an exploration well or seismic exploration that
14 is included in a plan of exploration or a plan of development for any unit in the state at
15 the time the expense is incurred.

16 (c) To be eligible for a 20 percent production tax credit, exploration expenditures
17 must

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

19 (2) be for an exploration well that is located and drilled in such a manner
20 that neither the bore hole nor any part of the bore hole is at any time located less than
21 three miles away from any part of a bore hole of an oil or gas well.

22 (d) To be eligible for an additional 20 percent production tax credit, an
23 exploration expenditure must

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

25 (2) be for an exploration well that is located no less than 25 miles outside
26 of the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of
27 development.

28 (e) To be eligible for the 40 percent production tax credit in (a) of this section,
29 the exploration expenditure must

30 (1) be for seismic exploration;

31 (2) qualify under (b) of this section; and

1 (3) have been initiated and conducted outside the boundaries of a
2 production unit or an exploration unit; however, the amount of the expenditure that is
3 otherwise eligible under this subsection is reduced proportionately by the portion of the
4 seismic exploration activity that crossed into a production unit or an exploration unit.

5 (f) For a production tax credit under this section,

6 (1) an explorer must, in a form prescribed by the department, claim the
7 credit and submit information sufficient to demonstrate to the department's satisfaction
8 that the claimed exploration expenditures qualify under this section;

9 (2) an explorer must agree, in writing,

10 (A) to, within 30 days after completion of seismic or geophysical
11 data processing or a well for which exploration costs are claimed, notify the
12 Department of Natural Resources of the date of completion and submit a report to
13 that department describing the processing sequence and providing a list of data
14 sets available;

15 (B) to provide to the Department of Natural Resources, within 30
16 days of a request, specific data sets, ancillary data, and reports identified in
17 paragraph (A);

18 (C) that, notwithstanding any provision of AS 38, information
19 provided under this paragraph will be held confidential by the Department of
20 Natural Resources for 10 years following the completion date, at which time that
21 department will release the information after 30 days' public notice;

22 (3) if the claimed expenditures are for an exploration well and if more
23 than one explorer holds an interest in that well, each explorer may claim an amount of
24 credit that is proportional to the explorer's interest in the exploration well;

25 (4) the department may exercise the full extent of its powers as though the
26 explorer were a taxpayer under this title, in order to verify that the claimed expenditures
27 are qualified exploration expenditures under this section; and

28 (5) if the department is satisfied that the explorer's claimed expenditures
29 are qualified under this section, the department shall issue to the explorer a production
30 tax credit certificate for the amount of credit to be allowed against production taxes due
31 under this chapter.

1 (g) An explorer may transfer, convey, or sell its production tax credit certificate
2 to any person, and any person who receives a production tax credit certificate may also
3 transfer, convey, or sell the certificate.

4 (h) A producer that purchases a production tax credit certificate may apply the
5 credits against its production tax liability under this chapter. Regardless of the price the
6 producer paid for the certificate, the producer may receive a credit against its production
7 tax liability for no more than the amount for which the certificate was issued. In no event
8 may any amount of a production tax credit allowed under this section be applied more
9 than once.

10 (i) For a production tax credit under this section,

11 (1) the amount of the credit that may be applied against the production tax
12 per tax month may not exceed the total production tax liability of the taxpayer applying
13 the credit for the same month; and

14 (2) any amount of the production tax credit that is greater than the total
15 tax liability of the taxpayer applying the credit for a tax month may be carried forward
16 and applied against the taxpayer's production tax liability in one or more immediately
17 following months.

18 (j) Notwithstanding any other provision of this title, AS 31.05, or of
19 AS 40.25.100, the department shall provide to the Department of Natural Resources
20 information submitted with a claim under this section to support the eligibility of an
21 exploration expenditure, including seismic exploration data and well data, and any
22 information described in (f)(2) of this section received by the department.

23 (k) In this section, "explorer" means a person who, in exploring for new oil or gas
24 reserves, incurs expenditures.