AMENDMENT

OFFERED IN THE SENATE FINANCE COMMITTEE
TO: CSSB 185(RES)

BY __________________________

1 Page 1, line 2, following "land":
2    Insert "; and providing for a credit for certain exploration expenses against production taxes on oil and gas produced from a lease or property in the state."

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5 Page 4, following line 27:
6    Insert a new bill section to read:
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8    "* Sec. 2. AS 43.55 is amended by adding a new section to read:
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10 Sec. 43.55.014. Oil and gas exploration tax credit. (a) Subject to the terms and conditions of this section, on any oil and gas produced after July 1, 2005, a credit against the tax due under this chapter is allowed in an amount equal to 20 percent of the total exploration expenditures that qualify under (b) and (c) of this section and an additional 20 percent of the total exploration expenditures that qualify under (b) and (d) of this section, or in an amount equal to 40 percent of the total exploration expenditures that qualify under (e) of this section, for a total production tax credit that does not exceed 40 percent of the total qualified exploration expenditures.
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12 (b) To qualify for the production tax credit under (a) of this section, an exploration expenditure must be incurred for work performed after July 1, 2004 and before June 30, 2008, and
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14 (1) may be for seismic or geophysical exploration costs not connected with a specific well;
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16 (2) if for a well,
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18 (A) must be incurred by an explorer that holds an interest in the
exploration well for which the production tax credit is claimed;

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

and

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

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

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

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

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

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

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

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

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

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

(1) be for seismic exploration;

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

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

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

(2) an explorer must agree, in writing,

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

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

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

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

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

(5) if the department is satisfied that the explorer's claimed expenditures are qualified under this section, the department shall issue to the explorer a production tax credit certificate for the amount of credit to be allowed against production taxes due under this chapter.
(g) An explorer may transfer, convey, or sell its production tax credit certificate to any person, and any person who receives a production tax credit certificate may also transfer, convey, or sell the certificate.

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

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

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

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

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

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