

The section heading of 15 AAC 55.350 is changed:

15 AAC 55.350. Alternative tax credit for exploration expenditures for work performed after June 30, 2003, and before July 1, 2008.

15 AAC 55.350(a) is amended to read:

(a) An explorer may request an alternative oil and gas exploration tax credit under AS 43.55.025, **as the provisions of that section read on June 30, 2008,** by filing an application with the department no later than six months after the completion date of the exploration activity for which the tax credit is claimed. [AN APPLICATION FOR] **For** a tax credit that the applicant wishes to use for a previous calendar year, as provided under 15 AAC 55.370(c), **an application** may be filed with the statement filed under AS 43.55.030(a) for that calendar year.

15 AAC 55.350(b) is amended to read:

(b) For a particular exploration well, an explorer may claim a tax credit of

(1) 20 percent of exploration expenditures,

(A) if those expenditures qualify under AS 43.55.025(b) and (c),

as the provisions of those subsections read on June 30, 2008; and

(B) regardless of whether the well is less than 25 miles from an existing unit that is under a plan of development;

(2) 20 percent of exploration expenditures,

(A) if those expenditures qualify under AS 43.55.025(b) and (d),

as the provisions of those subsections read on June 30, 2008; and

(B) regardless of whether the bottom hole of the exploration well is less than three miles away from the bottom hole of a preexisting suspended, completed, or abandoned oil or gas well, **as the term "preexisting" was defined in AS 43.55.025(c)(2)(A) on June 30, 2008;** or

(3) 40 percent of exploration expenditures, if those expenditures qualify under AS 43.55.025(b), (c), and (d), **as the provisions of those subsections read on June 30, 2008.**

15 AAC 55.350(c) is amended to read:

(c) For a particular seismic or geophysical exploration activity, an explorer may claim a tax credit of 40 percent of exploration expenditures, if those expenditures qualify under **AS 43.55.025(b) and (e), as the provisions of those subsections read on June 30, 2008** [AS 43.25.025(b) AND (e)].

15 AAC 55.350 is amended by adding a new subsection to read:

(d) This section applies to exploration expenditures for work performed after June 30, 2003, and before July 1, 2008. (Eff. 5/3/2007, Register 182; am 12/25/2009, Register 192)

Authority: AS 43.05.080 AS 43.55.025 AS 43.55.110

15 AAC 55 is amended by adding a new section to read:

15 AAC 55.351. Alternative tax credit for exploration expenditures for work performed after June 30, 2008, and for certain seismic exploration work performed before July 1, 2003. (a) An explorer may request an alternative oil and gas exploration tax credit under AS 43.55.025 by filing an application with the department (1) no later than six months after completion of the exploration activity for which the tax credit is claimed; or (2) in the case of seismic exploration performed before July 1, 2003, at any time before January 1, 2016. For a tax credit that the applicant wishes to use for a previous calendar year, as provided under 15 AAC 55.370(c), an application may be filed with the statement filed under AS 43.55.030(a) for that calendar year.

(b) For purposes of AS 43.55.025(c)(2)(B), the distance between the bottom hole locations of two wells is measured as the horizontal distance between the surface location directly above the bottom hole location of each well.

(c) For purposes of AS 43.55.025(d)(2), the distance between an exploration well and the outer boundary of a unit is measured as the horizontal distance between the surface location directly above the bottom hole location of the well and the nearest point on the outer boundary of the unit.

(d) This section applies to exploration expenditures for work performed after June 30, 2008 and before July 1, 2016, and to seismic exploration expenditures for work performed before July 1, 2003. (Eff. 12/25/2009, Register 192)

Authority: AS 43.05.080 AS 43.55.025 AS 43.55.110

The section heading of 15 AAC 55.355 is changed:

15 AAC 55.355. Alternative oil and gas exploration tax credit claim for expenditures for work performed after June 30, 2003, and before July 1, 2008.

The lead-in language of 15 AAC 55.355(a) is amended to read:

(a) An application for an alternative oil and gas exploration tax credit under AS 43.55.025, **as the provisions of that section read on June 30, 2008,** for a particular exploration activity may, on a form provided by the department, be filed by

...

15 AAC 55.355(b)(7) is amended to read:

(7) for an application under AS 43.55.025(b) and (c), **as the provisions of those subsections read on June 30, 2008,** the

(A) bottom hole location of the nearest preexisting well, **as the term "preexisting" was defined in AS 43.55.025(c)(2)(A) on June 30, 2008,** or for a well that explores a Cook Inlet prospect, a showing that the well constitutes a distinct separate exploration target;

(B) date the nearest preexisting well was drilled, **as the term "preexisting" was defined in AS 43.55.025(c)(2)(A) on June 30, 2008;**

(C) completion date of the nearest preexisting well, **as the term "preexisting" was defined in AS 43.55.025(c)(2)(A) on June 30, 2008;** and

(D) the distance between the bottom hole location of the exploration well and the bottom hole location of the nearest preexisting well, **as the term "preexisting" was defined in AS 43.55.025(c)(2)(A) on June 30,**

2008, measured as a horizontal distance between the surface location directly above the bottom hole location of each well;

The lead-in language of 15 AAC 55.355(b)(9) is amended to read:

(9) for an application under AS 43.55.025(b) and (d), **as the provisions of those subsections read on June 30, 2008,**

...

15 AAC 55.355(b)(11) is amended to read:

(11) a copy of the Well Completion or Recompletion Report and Log (Form 10-407) for the exploration well filed with the Alaska Oil and Gas Conservation Commission under 20 AAC 25.070, or a copy of a well completion report that is substantially similar to that filing and that is filed with a federal agency; in addition, if the application is for expenditures that qualify under AS 43.55.025(c)(2), **as the provisions of that paragraph read on June 30, 2008,** the application must include a copy of the Well Completion or Recompletion Report and Log (Form 10-407) for the nearest preexisting well, **as the term "preexisting" was defined in AS 43.55.025(c)(2)(A) on June 30, 2008,** or the substantially similar federal filing;

15 AAC 55.355(b)(12) is amended to read:

(12) the written agreements required under AS 43.55.025(f)(2), **as the provisions of that paragraph read on June 30, 2008;**

15 AAC 55.355(c)(7) is amended to read:

(7) the written agreements required under AS 43.55.025(f)(2), **as the provisions of that paragraph read on June 30, 2008;**

15 AAC 55.355 is amended by adding a new subsection to read:

(g) This section applies to exploration expenditures for work performed after June 30, 2003, and before July 1, 2008. (Eff. 5/3/2007, Register 182; am 12/25/2009, Register 192)

Authority: AS 43.05.080 AS 43.55.025 AS 43.55.110

15 AAC 55 is amended by adding a new section to read:

15 AAC 55.356. Alternative oil and gas exploration tax credit claim for expenditures for work performed after June 30, 2008, and for certain seismic exploration work performed before July 1, 2003. (a) An application for an alternative oil and gas exploration tax credit under AS 43.55.025 for a particular exploration activity may, on a form provided by the department, be filed by

(1) a single explorer that

(A) holds the entire interest in the particular well or seismic or other geophysical exploration activity; and

(B) incurred 100 percent of the expenditures for which the credit is claimed; or

(2) a designated joint applicant that is authorized in a writing, signed by each explorer that incurred expenditures, to file a joint tax credit application on behalf of

all those explorers; a joint application must be for the total qualified expenditures incurred by all the explorers for the exploration activity for which the credit is claimed and must include a copy of the written authorization signed by each explorer.

(b) An application for a tax credit for an exploration well must include the following information:

(1) the applicant's name, permanent contact address, and telephone number;

(2) if the applicant is a designated joint applicant, under (a)(2) of this section, the name and address of each explorer represented in the application and the percentage of the total qualified exploration expenditures incurred by each explorer;

(3) a description of the exploration activities for which the credit is claimed;

(4) an accounting of the qualified exploration expenditures for which credit is claimed;

(5) the date the exploration well was spudded, the dates drilling occurred, and the date the well was completed, suspended, or abandoned as reported to the Alaska Oil and Gas Conservation Commission under 20 AAC 25.070;

(6) the bottom hole location and the surface location of the exploration well;

(7) for an application for a tax credit requiring qualification under AS 43.55.025(b) and (c),

(A) the determination of the commissioner of natural resources
under

(i) AS 43.55.025(c)(2)(A)(iii) that the geological objective of the well is a potential oil or gas trap that is distinctly separate from any trap that has been tested by a preexisting well; and

(ii) AS 43.55.025(c)(2)(C) that the well was consistent with achieving the explorer's stated geological objective; if the determination is not available before the application deadline under 15 AAC 55.351(a), it may instead be submitted as a later supplement to the filed application; and

(B) for a well other than a well to explore a Cook Inlet prospect, the spud date and bottom hole location of the nearest preexisting well and the distance between the bottom hole location of the exploration well and the bottom hole location of the nearest preexisting well;

(8) if the exploration well is within a unit boundary,

(A) identification of the unit; and

(B) if a plan of exploration or plan of development was in effect for the unit before May 14, 2003, a copy of the plan;

(9) for an application for a tax credit requiring qualification under AS 43.55.025(b) and (d),

(A) identification of the nearest unit that is under a plan of development; and

(B) the distance between the bottom hole location of the exploration well and the outer boundary of the nearest unit that is under a plan of development, as the boundary was delineated on July 1, 2003;

(10) a survey plat that graphically identifies all the locations, distances, and dates required to be reported under this subsection;

(11) a copy of the Well Completion or Recompletion Report and Log (Form 10-407) for the exploration well filed with the Alaska Oil and Gas Conservation Commission under 20 AAC 25.070, or a copy of a well completion report that is substantially similar to that filing and that is filed with a federal agency; in addition, if the application is for expenditures that qualify under AS 43.55.025(c), the application must include a copy of the Well Completion or Recompletion Report and Log (Form 10-407) for the nearest preexisting well, or the substantially similar federal filing;

(12) the written agreements required under AS 43.55.025(f)(2);

(13) other information requested by the department, as the department considers necessary for reviewing the application.

(c) An application for a tax credit requiring qualification under AS 43.55.025(b) and (e) or under AS 43.55.025(k) for a particular seismic or other geophysical exploration activity must include the following information:

(1) the name, permanent contact address, and telephone number of the applicant;

(2) if the applicant is a designated joint applicant, under (a)(2) of this section, the name and address of each explorer represented in the application and the percentage of the total qualified exploration expenditures incurred by each explorer;

(3) a description of the seismic or other geophysical exploration activities for which the credit is claimed;

(4) an accounting of the qualified exploration expenditures for which credit is claimed;

(5) the date and location where the seismic or other geophysical activity occurred;

(6) a statement verifying

(A) that the seismic or other geophysical exploration activities occurred outside of the boundaries of a unit that is under a plan of exploration or a plan of development or, in the case of seismic exploration under AS 43.55.025(k), outside of the boundaries of a production unit; or

(B) the percentage of the seismic or other geophysical exploration activities that occurred inside the unit boundary, if a portion of those activities crossed into the boundary of the unit;

(7) the written agreements required under AS 43.55.025(f)(2);

(8) in the case of seismic exploration under AS 43.55.025(k), a written statement from the Department of Natural Resources that the commissioner of natural resources considers acquiring the seismic exploration data for public distribution to be in the best interest of the state;

(9) other information requested by the department, as the department considers necessary for reviewing the application.

(d) An applicant under this section shall retain, and make available to the department upon request, all financial and technical source documents and records supporting the credit claimed for an exploration well or seismic or other geophysical exploration activities, including the rig logs, daily drilling logs, and activity logs.

(e) If the department determines that all data required to be submitted to the Department of Natural Resources under AS 43.55.025 have been submitted, and, except for a credit under AS 43.55.025(k), after the six-month application period in AS 43.55.025(f) has expired, the department will issue one or more production tax credit certificates for the qualified expenditures allowed under AS 43.55.025.

(f) The department may allocate claimed expenditures between exploration and non-exploration activities, and will deny a claimed exploration expenditure that it determines not to be reasonably required or not incurred for qualified exploration activities.

(g) This section applies to exploration expenditures for work performed after June 30, 2008 and before July 1, 2016, and to seismic exploration expenditures under AS 43.55.025(k) for work performed before July 1, 2003. (Eff. 12/25/2009 Register 192)

Authority: AS 43.05.080 AS 43.55.025 AS 43.55.110

15 AAC 55.360(a) is amended to read:

(a) For purposes of the alternative oil and gas exploration tax credit under

(1) AS 43.55.025, as the provisions of that section read on June 30, 2008, qualified exploration expenditures are the reasonably required direct costs for work performed on a particular exploration well or seismic or geophysical exploration project on or after July 1, 2003 and before July 1, **2008;**

(2) AS 43.55.025, in effect on July 1, 2008, qualified exploration expenditures are the reasonably required direct costs for work performed on a

particular exploration well or seismic or other geophysical exploration project after June 30, 2008, and before July 1, 2016, or on a particular seismic exploration project before July 1, 2003 [2016].

15 AAC 55.360(d) is amended to read:

(d) Qualified exploration expenditures **for work performed after June 30, 2003 and before July 1, 2008,** do not include costs that are disallowed under AS 43.55.025(b)(3) or (4), **as the provisions of those paragraphs read on June 30, 2008. Qualified exploration expenditures for work performed after June 30, 2008, do not include costs that are disallowed under AS 43.55.025(b)(3) or (4), in effect on July 1, 2008. Qualified exploration expenditures for seismic exploration work performed before July 1, 2003, do not include costs that are disallowed under AS 43.55.025(b)(3), in effect on July 1, 2008.** For purposes of **this subsection** [AS 43.55.025(b)(3)] and [THIS SUBSECTION,]

(1) **AS 43.55.025(b)(3), as the provisions of that paragraph read on June 30, 2008,** "testing, stimulation, or completion costs" means costs incurred on the exploration site after discovery of oil or gas potential at the site, including costs incurred to prepare an exploration well for, or convert it to production, to prepare or monitor an exploration well for status as a producer or potential producer, or to conduct flow tests; in this paragraph, "discovery of oil or gas potential" means drilling an exploration well into a formation capable of producing previously undiscovered oil or gas reserves;

(2) **AS 43.55.025(b)(3), as the provisions of that paragraph read on June 30, 2008, and as those provisions are in effect on July 1, 2008,**

(A) "administration, supervision, engineering, or lease operating costs" means overhead costs incurred for activities that

(i) [(A)] do not occur on the exploration site; and

(ii) [(B)] are not directly related to drilling an exploration well or conducting seismic exploration, including geophysical surveys other than seismic surveys;

(B) [(3)] "geological or management costs" means costs incurred before drilling begins to determine or select possible exploration targets;

"geological or management costs" includes airborne gravity and magnetic surveys;

(C) [(4)] "community relations or environmental costs" includes costs incurred for environmental compliance programs required as a result of an environmental incident, spill, or disaster;

(D) [(5)] "indirect or financing costs" includes

(i) [(A)] bottom hole and dry hole contributions, and reimbursements and fees assessed for late participation; and

(ii) [(B)] seismic or geophysical data purchased from another person.

15 AAC 55.360 is amended by adding a new subsection to read:

(f) Qualified exploration expenditures for work performed on an exploration well after June 30, 2008, in the case of

(1) testing or stimulation costs, are limited to costs incurred to conduct activities necessary to appraise the well for its oil or gas production potential; those costs must be incurred before the well is suspended or abandoned;

(2) completion costs,

(A) are limited to costs incurred to equip and condition the well for the purpose of conducting activities described in (1) of this subsection;

(B) do not include expenditures to abandon or suspend a well; this subparagraph does not affect the treatment as qualified exploration expenditures of expenses required for abandonment of a dry hole within 18 months after the date the well was spudded as provided in AS 43.55.025(b)(2)(D). (Eff. 5/3/2007, Register 182; am 12/25/2009, Register 192)

Authority: AS 43.05.080 AS 43.55.025 AS 43.55.110

15 AAC 55.370(a) is amended to read:

(a) To apply a production tax credit certificate issued under AS 43.55.025 against a production tax liability under **AS 43.55.011(e) or, for oil and gas produced before July 1, 2007, AS 43.55.011(f)** [AS 43.55.011(e) OR (f)], a producer must submit to the department, with the statement described in AS 43.55.030(a), a written designation, on a form prescribed by the department, stating the

- (1) amount of tax credit to be applied against the tax liability;
- (2) calendar year for which the tax credit is to be applied; and

(3) percentage, if any, of the tax credit that was subtracted in calculating the amount of an installment payment for each month under 15 AAC 55.380(b) **or 15 AAC 55.381(b), as applicable.**

15 AAC 55.370(b) is amended to read:

(b) On receipt of a written designation under (a) of this section, **subject to the provisions of 15 AAC 55.340 or 15 AAC 55.341, as applicable,** the department will apply the designated tax credit against the producer's production tax liability under AS 43.55.011(e) or, **for oil and gas produced before July 1, 2007, AS 43.55.011(f)** [(f)], as applicable, for the designated calendar year in the order listed under 15 AAC 55.375 or, if the producer submits a schedule under 15 AAC 55.375(c), in the order listed in that schedule. **Subject to the provisions of 15 AAC 55.340 or 15 AAC 55.341, as applicable, an** [AN] unused amount of a tax credit designated for a calendar year under (a) of this section will be applied as a credit for the next calendar year for which the producer has a tax liability under **AS 43.55.011(e) or, for oil and gas produced before July 1, 2007, AS 43.55.011(f)** [AS 43.55.011(e) OR (f)], in the order listed under 15 AAC 55.375 or listed in the producer's then-current schedule.

15 AAC 55.370(c) is amended to read:

(c) **Except for a tax credit based on an expenditure for seismic exploration under AS 43.55.025(k),**

(1) the [THE] earliest calendar year for which a production tax credit under AS 43.55.025 may be applied against the tax liability of the producer that incurred

the exploration expenditure on which the tax credit is based is the calendar year in which the exploration expenditure was incurred;[.]

(2) subject [SUBJECT] to the department's later issuance of a production tax credit certificate covering the amount of the tax credit, the producer may apply the tax credit before the certificate is issued.

15 AAC 55.370(d) is amended to read:

(d) The earliest calendar year for which a production tax credit under AS 43.55.025

(1) that is based on an expenditure for seismic exploration under AS 43.55.025(k) may be applied against the tax liability of the producer that incurred the expenditure is the calendar year in which the production tax credit certificate is issued;

(2) may be applied against the tax liability of a transferee of the production tax certificate is the calendar year in which the effective date of the transfer of the certificate occurs.

(Eff. 5/3/2007, Register 182; am 12/25/2009, Register 192)

Authority: AS 43.05.080 AS 43.55.025 AS 43.55.110