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September 25, 2019

HAND DELIVERED

Mr. John Larsen
Audit Master, Department of Revenue
550 W. 7th Ave., Ste 500
Anchorage, AK 99501

RECEIVED
SEP 25 2019
TAX DIVISION
Department of Revenue
Anchorage, Alaska

Re: Department of Revenue Notice of Public Scoping and Request for Written Comments
Possible Updates and Revisions to Department Regulations
15 AAC 55: Oil and Gas Production Tax and Oil Surcharge

Dear Mr. Larsen:

On September 11, 2019, the Department of Revenue issued a Public Scoping Notice “soliciting written comments for potential new regulations and amendments to existing regulations regarding the administration of the Oil and Gas Production Tax and Oil Surcharge under 15 AAC 55.” The Public Scoping Notice focuses on 15 AAC 55.195 and 15 AAC 55.196 relating to the return on investment or cost of capital for marine transportation costs. Since the regulations apply only to oil and gas producers that also own vessels for transport of oil and gas, the applicability and impact is limited.

The regulation at 15 AAC 55.195 – Return on investment or cost of capital allowance to be used in calculation of costs of transportation for oil or gas, other than certain LNG or vessel transportation costs for oil or gas produced on or after January 1, 2003 –applies to oil or gas produced before December 31, 2002 therefore it appears ripe for repeal. In the event an audit or appeal remains open for tax years prior to 2003, then a reference copy of the regulation could be made available on the Department’s website.

The regulation at 15 AAC 55.196 – Cost of capital allowance to be used in calculation of costs of vessel transportation for oil or gas produced on or after January 1, 2003, other than certain costs pertaining to vessels placed in service before January 1, 1995, and in calculation of transportation

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costs for gas by an LNG transportation facility placed in service after December 31, 2010 -- remains applicable to on-going operations.

In section (a), the Department may consider whether increasing the election to expense \$1,000,000 of costs should be increased to simplify tracking additions and depreciation calculations.

In section (d), the Department adopts the calculation/model by reference (unlike 15 AAC 55.195 where the calculation/model is written into the regulation) and the Department may want to consider updating that reference to the *Computation of a Cost-of-Capital Allowance under 15 AAC 55.196, Incorporating Depreciation and Return on Invested Capital for Marine Vessels and Improvements* to the Third Edition which the Department adopted on November 9, 2018.

The Notice of Public Scoping mentions the Department believes that the existing model could be simplified to relieve the administrative burden on both the Department and the taxpayers. While we agree, we also appreciate the existing model is working and impacts only two taxpayers. In light of limited resources and time, the Department may consider prioritizing other items above changes to this model.

Sincerely,



Marie P. Evans