

1.) Allocation of Lease Expenditures between oil and gas for Cook Inlet areas in which both are produced is detailed under 15 AAC 55.215(b). This regulation specifically states it is for lease expenditures incurred before 2022. Is regulation clarification coming to clarify allocation for 2022 forward? Specifically, how is Department going to handle the allocation or remove the allocation lease expenditures between oil and gas going forward. The allocation between oil and gas is one of the most complex calculations in the production tax, removing the allocation would ease industry's calculation in this area.

DOR Response: Yes, the purpose of the scoping notice dated July 26, 2021, is to inform the public that the department intends to propose conforming changes to the regulations regarding the attribution of lease expenditures for periods on and after January 1, 2022. AS 43.55.160(h) provides that beginning January 1, 2022, and with certain minor exceptions, such as leases or properties eligible for a tax credit under AS 43.55.024(a) or payment of production tax as levied by AS 43.55.011(p) for areas outside of the Cook Inlet sedimentary basin and south of 68 degrees North latitude, all lease expenditures for both oil and gas will be attributed to the production tax value of oil. Effective January 1, 2022, a taxpayer will no longer be required to allocate a portion of their lease expenditures to gas used in the state.

2.) Allocation of Lease Expenditures between oil and GUIs on the North Slope appears to remain unchanged per 15 AAC 55.215(d) and (e). However, AS 43.55.011(e)(3)(B) states that, "gas is equal to 13 percent of the gross value at the point of production of the taxable gas; if the gross value at the point of production of gas produced from a lease or property is less than zero, that gross value at the point of production is considered zero for purposes of this subparagraph." GVPP does not include lease expenditures, however, 15 AAC 55.215(d) and (e) allocates lease expenditures to gas produced from the North Slope. The new statute does not differentiate between 68 degrees North latitude and South. Please provide clarification on the lease expenditure allocation between oil and gas for land North latitude of 68 degrees.

DOR Response: While AS 43.55.011(e)(3) provides for the levy of oil and gas production taxes throughout the state, AS 43.55.160(h)(1)-(4) ["Determination of production tax value"], clearly delineates between north and south of 68 degrees North latitude. Both AS 43.55.011(e)(3) and 43.55.160(h) take effect on January 1, 2022. In accordance with AS 43.55.160(h)(1), for leases or properties in the state north of 68 degrees North latitude, all lease expenditures incurred to explore for, develop, or produce oil and gas, including gas used in the state, will be attributable to the production tax value of oil. AS 43.55.160(h)(2) addresses leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude that are *not* subject to AS 43.55.011(p). AS 43.55.160(h)(3) deals with leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude *that are* subject to AS 43.55.011(p). And, finally, AS 43.55.160(h)(4) provides for the attribution of lease expenditures to leases or properties in the state no part of which is north of 68

degrees North latitude, other than leases or properties subject to AS 43.55.160(h)(2) or (3). The department contemplates that any proposed regulations will either include language to amend 15 AAC 55.215(d) and (e) or propose an entire new subsection for periods on and after January 1, 2022.

3.) The calculation of the "haircut" mandated by AS 43.55.165(e)(18) is clarified in 15 AAC 55.275(a) to be an independent calculation for each segment, calculated as \$1 less than the product of \$.30 multiplied by the total amount of taxable volume in BTU equivalent barrels for that segment. This application of the exclusion in regulation specifically states that it is for the exclusion of lease expenditures incurred during a calendar year before 2022. Is the Department going to add clarification to 15 AAC 55.275(a) after 1/1/2022?

DOR Response: Yes, the department intends to provide clarification on this issue. Note, that, the exclusion from lease expenditures in AS 43.55.165(e)(18) does not include an expiration date. The date limitation in 15 AAC 55.275(a) recognizes that the statutes provide for a change in the accounting for lease expenditures on and after January 1, 2022.

4.) Producers can elect to pay in kind the production tax levied under AS 43.55.011(e) for gas. This is only if the department has adopted regulations specifying, and only for certain leases in which the commissioner of DNR has determined to take a royalty in kind. Is the Department planning on adopting regulations to specify payments of tax in kind?

DOR Response: No, the department will not propose regulations providing for the payments of tax in kind. AS 43.55.014(a) provides that in order to allow for a payment in gas of tax for gas that the commissioner of natural resources must first have "determined to take royalty gas in kind under AS 38.05.182," for oil and gas leases modified under AS 38.05.180(hh). Since there have not been any leases modified under AS 38.05.180(hh) and the commissioner of natural resources has not determined to take royalty gas in kind under AS 38.05.182, the department does not intend to propose any regulations for the payment in gas of tax for gas as provided in AS 43.55.014. In the event that oil and gas leases are modified under AS 38.05.180(hh) and the commissioner of natural resources makes a determination to take royalty in gas in kind under AS 38.05.182 the Department of Revenue would then propose regulations to implement payment in gas of tax for gas as provided in AS 43.55.014.