

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

### *Tax Division*

**Sarah Palin, Governor**

□ *State Office Building  
PO Box 110420  
Juneau, AK 99811-0420  
907.465.2320*

✳ *550 W Seventh Avenue, Suite 500  
Anchorage, AK 99501-3566  
907.269.6620*

[www.tax.state.ak.us](http://www.tax.state.ak.us)

February 20, 2007

Dear Taxpayer and Interested Persons:

Subj: Response to Public Comments on Proposed Regulations for Oil and Gas Production Taxes (PPT)

We have carefully considered the public comments received and have incorporated changes to the proposed regulations discussed below. The proposed regulations are currently in the process of being reviewed by the Department of Law and therefore subject to change.

Cook Inlet Tax Ceilings – the monthly estimated installment tax payments for leases or properties in Cook Inlet may be calculated using the tax ceilings in AS 43.55.011(j) and (k).

Exploration Tax Credits under AS 43.55.025 may be applied in full to an estimated monthly installment tax liability under AS 43.55.020(a).

Overhead rates for a sole producer/operator of a unit or property not subject to a joint operating agreement will be the same as in the net profit share lease regulations, three percent of qualified capital expenditures as defined in AS 43.55.023(k) and 9 percent of non-overhead expenditures that are not qualified capital expenditures as defined in AS 43.55.023(k) or payments of or in lieu of taxes.

Overhead for a producer that is not an operator of a lease or property subject to an operating agreement for purposes of AS 43.55.165(c)(2) and (d)(2) is 0.4 percent and is in addition to allowable overhead expenses included in the costs that are billable or billed, under an operating agreement subject to AS 43.55.165(c)(1) or (d)(1).

The overhead percentages may not be applied to costs that are excluded under AS 43.55.165(e) or to payments of or in lieu of taxes. An overhead allowance under AS 43.55.165(c)(2) or (d)(2) is not allowed for the operator of the lease or property.

Monthly filing requirements no longer require copies of Authorizations for Expenditure if suitable information is otherwise available. The proposed regulations provide in addition to production offtake information, by a producer that is also the operator of a lease or property supplemental information should include one of the following sets of cost documentation for the lease or property, or together with one or more other leases or properties operated by the producer: 1) cost data for the month of production (or a longer period if approved) that are actually used by the operator for business purposes, identifying whether a capital, overhead, or non-capital non-overhead costs, identifying whether for exploration, development or production, and are in a form approved by the department; 2) in the absence of the department's approval of the cost data under (1) copies of authorizations for expenditure and operator's joint interest billings.

Heating value of gas - For gas produced after March 31, 2007, the heating value is determined by first (1) calculating the total or gross BTU's produced by the combustion, at constant pressure, of the amount of the gas that would occupy a volume of 1.0 cubic foot at a temperature of sixty degrees Fahrenheit (60° F) saturated with water vapor and under a pressure equivalent to that of 14.73 PSIA and under standard gravitational force with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of the gas and air and when the water formed by combustion is condensed to the liquid state; and then (2) adjusting that calculation for actual water content of the gas. The heating value of gas produced from each lease or property must be sampled and the heating value determined under this subsection at least once per calendar year. The most recent determination of heating value must be applied to gas produced from the lease or property on or after the date the determination is made. If the first determination of heating value in compliance with this subsection is made after March 31, 2007, that determination must also be applied to gas that is produced from the lease or property after March 31, 2007, but before the date that determination is made.

For gas produced before April 1, 2007, for which the heating value was determined by or on behalf of the producer on the basis of actual sampling and laboratory analysis that the department finds to be substantially equivalent to that required by (a) of this section, the heating value of the gas as thereby determined, subject to appropriate adjustment if prescribed by the department, is presumed to be correct. For gas other than gas described above, the department will prescribe a reasonable method for estimating the heating value, based on the known heating value of gas produced more recently from the same reservoir or produced from a similar reservoir, an average heating value for gas produced from a type of reservoir or from an area of the state, or a standard industry practice.

Thank you for your comments on the proposed regulations.

  
JONATHAN E. IVERSEN  
Director