

NOTICE OF PROPOSED CHANGES IN THE REGULATIONS
of the
DEPARTMENT OF REVENUE

The Department of Revenue proposes to adopt regulation changes in Title 15, Chapter 55 of the Alaska Administrative Code, dealing with the oil and gas production tax, including the following:

- (1) A new section, 15 AAC 55.140, is proposed to be adopted, for determination of a processing cost deduction for a downstream gas plant including both arms-length and non-arms-length contracts; allocation methodologies for situations in which a producer may have multiple gas processing contracts; and for processing of commingled streams from gas produced from state lands and other gas.
- (2) 15 AAC 55.151, dealing with the gross value of oil or gas at the point of production, is proposed to be amended to apply to oil and gas produced before, and on or after, July 1, 2007; to require that adjustments made as a result of commingling of different gas streams be included in recognizing the gross value of gas at the point of production; and to establish criteria for determination of the prevailing value at the point of production.
- (3) 15 AAC 55.161, dealing with the sales price of oil or gas, is proposed to be amended to provide for the valuation of gas that is the subject of downstream processing, and to provide a method to value gas delivered out of state.
- (4) 15 AAC 55.171, dealing with the prevailing value for oil, is proposed to be amended to clarify the meaning of "same market".
- (5) 15 AAC 55.173, dealing with the prevailing value for gas, is proposed to be amended to clarify that for gas produced before October 1, 2008, the volume will be determined on an Mcf basis.
- (6) 15 AAC 55.180, dealing with choice of methods for determining reasonable cost of transportation, is proposed to be amended to apply to oil and gas produced before July 1, 2007.
- (7) A new section, 15 AAC 55.181, is proposed to be adopted, dealing with the comparison of actual and reasonable costs of transportation of oil or gas after June 30, 2007 under AS 43.55.150.
- (8) 15 AAC 55.191, dealing with the calculation of reasonable costs of transportation for oil or gas, is proposed to be amended to apply to oil or gas produced before July 1, 2007.
- (9) 15 AAC 55.192, dealing with the monthly share of annual transportation costs, is proposed to be amended to apply to either the actual or reasonable costs of transportation under AS 43.55.150.
- (10) A new section, 15 AAC 55.193, is proposed to be adopted, dealing with the calculation of costs of transportation for oil and gas produced after June 30, 2007; determining allowable

charges for transportation of oil or gas by tanker; actual and reasonable costs of transportation; gas treatment; use of adjudicated rates determined by a regulatory agency having jurisdiction; cost-based tariff methodologies; protests and complaints before a regulatory agency; determination of the cost of unused capacity in a gas pipeline; determining the value at the point of production for transactions involving the sale and repurchase of oil or gas; determining the third-party nature of a contract when parties to a contract are either previously or subsequently part of a consolidated business entity; credits and reimbursements of transportation costs; retroactive effect of a tariff as determined by a regulatory agency having jurisdiction; determination of a cost-based tariff methodology for oil or gas settlements; and treatment of “effectively owned” vessels, LNG transportation facilities, nonregulated gas treatment plant, or nonregulated pipeline facilities.

- (11) 15 AAC 55.195, dealing with return on investment or cost of capital in calculating reasonable costs of transportation for oil or gas produced on or after January 1, 2003, is proposed to be amended to exclude LNG transportation facilities placed in service after December 31, 2010,; to include depreciation and return on equity for certain vessels and LNG transportation facilities; and to change the referenced publisher ,for cost of capital calculations from Ibbotson Associates to Morningstar, Inc.
- (12) 15 AAC 55.196, dealing with cost of capital allowance to be used calculation of reasonable 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, is proposed to be amended to include calculation of transportation costs for gas by an LNG transportation facility placed in service after December 31, 2010.
- (13) A new section, 15 AAC 55.197, is proposed to be adopted, dealing with a cost-based methodology for determination of costs related to transportation of oil or gas or for gas processing; establishing the economic life for pipelines and downstream gas plants; establishing allowances for calculation of return on investment on pipelines and downstream gas plants; and for the allocation of costs between different points of tender and delivery on a pipeline.
- (14) A new section, 15 AAC 55.450, is proposed to be adopted, dealing with taxes for oil and gas the ownership or right to which constitutes a landowner’s royalty interest.
- (15) 15 AAC 55.511, dealing with installment payments of estimated tax for oil and gas produced after June 30, 2007, is proposed to be amended to provide that the amount calculated under AS 43.55.020(a)(3) may not be less than zero.
- (16) 15 AAC 55.800, dealing with retroactive application of regulations, is amended to include the regulations as proposed.
- (17) 15 AAC 55.900, dealing with definitions, is proposed to be amended to define terms as necessary for purposes of the proposed regulations.

You may comment on the proposed regulation changes, including the potential costs to private persons of complying with the proposed changes, by submitting written comments to:

John Larsen
Alaska Department of Revenue, Tax Division
550 W. 7th Ave., Ste. 500
Anchorage, AK 99501

Or, via email to: john.larsen@alaska.gov, or by fax to: (907) 269-6644. Written comments must be received no later than 4:30 p.m., Monday, March 15, 2010. Written comments received are public records and are subject to public inspection.

Oral or written comments also may be submitted at a hearing to be held on Wednesday, March 3, 2010 at 550 West 7th Avenue, Suite 602, Anchorage, Alaska. The hearing will be held from 1:00 p.m. to 3:00 p.m. and might be extended to accommodate those present before 2:00 p.m. who did not have an opportunity to comment. If you are unable to attend the public hearing, you may participate by teleconference by dialing, 1-800-315-6338, and entering 1003# when prompted.

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact Dave Flavin at (907) 269-6620 no later than Friday, February 26, 2010 for the public hearing, and, no later than Wednesday, March 10, 2010 for the written comment period, to ensure that any necessary accommodations can be provided.

For a copy of the proposed regulation changes, contact the Tax Division at (907) 269-6620 or go to <http://www.tax.alaska.gov>.

After the public comment period ends, the Department of Revenue will either adopt these or other provisions dealing with the same subject, without further notice, or decide to take no action on them. The language of the final regulations may be different from that of the proposed regulations. **YOU SHOULD COMMENT DURING THE TIME ALLOWED IF YOUR INTERESTS COULD BE AFFECTED.**

Statutory Authority: AS 43.05.080; AS 43.55.110; Sec. 72, ch. 1, SSSLA 2007.

Statutes Being Implemented, Interpreted, or Made Specific: AS 43.55.011; AS 43.55. 020; AS 43.55.030; AS 43.55.040; AS 43.55.150; AS 43.55.900;

Fiscal Information: The proposed regulation changes are not expected to require an increased appropriation.

DATE: February 8, 2010



Director, Tax Division
Department of Revenue

ADDITIONAL REGULATIONS NOTICE INFORMATION
(AS 44.62.190(d))

1. Adopting Agency: Department of Revenue
2. General subject of regulation: Alaska Oil and Gas Production Tax
3. Citation of regulations: 15 AAC 55.140; 15 AAC 55.151; 15 AAC 55.161; 15 AAC 55.171; 15 AAC 55.173; 15 AAC 55.180; 15 AAC 55.181; 15 AAC 55.191; 15 AAC 55.192; 15 AAC 55.193; 15 AAC 55.195; 15 AAC 55.196; 15 AAC 55.197; 15 AAC 55.450; 15 AAC 55.511; 15 AAC 55.800; 15 AAC 55.900.
4. Reason for the proposed action:
 - compliance with federal law
 - compliance with new or changed state statutes
 - compliance with court order
 - development of program standards
5. RDU/component affected: Tax Division, Revenue Operations
6. Cost of implementation to the state agency and available funding (in thousands of dollars):

| | Initial Year FY 2010 | Subsequent Years |
|-----------------------------------|-------------------------|---------------------|
| Operating Cost | \$ <u>0</u> | \$ <u>0</u> |
| Capital Cost | \$ <u>0</u> | \$ <u>0</u> |
| Federal receipts | \$ <u>0</u> | \$ <u>0</u> |
| General fund match | \$ <u>0</u> | \$ <u>0</u> |
| General fund | \$ <u>0</u> | \$ <u>0</u> |
| General fund/ program receipts | \$ <u>0</u> | \$ <u>0</u> |
| General fund/ mental health | \$ <u>0</u> | \$ <u>0</u> |
| Other funds (specify) | \$ <u>0</u> | \$ <u>0</u> |

7. The name of the contact person for the regulations:
 - Name: John Larsen
 - Title: Audit Master
 - Address: 550 W. 7th Ave., Ste. 500, Anchorage, AK 99501
 - Telephone: (907) 269-8436
 - FAX: (907) 269-6644
 - E-mail: john.larsen@alaska.gov
8. The origin of the proposed action:
 - staff of state agency
 - federal government
 - general public
 - petition for regulation change
 - other (please list) _____

9. DATE: February 8, 2010

Prepared by: /s/John Larsen
Audit Master, Tax Division
(907) 269-6620

The Department of Revenue, Tax Division, keeps a list of individuals and organizations interested in its regulations. Those on the list will automatically be sent a copy of all of the Tax Division's Notices of Proposed Regulation Changes. To be added to or removed from the list, send a request to:

Dave Flavin
Department of Revenue, Tax Division
550 W. 7th Ave., Ste. 500
Anchorage, AK 99501-3566

giving your name, and either your e-mail address or mailing address, as you prefer for receiving such notices.

You may also add or unsubscribe yourself to the Department of Revenue (DOR) Tax Division Interested Parties List Server, by the following:

1. go to <http://list.state.ak.us/guest/RemoteAvailableLists>
2. click on "D" in the Mailing List Directory
3. Scroll down and click on DOR-Tax-Division-Regs@list.state.ak.us
4. A new window will open up – in the "Your E-mail address" box, type in the e-mail address you wish to receive the DOR Tax notices.
5. Click the button "Immediate Delivery" or "Unsubscribe". Immediate Delivery will add the e-mail address you entered into the list server immediately.
6. Click the "Submit" button.

The e-mail address you entered will immediately receive the DOR Tax Division "Welcome" notice explaining how the list serve works and also advises that you are now a member of the list serve. Please read this "Welcome" advisory – it contains important information regarding the list serve.

You may also unsubscribe, by following steps 1-6 above, except in step 5, please select the button "Unsubscribe". You will immediately receive an e-mail advisory stating that you will no longer receive e-mail notifications regarding the DOR Tax Division.

If you do not receive a welcome notice or unsubscribe notice, please contact Dave Flavin at (907) 269-6620.