[00:00:02.930] - John Larsen

Good morning! My name is John Larsen. Today's date is Thursday, October 14, 2021 and the time is 10:03. Welcome, everyone, to today's public hearing by the Alaska Department of Revenue regarding proposed regulation amendments and repeals that were publicly noticed on September 26, 2021. Before we begin, I would like everyone to note, that today's hearing will be recorded via Teams and a transcription made available on the department's website. Please remember that this is a public forum and all comments made here today will become part of the public record. Today's public hearing is schedule to run from 10:00 a.m. to 12 p.m., but may be extended, if necessary, to accommodate those present before 10:30 a.m. who have not had an opportunity to comment. The purpose of today's public hearing is to receive input and testimony from the public and other interested parties regarding the regulation changes proposed by the Department in the public notice dated December 26, 2021. In the public notice, the Department proposed conforming changes to existing regulations to bring the department's regulations in line with the statutory requirements of SB 138, passed by the Alaska State Legislature in 2014, and as necessary to conduct the department's oil and gas production tax program. And, let me pause here and try to address, at least in part, a potential question which could be if SB 138 was passed in 2014, why is the Department only now proposing regulations to comply with SB 138?

[00:00:45.250] - John Larsen

And I would say mainly for two reasons. First, that SB 138, even though it was passed in 2014, the provisions of those statutory changes do not take effect until January 1, 2022, and second, and I'm sure I don't need to remind anybody here, but, over time there have been several changes to Alaska's oil and gas tax statutes, and so the Department didn't want to burden industry or anyone else with regulation changes that may or may not have come into effect. But given that there's been no changes at least as far as in regards to SB 138, the Department is proposing these changes now so that they'll be in effect on January 1, 2022. And last, I would just add kind of as a side note that I believe the Department sees these proposed changes as mostly technical and conforming changes to the statutory requirements of SB 138.

[00:01:53.560] - John Larsen

And if you look through, I think you'll see that a lot of the changes deal with dates, what happens before January 1, 2022 and what happens on and after January 1, 2022. But I'd say that if you do have questions regarding any of the proposed changes, then today's public hearing is certainly the appropriate forum to ask those questions.

[00:02:14.550] - John Larsen

And even though the meeting is scheduled for 2 hours, as I mentioned earlier, it could be extended if we need time for additional comments or questions.

[00:02:23.430] - John Larsen

So, after the close of the public comment period at 04:00 p.m. on Wednesday, October 27, the Department will either adopt the proposed regulation changes or other provisions dealing with the same subject without further notice or decide to take no action. The language of the final regulations may be different from the proposed regulations. Therefore, if you believe that your interest may be affected, the Department encourages you to submit any relevant comments either here today or by the close of the written comment period at 04:00 p.m. on Wednesday, October 27, 2021.

[00:02:57.570] - John Larsen

So, kind of a rough outline of a timeline would be that following today's public hearing and concurrent with the drafting of the final regulations, the Department will aggregate its responses to questions received at least ten days before the close of the public comment period and make the questions and responses available on the Alaska Online Public Notice System and the Tax Division website. After the close of the public comment period, comments will be accumulated and posted online on the Alaska Online Public Notice System and Tax Divisions website at www.tax.alaska.gov.

[00:03:37.110] - John Larsen

As stated in the public Notice, changes have been proposed to 15 ACC 55.520, which were also the subject of a public notice and supplemental Notice, respectively, dated December 25, 2020 and May 14, 2021. And as said in the public notice, the Department will try will attempt to harmonize any changes to 15 AAC 55.520 in any final adopted regulations. So where to submit your comments. They can be submitted to me.

[00:04:09.130] - John Larsen

John Larsen by any of the following means via email to john.larsen@alaska.gov that's J-O-H-N- dot L-A-R-S-E-N. At Alaska. Gov or via Fax to: (907) 269-6644.

[00:04:31.270] - John Larsen

Delivered to me at 550 west 7th Avenue, Suite 500 Anchorage, Alaska 99501. Note that all comments must be received by 4:00 p.m. on Wednesday, October 27, 2021. Prior to beginning the hearing, please note the following, when making any comments, please give your name and affiliation if any, and as previously mentioned, the hearing is being recorded and either a transcription or copies of the hearing will be made available on the department's website at the previous address. So, the hearing and all written comments received will become part of the public record and subject to public inspection. With that and prior to beginning today's public testimony, let's go around the room here and the phone lines and have everyone please introduce themselves and their affiliation. And we'll start with those here in the Tax Division. And, after that, let's try to go somewhat alphabetically to preserve some semblance of order and maybe eliminate some of the dead space there.

[00:05:34.090] - John Larsen

So, we'll start with AOGA, and then if Anadarko or Brooks Range representatives are here, go with them. And then following that with ConocoPhillips and so on down the line. And I'd say that if there's more than one representative from a company, let's allow all representatives from that company to identify themselves before moving on. So again, my name is John Larsen, I'm an Audit Master with the Alaska Department of Revenue.

[00:06:02.390] - Colleen Glover

Colleen Glover, Tax Division Director.

[00:06:05.810] - Lennie Dees

Lenny Dees, Audit Master, with Department of Revenue,

[00:06:13.230] - Scott Von Gemmingen

Scott Von Gemmingen, Department of Revenue.

[00:06:14.790] - Destin Greeley

Destin Greeley, Oil and Gas Supervisor.

[00:06:26.590] - Jennifer Owens

Jennifer Owens, with the Department of Revenue.

[00:06:30.310] - Anna Best

Anna Best, commercial analyst, at the Department of Revenue,

[00:06:46.970] - Mary Gramling

Mary Gramling, Department of Law,

[00:06:50.990] - Emily Feenstra

Emily Feenstra, for the Department of Law.

[00:06:58.710] - Kara Moriarty

Hey, John, if it's AOGA's turn, this is Kara Moriarty, with the Alaska Oil and Gas Association.

[00:07:05.550] - Rachel Bylsma

And this is Rachel Bylsma with the Alaska Oil and Gas Association.

[00:07:31.750] - John Larsen

Go ahead, Marie, do you want to lead off with ConocoPhillips?

[00:07:34.570] - Marie Evans

Well, I guess we don't have anybody from Brooks Range. I was waiting to see if we had any B letters. But this is Marie Evans, Tax Counsel for ConocoPhillips.

[00:07:46.850] - Jennifer Roberts

Jennifer Roberts, Production Tax Supervisor ConocoPhillips.

[00:07:54.090] - Erin Rubleman

Erin Rubleman, Analyst, ConnocoPhillips.

[00:08:00.670] - Marie Evans

I don't see any more ConocoPhillips. So, we can move on to D-E-F-G-H.

[00:08:20.990] - John Larsen

Maybe oil search?

[00:08:22.850] - Diane Colley

Yeah, I guess we have to go to the O's. This is Diane Colley, Tax Manager, at Oil Search, Alaska.

[00:08:35.910] - Jon Iversen

This is Jon Iversen. I'm at Stoel Rives. I'm here today on behalf of Repsol.

[00:08:47.530] - John Larsen

All right. Unless there's someone else on the line that would like to speak up, let's go ahead and begin the testimony, with AOGA. Anything you'd like to start with?

[00:09:01.510] - Kara Moriarty

Yeah, that would be great. Again, for the record, my name is Kara Moriarty, and I'm the President and CEO of the Alaska Oil and Gas Association, commonly referred to as AOGA. We appreciate the opportunity to provide comments today in response to the Department of Revenue, or DOR's public notice of these proposed changes that was dated September 23, 2021 concerning regulations in 15 AAC 55. For over 50 years, as many of you know, AOGA has been the trade Association for the Petroleum industry, and we do represent the majority of our member companies who explore, produce, refine and transport oil and gas in Alaska.

[00:09:51.490] - Kara Moriarty

In keeping with our long process regarding tax Matters all of our members have the opportunity to review and contribute to these comments, and they have been approved without dissent. I would highlight that my comments today for the hearing are very brief in nature and more of a summary, and we are in the process of writing much more technical and thorough written comments by the October 27 deadline, and in fact, we've got several members of our tax Committee on the line, and they may want to chime in and ask the more technical questions after I'm finished. But to begin, a preliminary observation is that a number of the proposed changes are highly technical and multifaceted, and as Mr. Larsen mentioned, it had been a while since Senate Bill; 138 had passed, so I think it took some of us a while to tune back in, and this package of proposed regulations obviously would make changes in addition to what would be necessary to implement that law, which is in Chapter 14 from 2014. As I said, the passage of time between the date Senate Bill 138 was passed and the date of this package of regulations, I know it wasn't intentional, but it does add to the challenge of deciphering a bit of what the Department intends to accomplish with the number of the proposed changes. Altogether, In many instances, this does require the interested parties, such as the members of our tax committee, to make assumptions about the department's intent and how the regulations meet that.

[00:11:56.350] - Kara Moriarty

If it's possible, we would like to respectfully request and suggest that DOR provide some more robust explanation of what the Department is trying to accomplish, what the intentions are with each proposed regulation, the basis of that objective, and how the regulation accomplishes that objective. One example or form that the information could be in to provide that could be either in a supplemental notice or additional explanation, similar to the more detailed information that the IRS usually provides with its regulations. But in any event, that information would enable us and other interested parties to provide more meaningful comments without having to make assumptions about the department's objectives and the choices you're utilizing in meeting those objectives.

[00:12:56.770] - Kara Moriarty

It would also help us as taxpayers and I would assume auditors alike in interpreting these regulations down the road. So accordingly, and to avoid confusion, as I mentioned, our comments today are going to be at a relatively high level. There may be some folks that want to ask some follow up questions specifically related to some of the sections of the proposed regs, to try to dig a little deeper if you're able to share some of the intent and objectives that you're trying to meet. But, just overall, the first one I think that I want to highlight on behalf of the member companies is the use of loss.

[00:13:41.710] - Kara Moriarty

As proposed, 15 AAC 55.217(f)(1)(B), provides that a carry forward annual loss based on lease expenditures to produce gas, only gas, from North Slope leases or properties can only be used in calculating the production value of oil, if oil is produced from, quote "those same leases or properties." It is unclear to us what the phrase those same leases or properties actually means. One result would be that losses for a gas only project would only be eligible for use if the specific leases or properties that are the basis for that gas only project at some point produce oil.

[00:14:33.790] - Kara Moriarty

We do not believe that that would be the correct result. The correct result, which also incentivizes gas projects, would be that losses for North Slope gas only projects can be used calculating the production tax value of North Slope oil as soon as regular production of gas commences from the leases or properties that are the basis of the gas project. Our view is that this interpretation is on all fours with the section of statute 43.55.165(n), which allows losses to be applied once, quote, "regular production of oil or gas from the lease or property or the lease expenditure resulting in the carry forward annual loss was incurred commences," unquote. And John, I don't know if you want me, I've got a couple of other sections, if you want me to stop there and see if the Department has any response or just go through all of them and then go back.

[00:15:42.050] - John Larsen

I think it might be just as easy to try and address to whatever we can the questions as we go through, and maybe that'll save me from writing down and going back over the same question again.

[00:15:57.690] - Colleen Glover

Somebody else joined. We need to find out who it is.

[00:16:02.130] - John Larsen

Yeah. This person 223-5096. Can we ask who that person is?

[00:16:17.990] - Marie Evans

That's Steve Mahoney, based on his cell phone number.

[00:16:21.530] - John Larsen

Okay, all right. And what's his affiliation?

[00:16:31.210] - Marie Evans

He works for Manley and Brautigan.

[00:16:33.850] - John Larsen

Okay, thank you, to try and go back to your question there, I think, as a general rule and maybe over arching that would apply to, I would say, all of the proposed changes, except for perhaps the repeals, because the repeals, I think, are regulations that are outdated or no longer in effect. In fact, I think there was one that related to, it's been so long since it's been in effect I can't even think of the term right now, .011(g), the progressivity tax. And so the part of that regulation that refers to that is just as an example of what is being repealed.

[00:17:29.110] - John Larsen

And, so, that is, I would say, as a general rule that repeals are regulations related to statutes that are no longer in effect. But as far as the more relevant changes to the current package, those changes are largely or almost exclusively, I would say, to apply to AS 43.55.011(e)(3)(B), which says that gas will be taxed at the gross value at the point of production and then also AS 43.55.160(h), which is the change that basically, with certain exceptions, for maybe the Interior Basins, Middle Earth, the exclusions under AS 43.55.011(p), 43.55.160(h) no longer requires an allocation of lease expenditures between oil and gas and gas used in state to the effect that all lease expenditures to produce oil and gas, like I say, except with certain isolated exceptions, will now be attributable to the production tax value of oil. And, so, as a general rule, I would say that's what those changes are intended to affect. And, so, in regard to the question about .217(f)(1)(B), the Department looked, I would say, I believe, at that reg proposed change as in regard to carried-forward annual losses attributable to gas used in state before January 1, 2022. Because after January 1, 2022, all lease expenditures to produce oil or gas will be attributable to the production tax value of oil.

[00:19:46.090] - John Larsen

I think that regulation was like, I say, primarily addressed or directed towards carried-forward annual losses that have been incurred to date, I guess. I would say, as far as carry forward losses going into the future, I think that's a good question that the Department would have to take into consideration and take a closer look, because I'm not aware, and maybe one of you out there from industry can tell me, are there any oil and gas leases that are currently producing only gas?

[00:20:37.250] - Marie Evans

John, this is Marie. I actually can't tell you that off the top of my head my guess would say industry would on the North Slope. So, we're not talking Cook Inlet. So, the answer would probably be yes in Cook Inlet. On the North Slope, I mean, the first thing that I think of is the North Slope Borough has gas only producing leases.

[00:21:02.690] - John Larsen

Right.

[00:21:04.070] - Marie Evans

I think, I think, not my scope. When I think about what ConocoPhillips does my answer would be no. That's the best I can do off the top of my head.

[00:21:21.470] - John Larsen

Right. Thanks, Marie, and I think you make a good point there. And I do want to remind folks that 43.55.160(h) applies only to North Slope production, there. And so Cook Inlet is not really applicable as far as the lease expenditures, there.

[00:21:44.150] - John Larsen

And, I believe that's also true for the carry forward annual losses, but that only applies north of 68 degrees north latitude.

[00:21:57.110] - Jon Iversen

The losses are also eligible for Middle Earth for Middle Earth, too.

[00:22:00.650] - John Larsen

I think, John, that's right. I kind of hesitated when I said that, because, I think it's outside of the Cook Inlet sedimentary basin is the language that's used.

[00:22:10.850] - John Larsen

But, I think you bring up a good question about lease expenditures to produce gas only leases after 2021. Now, the statutes only provide for production tax value for oil. So, I think that's a question that the Department is going to have to take under advisement. What happens to lease expenditures in gas only leases outside of the Cook Inlet sedimentary basin? And what are the statutory restrictions related to those lease expenditures?

[00:23:05.970] - Jon Iversen

John, if I may, Jon Iverson here, might just chime in a little bit, maybe to add a little bit of color on to what Kara was saying. I think part of the concern here, I think really to align with the statute, it would make sense here to have in those gas only projects, post 2022 outside of Cook Inlet, the gas only projects to be true to the notion that you do only have at that point a calculation of peak production tax value for oil and the expenditures for gas go towards that calculation for oil, and the notion in 165 that the property has to come into production to use the losses, right, the property which the costs were incurred.

[00:23:56.710] - Jon Iversen

It makes sense if you tie those three concepts together, then to allow for the costs for the losses. Excuse me. The losses for a gas only project to be used in the calculation of production tax value, for oil, once that gas project goes into production. That's kind of the logic behind the comment and the slash question that Kara was posing.

[00:24:47.030] - John Larsen

Okay, thank you, Jon. Thanks, Kara. Do you want to keep rolling through then?

[00:24:54.530] - Kara Moriarty

Yeah, I think so. Next one is just on the application of tax credit. As we explained in response to the Scoping notice for these regulations starting on January 1, 2022, AS 43.55.011(f) the North Slope minimum tax would only apply to the levy of tax on oil. The result is that the tax on gas is not subject to the minimum tax, AS 43.55.024(j) provides a credit per barrel North Slope Oil produced the per barrel credit. The statute states that the per barrel credit may not reduce the producer's liability in a calendar year below the North Slope minimum tax.

[00:25:43.790] - Kara Moriarty

There was the Advisory bulletin of 2017, one where DOR interpreted this to mean that the producers that use the per barrel credit cannot use other 43.55 tax credits to reduce taxes below the North Slope Min tax. As we have stated previously, we would encourage the Department to revisit this advisory bulletin. But regardless, given that there will no longer be a minimum tax for gas and the gas production does not generate the per barrel credit, the 43.55.024(j) limitation on the use of the per barrel credit should not only apply to the production tax on gas, and accordingly, producers that use the per barrel credit should be allowed to use other 43.55 tax credits to reduce their production tax on gas to zero.

[00:26:44.750] - Kara Moriarty

We've noticed that the Department has not addressed this in the proposed regulations, but as you continue to work through these, we would suggest that in doing so, it may be helpful in the interest of clarity.

[00:27:00.350] - John Larsen

Okay. Thank you.

[00:27:04.830] - Kara Moriarty

You mentioned the repeal of regulations, John. We commend the Department for any efforts to streamline regulations and repeal any unnecessary regulations. Once a regulation is repealed, it does become very difficult to locate for those who do not have paid access to the particular research databases. So, although a number of the repeals being proposed in this package, impact periods that are no longer open to audit. For example, to implement mid year changes to the law in 2016, the repeal of 55.224(e) impacts 2017, which would still be open to audit.

[00:27:55.390] - Kara Moriarty

So it would be helpful to taxpayers. And, we would think, the Department, if any such regulations being repealed prior to the completion of audits for all affected periods, still be available somewhere for reference on your tax division website.

[00:28:13.510] - John Larsen

Okay.

[00:28:17.050] - Kara Moriarty

We're not opposed to you repealing these. We just need to have access to them because they may still apply for years that are open for audit.

[00:28:26.050] - John Larsen

Kara, let me just pause for a minute. I'm not sure if the legislative database or website, if you go back and look at the archives and you can look at it by year if you can still find those regulations by year? And, so, let me take a look at that. Marie's, nodding her head. No.

[00:28:48.830] - Marie Evans

So, you can if it's a statute, and that Info Basis is awesome if you have a statute. If you have a regulation, it's like kind of what do you call it just in time? I guess.

[00:29:06.030] - Marie Evans

So. It just keeps updating, as DOR edits the regs or repeals them or adds a regulation. Sometimes I've tried to go in and like when we had ACES going on, we had packages, so I'd go in and try and download what I could. So I'd have a picture, a snapshot in time for our audits. But unless you happen to do it, and it's hard, so I don't think you're going to find it does it.

[00:29:42.730] - Kara Moriarty

And, I would also add just speaking for me and our tax committee, we have a lot of new folks from some of the companies, because as I mentioned earlier, we've lost a lot of institutional knowledge within some of our companies, and we've got newer companies. And so, I would think it's even more important. Marie and Jon know how to navigate as best they can, and they find it challenging. But, we do have a lot of new people with the companies that are picking up a project that somebody else probably started. And, so, if they can't find an easy reference to a regulation that applied in that tax year for that audit, it just makes it even more challenging.

[00:30:34.270] - John Larsen

Okay.

[00:30:36.010] - Kara Moriarty

Again, we're not opposing the repeal. It's just we just need to have easier access to those regs as it would still apply for audits.

[00:30:45.550] - John Larsen

Okay, thank you.

[00:30:48.430] - Kara Moriarty

Just a couple of other things. In our prior correspondence, we call the department's attention to a number of additional areas where regulations would actually benefit both we think the Department and certainly us as taxpayers. Some other areas for improvement would include providing regulatory guidance regarding the exclusion from lease expenditures for unscheduled interruptions in production under 43.55.165(e)(19), including materiality thresholds, that's one. Another area of improvement would be delineating the temporal calculations for the gross value reduction and the related price threshold. Three, clarifying the application of 43.55.170 to major asset sales. Four, aligning the application of 15 AAC 55.260 with modern industry practices in regard to labor charges. Five, as I already mentioned, revisiting the advisory bulletin from 2017 regarding the minimum tax. I guess that was the last one on my list here. And so again, this is just a high overview of what we've identified. We are in the process of writing some much more detailed technical comments for the deadline in a week or less than two weeks, I guess. And I would just say, on behalf of all the members, we do appreciate this open opportunity to comment, and we know that you had a lot on your plate, as well, and trying to improve the regulatory and audit process is everyone's goal, and it's never easy to obtain.

[00:33:00.770] - Kara Moriarty

But with that, I know I have several member companies on the phone. If they have any follow up questions or, as we stated, any specifics that we'd like to ask about in terms of intentions and what you're trying to achieve with some certain regulations beyond what we've already mentioned. If it's all right with you, John, I kind of like to open the floor to my member companies. And they all like to speak at the same time. Can't you tell?

[00:33:39.390] - John Larsen

Thanks, Kara. I didn't know if you were talking to me or Jon Iversen. I thought that was kind of an intro for Jon to take the floor there.

[00:33:46.830] - Kara Moriarty

I was asking you, Mr. Larsen, if it was okay if we had the member companies chime in?

[00:33:53.670] - John Larsen

Please, do. That's why we're here.

[00:33:54.990] - Kara Moriarty

Okay. And this is where they all talk at once. It happens all the time internally at AOGA.

[00:34:02.970] - John Larsen

How come I never get invited to those meetings?

[00:34:08.470] - Kara Moriarty

They're a blast. Come on over.

[00:34:14.090] - Jon Iversen

Thanks, John and Kara. I can go ahead and kick this off. Or Marie. I mean, we've talked about this and we can kind of go back and forth on this, too, as we work through some of these. Some of these, and John and the other folks at DOR also, as Kara mentioned, right. Bear in mind that this is coming at this, this is kind of a multi textual onion that we're peeling here. And the passage of time and the passage of multiple pieces of legislation during that time is obviously making this a little more technically difficult than I think it otherwise would be in terms of just having what's going on here.

[00:34:56.510] - Jon Iversen

So understood that it appears that everything's being intended just to line up with the statutory changes and make sure that the regulations are conforming. We just want to make sure understanding intent and not making any assumptions about what's actually going on. We can start with the regulation at 15 AC 55.206(b). And this is maybe just a clarifying point, and maybe it's a technical draft issue as you look, and I'll wait until you get there.

[00:35:35.210] - John Larsen

Sure, I'm here.

[00:35:36.710] - Jon Iversen

Okay. So, if you look at that in subsection (b) the last sentence right after the deleted language "of that" where it says under as 43 55.165(a)(3), and then the added languages and as 43 55.160(e) for oil and gas produced.

[00:36:03.510] - John Larsen

Right.

[00:36:05.790] - Jon Iversen

The issue there, we think, is that that seems redundant. And the reason why it does is because 43 55.160(e) is actually already referenced as one of the criteria in 165(a)(3). So, I think that's just a technical drafting issue, and I don't think it's necessary to do that and raise the question, or could raise the question, as to why then in other instances, is that not being done when you've got a subsection or section that references another subsection that you're referring to?

[00:36:47.650] - John Larsen

I think that's a great point and may have even come up during our internal discussions. And, since you pointed that out, I think that that's a valid point. And, we'll try and look and see if that happens in future areas of the regulation there. But I understand exactly what you're saying, and that can probably be deleted from the language there. I think part of it was you see that language, the reference to .160(e) was already in there. Sometimes the way LAW looks at it when we do change the language or repeal some of the language there, you can see that the reference to 43 55.160(e) was already in there, and just the way, maybe syntactically it was included in the sentence. It got deleted at the end. So, we included it back there in the beginning. But, we can certainly discuss internally the necessity of the reference to .160(e) if it's already a part of the reference under .165(a)(3).

[00:38:09.410] - Jon Iversen

Okay. Yeah. That's great. You clearly understand the question and admittedly I did not pull out the technical drafting manual on that. I would just be worried of inconsistencies as to maybe where that's not done elsewhere. Right.

[00:38:24.350] - John Larsen

Okay.

[00:38:24.950] - Jon Iversen

Yeah. Let's see for the next piece, and Marie, feel free to jump in on this. We will go to 15 AAC 55.206(c)(3) and (c)(4). And, this is about the various segments in the calculation of production tax value. (c)(3) goes through the various segments for oil and let me know when you're there, John.

[00:39:02.330] - John Larsen

Yeah, I'm there. I'm with you.

[00:39:03.890] - Jon Iversen

Okay. It goes through the various segments for oil, and it talks about there are two issues here. One is let me go through. Let me just break it into the two sections first, and then we can do more focus on some of the language of .206(c)(3). So, the first piece breaks that subsection (c)(3) breaks this into just the oil segments. And, then, (c)(4) looks at oil and gas produced on and after January 1, 2022, if there is no production of any oil from leases or properties. It basically creates, then the two sections as the segments in that instance, which is north of 68 degrees and south of 68 degrees.

[00:39:56.470] - John Larsen

Right.

[00:39:58.570] - Jon Iversen

The question there, obviously, this is in a situation when we're not in production. My assumption was that this is simply a way to simplify the attribution of lease expenditures to north of 68 degrees versus south for purposes of calculating losses. But that's an assumption. And since this is new language or at least new compared to what was previously used in similar provisions, it also included that was what we were assuming, but we wanted to raise that question. Marie, did I miss anything in describing that question?

[00:40:37.010] - Marie Evans

No, that's our first question, because originally 15 AAC 55.206 sub(b) was all about Cook Inlet and how you dealt with Cook Inlet. And, now, am I in the wrong section? Oh, wait.

[00:40:56.990] - John Larsen

Yeah. We're on 206(c)(3) and (4).

[00:40:59.440] - Marie Evans

Oh, yeah. Sorry. I was in the wrong section. Okay. Back to 206(c)(3) and (4). No, that is correct. So we have our five segments for oil, and then we go into (b) and we have a little conflicting language. Or at least we couldn't figure it out at (c)(4). And, then we have, what we were calling it north and south.

[00:41:30.390] - Jon Iversen

And it seems like the issue is just the allocation of expenditures between north and south, and when you're in a non producing situation, right, for purposes of calculating losses.

[00:41:41.130] - Marie Evans

So is that like gas or is it seismic or is it we were trying to project when we would mechanically apply that in our calculation?

[00:42:04.550] - John Larsen

Yeah. Let me just kind of take a look at here at the regulation for just a minute. Yeah.

[00:42:09.650] – Marie Evans

No rush. It obviously takes a bit to get your head set.

[00:42:30.930] - John Larsen

And, so I think, maybe part of the confusion here and you can certainly tell me if I'm wrong. But I think there is a conflicting statement right there at the beginning of the proposed change that says for oil and gas produced on and after 2021, if a producer or explorer does not produce oil and gas. So, I think, yeah, there's something.

[00:42:56.770] - Marie Evans

Well, we talked about that.

[00:42:59.770] - John Larsen

Yeah. So, I think that's one thing. But I think that Jon is right that this is, and I'm pausing here, because I just want to make sure I don't commit to a position here. But, I would say that you're correct and subject to further discussion that this is for the attribution of lease expenditures, for leases or properties related to properties that are not in production, for example, in an exploration phase.

[00:43:40.590] - Marie Evans

Okay. Remind me what subsection .206 is doing, because .217 is where we're dealing with losses. So, .206 is just getting our lease expenditures into the various segments for our PTV calculation. Right?

[00:44:03.390] - John Larsen

Correct. Yeah.

[00:44:05.730] - Marie Evans

Okay. So talking off the top of my head, it's going to be hard for us to and maybe there's a reference. It's going to be hard for us to jump between losses and just north and south.

[00:44:26.530] - John Larsen

Well, let me see here. I would say that on the one hand, although this is a new regulation that's being proposed, this is the mirror of regulation of 15 AAC 55.206(c)(2), is prior to January 1, 2022, and (c)(4) is the mirror image of that regulation after 2021. And, so .206 is for the determination or the calculation of production tax value. But if there's no oil or gas being produced, then you're inherently in a loss position. So, I think this is just basically intended to attribute those lease expenditures as being north of 68 degrees north latitude or not.

[00:45:51.810] - Mary Gramling

This is Mary Gramling. I just wanted to maybe clarify a little bit. So, .206 is to determine production tax value, and then .206(c)(3) and (4) are really concerned with the segments that now exist to make that determination. And, so (c)(3) is the oil segments. There's no longer a gas segment. That's why (c)(4), it just does not produce oil. So it's a situation where you're potentially producing gas, but not oil, and you have expenditures that you would potentially need to include in some sort of future loss calculation. Or, you're an explorer who has no production at all. And so it's really to address the kind of lack of a segment there. But you might have expenditures that you later need to include in taxes.

[00:46:41.510] - Mary Gramling

So, Mary, this is Marie. If we have, like, gas expenditures, shouldn't they be going to oil?

[00:46:51.690] - Mary Gramling

Well, they would be, for the purposes of if you have oil. But if there's no oil around that you're dealing with and you just have gas in that rare situation, this is to address that potentiality, I guess. Okay.

[00:47:11.790] - Marie Evans

I probably did not think of that situation.

[00:47:15.930] - Diane Colley

Yeah. And this is Diane Colley. That is not clear at all in the way this is written.

[00:47:24.130] - Marie Evans

Okay. So, only gas, no oil. It might be just the phrase for oil and gas produced on and after January 1, 2022 that might throw us off a little bit. I'm trying to read it without that phrase. Jon, do you think we have enough that we can actually craft a comment without questions? I mean, Jon Iversen. Sorry.

[00:48:04.590] - Jon Iversen

Yeah, I think so. John Larsen, just a question for you. Will there be any opportunity or responses from DOR in case we are making assumptions here that you ultimately think are incorrect on how this is?

[00:48:23.610] - John Larsen

Yeah, Jon, I think that I included that as part of my opening statement that that questions that are received 10, at least 10 days prior to the close of the comment period, we'll try to respond to those in writing.

[00:48:38.970] - Jon Iversen

Oh, great. Okay. Thank you. Sorry I missed that. I was scrambling in between meetings.

[00:48:44.070] - John Larsen

Yeah. And I think we have the general question here, but if you can write down specifically what the question is that will help us craft a response. And then I think we said before that anytime you want to suggest language, it doesn't mean that we'll include it. But it does help us understand the question. And maybe the answer that you're looking for there, too.

[00:49:11.730] - Jon Iversen

Okay. Great. Thanks.

[00:49:18.490] - Jon Iversen

Before I move past that particular point, does anybody else have anything to chime in on that? The next point, and this is a question that was flagged, I think, because it just appears inconsistent. And maybe that is it. And that is at the introductory language on .206(c)(3), where it says for oil, comma, or oil and gas produced.

[00:49:49.830] - John Larsen

And what's the question, Jon?

[00:49:53.070] - Jon Iversen

At that introductory language for other provisions, it typically just says for oil and gas produced.

[00:50:00.570] - John Larsen

okay.

[00:50:01.230] - Jon Iversen

This says for oil "or" oil and gas produced.

[00:50:04.290] - John Larsen

So you're kind of talking about a consistency, right?

[00:50:07.650] - Jon Iversen

A consistency issue. And why that says for oil, comma, for oil and gas produced there, as opposed to just oil and gas produced.

[00:50:19.590] - John Larsen

Okay.

[00:50:20.430] - Jon Iversen

If there's some particular reason there that we should be focusing in on, obviously, now we've got a situation where the allocation of lease expenditures all go to oil.

[00:50:30.690] - John Larsen

Right.

[00:50:31.530] - Jon Iversen

Right. And, certainly all of the subsections here in .206(c)(3) are about oil segments, but this just came out as kind of an odd flag. Frankly, that sort of raised a question in our minds about why that language seems to be more nuanced around for oil comma or oil and gas produced as opposed to oil. Sorry. Or oil and gas produced.

[00:51:01.310] - John Larsen

Okay. And what I'll have to do, Jon, is look at perhaps the other areas of the regulations where it says just oil, because as I mentioned earlier in regard to AS 43.55.160(h), the lease expenditures for both oil and gas will be attributable to oil. Why we broke that language up here, let me think about that and see if it truly is inconsistent and that it's not used similarly in other sections of the regulations, or if there's perhaps a reason for including that specific language here.

[00:51:55.450] - Jon Iversen

Great. That's all I had on 206. With that, I think we can move on to 213.

[00:52:17.030] - Marie Evans

Yes.

[00:52:24.810] - Jon Iversen

And that issue, or Marie, if you'd like to speak to that, it doesn't matter to me.

[00:52:30.090] - Marie Evans

I'll try and take it. I'm not working with my full book. John Larsen, this is Marie. It is 15 AAC 55.213 sub (e), and it's on page five of our regulation package, and it reads, "A methodology must provide for excluding any gas produced before 2022 that is used in state and any gas produced after 2021." Our recommendation here would be to segregate out.

[00:53:23.690] - Marie Evans

And say. Like, for example, if you just left 213(e) as it was and added a section or a sentence or a new subsection that says a methodology must provide for excluding any gas produced on and after January 1, 2022, when you read that sentence, it's like you're trying to figure out your methodology has to provide for an exclusion of gas produced before 2022 used in state. Oh, my gosh. Sorry about the chiming clock.

[00:54:01.850] - John Larsen

Keep going, Marie.

[00:54:03.110] - Marie Evans

I'm on vacation in a sewing room. So back to "a methodology has to provide for excluding any gas produced before 2022 that is used in state and any gas produced after 2021." And so mechanically, you try and break down the sentence and you get kind of stumped.

[00:54:37.310] - John Larsen

Okay. I believe I understand what you're saying, Marie. And that's one we'll take under advisement there.

[00:54:52.060] - Jon Iversen

It might just be easier to break that one apart.

[00:54:54.970] - Marie Evans

What was that, John?

[00:54:56.110] - Jon Iversen

I was just saying it might be easier just to break that one apart.

[00:54:59.110] - Marie Evans

Yeah, and it goes into the second sentence because the second sentence says "the amount excluded may not be less than the pro rata amount of gas recovered from the entire PA that is produced before 2022 and used in the state and any gas produced after 2021."

[00:55:15.490] - John Larsen

Okay. Yeah. We're trying to get too many thoughts into a single sentence there.

[00:55:20.950] - Marie Evans

I think that's the only issue.

[00:55:22.930] - John Larsen

Another subsection would add some clarity. Okay, that's a great suggestion. Thanks.

[00:55:27.550] - Marie Evans

Okay. All right. Jon, you going to take the next one or you want me to?

[00:55:35.450] - Jon Iversen

This one doesn't matter. Go ahead.

[00:55:39.530] - Marie Evans

Six and seven of our Reg packet. It is 15 AAC 55.215(b). Oh, this is the one I thought we were on before. Okay. All right. We just need some help here.

[00:55:57.730] - Marie Evans

So, prior to this reg package, we had 15 AAC 55.215(b), and it addressed how you allocated lease expenditures for Cook Inlet oil and Cook Inlet gas in light of the activities for the tax years prior to 2022. So the reg package takes the existing 215(b) and moves that to 215(b)(1). So we got that part. The next part in 215(b)(2) we get the clarification that the lease expenditures for the oil and gas are applied to the PTV for oil. But then we got a little mixed up because the new language is dividing these lease expenditures between what we started calling North Slope and South Slope. And, that's where we just kind of got lost. We tried to make some assumptions.

[00:57:14.510]

(Pause)

[00:57:59.310] - Jon Iversen

And, John this may be a similar issue to what we were discussing before about this north and south 60 degrees issue, because this is all about chargeability of lease expenditures.

[00:58:07.170] - John Larsen

Right.

[00:58:10.270] - Jon Iversen

But again, we were making some assumptions about that. I want to be careful.

[00:58:20.570] - Marie Evans

I don't think it's really helpful for us to say. Okay, well, just give us an example when we're supposed to do this.

[00:58:26.520]

(Pause)

[00:59:09.650] - John Larsen

And, so, do you have a suggested change that you're asking for here, Jon? Or is it more that you're asking a question here?

[00:59:27.650] - Jon Iversen

I think this is more about asking a question about what DOR's actually intending what really wants to accomplish through this.

[00:59:35.090] - John Larsen

Okay.

[00:59:36.290] - Marie Evans

I think if we knew that we could get there.

[00:59:40.550] - Jon Iversen

Yeah, we can be helpful with some suggestions on the language, I think potentially, but we just want to make sure that we're understanding if that is indeed what this provision is intending to accomplish.

[00:59:53.750] - John Larsen

What I would say, John, is I think that previously maybe that's not right.

[01:00:01.420]

(Pause)

[01:00:26.870] - Jon Iversen

Part of it if you look at it, for instance, the previous language is having to wrestle with, gas used in the state, and then allocations between gas used in the state and other oil and gas.

[01:01:02.130] - John Larsen

You know, Jon, I'm sorry, I would rather take a closer look at this regulation and take some time to look at it and maybe provide that in our written responses rather than try and try and kind of speculate right now on the spot here.

[01:01:18.150] - Jon Iversen

And that's totally fair, John.

[01:01:22.170] - John Larsen

I might have some things that I want to say, but I wouldn't want to speak incorrectly and have that concept perpetuate. So I'd rather just take that question right now and respond to that as part of our written comments.

[01:01:37.530] - Jon Iversen

Right. Yeah. Well, and even when I was talking about it, I was actually looking at the following section where they were talking about gas used in state. This is previously talking about Cook Inlet. Right, so it's gas allocations in Cook Inlet. Right. And that's what leads to the supposition, at least on our behalf, that this then, since you no longer have this issue of issues both, of gas used in the state and Cook Inlet oil because it's all allocated, the costs are allocated, right, to oil. We're just assuming that then that means that you're dealing with north and south of 68 degrees, but fair enough. Take that back and certainly think about it because you're right. It would not be good to perpetuate something that DOR didn't intend

[01:02:23.470] - John Larsen

Right. I'm sure it made a lot of sense as we drafted it, Jon. So, sometimes I just don't take good notes. I think maybe it was Kara cited a loss of institutional knowledge, and that seems to be happening to me sometimes these days.

[01:02:44.750] - Kara Moriarty

Man, we all went back to the memory bank trying to remember (SB) 138. I'll just be honest.

[01:02:51.350] - John Larsen

Yeah. It was a long time ago, and I think that was part of the reason for the scoping notice. I think it was probably so far off everybody's radar that rather than just coming out with a bunch of changes right off the bat. We wanted to try and give you folks a little heads up anyway, that there was a package coming out and just start thinking about it.

[01:03:14.990] - Kara Moriarty

That certainly makes sense.

[01:03:17.030] - John Larsen

So go ahead. Let's move on to the next question or section there.

[01:03:21.530] - Jon Iversen

So this goes into 215(d), the new language here, as you can see this, and I apologize, this was part of my reference on the last one, but here we're seeing under (d)(1), right, pre 2022 you've got the allocations and Incidentally, if you look at that, I think, well, there may be a minor typo error there, but we'll flag that. I'll look back and look at that. But anyway, that's the intent of what it was previously, and it looks like in subsection (2) there that really this is simply saying, look, from here on out, these costs go to oil. Right? The allocations go to oil. We're not dealing with any of the complexities that sub section one was intending to address. But this is really what that was really the full intention of what DOR was trying to accomplish?

[01:04:38.230] - John Larsen

Yeah, Jon, I think so. And I'm just going to look here for some explanatory language in the statutes, right. Because prior to 43.55.160(h) the segments were determined under 43.55.160(a)(1), and part of the language of AS 43.55.160(a)(1), is that a production tax value shall be calculated for each of the following segments. And one of those was gas used in state. Right?

[01:05:25.030] - Jon Iversen

Right.

[01:05:25.630] - John Larsen

And, so, I think that this is to just recognize that an allocation of lease expenditures is no longer required when determining production values, is no longer required to gas used in state when determining the production tax value of oil, because all these expenditures are attributable to oil except in certain limited circumstances for oil and gas.

[01:05:55.870] - Jon Iversen

And that was my read of this. That it was basically confirmatory language. And then when you're talking about the other limited exceptions, really, that involves the Middle Earth favorable tax ceilings for oil under under .011(p).

[01:06:07.410] - John Larsen

Correct.

[01:06:07.413] - Marie Evans

Whew! We got it!

[01:06:16.550] - Jon Iversen

I think we did.

[01:06:19.070] - John Larsen

These regulations are so simple, Jon

[01:06:20.990] - Jon Iversen

We nailed it!

[01:06:28.890] - Jon Iversen

Let's see, we've already covered this, Marie, unless you had something else on 217(f), I think Kara covered that in regard to the issue of losses, application of losses for gas only projects.

[01:06:44.010] - Marie Evans

I agree. I don't think we have to redo that one. So, let's see our next one. John Larsen, was example 1.B, and it is on page 18 to 22 of our reg pack. And it is a general comment or thought, which is, we think that the example starts on what we call step two because we thought that the first step would be that the taxpayer would calculate and determine for its entire North Slope segment whether it had a negative PTV. And so we thought that the math in the example would have negative $4,340 in adjusted lease expenditures.

[01:08:00.410] - Marie Evans

And we were tying that first step to 15 AAC 55.217(b)(3)(D).

[01:08:18.090] - John Larsen

I'm sorry, Marie, I was writing something else down. Can you give me that reference there again?

[01:08:22.050] - Marie Evans

Yeah. It's 15 AC 55. 217, Little b. Three. And then Big D. And so, when we were proofing the example, we think that it's starting on like step two of how you mechanically apply the loss section.

[01:08:54.070] - John Larsen

I'm going to say, you're right, Marie, and let me just take a second here.

[01:09:00.310] - Marie Evans

You don't have to answer like right now, but it'd be helpful to know that we're doing the steps correctly and that for someone who is not familiar and had to follow the example, it might just be helpful to say like, this is starting on step two. I don't know that's kind of where our comment was coming, because Jennifer and I have a lot of practice and other people don't.

[01:09:33.710] - John Larsen

Yes. And I think that's a great point and a good observation. I think that the explanation of why that is a correct observation that it's starting on step two is because when you go back to 15 AAC 55.217(b)(2) for your benefit, and people like you say, that are new to it, when we determine the carry forward losses, remember that there's basically three tranches. Right? And so those three tranches are 217(b)(2)(a), (b), and (c). So (a) is the adjusted lease expenditures incurred to explore for develop or produce oil or gas deposits located within a segment or properties from which oil or gas is produced during the calendar year is allocated.

[01:10:34.150] - Marie Evans

That's the old language.

[01:10:35.530] - John Larsen

That's the old language.

[01:10:36.790] - Marie Evans

Because we don't allocate under .215(b) anymore.

[01:10:39.310] - John Larsen

Yup, sorry about that.

[01:10:40.510] - Marie Evans

That's okay. Jennifer and I call them groups. I don't know what other people call them.

[01:10:53.810] - John Larsen

Right.

[01:10:56.690] - Marie Evans

We have Group A, Group B and Group C for testing.

[01:11:02.850] - John Larsen

Yeah.

[01:11:03.100]

(Pause)

[01:11:27.790] - John Larsen

And, actually, let's see here.

[01:11:48.090] - John Larsen

Yeah. And let me stop here because this is kind of a complicated area. I think you're right that it does begin with step two. I'm not able to locate the specific example that I was thinking of right now.

[01:12:02.850] - John Larsen

But, we will try to give a better written explanation to that question in our written responses to the questions that the Department will subsequently produce here.

[01:12:18.210] - Marie Evans

Okay. And then we had another comment. If you go to page 21 of our reg pac it's easier for me to do the page numbers right now because we're in the examples, and it's a little hard. You go to subsection three, which is the third line down.

[01:12:46.270] - John Larsen

Yes. On page 21.

[01:12:48.310] - Marie Evans

Yeah. It says the gross value at the point of production of the oil and gas comma, including gas used in the state. We think that you meant excluding?

[01:13:04.370] - Jon Iversen

Because the $3,000 figure is the amount for the oil segment that's calculated for the oil segment.

[01:13:12.650]

Okay. Yeah. And that's what the math shows too, right?

[01:13:15.950] - Jon Iversen

Right.

[01:13:16.670] - Marie Evans

Right.

[01:13:18.950] - John Larsen

Okay. Thanks.

[01:13:23.550] - John Larsen

Yeah. We will take a look at that sample calculation as well and make sure that the language agrees with the calculation and vice versa.

[01:13:35.490] - Marie Evans

Okay.

[01:13:39.550] - John Larsen

Good catch.

[01:13:44.870] - Marie Evans

All right. Example two, page 22 and 23.

[01:14:06.370] - John Larsen

Okay.

[01:14:06.610] - Marie Evans

If you go to page 23 and you look at the new bolded language, right? It says. "However, neither the carry forward annual loss of $1,000 for property D or 200 of the remote seismic may be applied in determining production tax value until the calendar year in which regular production of oil or gas from the leaser property commences as provided in," and I think it should be 165(n)(2), not 160?

[01:14:35.300] - John Larsen

Oh, yes.

[01:14:47.150] - Marie Evans

And then, whether it was purposefully drafted, because when it says, "however, neither" it's tying property D to $200 of remote seismic. So you're tying those two activities together, and the carry forward loss is then going to be stranded forever, because usually remote seismic is remote seismic. It's most likely not going to come into production during the ten years you can use a carried-forward loss. And, I believe in the example, the remote seismic and just the phrase remote seismic says that it has nothing to do with property D. So we're kind of struggling with that.

[01:15:56.950] - John Larsen

Okay. And. First, thanks for the comment. I hadn't considered that neither ties those two losses together. So let me take that question under consideration and see if there's not a better way to draft that language.

[01:16:18.950] - Marie Evans

Okay.

[01:16:31.650] - John Larsen

Let me just clarify. So you don't think that the comma that separates the $200 of remote seismic separates that from property D?

[01:16:49.750] - Marie Evans

Not the way we read it.

[01:16:57.350] - John Larsen

Because we're seeing ...

[01:16:58.080] - Marie Evans

Because it says, "however, neither," neither the carried-forward annual loss of $1,000 for property D or the 200 of remote seismic may be applied in determining production tax value until the calendar year in which regular production of oil or gas from the lease or property commences as provided in blah. Okay, so the leaser property that the remote seismic was related to or the property D was related to because you can't use, neither of them are allowed to be used, until that activity in that ladder, part of that sentence happens.

[01:17:48.550] - John Larsen

Okay. I guess the way I'm reading that, I see that 200 as, the or, as separating that from property D, but let me talk to our language and drafting experts and see what the resolution is there. Okay.

[01:18:14.570] - Marie Evans

All right. Jon, do we have another one?

[01:18:17.870] - Jon Iversen

No. I think the only remaining ones covered the issues of just the repeals of language and the concern to making sure that those regulations are preserved for use for audit, for folks that don't have access to databases that capture.

[01:18:37.730] - Marie Evans

Right. Okay.

[01:18:39.050] - Jon Iversen

Regulations. I didn't have any other things jotted down in my notes. You may?

[01:18:44.150] - Marie Evans

Yeah. The only other thing I had was while we were reviewing these a couple of times, we were trying to figure out if taxpayers have gas losses based on the way the current calculation of losses happens under .217. What do you do with them? Or did we miss it in the Reg package?

[01:19:22.010] - John Larsen

So you're talking about gas only production?

[01:19:26.450] - Marie Evans

Well. I'm talking about currently right now in our mind, as we operate our business, we have the byproduct of gas, and the requirement of the regulations forces us to calculate. I put in air quotes "gas segments" at each unit. And so if those are negative, what do we do with those now? And I'm going to ask Jennifer if she could help me out a little bit because she understands the mechanics of how you as a taxpayer end up with a negative gas PTV right now. I hope Jennifer is still on.

[01:20:28.930] - Jennifer Roberts

I am. I'm still here. I hope everyone can understand me. We were struggling to see if it was addressed. We weren't able to find where it was clear or if it wasn't addressed? If you have an existing carry forward loss for a gas used in state segments, our understanding was that prior to 2022, once you've passed your grouping tests and you've gone through that math and you have a positive PTV, you could use a portion of that carry forward annual loss from that gas used in state segment against your gas used in state segment, in whatever year you have a positive PTV. We weren't able to find where it was addressed. What happens to any existing gas used in state segment carry forward losses after December 31, 2021?

[01:21:30.010] - John Larsen

And, I think that was the purpose of 15 AC 55 217(f)(1)(B). And that's on page 33 in the case of carried-forward annual losses to produce only gas, well, that doesn't say gas used in state, but I had thought that that would be included in there.

[01:22:10.710] - Jennifer Roberts

So I think maybe then if that's where it's intended, then we can work on perhaps a comment that that is not cleared explicit.

[01:22:20.250] - John Larsen

Okay. And if you can hang on just a second, I'm going to see if I have a secondary or follow up question for you here. So, was there a question on negative gas GVPP?

[01:22:49.270] - Jennifer Roberts

No.

[01:22:52.210] - John Larsen

Okay. I'm sorry. I wrote that down incorrectly there. Okay.

[01:22:58.270] - Jennifer Roberts

It could be you just can't quite understand me, too, John. I'm doing my best today.

[01:23:03.790] - Marie Evans

I think John meant earlier. Jennifer. Right, John? Or just now?

[01:23:10.690] - John Larsen

Yeah. Well, what I wrote down that if a taxpayer has losses for gas, and then I thought somebody said something about negative gas GVPP? No?

[01:23:25.650] - Marie Evans

I think that there is confusion on when you have excess gas losses or excess adjusted expenditures for gas. And now we're taxing it on the gross, that we want to make sure that we think those should be applied to oil and oil and gas.

[01:24:00.110] - John Larsen

Yes. And that's what 43.55.160(h) says, is that all lease expenditures to produce oil and gas, and I have to look at the language, and I don't know if it specifically separates out gas used in state there? But since there's no longer an allocation of lease expenditures to the gas used in state, I believe that's the presumption let me go back and look at .160(h) just for a second here. Okay?

[01:24:32.430] - Marie Evans

Okay.

[01:24:50.350] - John Larsen

And, so, when you look at 43.55.160(h), and let's start by saying that 43.55.160 is the determination of production tax value.

[01:25:05.810] - Marie Evans

Correct.

[01:25:06.290] - John Larsen

And it says "of oil and gas," but, that's because it deals with both before and after January 1, 2022. And, so when you look at .160(h) it says, "for oil produced on and after January 1, 2022." Then you have your kind of exceptions for the middle Earth. .011(p). The production tax value of oil under 43.55.011(e) produced from leases or properties is the gross value at the point of production less the producer's lease expenditures under 43.55.165 for a calendar year incurred to explore for, develop, or produce oil and gas deposits located north of 68 degrees. And, so, the way I read .160(h)(1) to produce oil and gas deposits that's going to include the gas used state, and all of those lease expenditures are attributable to the production tax value of oil.

[01:26:12.790] - Marie Evans

Perfect.

[01:26:13.690] - John Larsen

Okay. Does that help?

[01:26:16.930] - Marie Evans

Yeah, we're on the same page then.

[01:26:19.210] - John Larsen

Okay. Yeah. There's no longer an allocation of lease expenditures to gas used in state. And that goes back to my earlier statement about .160(a)(1) is that a production tax value "shall be" calculated. And then you look at 43.55.160(a)(1), gas used in the state is in (B) romanette one or little (i), whatever you want to call that, right. Gas produced before 2022 and used in the state is a separate segment for which production tax value shall be calculated. So that's before 2022. Right? That's in .160(a)(1)(A).

[01:27:24.460] - Marie Evans

And I have to trust you on that because I didn't bring the reg book on vacation.

[01:27:34.170] - John Larsen

Well, we have to know it's reg time, Marie, because you're on vacation.

[01:27:37.470] - Marie Evans

I know it happens every time.

[01:27:43.990] - John Larsen

It's like uncanny. Sorry about that.

[01:27:46.270] - Marie Evans

It's like you have, like, a superpower when you do that.

[01:27:51.550] - John Larsen

No, that's more like kryptonite, you're on vacation.

[01:27:59.990] - Marie Evans

I think we made it through. Oops, John, I think you're on mute.

[01:28:14.410] - Colleen Glover

The other John.

[01:28:16.690] - Lennie Dees

We were on mute.

[01:28:17.530] - Jon Iversen

Yeah, we're good, as far as I'm concerned,

[01:28:20.470] - Kara Moriarty

Anybody else? I know we had a few others on the line.

[01:28:34.010] - John Larsen

I'm sorry, Diane. That was real faint. Did you have a question you wanted to ask?

[01:28:37.790] - Diane Colley

Oh, no. Sorry. I was saying Marie and John covered everything.

[01:28:42.170] - John Larsen

Okay.

[01:28:42.590] - Diane Colley

Good job.

[01:28:45.290] - John Larsen

Great.

[01:28:46.790] - Kara Moriarty

Well, thank you, John Larsen, for your patience over the last hour and a half as we walked through all of this, but it is helpful for us, because then it makes our written comments more impactful for you all. I think with that, I think I'm done. Great.

[01:29:11.630] - John Larsen

Well, hopefully we were able to clear up some things today and maybe help you better able refine your questions. I guess as part of the closing statement, I think that we're kind of entering the doldrums of winter. We're right in October. There's no snow. It's rainy and cloudy. What better way to spend the morning here than discussing proposed regulation changes? So, I appreciate all of your time. And I know that a lot of effort goes into reviewing the regulations and discussing them and making comments. And so, I really do appreciate all that.

[01:29:53.730] - John Larsen

And so, as previously stated, the Department held this public hearing in order to provide opportunity for the public and interested parties to provide input and testimony for suggestions on regulations publicly noticed on September 26, 2021. Thank you everyone for your comments here today. And as we noted previously, the Department will try to respond in writing to questions received prior to ten days before the close of the public comment period. So whenever you're able to get those questions to us, we'll try to respond to them as quickly and ably as we can.

[01:30:31.950] - John Larsen

And, then, after the close of the public comment period at 04:00 p.m.. On Wednesday, October 27, the Department will either adopt the proposed regulation changes or other provisions dealing with the same subject without further notice or decide to take no action. So as a reminder to where you can send your written comments, please, as I said, have them to me by 04:00 p.m.. Wednesday, October 27 via email to John Larsen at john.larsen@alaska.gov, via Fax (907) 269-6644, delivered to me at 550 west 7th

Avenue, Suite 500, Anchorage, Alaska 99501. All comments will be considered in the final drafting of regulations proposed for adoption by the Commissioner of Revenue.

[01:31:24.150] - John Larsen

The language of the final regulations may be different from that of the proposed regulations. Therefore, if you believe your interest may be affected, you should comment during the time allowed. A reminder once again that written comments received are public records and subject to public inspection. Thank you again, everyone here today for your participation and interest in these matters. The public hearing is now closed and the time is 11:34. Thanks, and good day.

[01:31:53.070] - Marie Evans

Thank you.

[01:31:53.850] - Kara Moriarty

Thank you.

[01:31:54.280] - Jon Iversen

Thanks, all.