

Department of Revenue's Response to Question on Discussion Draft

Question: A taxpayer has asked about the relationship between the components "SE" and "PE" in the formula described in draft 15 AAC 55.217(b)(3)(A) of the department's discussion draft dated November 18, 2017.

- Department response: SE and PE apply only (i) within segment leases or properties from which oil or gas is produced, as described in draft 15 AAC 55.217(b)(2)(A), and (ii) in situations where the gross value at the point of production of the taxable oil and gas produced by the producer during the calendar year from all leases or properties in the segment is less than or equal to the total adjusted lease expenditures within those segment leases or properties from which oil or gas is produced.

SE is calculated for *the segment* and means the amount by which the total adjusted lease expenditures described in draft 15 AAC 55.217(b)(2)(A) exceed the gross value at the point of production from the leases or properties subject to draft 15 AAC 55.217(b)(2)(A) [that is, from leases or properties from which oil or gas *is produced*].

PE is calculated (i) on a *lease or property basis*, and (ii) only for those leases or properties within a segment for which oil or gas is produced, and means the amount, if greater than zero, by which the adjusted lease expenditures for each of those leases or properties, as allocated to the segment under 15 AAC 55.215(d) if applicable [between the categories of either "oil and other gas," or "gas used in the state"], exceeds the gross value at the point of production from those leases or properties.

Note, that, PE would not be calculated for leases or properties within a segment from which oil or gas is produced, but did not incur a loss (adjusted lease expenditures for the leases or properties were not greater than the gross value at the point of production for that lease or property).