

In the Matter Of:

WORKSHOP RE 15 AAC 05 AND WORKSHOP 15 AAC 55

HEARING

August 12, 2016

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BEFORE THE DEPARTMENT OF REVENUE

STATE OF ALASKA

In re:

Notice of Public Scoping and
Workshop for Possible Updates
and Revisions to DOR Regulations
15 AAC 05: Administration of
Revenue Laws; 15 AAC 55: Oil
and Gas Production Tax.



TRANSCRIPT OF PROCEEDINGS

Pages 1 - 41, inclusive
Friday, August 12, 2016
9:00 A.M.

Taken at
550 West 7th Avenue, Suite 104
Anchorage, Alaska

1 A-P-P-E-A-R-A-N-C-E-S

2
3 For State of Alaska, Department of Revenue:

4 John Larsen, Audit Master
5 Lennie Dees, Audit Master
6 550 West 7th Avenue, Suite 500
7 Anchorage, Alaska 99501
8 907/269-8436

9
10 Also Present:

11 Ken Alper, Department of Revenue
12 Molly Brown, Dillon & Findley
13 Diane Colley, BP
14 Dan Dickinson, BDO
15 Jennifer Douglas, Department of Law
16 Cathy Giessel, Senator
17 Michael Hurley, ConocoPhillips
18 Deborah Lewis, BP
19 Joyce Lofgren, Department of Revenue
20 Steve Mahoney, Manley & Brautigam
21 Shannon McKinley, Department of Revenue
22 Kara Moriarty, AOGA
23 Olga Persinger, Department of Revenue
24 Erin Ruebelmann, Department of Revenue
25 Casey Sullivan, Caelus Energy
26 Tom Williams, BP

27 Present via Teleconference:

28 Mary Gramling, Department of Law
29 Veronica Keithley, Stoel Rives
30 Brenda Maxwell, ASRC
31 Will Nebesky, Chevron

32 Court Reporter:

33 Gary Brooking, Registered Professional Reporter
34 PACIFIC RIM REPORTING
35 711 M Street, Suite 4
36 Anchorage, Alaska 99501

1 ANCHORAGE, ALASKA; FRIDAY, AUGUST 12, 2016

2 9:12 A.M.

3 -o0o-

4 MR. LARSEN: Good morning. Welcome to
5 today's workshop on regulations related to Alaska's
6 oil and gas production tax.

7 My name is John Larsen. I'm an Audit Master
8 with the Department of Revenue, and I'll be the
9 moderator today. The purpose of the meeting is to
10 receive input from the public and interested parties
11 regarding possible changes to existing regulations,
12 prior to drafting any regulations to be proposed.

13 I want to stress this is not a public
14 hearing. An opportunity to provide further comment
15 will be provided once the regulations have been
16 drafted and put out for public comment.

17 Before we begin, there's just a couple of
18 administrative procedures. In a fire emergency, go
19 out the door to -- either one of the exits here, out
20 to the main street. And our gathering area is over by
21 the tennis courts around 9th and D. We have a sign-in
22 sheet, and that way we can account for everybody to
23 make sure everybody got out of the building safely.

24 If you need to use the restroom, it's out the
25 main doors here, down to your right and down at the

1 end of the hall.

2 If you're here in the building and you have a
3 cell phone, please put it on mute or turn it off. And
4 if you're listening in by teleconference, please put
5 your phone on mute while you're listening in and then
6 turn it back on when you want to talk to us.

7 There's a sign-in sheet at the door with some
8 handouts. If you haven't signed in, please be sure
9 and sign in before you leave.

10 With that, let's go around the room and
11 introduce -- we'll start here in the room with
12 introductions, and then we'll go to the phone.

13 Like I say, my name is John Larsen. I'm an
14 Audit Master with the Department of Revenue. And
15 please also give your affiliation as well as your
16 name.

17 MR. DEES: Hi. My name is Lennie Dees. I'm
18 an Audit Master with the Department of Revenue also.

19 MR. ALPER: Hi. I'm Ken Alper. I'm the Tax
20 Division Director at the Department of Revenue.

21 MS. DOUGLAS: Hi. I'm Jenny Douglas. I'm an
22 Assistant Attorney General with the Department of Law.

23 MS. LEWIS: Deborah Lewis, with BP.

24 MS. COLLEY: Diane Colley, BP.

25 MR. WILLIAMS: I'm Tom Williams. I work for

1 BP.

2 MR. DICKINSON: Dan Dickinson for BDO,
3 representing various oil and gas clients.

4 MR. HURLEY: Michael Hurley with
5 ConocoPhillips.

6 MS. GIESSEL: Cathy Giessel, Alaska Senate.

7 MS. BROWN: Molly Brown, from Dillon &
8 Findley.

9 MS. LOFGREN: Joyce Lofgren, economist,
10 Department of Revenue.

11 MS. MORIARTY: Kara Moriarty, with Alaska Oil
12 and Gas Association.

13 MR. SULLIVAN: Casey Sullivan, Caelus Energy.

14 MS. MCKINLEY: Shannon McKinley, Department
15 of Revenue, auditor.

16 MS. RUEBELMANN: Erin Ruebelmann, Tax
17 Division auditor.

18 MS. PERSINGER: Olga Persinger, Tax Division
19 auditor.

20 MR. LARSEN: And on the phone lines, please.

21 MS. MAXWELL: Brenda --

22 MS. GRAMLING: Mary --

23 MS. MAXWELL: -- Maxwell with ASRC.

24 THE REPORTER: Brenda, could you repeat that,
25 please.

1 MR. NEBESKY: Will Nebesky with Chevron.

2 And, John, I just want to say the audio is -- I can
3 hear you at the table, but am unable to hear the
4 audience. Just FYI. Thank you.

5 MR. LARSEN: Okay. Thanks, Will.

6 Anyone else on the phone lines?

7 MS. KEITHLEY: Veronica Keithley, with Stoel
8 Rives.

9 MS. GRAMLING: Mary Gramling, Department of
10 Law.

11 MR. LARSEN: And if that's it, okay.

12 And during the course of the proceedings
13 today, if people would identify themselves before they
14 speak, that would help our reporter here.

15 So as I stated previously, the Department is
16 holding this workshop in order to provide opportunity
17 for public comment related to regulations that might
18 need to be amended, implemented or repealed related to
19 Alaska's oil and gas production tax.

20 Although the focus of the workshop is going
21 to be on HB 247, the Department is also accepting
22 comment on other areas that may need to be addressed
23 to clarify or conform to existing statutes.

24 So just to give you -- everyone an idea of
25 the timeline here, HB 247 was passed recently this

1 summer here. The Department has been reviewing the
2 regulations as well as the bill itself. But at this
3 point in time, we don't have any regulations that have
4 yet been drafted.

5 What we would propose is that the written
6 comments, if you can have them to me by the close of
7 business on Tuesday, August 16th, we'll take those
8 under consideration and begin the drafting --
9 regulations-drafting process.

10 Our goal is to have a set of proposed
11 regulations ready for public notice by mid-September.
12 And the reason for that is that many of the dates
13 related to HB 247 are effective on January 1, 2017,
14 and so the goal of the Department will be to have the
15 regulations in effect on January 1st.

16 And as I said before, once those regulations
17 have been publicly noticed, then you'll have further
18 opportunity for public comment.

19 As many of you are aware, HB 247 made
20 significant changes to Alaska's oil and gas production
21 tax and particularly related to credits. Some of the
22 provisions that we know will be -- need to be
23 addressed are the local hire for tax credits, the
24 calculation of interest, the GVR timing and the
25 interaction with carryforward annual losses and the

1 public status of certain tax credit information.

2 And as I said, at this point the Department
3 does not have any regulations, and so what I would
4 like to do at this point is open up the floor for
5 comments or suggestions from the public. What I might
6 suggest is if anybody has any prepared statements or
7 written statements that they go ahead and come forward
8 first and go through those, and we'll try and go
9 through it in an orderly fashion here.

10 So is there anyone that would like to go
11 first? Okay.

12 MR. WILLIAMS: Good morning. My name is
13 Thomas K. Williams. I'm a tax attorney with BP
14 Exploration Alaska, Inc. I'm also the chair of the
15 tax committee of the Alaska Oil and Gas Association.

16 At the outset, I'd like to make it clear that
17 these comments are observations rather than comments,
18 because we don't have anything specific to comment on,
19 are more mine than either BP's nor AOGA members.

20 The subjects have been discussed with both,
21 but there's -- since there's nothing specific to
22 comment about, there's no specific proposal or
23 anything like that about regulations the Department
24 should have got from either AOGA and the tax committee
25 of it, or for BP. So this is as much mine as it is

1 anyone else's.

2 As you know, once upon a time, almost a
3 thousand years ago it seems, I worked on your side of
4 the table, and my goal and I think the goal of
5 everybody in AOGA, and BP's goal, is we want a system
6 of taxation that is clear, that we can comply with at
7 the time we file and pay our taxes. And I think it's
8 important to restate that as a paramount objective.

9 And then there are a number of things that --
10 not in any particular order, that I just simply here
11 have an outline that I talk about.

12 If I may proceed then.

13 MR. LARSEN: Yes.

14 MR. WILLIAMS: Okay. The first one has to do
15 with interest on underpaid and, conversely, overpaid
16 taxes. There is a change to the interest statute. It
17 says that interest compounded quarterly accrues for
18 only the first three years after the tax becomes
19 delinquent.

20 The issue here is that you -- that is unclear
21 that you should try to address is: How will the first
22 three years, quote, "first three years," work for
23 taxes that became delinquent with respect to compound
24 interest that had accrued before January 1st, 2014?
25 That was when we had the oil compound interest.

1 What if you have more than three years of
2 compounded interest before 2014? Can any more
3 interest accrue? And if it's less, does interest
4 accrue, and is it capped by the three years total of
5 compounding then?

6 Second is for interest for -- for taxes that
7 became delinquent after 2013 and before 2017, when the
8 amendment to 225(a)(1)(c) becomes operative, interest
9 is simple. Will that interest be compounded after
10 January 1st of 2017 -- or after December 31st of '16,
11 is the second question.

12 And then I think it's fairly straightforward,
13 but still it would be good, since you're addressing
14 them, if the regulation also addresses specifically
15 the three years is it for interest, with respect to
16 taxes that have become delinquent after calendar year
17 2016.

18 So those are issues that should be addressed.
19 There are different ways to answer them, and that's
20 why I'm not giving -- making comments as such, because
21 we haven't seen your proposal.

22 MR. LARSEN: Appreciate it.

23 MR. WILLIAMS: The second one has to do with
24 the tax cap on (o) gas. This is gas produced on the
25 North Slope that is sold for taxable use in state.

1 Most of the gas on the North Slope is exempt or tax
2 deferred because it's used in production operations,
3 but there are some sales in the state. And
4 AS 43.55.011(o) caps the tax on -- on that gas. And
5 production costs, lease expenditures associated with
6 that gas, don't go into the production tax value of
7 the oil that's produced on the Slope.

8 So just simply when (o) gas is repealed under
9 AS -- well, let me just read the question. How does
10 the repeal of the December 31st, 2021, expiration date
11 for the tax cap on (o) gas under 011(o) affect or not
12 affect the 13 percent tax on gross value at the point
13 of production under 011(e)(3)(b) for gas produced
14 after 2021, and how does it affect a producer's
15 election under 43.55.014 to pay with physical gas?

16 As you have right now, 011(o), or zero 11(o),
17 expires at the end of 2021, and that part got
18 repealed. But you're going to have gross value tax
19 also after that, and so you just need to address how
20 what is currently (o) gas will be treated after that.
21 It may be that -- well, I think you'll probably find a
22 regulation that works.

23 Another one is -- has to do with the
24 five-dollar-per-barrel credit for non-legacy oil.
25 This is in conjunction with a gross value reduction.

1 For the portion -- I mean, what currently
2 happens now is the five-dollar-per-barrel credit, the
3 law as amended, the credit under 024(i), quote: May
4 not reduce a producer's liability under
5 AS 43.55.011(e) below zero for a particular calendar
6 year.

7 The question is: Can the unused portion of
8 that five-dollar-a-barrel credit be applied in a
9 subsequent year if doing so will not reduce the later
10 year's tax liability under 011(e) below zero for the
11 producer?

12 The next question is: In allocating
13 available money in the fund for repurchasing tax
14 credit certificates under 43.55.028, will the
15 allocation be pro rata in proportion to the total
16 amount of tax credits being tendered for purchase? If
17 so, what period? A month, calendar, quarter, a year?
18 What period will be used in making the allocation? Or
19 is it going to be essentially on a
20 first-come/first-pay basis?

21 The next issue is: For purposes of giving
22 preference between applicants under
23 AS 43.55.028(g)(2), what specific documentation will
24 be required or allowed in order to show the percentage
25 of resident workers in an applicant's or its direct

1 contractor's workforce?

2 Is preference to be determined -- to be
3 determined under that statute only on the basis of
4 pairs of applicants, taking the language between two
5 applicants literally? That's the statutory language,
6 quote, "between two applicants." Going to take that
7 literally and pair people up, or is it among all
8 applicants? And if it is among the former, it's going
9 to be on the basis of pairs, how will the pairings be
10 made?

11 With respect to persons' outstanding
12 liability to the State, quote, outstanding liability
13 to the State, unquote, for purposes of
14 AS 43.55.028(j), if interest is still accruing on the
15 underlying tax or royalty liability, as of what date
16 is that interest portion of the, quote, outstanding
17 liability, unquote, determined?

18 Conversely, if a State demand for payment is
19 abated in whole or in part, as of what date is that
20 abatement recognized for purposes of determining the
21 outstanding liability under that statute?

22 With respect to AS 43.55.160, subsections (f)
23 and (g), by what process will the AOGCC -- that's the
24 Alaska Oil and Gas Conservation Commission -- by what
25 process will it quote, determine, unquote, the date of

1 the commencement of regular production as defined in
2 AS 43.01 -- I mean as defined in AS 31.05.170, for
3 that oil or gas? What kind of documentation of such a
4 determination by AOGCC will be required by the
5 Department?

6 That's your department. Not them.

7 Are AOGCC's existing rules and regulations
8 sufficient and acceptable for DOR, or will new rules
9 or regulations be necessary for this purpose? Again,
10 this is for figuring out when the seven-year clock is
11 punched.

12 MR. LARSEN: Right.

13 MR. WILLIAMS: If rules -- if new rules are
14 necessary, will DOR adopt the rules for this or will
15 AOGCC? And if AOGCC, must industry or individual
16 companies petition AOGCC to adopt appropriate or
17 necessary regulations for that purpose, or will DOR
18 ask AOGCC to adopt them? I think there may be
19 different processes.

20 MR. LARSEN: Okay. Thanks.

21 MR. WILLIAMS: For purposes of calculating,
22 quote, a separate annual production tax value,
23 unquote, for each lease or property under
24 AS 43.55.160, subsection (h)(4), cap (A) or cap (B),
25 does DOR intend to calculate each such value with

1 published results of its calculations, or will the
2 taxpayer determine them with DOR auditing the
3 calculations? Either way, what evidence will be
4 allowed or required for those calculations?

5 If DOR is the one calculating them, what will
6 the procedure be for doing so and for providing the
7 results to the working interest owners in each lease
8 or property?

9 Will DOR use confidential tax information
10 from one taxpayer to calculate these separate values
11 for another taxpayer, the subpoints of that? And what
12 circumstances would or could DOR do so? And will the
13 second -- will the second taxpayer be allowed to see
14 the first taxpayer's information that the Department
15 has used in order to verify the calculation?

16 And if so, what will the safeguards be to
17 assure the second taxpayer does not illegally disclose
18 the first payer's tax information?

19 And if the safeguards turn out to be
20 inadequate, the question is: Will DOR itself have
21 violated AS 43.05.230, the confidentiality statute?

22 And, finally, if DOR's calculating the
23 separate annual production tax value for a lease of
24 property, could DOR use a taxpayer's information for
25 one lease of property in calculating a separate annual

1 production tax value for that taxpayer's production
2 from a different lease or property? And if so, could
3 DOR use that information in calculating separate
4 annual production tax values for other lessees in that
5 other lease or property?

6 Next is surety bonds that are required under
7 AS 43.70.022. What are the requirements that a surety
8 must meet in order for its surety bond to be
9 acceptable to DOR under this stat- -- under AS 43 --
10 well, under the statute.

11 Is licensure to do business as a surety in
12 Alaska sufficient? What proof would be required to
13 show that a taxpayer must show that a surety meets
14 those requirements?

15 Suppose the seven-year term for the gross
16 value reduction for -- I'll call it new production,
17 just because it's a shorter than a more complicated
18 term, new production as opposed to non-legacy.

19 Suppose the seven-year term for the new
20 production period occurs mid-month. That's when it
21 expires.

22 And the stair-step credit for legacy
23 production is greater than the flat
24 five-dollar-per-barrel credit for the new -- when the
25 production is new, which credit will apply for that

1 year?

2 And if it's less than the flat
3 five-dollar-per-barrel credit, that is, the stair-step
4 credit is less than the five-dollar-per-barrel credit
5 for the production, again, which credit would apply?

6 So it's two different sizes, the same way.
7 One is higher than the other. In either case, what is
8 the answer?

9 MR. LARSEN: Okay.

10 MR. WILLIAMS: And you'll be glad to hear,
11 finally, your favorite word at these hearings, because
12 it was mine, resident-hire priority under
13 AS 43.55.028.

14 How will the annual, quote, resident worker,
15 unquote, percentage be determined for purposes of the
16 statute? What documentation will be required for a
17 taxpayer? What documentation will be required for a
18 contractor or a subcontractor of the taxpayer?

19 And if a tax credit certificate is redeemed
20 because of this for less than face value, will the
21 remaining amount be re-certificated for redemption in
22 subsequent years, so that ultimately the credit is
23 used up?

24 And I will polish this up to be presentable,
25 because I saw some typos as I went through it, and I

1 will e-mail it to you probably Monday or perhaps
2 before close of business today.

3 MR. LARSEN: Okay.

4 MR. WILLIAMS: Thank you very much.

5 MR. LARSEN: Thanks, Tom. Those are some
6 excellent observations, and that's exactly why we're
7 here today, is to get comments like that. Appreciate
8 it.

9 And before moving on, I just want to make
10 sure: Will, you could hear that comment sufficiently?
11 Will?

12 MR. NEBESKY: John, I could. I could hear
13 very well. Thank you for making that happen.

14 MR. LARSEN: Okay. Thanks. Thanks.

15 Dan, do you want to come up?

16 MR. DICKINSON: Sure. Dan Dickinson with
17 BDO. And, again, as Tom said, I think what I'm
18 representing here are more comments that I've had in
19 discussion. I have several clients, but I'm not
20 specifically representing any of them.

21 I'm also a little bit embarrassed because I
22 don't have my notes with me, but I think I can cover
23 some. And Tom actually covered a great many of the
24 points that I had, but here's some additional ones.

25 I have a concern on Section 17, and the

1 concern there is simply -- let me back up. Section 17
2 takes the 023(a) credit, and as this summary
3 indicates, it reduces it for next year and then
4 eliminates it in 2018.

5 The question I have is the language in
6 producing 023(a) is different than the language
7 producing 023(1). In other words, 023(1) -- this is
8 where I don't have all the references. You know, the
9 transitional times are -- are marked out, are
10 indicated in the transitional regulations, whereas in
11 023(a) it simply changed the statute, the statutory
12 language.

13 So if I can give an example. You know, if
14 you go to 023(b), it says before such and such a date,
15 it's this rate. After this date, it's this rate,
16 et cetera, et cetera. 023(a), it simply went in and
17 changed -- you know, replaced the 20 percentage -- the
18 20 percent with 10 percent.

19 MR. LARSEN: Okay.

20 MR. DICKINSON: I mean, I assume that it's
21 going to follow the same pattern as if it had been
22 laid out as an 023(b), but I -- I mean, obviously a
23 classical case where a regulation could establish
24 that.

25 MR. LARSEN: Okay.

1 MR. DICKINSON: And furthermore, the
2 transitional language for other credits makes clear
3 that it's for work incurred before that date, as
4 opposed to an application made by that date.

5 In 023(a), by simply changing the rate in the
6 statute, it's not clear whether the change from 20 to
7 10 is a consequence of when you apply as opposed to a
8 consequence of when the work is performed.

9 MR. LARSEN: Okay. Thanks.

10 MR. DICKINSON: The second point, a very
11 narrow technical one, and there may be statutory
12 interpretation language that makes this clear, but
13 this was something brought up.

14 If you go to Section 22 -- excuse me --
15 Section 22 on page 20, where the "middle earth" credit
16 for a well is extended out until 2017, the language
17 says: Except that expenditures to complete an
18 exploration well that was spudded but not completed
19 before July 1st, 2017, are eligible for the credit.

20 I think the logical interpretation is if you
21 spud the well prior to that date, you're fine, but I
22 want to make sure that you have -- do you have to hold
23 off completion? If you complete it in June of 2017,
24 does that say you don't qualify, or do you actually
25 have to -- well, it says it's only -- it was spudded

1 but not completed.

2 MR. LARSEN: Okay. All right.

3 MR. DICKINSON: So would you have to hold off
4 your completion till after the date?

5 MR. LARSEN: Okay. No. If that's a
6 clarification you need, that's a good question.

7 MR. DICKINSON: I don't know if we need it or
8 not, but that was a question that arose, in reading
9 it.

10 MR. LARSEN: Okay. Fair enough.

11 MR. DICKINSON: I guess Tom, I think, raised
12 a number of questions about the notion of granting --
13 sorry.

14 MR. LARSEN: Sorry. Does somebody have their
15 phone on hold or something? We're getting some
16 feedback here on the phone lines.

17 Do you have any suggestions?

18 MR. DEES: Just follow along.

19 UNIDENTIFIED SPEAKER: You can turn down your
20 volume.

21 MR. LARSEN: Okay. Sorry, Dan. I didn't
22 mean to interrupt you there.

23 MR. DICKINSON: Not a problem.

24 MR. LARSEN: It was a little distracting.

25 MR. DICKINSON: It wasn't you interrupting

1 me. It was our technology.

2 So this is just basically to, I guess, second
3 all of Tom's concerns and then to bring up maybe two
4 more or make them more specific. There's the question
5 of direct contractors are supposed to be included, as
6 to what direct versus indirect is.

7 And then in particular, if I'm working and I
8 hire Nabors for one day, how does Nabors -- do they
9 have to figure out their percentage? Is that weight
10 averaged in based on how much I employed -- I mean,
11 just a question of how it's going to mechanically
12 work.

13 MR. LARSEN: Okay.

14 MR. DICKINSON: And then obviously the -- not
15 obviously. Nothing's obvious about this particular
16 passage. "Grant a preference," is that absolute? It
17 comes beforehand? Somebody has a 62 percent and
18 someone else has 63, do you weight them in as 62, 63
19 average? So what does "grant a preference" mean?

20 And then the final question I wanted to bring
21 up. It actually -- maybe it's just arisen, because
22 as -- because we're in sort of a new world here. I
23 don't think it's specifically prohibited, but maybe if
24 the regulations could make clear that it was
25 specifically allowed. If I apply for a credit and

1 that credit is, say, languishing, it hasn't been paid
2 or it's been partially paid, can I withdraw that
3 credit? Can I withdraw that application?

4 Let's say I find somebody else who can
5 purchase it or some other -- something else I can do
6 with it, make it very explicit that I can withdraw
7 that.

8 MR. LARSEN: Okay. Great.

9 MR. DICKINSON: And those are the ones that I
10 remember that Tom didn't check the box off. So thank
11 you for your time.

12 MR. LARSEN: Thanks, Dan. I appreciate it.

13 Mike, do you want to go next, or have any
14 comments you would like to add?

15 MR. HURLEY: Sure.

16 MR. LARSEN: Okay.

17 MR. DEES: Could we clarify his last
18 statement? He's saying if he applies for a credit
19 repurchase, right, not apply for a credit?

20 MR. DICKINSON: Absolutely, correct, yes.

21 MR. DEES: Yeah, okay.

22 MR. DICKINSON: I mean, I know credits have
23 been withdrawn prior, so I don't think that was an
24 issue, but this is an issue that's arisen more because
25 of the current -- because of the allocation, the

1 funding.

2 MR. LARSEN: Right.

3 MR. HURLEY: Since I'm going to have to refer
4 to several things --

5 MR. LARSEN: Okay. You have some handouts
6 for us? Thank you, sir.

7 MR. HURLEY: I have some handouts. I didn't
8 bring enough for everybody. I wasn't sure there would
9 be this many people here.

10 MR. LARSEN: I wasn't sure there would be
11 this few.

12 MR. DICKINSON: If we had known you were
13 speaking, we could have announced it.

14 MR. HURLEY: Well, you know. Okay. We did
15 have several comments -- this is Michael Hurley with
16 ConocoPhillips -- that we wanted to make regarding the
17 scoping of the regs project.

18 Couple of comments specifically about 247,
19 which will be somewhat repetitive of what comments
20 were made earlier, and then some suggestions on some
21 other things that we think need to be reviewed in the
22 context of revising the regulations for the production
23 tax.

24 With respect to 247, as Mr. Williams had
25 mentioned earlier, there are some concerns about how

1 the AOGCC process is going to work and whether -- as
2 it's written right now, as I understand it, the
3 Department will be asking the AOGCC when regular
4 production started. And that part's clear in the
5 statute. But how exactly that request goes in and how
6 that gets dealt with between the AOGCC and the
7 Department, just got to figure that out and make it
8 clear in the regs.

9 MR. LARSEN: Okay.

10 MR. HURLEY: The second area that we think
11 needs to be a little bit better defined is in the
12 surety bond section of the statute, there is a
13 subsection that refers to the surety bond not being
14 necessary or being extinguished if the commissioner
15 finds that the producer is -- I think the words were
16 "in commercial production."

17 MR. DEES: Is Section 32 -- 43.70.025(c) I
18 think is what you're looking at.

19 MR. HURLEY: Right. If the commissioner
20 finds that the business is producing oil and gas in
21 commercial quantities. And that's all well and good.
22 Whenever you use the word "finds," "the commissioner
23 finds," then it's a question of is that a letter or is
24 that --

25 MR. LARSEN: An official process or what's --

1 MR. HURLEY: -- official process where you
2 got to go through and come up with the "best
3 interests" kind of finding. I mean, one would hope it
4 would be simple, but...

5 MR. LARSEN: I don't know if DOR does best
6 interest findings. That might be a DNR --

7 MR. HURLEY: I think so, but some kind of
8 finding.

9 MR. DICKINSON: Start now.

10 MR. LARSEN: Okay. Yeah.

11 MR. HURLEY: However you want --

12 MR. LARSEN: However we --

13 MR. HURLEY: -- to define --

14 MR. LARSEN: -- want to define it.

15 MR. HURLEY: -- "findings," just go ahead and
16 define it that way.

17 MR. LARSEN: Okay.

18 MR. HURLEY: The third item in 247 is with
19 respect to the interest calculation and how that's
20 going to work. I think Mr. Williams articulated that
21 clearly enough. It's one of those things where you
22 just need to define how it's going to work.

23 Marie and I sat down and looked at it and
24 came up with a couple different ways it could work,
25 but you guys just need to define how you think it

1 ought to work, and then we'll comment on that once
2 it's sent out as a draft.

3 MR. LARSEN: Yep.

4 MR. HURLEY: And then finally, with respect
5 to 247, the section that modifies 160(f) and (g), the
6 GVR changes, the statute references an average annual
7 price per barrel. How that's going to work when
8 something comes on in the middle of a year or in the
9 middle of a month, or how that's just going to be
10 dealt with in the nuts and bolts, is just something we
11 think needs to be addressed.

12 And then recognizing that the gross value
13 reductions for a new project are going to be
14 applying -- is it a question of it applying by well or
15 by PA, or how does it apply? That's one of the
16 things -- and we'll get to that in a second, going
17 back to the old GVR regs.

18 But the timing consideration that's been
19 added, the graduation ceremony that we'll have to have
20 at some point for new oil to old oil, how that clock
21 is going to work is going to be important. And you
22 guys just need to propose something in the regulations
23 about how that will work.

24 MR. LARSEN: Okay.

25 MR. HURLEY: Moving away from 247, one of the

1 things that we would like to suggest to you is that we
2 revisit the gross value reduction regulations that
3 were originally promulgated in January of 2014. We've
4 had conversations both with the prior administration
5 and with the current administration at various levels
6 about issues on how those regs were drafted and how
7 they do or don't work in certain kinds of
8 circumstances.

9 And I'll address a couple of those
10 specifically. One has to do with the timing
11 discrepancy between when a decision is made to proceed
12 with a development and when the Department would be
13 determining whether or not this development satisfies
14 the conditions for a gross value reduction.

15 If you go to that little schedule that I
16 handed out --

17 MR. LARSEN: Right.

18 (Mr. Mahoney joins workshop.)

19 MR. HURLEY: -- this is kind of a little
20 high-level development timing schedule built somewhat
21 off of the work that we're doing over in NPR-A right
22 now, but the principles apply whether it's a new unit,
23 a new PA, an existing unit or a PA expansion, which
24 are the three categories that qualify under the gross
25 value reduction.

1 And what I would like to point out: When you
2 look at when somebody makes an FID -- producer makes a
3 final investment decision that we're either going to
4 do this or we're not going to do this -- you're
5 kicking off a development that's going to take several
6 years to get to the point where there's first oil.

7 As you can see here, in this example that I
8 put together, it's at least three years before you get
9 to first oil for the kinds of developments that we're
10 doing.

11 Now some of the things that are new PAs in
12 existing fields, if we're working off existing pads
13 and existing infrastructure, can be shorter. But for
14 some of this, depending what kind of development it
15 is, that three-year period makes a difference in --
16 and just doesn't work the way the regulations are
17 written now, because the way the regulations are
18 written now, you cannot get a determination from the
19 Department on GVRs until the PA has been expanded or
20 granted by the Department, "Department" being DNR in
21 this case.

22 And as we've talked before with the
23 Department and with you guys, the Department of
24 Natural Resources normally will not grant a PA
25 expansion or new PA until usually 90 days before

1 production starts. So you're talking about a PA
2 granting that's going to occur three years after FID.

3 If the GVR is designed and meant to influence
4 a company's decision making, we have to know the
5 answer to the question "Will we get a GVR or not back
6 at FID," because that's when we're going to be running
7 our economics. We're going to run our economics --
8 once we get our permits, once we know what the
9 stipulations are, we decide if we're going to go
10 ahead, and at that point either our economics will or
11 won't include a GVR.

12 But the way the regs are written right now,
13 I'm not sure, until three years from now, whether I'm
14 going to get it or not, so I can't assume that I'm
15 going to go get it. Therefore, I cannot include it in
16 my economics. Therefore, it's providing no benefit.

17 That is something that I think, as the
18 Department considers those regulations, it should give
19 some thought to, because it just -- right now the GVRs
20 are going to provide virtually no benefit, because I
21 don't know, at the time that I make the final
22 investment decision, whether I'm going to get it or
23 not, the way the regs are currently written. So I
24 would suggest you look at that.

25 MR. LARSEN: All right.

1 MR. HURLEY: A second issue that has come up
2 with respect to GVRs is the prohibition in the
3 regulations on granting -- and this is an expansion of
4 a PA case -- the prohibition on granting a GVR for
5 acreage that had been previously in a PA.

6 And for that I will refer you to this second
7 really complicated little piece of paper. This
8 happens to be the development map that we're currently
9 looking at for the eastern side of the Kuparuk field
10 for Drill Site 1H.

11 There was an original West Sak PA that dates
12 back to 1997 when the original PA was granted, and we
13 were doing developments in 1C and 1D, Drill Site 1C,
14 Drill Site 1D at Kuparuk. We were planning on
15 building that out to the north at the time we
16 originally got a PA, so it was a fairly big PA.

17 But part of the stipulations of that,
18 granting that PA, were that after a certain period of
19 time the PA needed to collapse down to those leases
20 that were contributing production to that development.
21 And what happened is, in 2004, the PA contracted, so
22 the PA shrunk down to basically 1C and 1D.

23 And if you look at the green outline in that
24 map, you will see the original larger PA.

25 MR. LARSEN: Okay.

1 MR. HURLEY: And then you can see, in the
2 brown outline, what it shrunk down to. This was the
3 revision that was done on 12/15 of 2004. The PA
4 shrank way down. Now that was 12 years ago, and it
5 was done at the insistence of the Department as one of
6 the conditions of the original PA.

7 MR. LARSEN: The DNR?

8 MR. HURLEY: Yes. DNR insisted those leases
9 be contracted out.

10 This year, 2016, we're looking at expanding
11 West Sak to the north. And you can see the 1H
12 development circle up there, which is outside of the
13 current PA which has been in place since 2004. But it
14 includes leases that were in part of the original PA
15 from 1997. So under the way the regs are written
16 right now, I cannot get a GVR for Drill Site 1H
17 development.

18 MR. LARSEN: I see the dilemma.

19 MR. HURLEY: Yes. Okay. You've got to look
20 at that, because I think it does harm to the idea of
21 what GVRs were supposed to do.

22 The other comment that we were going to make,
23 and Marie will do this before Tuesday evening, when
24 she gets back, and provides you some more detail
25 comments, but we want to talk a little bit about the

1 continuous metering requirements that are in the
2 existing regs. There are some concerns with those,
3 and she will detail those out more explicitly in the
4 written comments --

5 MR. LARSEN: Okay.

6 MR. HURLEY: -- they look at.

7 MR. LARSEN: That will work. We'll take
8 those.

9 MR. HURLEY: And then finally, the only other
10 thing that we had on those production tax regs is she
11 wants to write you a nice little letter about the
12 transportation regs. You know that's her favorite
13 topic.

14 MR. LARSEN: I've heard that.

15 MR. HURLEY: So she will include something in
16 her written comments about those.

17 MR. LARSEN: Okay.

18 MR. HURLEY: And that's basically all we had
19 on the production tax. We appreciate your having this
20 scoping meeting.

21 MR. LARSEN: All right. Thank you, Mike.

22 And on the -- the production that comes on in
23 the middle of the year, the middle of the month, do
24 you have any specific ideas or suggestions on
25 something that might work?

1 MR. HURLEY: Not at the moment.

2 MR. LARSEN: Okay.

3 MR. HURLEY: She and I have talked about it,
4 but we haven't figured out exactly how that should
5 work, or suggestions. If she has any ideas before
6 Tuesday evening, I will have her put it in her letter.

7 MR. LARSEN: Okay. All right. And somewhat
8 along those lines, Mike, I would say that, you know,
9 we want to get the comments in as early as possible so
10 that we can include them in the drafting process.

11 MR. HURLEY: Right.

12 MR. LARSEN: But that I would say, up until
13 the regulations go out, that there's still some
14 opportunity for some communication there at that point
15 in time. Like I say, we would like to get it as soon
16 as possible. But if you have some thoughts that come
17 on later, I don't -- I don't want to exclude them
18 because of the timeline for the workshop.

19 MR. HURLEY: Okay.

20 MR. LARSEN: Especially if there's some
21 communication that can go on that will help the
22 drafting process, because as you know, once we enter
23 the public notice, we can't have that dialogue.

24 MR. HURLEY: Right.

25 MR. LARSEN: And so I don't want to preclude

1 it entirely before that, but the date is to encourage
2 early comment so that we don't have a late onslaught
3 of things coming in just before the regulations'
4 drafting go out.

5 MR. HURLEY: Right. Understood.

6 MR. LARSEN: Okay. Thanks.

7 Okay. Is there anyone else in the room here
8 that would like to make some comment or suggestions?
9 Yeah.

10 MR. WILLIAMS: May I clarify one point that
11 I --

12 MR. LARSEN: Please do.

13 MR. WILLIAMS: I will come back up.

14 I spoke about the resident-hire preference,
15 and I talked about contractors and subcontractors.
16 And I forgot why -- to explain why I mentioned
17 subcontractors here. The statute says you look at the
18 percentage of resident workers in the applicants'
19 workforce, including workers employed by the
20 applicants' direct contractors.

21 The reason I mention "subcontractors" is you
22 could have a situation where people create "Contractor
23 is Us" or "Contractors R Us, Inc.," and it's got a
24 zillion employees. We're really being paid under
25 personal service arrangements or something like that

1 by somebody else, but you've created a form where
2 people are counted in the contract who are really
3 residents from a subcontractor or something like that,
4 and you could get -- it's to avoid manipulation of the
5 form of the arrangement --

6 MR. LARSEN: Right.

7 MR. WILLIAMS: -- to circumvent the
8 substance. And so I just wanted to make that
9 clarification. It doesn't change the substance of
10 what you want to -- what you want to achieve. It's
11 just that you don't want to leave a back door in, that
12 people can circumvent what you want to do.

13 MR. LARSEN: Thank you, Tom. I appreciate
14 that.

15 Okay. Please bear with me just a moment
16 while I make some notes here. All right. Anyone
17 else, once again, in the room that would like to make
18 additional comment?

19 Okay. Hearing none, anybody on the phone
20 lines?

21 Will, I will ask -- I guess specifically
22 hearing none, did Chevron have any comments or
23 suggestions they would like to make on the regulations
24 for the workshop here?

25 MR. NEBESKY: John, yeah. Hi. Will Nebesky.

1 I have no additional comments -- no comments at this
2 time. I do appreciate the Department putting together
3 this workshop and scoping process. I think it's been
4 very helpful, so thank you.

5 MR. LARSEN: Okay. Thanks, Will. Anyone
6 else on the phone line that would like to make
7 comments?

8 MS. GRAMLING: John, this is Mary Gramling,
9 Department of Law. I just wanted to kind of fill out
10 and remind you there that those submitting written
11 comments, that this is part of a public process, so
12 you should not include anything that you would
13 consider taxpayer confidential information in the
14 written comments. Thank you.

15 MR. LARSEN: Thanks, Mary, for that reminder.
16 If that didn't come clearly to everybody in the back
17 of the room, it's just that all comments are public
18 comments, so be sure to not include any confidential
19 or proprietary information in any of your comments.

20 Michael, we do appreciate you sharing your
21 maps and timelines there.

22 Okay. Well, I guess if there's no further
23 comment, I want to thank everyone for your
24 participation this morning and for the comments that
25 I'm sure we'll receive.

1 Once again, the reminder that the comment
2 period closes on Tuesday, close of business, 4:30,
3 August 16th. You can send them to me, and my e-mail
4 is: John.Larsen -- that's L-a-r-s-e-n -- @Alaska.gov.

5 Or you can e-mail them to the Alaska
6 Department of Revenue at 550 West Seventh Avenue,
7 Suite 500, Anchorage, Alaska 99501, or fax them to
8 907/269-6644.

9 As I stated previously, all comments will be
10 considered prior to drafting of the regulations, and
11 once drafting -- or regulations have been drafted and
12 proposed, further opportunity for public comment will
13 be provided after they have been publicly noticed.

14 Thank you once again for your participation
15 here today and your interest in the regulations.

16 MR. WILLIAMS: Process question. Your notice
17 said that interested persons who want to make a
18 comment at this session need to be here by 10:30. Are
19 you planning to remain available?

20 MR. LARSEN: We'll be here till 10:30, yep --

21 MR. WILLIAMS: Okay.

22 MR. LARSEN: -- for any of the late showers.
23 I hadn't looked at the clock yet, Tom, but thanks for
24 that. Yeah.

25 MR. WILLIAMS: Didn't want you to close it

1 out prematurely.

2 MR. LARSEN: Yeah. No, we have the room here
3 available. So your time is your time, so, Tom, if you
4 want to wait till 10:30 to see if anybody shows up,
5 you're free to do that.

6 I'm going to go ahead and put us on mute and
7 see if anybody shows up or not, and then we'll close
8 the proceeding at 10:30. Thanks.

9 (Off record.)

10 MR. LARSEN: Anyone on the line still?

11 MS. MAXWELL: Yes. I'm still here. Brenda
12 Maxwell.

13 MR. LARSEN: Hey, Brenda. I presume you
14 didn't have any comments you wanted to make, or you
15 would have made them sooner, so I'm going to go ahead
16 and close out the proceeding. And I don't know if
17 you're coming back for property tax this afternoon or
18 not, but thanks for listening in today. I appreciate
19 your time.

20 MS. MAXWELL: All right. Thanks.

21 MR. LARSEN: Thanks, Brenda.

22 Anyone else on the line still?

23 All right. Well, with that, this is John
24 Larsen. It's 10:33, and we'll close the proceeding
25 until the property tax session workshop this

1 afternoon. Thanks. Good day.

2 (Proceedings concluded at 10:35 a.m.)

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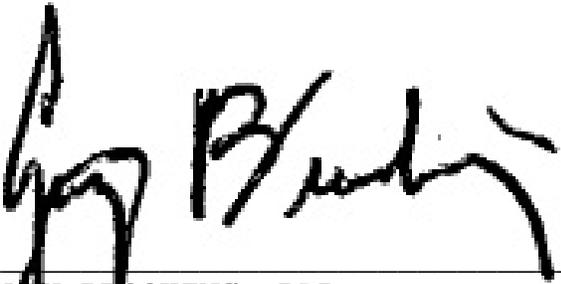
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CERTIFICATE

I, GARY BROOKING, Registered Professional Reporter and Notary Public in and for the State of Alaska, do hereby certify that the foregoing proceedings were taken before me at the time and place herein set forth; that the proceedings were reported stenographically by me and later transcribed by computer transcription; that the foregoing is a true record of the proceedings taken at that time; and that I am not a party to nor have I any interest in the outcome of the action herein contained.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal this 26th day of August, 2016.



GARY BROOKING, RPR
My Commission Expires 6/28/2020

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