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OFFICE OF THE LIEUTENANT GOVERNOR
ALASKA

MEMORANDUM

TO: John Crowther
Department of Natural Resources

FROM: Scott Meriwether, Office of the Lieutenant Governor
465.4081

DATE: July 13, 2017

RE: Filed Permanent Regulations: Department of Natural Resources

Department of Natural Resources Regulations re: 11 AAC 03, 83, and 89: Div. of Oil and Gas: Calculation of Net Profit Share (11 AAC 03, 83, and 89)

Attorney General File:	JU2016200840
Regulation Filed:	7/11/2017
Effective Date:	8/10/2017
Print:	223, October 2017

cc with enclosures: Linda Miller, Department of Law
Judy Herndon, LexisNexis

ORDER ADOPTING CHANGES TO REGULATIONS OF DEPARTMENT OF NATURAL RESOURCES

The attached 14 pages of regulations, dealing with net profit share leasing, administrative updates, and exploration incentive credits are adopted and certified to be a correct copy of the regulation changes that the Department of Natural Resources adopts under the authority of AS 38.05.020 and after compliance with the Administrative Procedure Act (AS 44.62), specifically including notice under AS 44.62.190 and 44.62.200 and opportunity for public comment under AS 44.62.210.

This action is not expected to require an increased appropriation.

In considering public comments, the Department of Natural Resources paid special attention to the cost to private persons of the regulatory action being taken.

The regulation changes adopted under this order take effect on the 30th day after they have been filed by the lieutenant governor, as provided in AS 44.62.180.

Date: 5-04-2017

Andrew T. Mack
Commissioner
Alaska Department of Natural Resources

FILING CERTIFICATION

I, Byron Mallott, Lieutenant Governor for the State of Alaska, certify that on July 11, 2017, at 1:18 p.m, I filed the attached regulations according to the provisions of AS 44.62.040 – 44.62.120.

Lieutenant Governor

Effective: August 10, 2017.

Register: 223, October 2017

~~**Title 11, Alaska Administrative Code, Chapter 03, Disposition of Royalty Oil, Gas, or Gas Liquids**~~

11 AAC 03.040 is amended to read:

11 AAC 03.040. Notification to royalty board. If the commissioner intends to waive competitive bid, the commissioner ~~he~~ will notify the Alaska Royalty Oil and Gas Development Advisory Board by having a copy of the proposed written determination delivered personally**, sent by electronic mail with return receipt** or sent by certified mail, to each member of the royalty board. (Eff. 12/12/80, Register 76; am 8/10/2017, Register 223) (((Publisher: Throughout on history notes: No bold/no underline am and Register.)))

Authority: AS 38.05.020 AS 38.05.183

~~**Title 11, Alaska Administrative Code, Chapter 83, Oil and Gas Leasing**~~

11 AAC 83.241(a) is amended to read:

~~**11 AAC 83.241. Production tax lease allowance.**~~ (a) The production tax lease allowance for purposes of 11 AAC 83.240(b) is the greater of zero or the amount calculated by subtracting the tax credits, if any, under (b) of this section from **the production tax before credits. The production tax before credits is** ~~**defined as**~~ the greater of the following two amounts:

(1) the sum of **either (A) or (B)** of this paragraph**, depending on the month of production, and (C)** of this paragraph**;**

(A) **For a month before September 2017,** the monthly production tax net revenue under (c) of this section multiplied by the net profit deductibility factor under (e) of this section multiplied by

(i) 22.5 percent, for a month before July 2007;

(ii) 25 percent, for a month after June 2007 and before January 2014; or

(iii) 35 percent, for a month after December 2013 and before September 2017; [and] or

(B) For a month **~~A~~after August 2017, 35 percent multiplied by the amount resulting from subtracting (ii) from (i)** of this subparagraph**:**

(i) the net profit deductibility factor under (e) of this section multiplied by the amount resulting from subtracting the royalty payments under 11 AAC 83.242 and the amounts ~~defined in~~ calculated under **paragraphs (1) and (2) under (c) of this section from the production revenue under 11 AAC 83.222;**

(ii) for oil and gas that meet one or more criteria in AS 43.55.160(f) and that **have not expired** as to that oil and gas **under AS 43.55.160(f), 0.2 multiplied by the lessee's production revenue under 11 AAC 83.222 generated from that oil and gas net of the corresponding royalty payments under 11 AAC 83.242 multiplied by the net credit augmentation rate under (f)(1) of this section~~;~~** and

(C) the lease-allocated tax based on price index under (d) of this section;

(2) the product of

(A) the percentage rate that would be applicable under AS 43.55.011(f)(1) or (f)(2)

[— (5)] if the phrase "calendar year" were replaced by the phrase "month of production," based on the average spot price during the month as calculated under 15 AAC 55.171(m) for ANS; and

(B) the production revenue under 11 AAC 83.222 less the royalty owed to the state under 11 AAC 83.242.

11 AAC 83.241(b) is amended to read:

~~**11 AAC 83.241. Production tax lease allowance.**~~

(b) The tax credits for purposes of (a) of this section are of this paragraph. For a month

(1) **for a month before September 2017,** the product of **(A) and (B)** a ((lowercase)) **After August 2017, the minimum of the production tax before credits under (a) of this section and the amount resulting from the product of (A) and (C).** of this paragraph

(A) the fraction obtained by dividing the amount of oil and gas in Btu-equivalents produced by the lessee from the NPSL during the month and taxable under AS 43.55.011(e), by the amount of Btu-equivalents of oil and gas produced by the lessee statewide during the month and taxable under AS 43.55.011(e); [AND]

(B) 1/12 of the maximum amount of the tax credit for the calendar year calculated under AS 43.55.024(c)(1) or (2), as applicable, but substituting in that calculation the lessee's average amount of oil and gas in Btu-equivalents, as defined in 11 AAC 83.295, produced a day statewide during the month and taxable under AS 43.55.011(e), for the lessee's average amount of oil and gas in BTU equivalent barrels, as defined in AS 43.55.900, produced a day statewide during the calendar year and taxable under AS 43.55.011(e);

(C) the product of the net credit augmentation rate under (f)(2) of this section and 1/12 of the maximum amount of the tax credit for the calendar year calculated under AS 43.55.024(c)(1) or (2), as applicable, but substituting in that calculation the lessee's average amount of oil and gas in Btu-equivalents, as defined in 11 AAC 83.295, produced a day statewide during the month and taxable under AS 43.55.011(e), for the lessee's average amount of oil and gas in BTU equivalent barrels, as defined in AS 43.55.900, produced a day statewide during the calendar year and taxable under AS 43.55.011(e);

(2) for a month after December 2013 **and before January 2017**, **the amount**
the calculations under of this paragraph
resulting from subparagraph (A). For a month after December 2016 and before
the calculations under of this paragraph. For a month
September **2017, the amount resulting from subparagraph (B). After** August **2017, the**
the calculations under a ((lowercase))
minimum of the amounts resulting from subparagraphs (C) and (D). of this paragraph

(A) the product of $5 and the number of barrels, if any, of oil, other than state royalty oil, that is produced from the NPSL during the month and that meets one or more of the criteria in AS 43.55.160(f);

(B) the product of $5 and the number of barrels, if any, of oil, other than state royalty oil, that is produced from the NPSL during the month and **that meets one or more of the criteria in AS 43.55.160(f) and** that **have not expired** as to that oil and gas **under AS 43.55.160(f);**

(C) **the production tax before credits under (a) of this section less the amount resulting from paragraph (1) of this subsection;**

(D) **the product of the net credit augmentation rate under (f)(2) of this section, $5, and the number of barrels, if any, of oil, other than the state royalty oil, that is produced from the NPSL during the month that meets one or more criteria in AS 43.55.160(f) and** that **have not expired** as to that oil and gas **under AS 43.55.160(f).**

(3) for a month after December 2013 **and before** September **2017**, the smaller of the amounts calculated under **(A) and (C)** of this paragraph. For a month **after** August **2017, the smaller of** the amounts calculated under **(B) and (C)** of this paragraph.

a ((lowercase))

(A) the product of the number of barrels, if any, of oil, other than state royalty oil, that is produced from the NPSL during the month that does not meet any of the criteria in AS 43.55.160(f) and the dollar per barrel amount that would be applicable under AS 43.55.024(j)(1) – (9), if the phrase "average gross value at the point of production" were replaced by the phrase "NPSL production revenue under 11 AAC 83.222 attributable to oil other than state royalty oil, divided by the number of barrels of oil, other than state royalty oil, produced from the NPSL"; ~~or~~

(B) **the product of the net credit augmentation rate under (f)(2) of this section, the number of barrels, if any, of oil, other than state royalty oil, produced from the NPSL during the month that does not meet any of the criteria in AS 43.55.160(f) and the dollar per barrel amount that would be applicable under AS 43.55.024(j)(1) – (9), if the phrase "average gross value at the point of production" were replaced by the phrase "NPSL production revenue under 11 AAC 83.222**

attributable to oil other than state royalty oil, divided by the number of barrels of oil, other than state royalty oil, produced from the NPSL"; and

(C) the greater of zero, or the following amount:

A minus B minus C, where

"A" equals the greater of the amounts calculated under (a)(1) and (2) of this section;

"B" equals the total amount of tax credits under (1) and (2) of this subsection; and

"C" equals the amount calculated under (a)(2) of this section.

11 AAC 83.241(c) is amended to read:

~~**11 AAC 83.241. Production tax lease allowance.**~~

(c) For purposes of 11 AAC 83.209(b) and (a) of this section, the monthly production tax net revenue equals the lessee's production revenue under 11 AAC 83.222 net of the lessee's royalty payments under 11 AAC 83.242, except that for a month after December 2013, the lessee's production revenue under 11 AAC 83.222 net of the lessee's royalty payments under 11 AAC 83.242 is **only for purposes of (a) of this section** multiplied by 0.8 for oil and gas that meet one or more of the criteria in AS 43.55.160(f) **and** that **have not expired** as to that oil and gas **under AS 43.55.160(f)** less the following amounts:

(1) the lessee's direct operating costs during the month under 11 AAC 83.240, excluding the production tax lease allowance under (a) of this section and abandonment costs

allowed under 11 AAC 83.240(e); however, if the NPSL is within a unit subject to AS 43.55.165(j), for purposes of the calculation under this paragraph the lessee's direct operating costs during the month are replaced by one-ninth of the lessee's direct operating costs during the period April 1, 2006, through December 31, 2006, multiplied by the following factor:

(A) 1.03 for a month in 2007;

(B) 1.061 for a month in 2008;

(C) 1.093 for a month in 2009; and

(2) the lessee's development costs under 11 AAC 83.219 incurred during the month less the product of $.30 multiplied by the amount of the lessee's working interest Btu-equivalents of oil and gas produced from the NPSL during the month, including any overriding royalty share of oil and gas but not including the state's royalty share of oil or gas.

. . . .

11 AAC 83.241 is amended by adding a new subsection to read:

11 AAC 83.241. Production tax lease allowance.

(f) For the purposes of

(1) subsection (a) of this section, if

(A) the development account beginning debit balance less the monthly production tax net revenue under (c) of this section, if any, is positive; or

(B) if the month of production is before September 2017;

~~then~~ the net credit augmentation rate is equal to 1 for ~~that~~ a month ~~O~~therwise, the o ((lowercase))

net credit augmentation rate is calculated according to the following formula:

NCAR = 1 / (1 – (.35 * NPR)), where

"NCAR" equals the net credit augmentation rate; and

"NPR" equals the net profit share defined in the lease expressed as a fixed percentage of the net profit payment account.

(2) subsection (b) of this section, if

(A) the development account beginning debit balance less the monthly production tax net revenue under (c) of this section, if any, is positive; or

(B) if the month of production is before September 2017; or

(C) the production tax before credits under (a) of this section is no greater than the amount resulting from (a)(2),

~~then~~ the net credit augmentation rate is equal to 1 for ~~that~~ a month. ~~Otherwise~~, the net credit augmentation rate is calculated according to the following formula: NCAR = 1 / (1 – (.35 * NPR)).

o (((lower case)))

(((no bold)))

(Eff. 2/13/2010, Register 193; am 1/9/2014, Register 209; **am 8 /10 /2017, Register 223**)

Authority: AS 38.05.020 AS 38.05.180

11 AAC 83.245(g) is amended to read:

~~**11 AAC 83.245. Reporting and payment requirements.**~~

(g) Not later than May 14, 2010, each lessee shall file amended NPSL reports under this section covering each month after March 2006 for which an item described in (b)(1) – (5) of this section is affected by the retroactive application of a provision listed in 11 AAC 83.290**, as that section read on August 10, 2017.**

(Eff. 11/9/79, Register 72; am 8/15/82, Register 83; am 2/13/2010, Register 193; am 1/9/2014, Register 209; **am 8 / 10 / 2017, Register 223**)

Authority: AS 38.05.020 AS 38.05.180

~~**Editor's note:** Forms and instructions for making NPSL payments, and filling NPSL reports and supporting documentation required to comply with 11AAC 83, can be obtained at the Anchorage office of the Department of Natural Resources, Division of Oil and Gas, 550 West 7th Avenue, Suite 1100, or can be found on the department's website at www.dog.dnr.alaska.gov/Royalty/ReportingInstructions.htm.~~ ((Publisher: No change to editor's note.))

~~**Authority:** AS 38.05.020 AS 38.05.180~~

11 AAC 83.250(a) is amended to read:

~~**11 AAC 83.250. Lessee protests.**~~ (a) A lessee who disagrees with and wishes to protest the commissioner's redetermination issued under 11 AAC 83.247, shall file a written protest with the department. To preserve the lessee's rights and to receive consideration by the department, this written protest must

(1) be filed within 60 days after the [MAILING] date of the department's notice of redetermination with which the lessee disagrees or is aggrieved;

(2) be mailed**, electronically mailed,** or personally delivered to: Office of the Commissioner, Alaska Department of Natural Resources, **550 W. 7th Avenue, Suite 1400,**

Anchorage, AK 99501, or DNRappeals@alaska.gov [P.O. BOX M, JUNEAU, ALASKA 99811].

(3) state what action by the department it is that the lessee is protesting and what relief the lessee seeks;

(4) state the grounds for the lessee's protest, including the facts (if any) at issue, the legal authority (statutes, regulations and case law), and any generally accepted accounting principles that support the lessee's protest;

(5) state whether the lessee wants an informal conference or waives its right to an informal conference in favor of a formal hearing.

(((no bold)))

(Eff. 11/9/79, Register 72; am 2/13/2010, Register 193; am 8/10/2017, Register 223)

Authority: AS 38.05.020 AS 38.05.180

11 AAC 83.255(b) is amended to read:

~~**11 AAC 83.255. Formal hearings.**~~

(b) A lessee's request to continue its protest at a formal hearing after the department has acted on the conference officer's recommendation regarding that protest must

(1) be mailed**, electronically mailed,** **or** ~~**hand**~~ personally **delivered** to: Office of the Commissioner, Alaska Department of Natural Resources, **550 W. 7th Avenue, Suite 1400, Anchorage, AK 99501, or DNRhearings@alaska.gov** [P.O. BOX M, JUNEAU, ALASKA 99811];

(2) state the nature of the lessee's continuing protest and the relief sought;

(3) state the grounds for the lessee's protest, including the facts (if any) remaining at issue, the legal authority (statutes, regulations, or case law) and any generally accepted accounting principles that support the lessee's protest. ((no bold))

(Eff. 11/9/79, Register 72; am 8/10/2017, Register 223)

Authority: AS 38.05.020 AS 38.05.180

11 AAC 83.290 is amended to read:

11 AAC 83.290. Retroactive application of regulations. **(a) Except as otherwise provided, the** [THE] following provisions apply retroactively to April 1, 2006:

(1) 11 AAC 83.209(b)

(2) 11 AAC 83.212(b)(2);

(3) 11 AAC 83.220;

(4) 11 AAC 83.240(b)(4)(B);

(5) 11 AAC 83.241**(a)-(e), except as amended effective August 10, 2017;**

(b) The provisions of 11 AAC 83.241(b)(2)(B) and 11 AAC 83.241(c), as amended effective , , 2017, apply retroactively to January 1, 2017. ((no bold))

(Eff. 2/13/2010, Register 193; am 1/9/2014, Register 209; am 8/10/2017, Register 223)

Authority:	AS 38.05.020	Sec 72, ch. 1, SSSLA 2007	**Sec 41, ch. 4, 4 SSLA 2016**
	AS 38.05.180	**Sec 38, ch. 4,**	

4 SSLA 2016

~~**Title 11, Alaska Administrative Code, Chapter 89, Exploration Incentive Credit.**~~

11 AAC 89.010 is repealed:

11 AAC 89.010. Applicability; purpose. Repealed. (Eff. 9/22/95, Register 135; **repealed 8/10/2017, Register 223**) ← (((Publisher: Throughout no bold, no ul under repealed and Register)))

~~**Authority:** **Sec 33, ch. 4, 4 SSLA 2016** AS 41.09.010 AS 41.09.020~~

11 AAC 89.015 is repealed:

11 AAC 89.015. Eligible project. Repealed. (Eff. 9/22/95, Register 135; **repealed 8/10/2017, Register 223**)

~~**Authority:** **Sec 33, ch. 4, 4 SSLA 2016** AS 41.09.010 AS 41.09.020~~

11 AAC 89.017 is repealed:

11 AAC 89.017. Application. Repealed. (Eff. 9/22/95, Register 135; **repealed 8/10/2017, Register 223**)

~~**Authority:** **Sec 33, ch. 4, 4 SSLA 2016** AS 41.09.010 AS 41.09.020~~

11 AAC 89.020 is repealed:

11 AAC 89.020. Grant of maximum credit. Repealed. (Eff. 9/22/95, Register 135; **repealed 8/10/2017, Register 223**)

~~**Authority:** Sec 33, ch. 4, 4 SSLA 2016 AS 41.09.010 AS 41.09.020~~

11 AAC 89.030 is repealed:

11 AAC 89.030. Inspection; report. Repealed. (Eff. 9/22/95, Register 135; repealed 8/10/2017, Register 223)

~~**Authority:** Sec 33, ch. 4, 4 SSLA 2016 AS 41.09.010 AS 41.09.020~~

11 AAC 89.040 is repealed:

11 AAC 89.040. Extension and adjustment of maximum credit. Repealed. (Eff. 9/22/95, Register 135; **repealed 8/10/2017, Register 223**)

~~**Authority:** Sec 33, ch. 4, 4 SSLA 2016 AS 41.09.010 AS 41.09.020~~

11 AAC 89.050 is repealed:

11 AAC 89.050. Allocation; assignment. Repealed. (Eff. 9/22/95, Register 135; **repealed 8/10/2017, Register 223**)

Authority: AS 41.09.010 AS 41.09.020

11 AAC 89.060 is repealed:

11 AAC 89.060. Audit. Repealed. (Eff. 9/22/95, Register 135; **repealed 8/10/2017, Register 223**)

~~**Authority:** Sec 33, ch. 4, 4 SSLA 2016 AS 38.05.035 AS 41.09.020~~

AS 41.09.010 AS 41.09.090

11 AAC 89.090 is repealed:

11 AAC 89.090. Supplementation and correction of data. Repealed. (Eff. 9/22/95, Register 135; repealed 8/10/2017, Register 223)

~~**Authority:** **See 33, ch. 4, 4 SSLA 2016** AS 41.09.010 AS 41.09.090 AS 41.09.020~~

11 AAC 89.990 is repealed:

11 AAC 89.990. Definitions. Repealed. (Eff. 9/22/95, Register 135; repealed 8/10/2017, Register 223)

~~**Authority:** **See 33, ch. 4, 4 SSLA 2016** AS 41.09.010 AS 41.09.090 AS 41.09.020~~

MEMORANDUM

State of Alaska
Department of Law

To: The Honorable Byron Mallott
Lieutenant Governor

Date: July 5, 2017

File No.: JU2016200840

Tel. No.: 465-3600

From: Susan R. Pollard SRP
Chief Assistant Attorney General
and Regulations Attorney
Legislation and Regulations Section

Re: Department of Natural Resources Regulations: 11 AAC 03, 83, and 89: Div. of Oil and Gas: Calculation of Net Profit Share

The attached Department of Natural Resources regulations address the calculation of net profit share lease payments and make changes to allow use of electronic mail in the filing of certain notifications and protests. The Department of Law has reviewed the attached regulations against the statutory standards of the Administrative Procedure Act; we find no legal problems. This memorandum constitutes the written statement of approval under AS 44.62.060(b) and (c) that authorizes your office to file the attached regulations.

These regulations will be effective 30 days after filing, and there are some dates that must be written in when the regulations are filed.

If the regulations are filed in time to be effective before September 1, 2017, please follow this guidance: First, wherever the indication "**For a month before _____ 2017**" appears should be completed by writing in "September" in 11 AAC 83.241(a)(1)(A) and (iii) (page 2); 11 AAC 83.241(b)(1) (page 3); 11 AAC 83.241(b)(2) (page 4), 11 AAC 83.241(b)(3) (page 5); 11 AAC 83.241(f)(1)(B) (page 7) and 11 AC 83.241(f)(2) (page 8).

If the regulations are filed in time to be effective before September 1, 2017, please follow this guidance: "**For a month after ____, 2017**" should be completed by writing in "August" in 11 AAC 83.241(a)(1)(B) (page 2), 11 AAC 83.241(b)(1) (page 3), and 11 AAC 83.24(b)(2) (page 4), and 11 AAC 83.241(b)(3) (page 5).

Last, the month and day the filed regulations will be effective should be written in 11 AAC 83.245(g) (page 9) and 11 AAC 83.290(a)(5) (page 11).

The regulations were adopted by the Department of Natural Resources after the close of the public comment period. The public notice and the adoption order both state that this action is not expected to require an increased appropriation. Therefore, a fiscal note under AS 44.62.195 is not required.

We have made some technical corrections to conform the regulations in accordance with

AS 44.62.125. The corrections are shown on the attached copy of the regulations.

SRP/akb

cc: Hon. Andrew T. Mack, Commissioner, Department of Natural Resources
Jhonny Meza, Commercial Analyst, Department of Natural Resources
Jim Shine, Commercial Manager, Department of Natural Resources
Jennifer Douglas, Assistant Attorney General, Civil Division

MEMORANDUM

Department of Natural Resources

STATE OF ALASKA

Office of the Commissioner

TO: Mark Wiggin
Deputy Commissioner

DATE: September 19, 2016

PHONE: (907) 268-8431

FROM: Andrew T. Mack
Commissioner

Andrew Mack

SUBJECT: Delegation of Authority

This memo shall act as a standing Delegation of all authority of the Commissioner's position whenever I am in travel status, outside of the state, or otherwise deemed inaccessible.

It is understood that this delegation is effective upon signing and shall remain in effect until superseded in writing or until such time as you are no longer in service as Deputy Commissioner of the Department of Natural Resources.

Cc: Jim Whitaker, Chief of Staff
DNR Directors

THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Natural Resources
DIVISION OF OIL & GAS
550 WEST 7TH AVENUE, SUITE 1100
ANCHORAGE, ALASKA 99501-3563
Main: 907.269-8800
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NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION

The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations.

DNR proposes to adopt regulation changes in 11 AAC Ch. 03, Ch. 83, and Ch. 89 of the Alaska Administrative Code dealing with the production tax lease allowance used in the calculation of net profit share payments for Net Profit Share Leases ("NPSLs"), the expiration of the exploration incentive credit, and the application of administrative changes related to addresses or allowing for electronic communication with the Alaska Royalty Oil and Gas Development Advisory Board ("Royalty Board") and for DNR, including the following:

1. **11 AAC 03.040. Notification to royalty board,** is proposed to be changed as follows: the proposed amendment will allow the Commissioner to notify the Royalty Board by sending the proposed written determination via electronic mail.
2. **11 AAC 83.241. Production tax lease allowance,** is proposed to be changed as follows: the proposed amendments will (i) clarify that the $5 credit per barrel of taxable oil from the NPSL meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of ch. 4, 4 SSLA 2016 ("HB 247"); (ii) establish that the 20 percent reduction to the production revenue net of royalty that is attributable to the NPSL and associated to taxable production meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of HB 247, and shall no longer be used in the calculation of the carried-forward loss credit, under AS 43.55.023(b), that is attributable to the NPSL, as specified in section 18 of HB 247; (iii) modify the definition of the production tax lease allowance by introducing the "net credit augmentation factor" to generate an accurate calculation in the case where the production from the NPSL generates non-transferable tax credits or a reduction to the production revenue net of royalty under AS 43.55.160(f); and (iv) add a new subsection defining the net credit augmentation factor.
3. **11 AAC 83.245. Reporting and payment requirements,** is proposed to be changed as follows: the proposed amendment is a conforming change to clarify the retroactivity provisions proposed.
4. **11 AAC 83.250. Lessee protests,** is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow protests to be made electronically.
5. **11 AAC 83.255. Formal hearings,** is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow hearings to be requested electronically.
6. **11 AAC 83.290. Retroactive application of regulations,** is proposed to be changed as follows: the proposed amendment will provide for the retroactive application, to January 1, 2017, of the inability of a producer to apply the gross value reduction for production meeting one or more criteria in AS 43.55.160(f) in the calculation of the carried-forward loss.

7. **11 AAC Ch. 89. Exploration Incentive Credit,** is proposed to be repealed. The intended effect of this repeal is to implement section 33 of HB 247, which repealed the underlying statutory authority for these regulations.

You may comment on the proposed regulation changes, including the potential costs to private persons of complying with the proposed changes, by submitting written comments to Jim Shine at the Department of Natural Resources, Division of Oil and Gas, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. Additionally, DNR will accept comments by electronic mail to jim.shine@alaska.gov or by facsimile at (907) 269-8939. Comments may also be submitted through the Alaska Online Public Notice System, by accessing this notice on the system and using the comment link. The comments must be received not later than 4:30 pm on **Friday, March 17, 2017**.

DNR will hold a public workshop on the proposed changes related to the appropriate calculation of the production tax lease allowance under 11 AAC 83.241, the mathematics behind the definition of the net credit augmentation factor, and the reporting information required for the completion of the NPSL forms (VV, AC, and PT forms). The public workshop will be held from **9am** to **11am** on **Wednesday, March 8, 2017**, in **Suite 1270 of the Atwood Building** located at **550 West 7th Ave., Anchorage, AK 99501-3563**, Anchorage, Alaska. Interested parties outside of Anchorage are invited to participate by teleconference by dialing the toll-free conference call number **1-800-315-6338.** When asked for the participant PIN code, enter **94505#.**

You may submit written questions relevant to the proposed action to Jim Shine by email at jim.shine@alaska.gov and at the Department of Natural Resources, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. The questions must be received at least 10 days before the end of the public comment period. DNR will aggregate its response to substantially similar questions and make the questions and responses available on the Alaska Online Public Notice System (https://aws.state.ak.us/OnlinePublicNotices/Default.aspx) and the DNR Division of Oil and Gas (http://dog.dnr.alaska.gov/) websites.

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact Jim Shine at jim.shine@alaska.gov or (907) 269-8939 no later than **Monday, March 6, 2017** to ensure that any necessary accommodations can be provided.

A copy of the proposed regulation changes is available on the Alaska Online Public Notice System, the DNR Division of Oil and Gas website, and by contacting Jim Shine at jim.shine@alaska.gov or (907) 269-8939.

After the public comment period ends on **Friday, March 17, 2017**, DNR 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 that of the proposed regulations. You should comment during the time allowed if your interests could be affected.

Statutory authority: AS 38.05.020, Sec. 37, HB 247.
Statutes being implemented, interpreted, or made specific: AS 38.05.180, AS 38.05.183, Sec. 33 of HB247, Sec. 38 of HB247
Fiscal information: The proposed regulation changes are not expected to require an increased appropriation.

Date: **February 14, 2017**
Anchorage, Alaska

Chantal Walsh
Director, Division of Oil and Gas

THE STATE of ALASKA
GOVERNOR BILL WALKER

Department of Natural Resources
DIVISION OF OIL & GAS
550 WEST 7TH AVENUE, SUITE 1100
ANCHORAGE, ALASKA 99501-3563
Main: 907 269-8800
Fax: 907 269-8939

NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION

The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations.

DNR proposes to adopt regulation changes in 11 AAC Ch. 03, Ch. 83, and Ch. 89 of the Alaska Administrative Code dealing with the production tax lease allowance used in the calculation of net profit share payments for Net Profit Share Leases ("NPSLs"), the expiration of the exploration incentive credit, and the application of administrative changes related to addresses or allowing for electronic communication with the Alaska Royalty Oil and Gas Development Advisory Board ("Royalty Board") and for DNR, including the following:

1. **11 AAC 03.040. Notification to royalty board,** is proposed to be changed as follows: the proposed amendment will allow the Commissioner to notify the Royalty Board by sending the proposed written determination via electronic mail.
2. **11 AAC 83.241. Production tax lease allowance,** is proposed to be changed as follows: the proposed amendments will (i) clarify that the $5 credit per barrel of taxable oil from the NPSL meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of ch. 4, 4 SSLA 2016 ("HB 247"); (ii) establish that the 20 percent reduction to the production revenue net of royalty that is attributable to the NPSL and associated to taxable production meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of HB 247, and shall no longer be used in the calculation of the carried-forward loss credit, under AS 43.55.023(b), that is attributable to the NPSL, as specified in section 18 of HB 247; (iii) modify the definition of the production tax lease allowance by introducing the "net credit augmentation factor" to generate an accurate calculation in the case where the production from the NPSL generates non-transferable tax credits or a reduction to the production revenue net of royalty under AS 43.55.160(f); and (iv) add a new subsection defining the net credit augmentation factor.
3. **11 AAC 83.245. Reporting and payment requirements,** is proposed to be changed as follows: the proposed amendment is a conforming change to clarify the retroactivity provisions proposed.
4. **11 AAC 83.250. Lessee protests,** is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow protests to be made electronically.
5. **11 AAC 83.255. Formal hearings,** is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow hearings to be requested electronically.
6. **11 AAC 83.290. Retroactive application of regulations,** is proposed to be changed as follows: the proposed amendment will provide for the retroactive application, to January 1, 2017, of the inability of a producer to apply the gross value reduction for production meeting one or more criteria in AS 43.55.160(f) in the calculation of the carried-forward loss.

7. **11 AAC Ch. 89. Exploration Incentive Credit**, is proposed to be repealed. The intended effect of this repeal is to implement section 33 of HB 247, which repealed the underlying statutory authority for these regulations.

You may comment on the proposed regulation changes, including the potential costs to private persons of complying with the proposed changes, by submitting written comments to Jim Shine at the Department of Natural Resources, Division of Oil and Gas, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. Additionally, DNR will accept comments by electronic mail to jim.shine@alaska.gov or by facsimile at (907) 269-8939. Comments may also be submitted through the Alaska Online Public Notice System, by accessing this notice on the system and using the comment link. The comments must be received not later than 4:30 pm on **Friday, March 17, 2017**.

DNR will hold a public workshop on the proposed changes related to the appropriate calculation of the production tax lease allowance under 11 AAC 83.241, the mathematics behind the definition of the net credit augmentation factor, and the reporting information required for the completion of the NPSL forms (VV, AC, and PT forms). The public workshop will be held from **9am to 11am** on **Wednesday, March 8, 2017**, in **Suite 1270 of the Atwood Building** located at **550 West 7th Ave., Anchorage, AK 99501-3563**, Anchorage, Alaska. Interested parties outside of Anchorage are invited to participate by teleconference by dialing the toll-free conference call number **1-800-315-6338**. When asked for the participant PIN code, enter **94505#**.

You may submit written questions relevant to the proposed action to Jim Shine by email at jim.shine@alaska.gov and at the Department of Natural Resources, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. The questions must be received at least 10 days before the end of the public comment period. DNR will aggregate its response to substantially similar questions and make the questions and responses available on the Alaska Online Public Notice System (https://aws.state.ak.us/OnlinePublicNotices/Default.aspx) and the DNR Division of Oil and Gas (http://dog.dnr.alaska.gov/) websites.

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact Jim Shine at jim.shine@alaska.gov or (907) 269-8939 no later than **Monday, March 6, 2017** to ensure that any necessary accommodations can be provided.

A copy of the proposed regulation changes is available on the Alaska Online Public Notice System, the DNR Division of Oil and Gas website, and by contacting Jim Shine at jim.shine@alaska.gov or (907) 269-8939.

After the public comment period ends on **Friday, March 17, 2017**, DNR 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 that of the proposed regulations. You should comment during the time allowed if your interests could be affected.

Statutory authority: AS 38.05.020, Sec. 37, HB 247.
Statutes being implemented, interpreted, or made specific: AS 38.05.180, AS 38.05.183, Sec. 33 of HB247, Sec. 38 of HB247
Fiscal information: The proposed regulation changes are not expected to require an increased appropriation.

Date: **February 14, 2017**
Anchorage, Alaska

Chantal Walsh
Director, Division of Oil and Gas

THE STATE of ALASKA

GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION OF OIL & GAS

550 WEST 7TH AVENUE, SUITE 1100
ANCHORAGE, ALASKA 99501-3563
Main: 907.269-8800
Fax: 907.269-8939

SUPPLEMENTAL NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION: The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations. DNR's proposed changes are set out in more detail in the notice of proposed regulations dated February 14, 2017.

This is a SUPPLEMENTAL NOTICE adding to the NOTICE OF PROPOSED CHANGES that DNR issued on February 14, 2017 concerning these proposed regulations revisions contained in the Department of Law file number JU2016200840; this SUPPLEMENTAL NOTICE incorporates by reference information in the February 14, 2017 notice of proposed changes. This SUPPLEMENTAL NOTICE is being issued to modify the proposed amendments to the production tax lease allowance under 11 AAC 83.241, extend the public comment period to April 6, 2017 and change the date of the public workshop to March 22, 2017.

The modifications to 11 AAC 83.241 in this Supplemental Notice are proposed for the following reasons:

a. To clarify that the proposed changes to the production tax lease allowance in 11 AAC 83.241 arise from: (i) the passing of ch. 4, 4 SSLA 2016 ("HB 247"), with retroactive application to January 2017 as established in section 41 of the bill, and (ii) the goal of calculating such allowance through the use of the "net credit augmentation rate", beginning at the time of implementation of these proposed changes to regulations. To this end, DNR is publishing an updated version of the regulations packet that better demarcates the application of these changes in terms of the month of production.
b. To highlight the substitution of the word "rate" for the word "factor" in the original proposal's reference to a "net credit augmentation factor."
c. The changes to 11 AAC 83.241 include the following: (i) introduce the concept of "production tax before credits;" (ii) define the calculation of the production tax before credits for a month after the implementation of these proposed changes; (iii) define the calculation of the credits that are allocated to the NPSL for a month after the implementation of section 26 of HB 247, when applicable, and for a month after the implementation of these proposed changes; (iv) establish that the 20 percent reduction to the production revenue net of royalty that is attributable to the NPSL and associated to taxable production meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of HB 247, and shall no longer be used in the calculation of the carried-forward loss credit, under AS 43.55.023(b), that is attributable to the NPSL, as specified in section 18 of HB 247; (v) introduce the "net credit augmentation rate" to calculate the production tax lease allowance in the case where, if the NPSL is in "payout" status, there is a reduction to the production revenue net of royalty for the production qualifying under AS 43.55.160(f) or in the case where the value of the credits in is greater than the minimum tax.

You may comment on the proposed regulation changes, including the potential costs to private persons of complying with the proposed changes, by submitting written comments to Jim Shine at the Department of Natural Resources, Division of Oil and Gas, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. Additionally, DNR will accept comments by electronic mail to jim.shine@alaska.gov or by facsimile at (907) 269-8939. Comments may also be submitted through the Alaska Online Public Notice System, by accessing this notice on the system and using the comment link. Since DNR is submitting additional changes to the proposed language of the production tax lease allowance under 11 AAC 83.241

through this supplemental notice, the public comment period will be extended. **Written comments must now be received no later than 4:30 pm on Thursday, April 6, 2017.**

DNR will hold a public workshop on the proposed changes related to the calculation of the production tax lease allowance under 11 AAC 83.241, the mathematics behind the definition of the net credit augmentation rate, and the reporting information required for the completion of the NPSL forms (VV, AC, and PT forms). No comments on the proposed regulations will be taken at the workshop. Since DNR is submitting additional changes to the proposed language of the production tax lease allowance under 11 AAC 83.241 through this supplemental notice, DNR has also prepared changes to the NPSL report template. **The public workshop will now be held from 9am to 11am on Wednesday, March 22, 2017,** in Suite 1270 of the Atwood Building located at 550 West 7th Ave., Anchorage, AK 99501-3563. Interested parties outside of Anchorage are invited to participate by teleconference by dialing the toll-free conference call number 1-800-315-6338. When asked for the participant PIN code, enter 94505#.

You may submit written questions relevant to the proposed action to Jim Shine by email at jim.shine@alaska.gov and at the Department of Natural Resources, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. The questions must be received at least 10 days before the end of the public comment period. DNR will aggregate its response to substantially similar questions and make the questions and responses available on the Alaska Online Public Notice System (https://aws.state.ak.us/OnlinePublicNotices/Default.aspx) and the DNR Division of Oil and Gas (http://dog.dnr.alaska.gov/) websites.

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact Jim Shine at jim.shine@alaska.gov or (907) 269-8939 no later than Wednesday, March 15, 2017 to ensure that any necessary accommodations can be provided.

Copies of the updated "Proposed Changes to Regulations" and the "NPSL report template" referenced in this supplemental notice are available on the Alaska Online Public Notice System, the DNR Division of Oil and Gas website, and by contacting Jim Shine at jim.shine@alaska.gov or (907) 269-8939.

After the public comment period ends on Thursday, April 6, 2017, DNR 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 that of the proposed regulations. You should comment during the time allowed if your interests could be affected.

Statutory authority: AS 38.05.020, Sec. 37, HB 247.
Statutes being implemented, interpreted, or made specific: AS 38.05.180, AS 38.05.183, Sec. 33 of HB247, Sec. 38 of HB247, Sec. 41 of HB 247.
Fiscal information: The proposed regulation changes are not expected to require an increased appropriation.

Date: March 1, 2017
Anchorage, Alaska

Chantal Walsh
Director, Division of Oil and Gas

ADDITIONAL REGULATION NOTICE INFORMATION

1. Adopting agency: Alaska Department of Natural Resources, Division of Oil and Gas
2. General subject of regulation: Production tax lease allowance, exploration incentive credit, and administrative updates
3. Citation of regulation: 11 AAC 03.040, 11 AAC 83.241, 11 AAC 83.245, 11 AAC 83.250, 11 AAC 83.255, 11 AAC 83.290, and 11 AAC Ch. 89
4. Department of Law file number, if any: JU2016200840
5. Reason for the proposed action:

   ( ) Compliance with federal law or action: None

   (X) Compliance with new or changed state statute: Ch. 4, 4 SSLA 2016 amended AS 43.55.023(b)(2), AS 43.55.160(f) and (g), and repealed AS 38.05.180(i), AS 41.09.010, AS 41.09.020, AS 41.09.030, and AS 41.09.090.

   ( ) Compliance with federal or state court decision: None

   ( ) Development of program standards

   (X) Other: To revise the calculation of the production tax lease allowance, update the addresses and contact information for the Department of Natural Resources, and provide for electronic mail notification to the Royalty Board
6. Appropriation/Allocation: None
7. Estimated annual cost to comply with the proposed action to:

   A private person: The department is not able to make a numeric estimate based on information available to it. However, the department does not expect that any private person would incur additional costs beyond re-programming of computer systems that may be necessary to comply with the proposed regulations.

   Another state agency: No additional compliance cost

   A municipality: None
8. Cost of implementation to the state agency and available funding (in thousands of dollars):

		Initial Year FY 2017	Subsequent Years
Operating Cost		$0	$0
Capital Cost		$0	$0
1002	Federal Receipts	$0	$0
1003	General Fund Match	$0	$0
1004	General Fund	$0	$0

1005	General Fund/Program	$0	$0
Other		$0	$0

9. The name of the contact person for the regulation:

   Name: Jim Shine

   Title: Commercial Section Manager

   Address: 550 West 7th Avenue, Suite 1100, Anchorage, Alaska, 99501-3563

   Telephone: (907) 269-8800

   E-mail address: jim.shine@alaska.gov

10. The origin of the proposed action:

    __X__ Staff of state agency

    _____ Federal government

    _____ General public

    _____ Petition for regulation change

    _____ Other

11. Date: 02/13/17

Prepared by: [signature]

Name: Jhonny Meza

Title: Commercial Analyst

Telephone: (907) 269-8774

AFFIDAVIT OF NOTICE OF PROPOSED REGULATION
AND FURNISHING OF ADDITIONAL INFORMATION

I, Jhonny Meza, Commercial Analyst, of Division of Oil and Gas of the Alaska Department of Natural Resources, being sworn, state the following:

As required by AS 44.62.190, notice of the proposed adoption of changes to regulations dealing with net profit share leasing, administrative updates, and exploration incentive credits has been given by being

(1) published in a newspaper or trade publication;
(2) furnished to interested persons;
(3) furnished to appropriate state officials;
(4) furnished to the Department of Law, along with a copy of the proposed regulation;
(5) furnished electronically to incumbent State of Alaska legislators;
(6) furnished to the Legislative Affairs Agency, Division of Legal and Research Services;
(7) posted on the Alaska Online Public Notice System as required by AS 44.62.175(a)(1) and (b) and 44.62.190(a)(1);
(8) furnished electronically, along with a copy of the proposed regulation, to the Legislative Affairs Agency, the chair of the Resources Committee of the Alaska Senate and House of Representatives, the Administrative Regulation Review Committee, and the legislative council.

As required by AS 44.62.190, additional regulation notice information regarding the proposed adoption of the regulation changes described above has been furnished to interested persons and those in (5) and (6) of the list above. The additional regulation notice information also has been posted on the Alaska Online Public Notice System.

Date: 05/18/17

Jhonny Meza, Commercial Analyst
Division of Oil and Gas
Alaska Department of Natural Resources

Subscribed and sworn to before me at Alaska Department of Natural Resources on 5-18-17.
(date)

[notary signature]
Notary Public in and for the State of Alaska
My commission expires with office.

[NOTARY SEAL]
DAWN H. GREENAN NOTARY PUBLIC STATE OF ALASKA

AFFIDAVIT OF AGENCY RECORD OF PUBLIC COMMENT

I, Jhonny Meza, Commercial Analyst for the Division of Oil and Gas of the Department of Natural Resources, being duly sworn, state the following:

In compliance with AS 44.62.215, the Department of Natural Resources has kept a record of its use or rejection of factual or other substantive information that was submitted in writing as public comment and that was relevant to the accuracy, coverage, or other aspect of the Department of Natural Resources regulation on net profit share leasing, administrative updates, and exploration incentive credits.

Date: 05/18/17

Jhonny Meza
Commercial Analyst
Division of Oil and Gas,
Alaska Department of Natural Resources

Subscribed and sworn to before me at Alaska Department of Natural Resources on 5-18-17 DG.
(date)

[NOTARY SEAL]

SHAWN H. GREENAN NOTARY PUBLIC STATE OF ALASKA

[notary signature]
Notary Public in and for the State of Alaska
My commission expires with office.

RECEIVED

MAY 19 2017

DIVISION OF
OIL AND GAS

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#1400976
$617.54

AFFIDAVIT OF PUBLICATION

STATE OF ALASKA
THIRD JUDICIAL DISTRICT

Emma Dunlap
being first duly sworn on oath deposes and says that she is a representative of the Alaska Dispatch News, a daily newspaper. That said newspaper has been approved by the Third Judicial Court, Anchorage, Alaska, and it now and has been published in the English language continually as a daily newspaper in Anchorage, Alaska, and it is now and during all said time was printed in an office maintained at the aforesaid place of publication of said newspaper. That the annexed is a copy of an advertisement as it was published in regular issues (and not in supplemental form) of said newspaper on

March 1, 2017

and that such newspaper was regularly distributed to its subscribers during all of said period. That the full amount of the fee charged for the foregoing publication is not in excess of the rate charged private individuals.

Signed Emma Dunlap

Subscribed and sworn to before me this 17 day of May 20 17

Notary Public in and for
The State of Alaska.
Third Division
Anchorage, Alaska
MY COMMISSION EXPIRES
4/14/21

ANGELA
NOTA
State
My Commission

SUPPLEMENTAL NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION: The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations. DNR's proposed changes are set out in more detail in the notice of proposed regulations dated February 14, 2017.

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The modifications to 11 AAC 83.241 in this Supplemental Notice are proposed for the following reasons:

a. To clarify that the proposed changes to the production tax lease allowance in 11 AAC 83.241 arise from: (i) the passing of ch. 4, 4 SSLA 2016 ("HB 247"), with retroactive application to January 2017 as established in section 41 of the bill, and (ii) the goal of calculating such allowance through the use of the "net credit augmentation rate", beginning at the time of implementation of these proposed changes to regulations. To this end, DNR is publishing an updated version of the regulations packet that better demarcates the application of these changes in terms of the month of production.

b. To highlight the substitution of the word "rate" for the word "factor" in the original proposal's reference to a "net credit augmentation factor."

c. ... changes to 11 AAC 83.241 include the following: (i) ... tax before credits;" (ii)

RECEIVED

JUN 1 2 2017

DIVISION OF
OIL AND GAS

Affidavit of Publication

United States of America | **Ad #: 7988490**

Department of Natural Resources | **Ref. File#: 17G-10-053**

NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION

The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations.

DNR proposes to adopt regulation changes in 11 AAC Ch. 03, Ch. 83, and Ch. 89 of the Alaska Administrative Code dealing with the production tax lease allowance used in the calculation of net profit share payments for Net Profit Share Leases ("NPSLs"), the expiration of the exploration incentive credit, and the application of administrative changes related to addresses or allowing for electronic communication with the Alaska Royalty Oil and Gas Development Advisory Board ("Royalty Board") and for DNR, including the following:

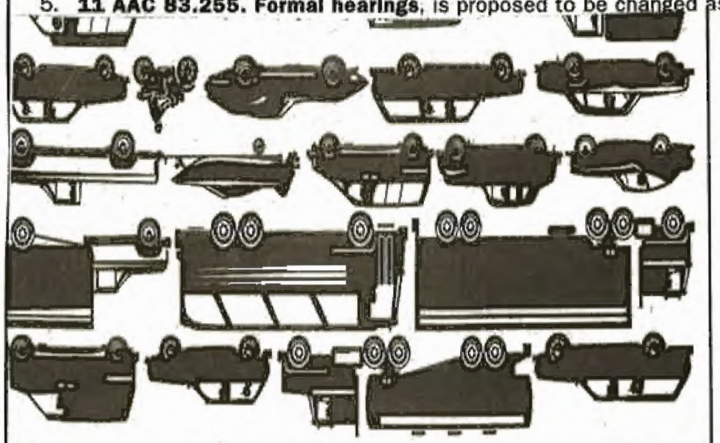
1. **11 AAC 03.040. Notification to royalty board**, is proposed to be changed as follows: the proposed amendment will allow the Commissioner to notify the Royalty Board by sending the proposed written determination via electronic mail.

2. **11 AAC 83.241. Production tax lease allowance**, is proposed to be changed as follows: the proposed amendments will (i) clarify that the $5 credit per barrel of taxable oil from the NPSL meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of ch. 4, 4 SSLA 2016 ("HB 247"); (ii) establish that the 20 percent reduction to the production revenue net of royalty that is attributable to the NPSL and associated to taxable production meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of HB 247, and shall no longer be used in the calculation of the carried-forward loss credit, under AS 43.55.023(b), that is attributable to the NPSL, as specified in section 18 of HB 247; (iii) modify the definition of the production tax lease allowance by introducing the "net credit augmentation factor" to generate an accurate calculation in the case where the production from the NPSL generates non-transferable tax credits or a reduction to the production revenue net of royalty under AS 43.55.160(f); and (iv) add a new subsection defining the net credit augmentation factor.

3. **11 AAC 83.245. Reporting and payment requirements**, is proposed to be changed as follows: the proposed amendment is a conforming change to clarify the retroactivity provisions proposed.

4. **11 AAC 83.250. Lessee protests**, is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow protests to be made electronically.

5. **11 AAC 83.255. Formal hearings**, is proposed to be changed as



I, Nicole Quinto, first duly sworn, oath, depose, and say that I am the Principle Clerk of the JUNEAU EMPIRE, a newspaper of general circulation, published in the city of Juneau, State of Alaska; that the publication was published in said newspaper, and on www.juneauempire.com, the online edition, on the 17th day of February 2017 and thereafter for 0 additional day(s), the last date of publication being February 17th, 2017.

....

Subscribed and sworn to before me this 25th day of May 2017.

....

Notary Public in and for the State of Alaska.

STATE OF ALASKA
OFFICIAL SEAL
Ed Quinto
NOTARY PUBLIC
My Commission Expires 07/15/2019

NOTARY PUBLIC
M. BURNELL
STATE OF ALASKA
My commission Expires December 7, 20____

AFFP
NOTICE OF PROPOSED CHANGES

Affidavit of Publication

UNITED STATES OF AMERICA
STATE OF ALASKA } SS.
FOURTH DISTRICT

Before me, the undersigned, a notary public, this day personally appeared Tameka Ambersley, who, being first duly sworn, according to law, says that he/she is an Advertising Clerk of the Fairbanks Daily News-Miner, a newspaper (i) published in newspaper format, (ii) distributed daily more than 50 weeks per year, (iii) with a total circulation of more than 500 and more than 10% of the population of the Fourth Judicial District, (iv) holding a second class mailing permit from the United States Postal Service, (v) not published primarily to distribute advertising, and (vi) not intended for a particular professional or occupational group. The advertisement which is attached is a true copy of the advertisement published in said paper on the following day(s):

February 14, 2017

and that the rate charged thereon is not excess of the rate charged private individuals, with the usual discounts.

Advertising Clerk

Subscribed to and sworn to me this 14th day of February 2017.

Marena Burnell, Notary Public in and for the State Alaska.

My commission expires: December 07, 2017

00008653 00039476

LG ADV ACCT JOANNE LEONCIO
ST OF AK/ACCOUNTING TECH II
550 W. 7THE AVE STE 1100
ANCHORAGE, AK 99501

39476
NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION

The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations.

DNR proposes to adopt regulation changes in 11 AAC Ch. 03, Ch. 83, and Ch. 89 of the Alaska Administrative Code dealing with the production tax lease allowance used in the calculation of net profit share payments for Net Profit Share Leases ("NPSLs"), the expiration of the exploration incentive credit, and the application of administrative changes related to addresses or allowing for electronic communication with the Alaska Royalty Oil and Gas Development Advisory Board
("Royalty Board") and for DNR, including the following:

1. 11 AAC 03.040. Notification to royalty board, is proposed to be changed as follows: the proposed amendment will allow the Commissioner to notify the Royalty Board by sending the proposed written determination via electronic mail.

2. 11 AAC 83.241. Production tax lease allowance, is proposed to be changed as follows: the proposed amendments will (i) clarify that the $5 credit per barrel of taxable oil from the NPSL meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of ch. 4, 4 SSLA 2016 ("HB 247"); (ii) establish that the 20 percent reduction to the production revenue net of royalty that is attributable to the NPSL and associated to taxable production
meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of HB 247, and shall no longer be used in the calculation of the carried-forward loss credit, under AS 43.55.023(b), that is attributable to the NPSL, as specified in section 18 of HB 247; (iii) modify the definition of the production tax lease allowance by introducing the "net credit augmentation factor" to generate an accurate calculation in the case where the production from

NOTARY PUBLIC
M. BURNELL
STATE OF ALASKA
My commission Expires December 7, 20____

the NPSL generates non-transferable tax credits or a reduction to the production revenue net of royalty under AS 43.55.160(f); and (iv) add a new subsection defining the net credit augmentation factor.

3. 11 AAC 83.245. Reporting and payment requirements, is proposed to be changed as follows: the proposed amendment is a conforming change to clarify the retroactivity provisions proposed.

4. 11 AAC 83.250. Lessee protests, is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow protests to be made electronically.

5. 11 AAC 83.255. Formal hearings, is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow hearings to be requested electronically.

6. 11 AAC 83.290. Retroactive application of regulations, is proposed to be changed as follows: the proposed amendment will provide for the retroactive application, to January 1, 2017, of the inability of a producer to apply the gross value reduction for production meeting one or more criteria in AS 43.55.160(f) in the calculation of the carried-forward loss.

7. 11 AAC Ch. 89. Exploration Incentive Credit, is proposed to be repealed. The intended effect of this repeal is to implement section 33 of HB 247, which repealed the underlying statutory authority for these regulations.

You may comment on the proposed regulation changes, including the potential costs to private persons of complying with the proposed changes, by submitting written comments to Jim Shine at the Department of Natural Resources, Division of Oil and Gas, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. Additionally, DNR will accept comments by electronic mail to jim.shine@alaska.gov or by facsimile at (907) 269-8939. Comments may also be submitted through the Alaska Online Public Notice System, by accessing this notice on the system and using the comment link. The comments must be received not later than 4:30 pm on Friday, March 17, 2017.

DNR will hold a public workshop on the proposed changes related to the appropriate calculation of the production tax lease allowance under 11 AAC 83.241, the mathematics behind the definition of the net credit augmentation factor, and the reporting information required for the completion of the NPSL forms (VV, AC, and PT forms). The public workshop will be held from 9am to 11am on Wednesday, March 8, 2017, in Suite 1270 of the Atwood Building located at 550 West 7th Ave., Anchorage, AK 99501-3563, Anchorage, Alaska. Interested parties outside of Anchorage are invited to participate by teleconference by dialing the toll-

NOTARY PUBLIC
M. BURNELL
STATE OF ALASKA
My commission Expires December 7, 20____

free conference call number 1-800-315-6338. When asked for the participant PIN code, enter 94505#.

You may submit written questions relevant to the proposed action to Jim Shine by email at jim.shine@alaska.gov and at the Department of Natural Resources, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. The questions must be received at least 10 days before the end of the public comment period. DNR will aggregate its response to substantially similar questions and make the questions and responses available on the Alaska Online Public Notice System (https://aws.state.ak.us/OnlinePublicNotices/Default.aspx) and the DNR Division of Oil and Gas (http://dog.dnr.alaska.gov/) websites.

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact Jim Shine at jim.shine@alaska.gov or (907) 269-8939 no later than Monday, March 6, 2017 to ensure that any necessary accommodations can be provided.

A copy of the proposed regulation changes is available on the Alaska Online Public Notice System, the DNR Division of Oil and Gas website, and by contacting Jim Shine at jim.shine@alaska.gov or (907) 269-8939.

After the public comment period ends on Friday, March 17, 2017, DNR 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 that of the proposed regulations. You should comment during the time allowed if your interests could be affected.

Statutory authority: AS 38.05.020, Sec. 37, HB 247.

Statutes being implemented, interpreted, or made specific: AS 38.05.180, AS 38.05.183, Sec. 33 of HB247, Sec. 38 of HB247

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

Date: February 14, 2017
Anchorage, Alaska Chantal Walsh
Director, Division of Oil and Gas
17G-10-052

NOTARY PUBLIC
M. BURNELL
STATE OF ALASKA
My commission Expires December 7, 20____

AFFP

NOTICE OF PROPOSED CHANGES

Affidavit of Publication

UNITED STATES OF AMERICA
STATE OF ALASKA } SS.
FOURTH DISTRICT

Before me, the undersigned, a notary public, this day personally appeared Tameka Ambersley, who, being first duly sworn, according to law, says that he/she is an Advertising Clerk of the Fairbanks Daily News-Miner, a newspaper (i) published in newspaper format, (ii) distributed daily more than 50 weeks per year, (iii) with a total circulation of more than 500 and more than 10% of the population of the Fourth Judicial District, (iv) holding a second class mailing permit from the United States Postal Service, (v) not published primarily to distribute advertising, and (vi) not intended for a particular professional or occupational group. The advertisement which is attached is a true copy of the advertisement published in said paper on the following day(s):

February 14, 2017

and that the rate charged thereon is not excess of the rate charged private individuals, with the usual discounts.

Advertising Clerk

Subscribed to and sworn to me this 14th day of February 2017.

Marena Burnell, Notary Public in and for the State Alaska.

My commission expires: December 07, 2017

00008653 00039476

LG ADV ACCT JOANNE LEONCIO
ST OF AK/ACCOUNTING TECH II
550 W. 7THE AVE STE 1100
ANCHORAGE, AK 99501

39476
NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION

The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations.

DNR proposes to adopt regulation changes in 11 AAC Ch. 03, Ch. 83, and Ch. 89 of the Alaska Administrative Code dealing with the production tax lease allowance used in the calculation of net profit share payments for Net Profit Share Leases ("NPSLs"), the expiration of the exploration incentive credit, and the application of administrative changes related to addresses or allowing for electronic communication with the Alaska Royalty Oil and Gas Development Advisory Board ("Royalty Board") and for DNR, including the following:

1. 11 AAC 03.040. Notification to royalty board, is proposed to be changed as follows: the proposed amendment will allow the Commissioner to notify the Royalty Board by sending the proposed written determination via electronic mail.

2. 11 AAC 83.241. Production tax lease allowance, is proposed to be changed as follows: the proposed amendments will (i) clarify that the $5 credit per barrel of taxable oil from the NPSL meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of ch. 4, 4 SSLA 2016 ("HB 247"); (ii) establish that the 20 percent reduction to the production revenue net of royalty that is attributable to the NPSL and associated to taxable production meeting one or more criteria in AS 43.55.160(f) will have an expiration date, as specified in section 26 of HB 247, and shall no longer be used in the calculation of the carried-forward loss credit, under AS 43.55.023(b), that is attributable to the NPSL, as specified in section 18 of HB 247; (iii) modify the definition of the production tax lease allowance by introducing the "net credit augmentation factor" to generate an accurate calculation in the case where the production from

the NPSL generates non-transferable tax credits or a reduction to the production revenue net of royalty under AS 43.55.160(f); and (iv) add a new subsection defining the net credit augmentation factor.

3. 11 AAC 83.245. Reporting and payment requirements, is proposed to be changed as follows: the proposed amendment is a conforming change to clarify the retroactivity provisions proposed.

4. 11 AAC 83.250. Lessee protests, is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow protests to be made electronically.

5. 11 AAC 83.255. Formal hearings, is proposed to be changed as follows: the proposed amendment will update the mailing address of the Office of the Commissioner, Alaska Department of Natural Resources and allow hearings to be requested electronically.

6. 11 AAC 83.290. Retroactive application of regulations, is proposed to be changed as follows: the proposed amendment will provide for the retroactive application, to January 1, 2017, of the inability of a producer to apply the gross value reduction for production meeting one or more criteria in AS 43.55.160(f) in the calculation of the carried-forward loss.

7. 11 AAC Ch. 89. Exploration Incentive Credit, is proposed to be repealed. The intended effect of this repeal is to implement section 33 of HB 247, which repealed the underlying statutory authority for these regulations.

You may comment on the proposed regulation changes, including the potential costs to private persons of complying with the proposed changes, by submitting written comments to Jim Shine at the Department of Natural Resources, Division of Oil and Gas, 550 W. 7th Avenue, Suite 1100, Anchorage, Alaska 99501-3563. Additionally, DNR will accept comments by electronic mail to jim.shine@alaska.gov or by facsimile at (907) 269-8939. Comments may also be submitted through the Alaska Online Public Notice System, by accessing this notice on the system and using the comment link. The comments must be received not later than 4:30 pm on Friday, March 17, 2017.

DNR will hold a public workshop on the proposed changes related to the appropriate calculation of the production tax lease allowance under 11 AAC 83.241, the mathematics behind the definition of the net credit augmentation factor, and the reporting information required for the completion of the NPSL forms (VV, AC, and PT forms). The public workshop will be held from 9am to 11am on Wednesday, March 8, 2017, in Suite 1270 of the Atwood Building located at 550 West 7th Ave., Anchorage, AK 99501-3563, Anchorage, Alaska. Interested parties outside of Anchorage are invited to participate by teleconference by dialing the toll-

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M. BURNELL
STATE OF ALASKA
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free conference call number 1-800-315-6338. When asked for the participant PIN code, enter 94505#.

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If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact Jim Shine at jim.shine@alaska.gov or (907) 269-8939 no later than Monday, March 6, 2017 to ensure that any necessary accommodations can be provided.

A copy of the proposed regulation changes is available on the Alaska Online Public Notice System, the DNR Division of Oil and Gas website, and by contacting Jim Shine at jim.shine@alaska.gov or (907) 269-8939.

After the public comment period ends on Friday, March 17, 2017, DNR 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 that of the proposed regulations. You should comment during the time allowed if your interests could be affected.

Statutory authority: AS 38.05.020, Sec. 37, HB 247.

Statutes being implemented, interpreted, or made specific: AS 38.05.180, AS 38.05.183, Sec. 33 of HB247, Sec. 38 of HB247

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

Date: February 14, 2017
Anchorage, Alaska Chantal Walsh
Director, Division of Oil and Gas
17G-10-052

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DIVISION OF
OIL AND GAS

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AFFIDAVIT OF PUBLICATION

STATE OF ALASKA
THIRD JUDICIAL DISTRICT

Emma Dunlap being first duly sworn on oath deposes and says that she is a representative of the Alaska Dispatch News, a daily newspaper. That said newspaper has been approved by the Third Judicial Court, Anchorage, Alaska, and it now and has been published in the English language continually as a daily newspaper in Anchorage, Alaska, and it is now and during all said time was printed in an office maintained at the aforesaid place of publication of said newspaper. That the annexed is a copy of an advertisement as it was published in regular issues (and not in supplemental form) of said newspaper on

February 14, 2017

and that such newspaper was regularly distributed to its subscribers during all of said period. That the full amount of the fee charged for the foregoing publication is not in excess of the rate charged private individuals.

Signed Emma Dunlap

Subscribed and sworn to before me this 17 day of May 20 17

Notary Public in and for
The State of Alaska.
Third Division
Anchorage, Alaska
MY COMMISSION EXPIRES
4/14/21

ANGELA M SIMMONS
NOTARY PUBLIC
State of Alaska
My Commission Expires Apr. 14, 2021

NOTICE OF PROPOSED CHANGES ON NET PROFIT SHARE LEASING, ADMINISTRATIVE UPDATES AND EXPLORATION INCENTIVE CREDITS IN THE REGULATIONS OF THE DEPARTMENT OF NATURAL RESOURCES

BRIEF DESCRIPTION

The Department of Natural Resources ("DNR") proposes to change regulations on the calculation of the net profit share production tax lease allowance, repeal the exploration incentive credit, and make administrative changes such as updating addresses and/or providing for electronic communication in certain regulations.

DNR proposes to adopt regulation changes in 11 AAC Ch. 03, Ch. 83, and Ch. 89 of the Alaska Administrative Code dealing with the production tax lease allowance used in the calculation of net profit share payments for the Profit Share Leases ("NPSLs"), the expiration of the exploration incentive credit, and the application of administrative changes related to addresses or allowing for electronic communication with the Alaska Royalty Oil and Gas Development Advisory Board ("royalty board") and for DNR, including the following:

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