

15 AAC 56.100(a) is amended to read:

(a) Property used or committed by agreement for use in the production of gas or unrefined oil, or in the operation or maintenance of facilities for the production of gas or unrefined oil will be valued on a use value standard [REPLACEMENT COST LESS DEPRECIATION BASIS].

Value will be determined on a replacement cost less depreciation basis using the following methods: [DEPRECIATION WILL BE BASED UPON THE ECONOMIC LIFE OF PROVEN RESERVES, WITH DUE CONSIDERATION GIVEN TO THE ELAPSED LIFE OF THE FACILITIES.]

(1) before the commencement of regular production full and true value will be the actual cost incurred or accrued as of the assessment date;

(2) after the commencement of regular production replacement  
[REPLACEMENT] cost will be calculated on January 1 of each calendar year by the use of accepted appraisal techniques or other acceptable methods and shall reflect the full current cost of a modern replacement for the production property physically present and installed as of the assessment date, and;

(3) depreciation will be determined on January 1 of each calendar year based on the economic life of proven reserves using the following methods:

(A) for production property serving one or more reservoirs that combined are in production ramp-up or plateau, depreciation will be determined by application of a one-percent per year deduction to the replacement cost;

(B) for production property serving one or more reservoirs that combined are in production decline, depreciation will be determined through application of a percent good factor to the replacement cost. The percent good

factor shall be the result of applying an exponent to a quotient. The quotient will be determined by dividing the calendar year production from the reservoir or reservoirs for the year immediately preceding the assessment date by the calendar year historic peak production for the reservoirs the property serves. The exponent shall scale the quotient to ensure the correct amount of depreciation is applied to the replacement cost for the property as of the assessment date;

(4) depreciation of the replacement cost shall not exceed eighty-percent in any assessment year while a production property is in operation. If a production property is permanently no longer in operation as of the assessment date but has not yet been dismantled and removed, depreciation of the replacement cost shall not exceed ninety-percent in any assessment year. If new proven reserves reverse a production decline such that annual production is above ninety-percent of the historic peak production, or results in a new peak of production, depreciation will revert back to where it left off on the original one-percent per year schedule for the property as prescribed in (2)(A) of this subsection, until production decline;

(5) the department will not deviate from the provisions set out in this section unless extenuating circumstances exist to justify deviation as determined by the department in its sole discretion. Extenuating circumstances may include reservoirs that immediately and significantly underperform resulting in abnormal and excessive super-adequacy of a property, and reservoirs that significantly over perform resulting in the facility constraint of a property. In addressing an extenuating circumstance the department may, in its sole discretion, modify the assessment methods contained in this section to account for the extenuating circumstance, or rely on other acceptable methods to assess the

property. An extenuating circumstance does not require the department to modify the assessment method unless the assessment would be unequal, excessive, or improper without the modification. If seeking an adjustment to the assessment based on an extenuating circumstance the burden of proof will be on a taxpayer or municipality to come forward with clear and convincing evidence that an adjustment is necessary. It is not sufficient for the taxpayer or municipality merely to show that an extenuating circumstance exists.

Instead, a taxpayer or municipality must provide information that demonstrates the department's replacement cost or depreciation estimates are materially insufficient. The department may leave an assessment calculation unadjusted even if the facts show an extenuating circumstance to exist.

15 AAC 56.100 is amended by adding new subsections to read:

(c) "Production" means the sum of all regular production produced and sold from reservoirs served by the production property plus the amount of otherwise commercial oil or gas produced that is used in the operation of those leases or other leases in drilling for or producing oil or gas, including fuel and reservoir recovery uses.

(d) "Production decline" means when production for the calendar year preceding the assessment date is ninety-percent or less of the historic peak production for the reservoirs served by the property;

(e) "Regular production" of oil or gas has the meaning provided under AS 31.05.170(14). (Eff. 3/1/75, Register 53; am 12/29/2016, Register 220; am

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**Authority:** AS 43.05.080 AS 43.56.060 AS 43.56.200