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**OFFICE OF THE LIEUTENANT GOVERNOR  
ALASKA**

**MEMORANDUM**

**TO:** Dan DeBartolo  
Department of Revenue

**FROM:** Scott Meriwether, Office of the Lieutenant Governor 465.4081 

**DATE:** November 28, 2017

**RE:** Filed Permanent Regulations: Department of Revenue

Department of Revenue regulations re: assessments for oil-and-gas properties tax,  
particularly depreciation methodology (15 AAC 56.100)

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Attorney General File:	JU2017200483
Regulation Filed:	11/27/2017
Effective Date:	1/1/2018
Print:	224, January 2018

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

ORDER ADOPTING CHANGES TO REGULATIONS  
OF THE DEPARTMENT OF REVENUE

The attached three pages of regulations, dealing with the oil and gas exploration, production, and pipeline transportation property tax, are adopted and certified to be a correct copy of the regulation changes that the Department of Revenue adopts under the authority of AS 43.05.080, AS 43.56.060, and AS 43.56.200, 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 Revenue paid special attention to the cost to private persons of the regulatory action being taken.

The regulation changes adopted under this order take effect January 1, 2018 as provided in AS 44.62.180.

Date: Nov 20, 2017

Sheldon Fisher  
Sheldon Fisher  
Commissioner,  
Department of Revenue

Claire Richardson for FILING CERTIFICATION

I, Byron Mallott, Lieutenant Governor for the State of Alaska, certify that on

Nov. 27, 2017, at 3:37 p.m., I filed the attached regulations according to the provisions of AS 44.62.040 - 44.62.120.

Claire Richardson for  
Lieutenant Governor

Effective: January 1, 2018

Register: 224, January 2018

**LIMITED DELEGATION OF AUTHORITY  
FOR ADOPTING REGULATIONS**

Under as 44.17.010, the authority and responsibility for adopting regulations of the Department of Revenue under the Alaska Administrative Procedure Act during the period of November 18, 2017 through November 27, 2017 is delegated to Jerry D. Burnett, Deputy Commissioner, Department of Revenue.

Date: 11/17/2017

  
Sheldon Fisher  
Commissioner, Department of Revenue

Subscribed and sworn to before me at Anchorage, AK on  
November 17, 2017

  
Notary Public in and for the State of Alaska



**FOR DELEGATION OF THE LIEUTENANT GOVERNOR'S AUTHORITY**

**I, BYRON MALLOTT, LIEUTENANT GOVERNOR OF THE STATE OF ALASKA, designate the following state employee to perform the Administrative Procedures Act filing functions of the Office of the Lieutenant Governor:**

**Claire Richardson, Special Assistant**

**IN TESTIMONY WHEREOF, I have signed and affixed the Seal of the State of Alaska, in Juneau, on January 7<sup>th</sup> 2015.**



A handwritten signature in dark ink, appearing to read "Byron Mallott", is written over a horizontal dotted line.

**BYRON MALLOTT  
LIEUTENANT GOVERNOR**

15 AAC 56.100(a) is amended to read:

*None 0.5"  
Add 111*

(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 will 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

*(in lower case 111)*



is factor shall be the result of applying an exponent to a quotient. <sup>(lowercase)</sup> The quotient will be determined by dividing <sup>total</sup> the <sup>each</sup> calendar year production from <sup>the property serves</sup> the reservoir <sup>on</sup> <sup>each</sup> reservoirs for the year immediately preceding the assessment date by the calendar year historic peak production for <sup>(lowercase)</sup> the reservoirs the property serves. The exponent <sup>must</sup> 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 <sup>may</sup> shall not exceed <sup>80 percent</sup> ~~eighty percent~~ in any assessment year while a production property is in operation. <sup>(lowercase)</sup> 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 <sup>may</sup> shall not exceed <sup>90 percent</sup> ~~ninety percent~~ in any assessment year. <sup>(lowercase)</sup> If new proven reserves reverse a production decline <sup>and increase</sup> such that annual production <sup>90 percent</sup> is above ~~ninety percent~~ of the historic peak production, or results in a new peak of production, <sup>reverts</sup> depreciation will revert back to where it left off on the original one-percent per year schedule for the property as described in (3)(A) of this subsection, until production decline;

<sup>(lowercase)</sup> (5) The department will use the methodology set out in <sup>the department determines</sup> ~~the provisions of this~~ section to assess production property unless deviation from the methodology <sup>(A) ← (line 9)</sup> is determined necessary ~~by the department~~ when either a new reservoir immediately and significantly underperforms relative to documented expectations and directly results in the abnormal and excessive super-adequacy of a property <sup>(B) ← (line 9)</sup> or a non-reservoir related circumstance occurs that significantly alters production relative to what would otherwise be typical reservoir production. <sup>(lowercase)</sup> A taxpayer or municipality may also request deviation from the methodology set out in this section but only under the same two circumstances. <sup>(lowercase)</sup> When

15

requesting deviation from the methodology set out in this section the burden will be on the taxpayer or municipality to establish that deviation is necessary and that the assessment would be unequal, excessive, or improper without deviation. <sup>lowercase</sup> The mere presence of a <sup>in (A) or (B) of this paragraph</sup> circumstances <sup>as described herein</sup> does not require the department to deviate from the methodology set out in this section if the department determines the assessment is not unequal, excessive, or improper without deviating. <sup>lowercase</sup> When deviating from the methodology set out in the provisions of this section the department may rely on other acceptable methods to assess the property.

In this section,  
§ 17

<sup>no bold or underline</sup>

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 all other 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.

(2) <sup>lowercase</sup>

(d) "Production decline" means when production for the calendar year preceding the assessment date is <sup>90 percent</sup> ninety-percent or less of the historic peak production for the reservoirs served by the property.

(3) <sup>lowercase</sup>

with respect to

given in

(e) "Regular production" of oil or gas has the meaning provided under

AS 31.05.170 <sup>(14)</sup> (Eff. 3/1/75, Register 53; am 12/29/2016, Register 220; am

1 / 1 / 2018, Register 224)

Authority:

AS 43.05.080

AS 43.56.060

AS 43.56.200

# MEMORANDUM


State of Alaska  
Department of Law

To: Hon. Byron Mallott  
Lieutenant Governor

Date: November 27, 2017

File No.: JU2017200483

Tel. No.: 465-3600

From: Steven C. Weaver   
Sr. Assistant Attorney General  
and Assistant Regulations Attorney  
Legislation and Regulations Section

Re: Department of Revenue regulations re:  
assessments for oil-and-gas properties  
tax, particularly depreciation  
methodology (15 AAC 56.100)

We have reviewed the attached regulations from the Department of Revenue against the statutory standards of the Administrative Procedure Act. I have reviewed this project under a specific delegation dated November 22, 2017 from the Regulations Attorney. The regulations update the assessment process for the oil-and-gas properties tax under AS 43.56, particularly depreciation methodology.

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.

We note that the adoption order for the regulations sets a special effective date of January 1, 2018.

The September 20, 2017 public notice, and the November 20, 2017 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.



Hon. Byron Mallott, Lieutenant Governor  
Our file: JU2017200483

November 27, 2017  
Page 2

We have made some technical corrections to the regulations in accordance with AS 44.62.125, as shown on the attached copy.

SCW

cc w/enc: (via email)

Hon. Sheldon Fisher, Commissioner  
Department of Revenue

Dan DeBartolo, Regulations Contact  
Department of Revenue

Ken Alper, Director  
Tax Division  
Department of Revenue

John M. Larsen  
Tax Division  
Department of Revenue

Martin T. Schultz, Sr. Assistant Attorney General  
Natural Resources Section

Peter J. Caltagirone, Assistant Attorney General  
Natural Resources Section

Susan R. Pollard, Chief Assistant Attorney General and Regulations Attorney  
Legislation/Regulations Section

# MEMORANDUM

## State of Alaska Department of Law

**TO:** Hon. Byron Mallott  
Lieutenant Governor

**DATE:** November 22, 2017

**FILE NO.:** JU2017200483

**TELEPHONE NO.:** (907) 465-3600

**FROM:** Susan R. Pollard *SRP*  
Chief Assistant Attorney General  
and Regulations Attorney  
Legislation/Regulations Section

**SUBJECT:** Specific delegation of authority  
regarding regulations review on  
Department of Revenue  
regulations re: assessments for  
oil-and-gas properties tax,  
particularly depreciation  
methodology (15 AAC 56.100)

By this memorandum, I am delegating my authority as Regulations Attorney under AS 44.62 to Assistant Attorney General Steven C. Weaver for the above-referenced regulations project. Under this delegation of authority, Steven Weaver has my full authority under AS 44.62 to conduct the legal review under AS 44.62 and take necessary actions on this regulations project.

If you have questions, please let me know.

SCW

cc w/enc: Scott C. Meriwether, AAC Coordinator  
Office of the Lieutenant Governor

Steven C. Weaver  
Sr. Assistant Attorney General and  
Assistant Regulations Attorney  
Legislation/Regulations Section

NOTICE OF  
PROPOSED CHANGES IN THE REGULATIONS  
OF THE DEPARTMENT OF REVENUE

**BRIEF DESCRIPTION:** The Department of Revenue proposes to change regulations affecting the oil and gas property tax. The proposed change will relate to property used in the production of oil or gas and is assessed pursuant to AS 43.56.060(d).

The Department of Revenue proposes to amend an existing regulation in Title 15, Chapter 56 of the Alaska Administrative Code, dealing with the oil and gas property tax, including the following:

- (1) **15 AAC 56.100. Production Property**, is proposed to be amended to specify and clarify several aspects of the assessment process for oil and gas production property, with an emphasis on depreciation methodology.

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: John Larsen, Audit Master, Alaska Department of Revenue, 550 W. 7th Ave., Ste. 500, Anchorage, AK 99501, by electronic mail to [john.larsen@alaska.gov](mailto:john.larsen@alaska.gov), or by facsimile at (907) 269-6644. **Written comments must be received no later than 4:00 p.m., on Tuesday, October 24, 2017.**

You may submit written questions relevant to the proposed action to John Larsen by email at [john.larsen@alaska.gov](mailto:john.larsen@alaska.gov), or to John Larsen, Alaska Department of Revenue, 550 W. 7<sup>th</sup> Ave., Ste. 500, Anchorage, AK 99501. Questions must be received at least 10 days before the end of the public comment period. The Department of Revenue will aggregate its response to substantially similar questions and make the questions and responses available on the Alaska Online Public Notice System and the Tax Division's website at <http://www.tax.alaska.gov>.

If you are a person with a disability who needs a special accommodation in order to participate in this process, please contact John Larsen at [john.larsen@alaska.gov](mailto:john.larsen@alaska.gov) or at (907) 269-8436 not later than Tuesday, October 17, 2017 to ensure that any necessary accommodations can be provided.

For a copy of the proposed regulation changes, contact John Larsen at (907) 269-8436 or email at [john.larsen@alaska.gov](mailto:john.larsen@alaska.gov), the Alaska Online Public Notice System, or the Tax Division's Internet website at <http://www.tax.alaska.gov>.

**After the public comment period ends on Tuesday, October 24, 2017**, the Department of Revenue will either adopt the proposed regulation changes or other provisions dealing with the

ADDITIONAL REGULATION NOTICE INFORMATION  
(AS 44.62.190(d))

1. Adopting agency: Alaska Department of Revenue
2. General subject of regulation: Alaska Oil and Gas Production Property Taxes: General Clarification; Specification of Depreciation Method
3. Citation of regulation (may be grouped): Amend 15 AAC 56.100
4. Department of Law file number, if any: JU2017200483

5. Reason for the proposed action:

- ( ) Compliance with federal law or action (identify): \_\_\_\_\_
- ( ) Compliance with new or changed state statute
- ( ) Compliance with federal or state court decision (identify): \_\_\_\_\_
- (X) Development of program standards
- ( ) Other (identify): \_\_\_\_\_

6. Appropriation/Allocation: Tax Division, Revenue Operations

7. Estimated annual cost to comply with the proposed action to:

A private person: Zero\*

Another state agency: Zero\*

A municipality: Zero\*

“\*” The department does not expect that any additional costs would be incurred to a private person, another state agency, or a municipality

8. Cost of implementation to the state agency and available funding (in thousands of dollars):

	Initial Year FY <u>2018</u>	Subsequent Years
Operating Cost	\$ <u>0</u>	\$ <u>0</u>
Capital Cost	\$ <u>0</u>	\$ <u>0</u>
1002 Federal receipts	\$ <u>0</u>	\$ <u>0</u>
1003 General fund match	\$ <u>0</u>	\$ <u>0</u>
1004 General fund	\$ <u>0</u>	\$ <u>0</u>
1005 General fund/ program	\$ <u>0</u>	\$ <u>0</u>



AFFIDAVIT OF NOTICE OF PROPOSED REGULATION  
AND FURNISHING OF ADDITIONAL INFORMATION

I, John M. Larsen, Audit Master, of the Department of Revenue, being sworn, state the following:

As required by AS 44.62.190, notice of the proposed adoption of changes to 15 AAC 56.100, dealing with aspects of the assessment process for oil and gas production property, including depreciation methodology has been given by being

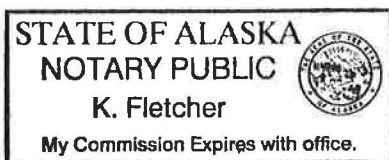
- (1) published in a newspaper or trade publication;
- (2) furnished to interested persons;
- (3) furnished to appropriate state officials;
- (4) furnished to the Department of Law, along with a copy of the proposed regulation;
- (5) furnished electronically to incumbent State of Alaska legislators;
- (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 Finance 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: November 20, 2017

  
John M. Larsen, Audit Master

Subscribed and sworn to before me at Anchorage, Alaska on  
11/20/2017  
(date)



  
Notary Public in and for the State of Alaska

AFFIDAVIT OF AGENCY RECORD OF PUBLIC COMMENT

I, John M. Larsen, Audit Master for the Alaska Department of Revenue, being duly sworn, state the following:

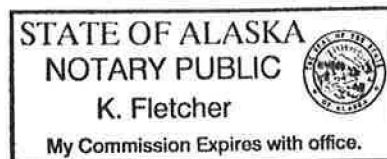
In compliance with AS 44.62.215, the Department of Revenue has kept a record of its use or rejection of factual or other substantive information that was submitted in writing as public comment and that was relevant to the accuracy, coverage, or other aspect of the Department of Revenue's regulations on proposed changes to Title 15, Chapter 56, Oil and Gas Exploration, Production, and Pipeline Transportation Property Taxes.

Date: November 20, 2017

John M. Larsen  
John M. Larsen, Audit Master

Subscribed and sworn to before me at Anchorage, Alaska on  
11/20/2017  
(date)

K. Fletcher  
Notary Public in and for the State of Alaska





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RECEIVED

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Tax Division  
Department of Revenue  
Anchorage, Alaska

# AFFIDAVIT OF PUBLICATION

STATE OF ALASKA  
THIRD JUDICIAL DISTRICT

Joleesa Stepetin  
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

September 20, 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 Joleesa Stepetin

Subscribed and sworn to before

me this 20 day of September

20 17

Britney Thompson

Notary Public in and for  
The State of Alaska,  
Third Division  
Anchorage, Alaska  
MY COMMISSION EXPIRES

2/23/2019

## NOTICE OF PROPOSED CHANGES IN THE REGULATIONS OF THE DEPARTMENT OF REVENUE

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**After the public comment period ends on Tuesday, October 24, 2017**, the Department of Revenue will either adopt the proposed regulation changes or other provisions dealing with the same subject, without further notice, or decide to take no action on them. The language of the final regulation may be different from that of the proposed regulation. You should comment during the time allowed if your interests could be affected. Written comments received are public records and are subject to public inspection.

**Statutory Authority:** AS 43.05.080, AS 43.56.060, and AS 43.56.200.

**Statutes Being Implemented, Interpreted, or Made Specific:** AS 29.45.080; AS 43.56.010; AS 43.56.060; AS 43.56.100.

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

DATE: September 18, 2017  
Juneau, Alaska  
/s/ Ken Alper

Ken Alper  
Director, Tax Division  
(907) 269-6620

Published: September 20, 2017

Notary Public  
BRITNEY L. THOMPSON  
State of Alaska  
My Commission Expires Feb 23, 2019