

Valerie Nurr'araaluk Davidson  
Lieutenant Governor  
State Capitol  
Juneau, Alaska 99811  
907.465.3520  
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530 West 7<sup>th</sup> Ave, Suite 1700  
Anchorage, Alaska 99501  
907.269.7460  
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**OFFICE OF THE LIEUTENANT GOVERNOR  
ALASKA**

**MEMORANDUM**

**TO:** Brad Ewing  
Department of Revenue

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

**DATE:** November 28, 2018

**RE:** Filed Permanent Regulations: Department of Revenue  
  
Department of Revenue Regulations: Part 1: Tanker Return on Invested Capital  
Technical Corrections (15 AAC 55.196)

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Attorney General File:	2018200789.001
Regulation Filed:	11/28/2018
Effective Date:	12/28/2018
Print:	228, January 2019

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

ORDER ADOPTING CHANGES TO REGULATIONS  
OF THE DEPARTMENT OF REVENUE

The attached one page of regulations, dealing with costs of vessel transportation in 15 AAC 55.196, are adopted and certified to be a correct copy of the regulation changes that the Department of Revenue adopts under the authority of AS 43.55.080, AS 43.55.110, AS 43.55.150, 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.

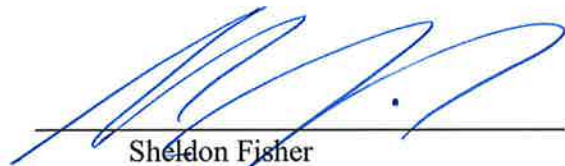
This action is not expected to require an increased appropriation.

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 on the 30th day after they have been filed by the lieutenant governor, as provided in AS 44.62.180.

Date:

11/14/18



Sheldon Fisher  
Commissioner of Revenue

FILING CERTIFICATION

I, Valerie Nurr'araaluk Davidson, Lieutenant Governor for the State of Alaska, certify that on November 20, 2018, at 1:50pm., I filed the attached regulations according to the provisions of AS 44.62.040 - 44.62.120.



Lieutenant Governor

Effective: December 28, 2018.

Register: 228, January 2019.

15 AAC 55.196(d) is amended to read:

(d) With the exceptions set out in this subsection for an LNG transportation facility, a cost of capital allowance under this section must be calculated using the methodology set out in the department's publication *Computation of a Cost-of-Capital Allowance under 15 AAC 55.196, Incorporating Depreciation and Return on Invested Capital for Marine Vessels and Improvements*, **Third** [SECOND] Edition, dated **November 9, 2018** [SEPTEMBER 19, 2003] and adopted by reference. In the case of an LNG transportation facility,

(1) the methodology is applied as if the term "vessel" read "LNG transportation facility";

(2) the useful life for purposes of the methodology is 30 years;

(3) the weighted average cost of capital is 0.2 percentage point greater than that otherwise calculated under the methodology.

<b>Authority:</b>	AS 43.05.080	AS 43.55.030	AS 43.55.110
	AS 43.55.020	AS 43.55.040	AS 43.55.150

**Editor's Note:** Copies of *Computation of a Cost-of-Capital Allowance under 15 AAC 55.196, Incorporating Depreciation and Return on Invested Capital for Marine Vessels and Improvements*, adopted by reference in 15 AAC 55.196(d), may be obtained from the [TAX DIVISION,] Department of Revenue, **Tax Division**, 550 W. 7<sup>th</sup> [SEVENTH] Ave., Suite 500, Anchorage, Alaska 99501-3566 or viewed through the Tax Division's website at:  
[www.tax.alaska.gov](http://www.tax.alaska.gov).

# MEMORANDUM

## State of Alaska Department of Law

To: The Honorable Valerie Nurr'araaluk  
Davidson  
Lieutenant Governor

Date: November 26, 2018

File No.: 2018200789.001

Tel. No.: 465-3600

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

Re: Department of Revenue Regulations:  
Part I: Tanker Return on Invested  
Capital Technical Corrections  
(15 AAC 55.196)

The Department of Law has reviewed the attached regulations of the Department of Revenue against the statutory standards of the Administrative Procedure Act. Based upon our review, 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. The regulations were adopted by the Department of Revenue after the close of the public comment period. The regulation, 15 AAC 55.196(d) relates to calculation of the costs of vessel transportation. The changes in the regulation incorporate the most recent publication of the department related to cost of capital allowances; the primary changes in the new edition conform to the most recent changes in federal income tax rates from the Tax Cuts and Jobs Act of 2017, P.L. 115-97. The Department of Revenue notes that to account for the upcoming tax year, the regulation must be effective *before January 1, 2019*.

The October 2, 2018 public notice and the November 14, 2018 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.

The regulations do not require any technical corrections to conform the regulations in accordance with AS 44.62.125. The material adopted by reference is included.

SRP:lbp

cc: Honorable Sheldon Fisher, Commissioner  
Department of Revenue

Brad Ewing, Director  
Administrative Services Division  
Department of Revenue

John Larsen, Audit Master  
Department of Revenue

Mary Gramling, Assistant Attorney General  
Department of Law

NOTICE OF  
PROPOSED CHANGES ON OIL & GAS PRODUCTION TAX IN THE REGULATIONS  
OF THE DEPARTMENT OF REVENUE

**BRIEF DESCRIPTION:** The Department of Revenue proposes to change regulations to make technical corrections to update the department's reference for the weighted average cost of capital (WACC) index used in determining return on investment (ROI) for oil and gas tankers, and the department's new edition of its publication on ROI updated to recognize the reduction in federal corporate tax rates resulting from the Tax Cuts and Jobs Act of 2017 (P.L. 115-97).

The Department of Revenue proposes to adopt regulation changes to 15 AAC 43.55 of the Alaska Administrative Code, dealing with the oil and gas production tax, including the following:

- (1) **15 AAC 55.195. Return on investment or cost of capital allowance to be used in calculation of costs of transportation for oil or gas, other than certain LNG or vessel transportation costs for oil or gas produced on or after January 1, 2003**, is proposed to be amended to update the reference for the weighted average cost of capital index from a hardbound text to a website location.
- (2) **15 AAC 55.196. Cost of capital allowance to be used in calculation of costs of vessel transportation for oil or gas produced on or after January 1, 2003, other than certain costs pertaining to vessels placed in service before January 1, 1995, and in calculation of transportation costs for gas by an LNG transportation facility placed in service after December 31, 2010**, is proposed to be amended to update the reference to the department's model for return on investment (ROI) to properly reflect new federal corporate tax rates resulting from the Tax Cuts and Jobs Act of 2017 (P.L. 115-97).

You may comment on the proposed regulation changes, including the 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. Additionally, the Department of Revenue will accept comments 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 Monday, November 5, 2018.** If you would like to be added to the department's "Interested Parties" list server to receive email notification of any proposed action you may do so at the following link:  
<http://tax.alaska.gov/programs/documentviewer/viewer.aspx?77n>

You may submit written questions relevant to the proposed action to: John Larsen at [john.larsen@alaska.gov](mailto:john.larsen@alaska.gov) via email, or to: John Larsen, Audit Master, Alaska Department of Revenue, 550 W. 7th Ave., Ste. 500, Anchorage, AK 99501. The 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 Tax Division website at (<http://www.tax.alaska.gov>).

Department of Revenue Notice of Proposed Regulations

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 (907) 269-8436 no later than Monday, October 29, 2018 to ensure that any necessary accommodations can be provided.

A copy of the proposed regulation changes and the 3<sup>rd</sup> Edition the Department's Computation of a Cost-of-Capital Allowance under 15 AAC 55.196, Incorporating Depreciation and Return on Invested Capital for Marine Vessels and Improvements are available on the Alaska Online Public Notice System and the Tax Division website, and by contacting John Larsen at (907) 269-8436 or [john.larsen@alaska.gov](mailto:john.larsen@alaska.gov).

**After the public comment period ends on Monday, November 5, 2018**, 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. 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.** Written comments received are public records and are subject to public inspection.

**Statutory Authority:** AS 43.05.080; AS 43.55.110.

**Statutes Being Implemented, Interpreted, or Made Specific:** AS 43.55.011; AS 43.55.020; AS 43.55.030; AS 43.55.040; and AS 43.55.150.

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

DATE: October 2, 2018  
Anchorage, Alaska

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

**ADDITIONAL REGULATIONS NOTICE INFORMATION**  
**[AS 44.62.190(d)]**

1. Adopting Agency: Department of Revenue, Tax Division
2. General subject of regulation: Administration of Revenue Laws: Technical corrections to update the department's reference for the weighted average cost of capital (WACC) index used in determining return on investment (ROI) for oil and gas tankers, and to recognize the reduction in federal corporate tax rates resulting from the Tax Cuts and Jobs Act of 2017 (P.L. 115-97).
3. Citation of regulations: 15 AAC 55 sections to be amended: 195 and 196.
4. Department of Law file number: 2018200789
5. Reason for the proposed action:
  - ☒ (x) compliance with federal law
  - ☐ ( ) compliance with new or changed state statutes
  - ☐ ( ) compliance with court order
  - ☒ (x) development of program standards
  - ☐ ( ) other: (please list)
6. Appropriation/Allocation: Tax Division, Revenue Operations
7. Estimated annual cost to comply with the proposed action to:

A private person: \*

Another state agency: \$0. The department does not expect additional costs to any other state agency.

A municipality: \*

\* 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 or municipality would incur additional costs beyond re-programming of computer systems that may be necessary to comply with the proposed regulations.

8. Cost of implementation to the state agency and available funding (in thousands of dollars):  
No costs are expected in FY 2018 or subsequent years.

	Initial Year FY 2018	Subsequent Years
Operating Cost	\$ 0	\$ 0
Capital Cost	\$ 0	\$ 0
1002 Federal receipts	\$ 0	\$ 0
1003 General fund match	\$ 0	\$ 0



Additional Regulations Notice Information

1004 General fund	\$ <u>0</u>	\$ <u>0</u>
1005 General fund/ Program	\$ <u>0</u>	\$ <u>0</u>
1037 General fund/ mental health	\$ <u>0</u>	\$ <u>0</u>
Other	\$ <u>0</u>	\$ <u>0</u>

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

Name: John Larsen  
Title: Audit Master  
Address: 550 W. 7<sup>th</sup> Ave., Ste. 500, Anchorage, AK 99501  
Telephone: (907) 269-8436  
FAX: (907) 269-6644  
E-mail: john.larsen@alaska.gov

10. The origin of the proposed action:

☒ staff of state agency  
☐ Federal government  
☐ General public  
☐ petition for regulation change  
☐ other (please list)

11. Date: October 2, 2018

Prepared by: /s/ John M. Larsen  
John M. Larsen  
Audit Master, Tax Division  
(907) 269-8436

CCT 05 2013

# AFFIDAVIT OF PUBLICATION

Tax Division  
Department of Revenue  
Anchorage, Alaska  
Unit #: 270239

Account #: 270239  
ST OF AK/DEPT REVENUE/TAX DIV  
P O BOX 110420  
JUNEAU, AK 998110420

<b>Order#</b>	0001428557
<b>Cost</b>	\$468.14

<b>Product</b>	ADN-Anchorage Daily News
<b>Placement</b>	0300
<b>Position</b>	0301

STATE OF ALASKA  
THIRD JUDICIAL DISTRICT

Sarah Jennett  
being first duly sworn on oath deposes and says that he/she is a representative of the Anchorage Daily 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

October 02, 2018

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 \_\_\_\_\_  
Sarah Jennett

Subscribed and sworn to before me  
this 3rd day of October, 2018

Notary Public in and for  
The State of Alaska.  
Third Division  
Anchorage, Alaska

**MY COMMISSION EXPIRES**

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

NOTICE OF  
PROPOSED CHANGES ON OIL & GAS PRODUCTION TAX IN THE  
REGULATIONS  
OF THE DEPARTMENT OF REVENUE

**BRIEF DESCRIPTION:** The Department of Revenue proposes to change regulations to make technical corrections to update the department's reference for the weighted average cost of capital (WACC) index used in determining return on investment (ROI) for oil and gas tankers, and the department's new edition of its publication on ROI updated to recognize the reduction in federal corporate tax rates resulting from the Tax Cuts and Jobs Act of 2017 (P.L. 115-97).

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(2) **15 AAC 55.196. Cost of capital allowance to be used in calculation of costs of vessel transportation for oil or gas produced on or after January 1, 2003, other than certain costs pertaining to vessels placed in service before January 1, 1995, and in calculation of transportation costs for gas by an LNG transportation facility placed in service after December 31, 2010,** is proposed to be amended to update the reference to the department's model for return on investment (ROI) to properly reflect new federal corporate tax rates resulting from the Tax Cuts and Jobs Act of 2017 (P.L. 115-97).

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John Childs, 77, is a billionaire who owns a luxury fishing region. He has provided \$100,000 to the ballot-measure

AFFIDAVIT OF NOTICE OF PROPOSED REGULATION  
AND FURNISHING OF ADDITIONAL INFORMATION

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

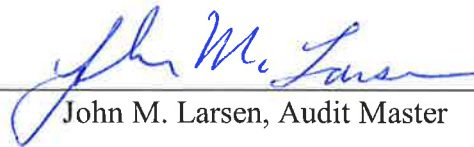
As required by AS 44.62.190, notice of the proposed adoption of changes to 15 AAC 55.195 and 15 AAC 55.196 regarding technical corrections to the department's Return On Investment Model or Cost of capital allowance for marine tankers has been given by being

- (1) published in a newspaper or trade publication;
- (2) furnished to every person who has filed a request for notice of proposed action with the state agency;
- (3) furnished to appropriate state officials;
- (4) furnished to interested persons;
- (5) furnished to the Department of Law, along with a copy of the proposed regulation;
- (6) furnished electronically to incumbent State of Alaska legislators;
- (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).

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 (2), (4) and (6) of the list above. The additional regulation notice information also has been posted on the Alaska Online Public Notice System.

Date: \_\_\_\_\_

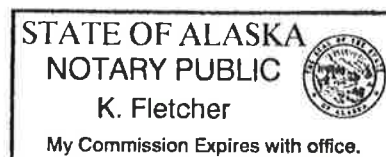
11/14/18

  
\_\_\_\_\_  
John M. Larsen, Audit Master

Subscribed and sworn to before me at Anchorage, Alaska on 11/14/2018.

  
\_\_\_\_\_

Notary Public in and for the State of Alaska



AFFIDAVIT OF AGENCY RECORD OF PUBLIC COMMENT

I, John M. Larsen, Audit Master for the 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 regulation on proposed changes to 15 AAC 55.195 and 15 AAC 55.196 regarding technical corrections to the Department's Return On Investment Model or Cost of capital allowance for marine tankers.

Date: 11/14/18

John M. Larsen  
John M. Larsen, Audit Master

Subscribed and sworn to before me at Anchorage, Alaska on 11/14/2018

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

