

EXPLANATORY OVERVIEW OF PROPOSED REGULATION
CHANGE UNDER 15 AAC 56.100(a) FOR PROPERTY TAX

On Friday, August 12, 2016, The Department of Revenue (“Department”) held a public scoping workshop to receive input from the public and interested parties regarding possible changes to existing regulations for the Department’s Oil and Gas Exploration, Production, and Pipeline Transportation Property Tax under 15 AAC 56. Public notice for the scoping workshop was issued July 28, 2016 and the notice included language that the Department might consider proposing changes to the regulations in regards to the meaning of ‘intangible drilling expenses,’ the duration of replacement value for a certified assessment roll, and the determination of proven reserves as required by AS 43.56. As a result of comments received, both verbally at the scoping workshop and at the close of comments on Tuesday, August 16, 2016, the Department has made a decision to withhold proposing any material changes related to these topics during the current regulations project. The Department does, however, still intend to remove one sentence related to proven reserves under 15 AAC 56.100(a), which will be discussed, below. The Department is providing this overview in order to explain why the language is being proposed for deletion and to assist those who wish to submit written comments on the proposed regulation changes. Written comments on the proposed regulations for property tax must be received no later than 4:30 p.m., on Thursday, October 20, 2016.

Please see the public notice¹ for details about how to comment on these proposed regulation changes. The public notice and proposed regulations are available on the Department's website at:

<http://www.tax.alaska.gov/programs/programs/news/index.aspx?60018>.

Background:

AS 43.56.060(d)(2) and (e)(2) direct the Department to rely, in part, on 'proven reserves' in determining 'The full and true value of taxable property used or committed by contract or other agreement' for the operation or maintenance of facilities for the production of gas or unrefined oil,² or for the operation and maintenance of facilities for the pipeline transportation of gas or unrefined oil.³ 15 AAC 56.100(a) implements the statutory requirement in regards to the operation or maintenance of facilities for the production of gas or unrefined oil and includes language that currently provides: "The economic life of proven reserves will be established each year using petroleum engineering methods."⁴

Discussion and next steps:

1. Current practices for estimating 'proven reserves.'

As part of an overall effort to streamline processes, reduce redundancy, and create more efficient state government, the Department has ceased its role in creating the bi-annual

¹ Information on submitting written comments for the proposed regulations is the same in both the Public Notice, distributed Monday, September 19, 2016, and the Supplemental Public Notice, distributed Wednesday, September 21, 2016.

² AS 43.56.060(d)(2)

³ AS 43.56.060(e)(2)

⁴ The sentence proposed for deletion.

production forecast for the State of Alaska. That function now formally resides within the Department of Natural Resources (DNR), which already had a similar function in place. The proposed amendment is meant to clarify that the production forecasting function is no longer being performed by the Department of Revenue. Nevertheless, the Department does not intend to alter any practices, considerations, or types of analysis currently relied upon in conducting assessments of production property relative to how that property has been assessed in the past. The Department can rely on the production forecast developed by the DNR for current and future property tax assessments by the Department.

2. Next steps.

After completion of the current regulations project and, subject to the timing of the 2017 legislative session and other considerations, the Department may propose to hold one or more workshops to discuss how the Department may develop clearer regulatory language for determining both the economic⁵ and estimated⁶ life of proven reserves as required by AS 43.56.060. If, and at such time as, the Department decides to proceed with a workshop related to proven reserves, the Department will, through public notice, announce the time and place of such meetings.

⁵ AS 43.56.060(d)(2)

⁶ AS 43.56.060(e)(2)