



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