



**Response to Questions on the Proposed Changes on Net Profit Share Leasing,
Administrative Updates, and Exploration Incentive Credits in the Regulations of the
Department of Natural Resources**

On February 14, 2017, the Department of Natural Resources (“DNR”) issued a Notice of Proposed Changes concerning the proposed regulations revisions contained in the Department of Law file number JU2016200840. Subsequently, on March 1, 2017, DNR issued a Supplemental Notice further modifying the proposed amendments affecting the production tax lease allowance (“PTLA”) under 11 AAC 83.241, changing the public workshop date to March 22, 2017, and extending the public comment period to April 6, 2017.

Since the issuance of the Supplemental Notice, DNR received questions seeking clarification on the proposed changes to the regulations of Net Profit Share Leases (“NPSLs”). In this document, the Division of Oil & Gas responds to the questions received during the public comment period.

1. Do the proposed changes to the regulations affecting the PTLA under 11 AAC 83.241 apply retroactively or prospectively?

There are two categories proposed changes to regulations on Net Profit Share Leasing: (i) those that implement ch. 4, 4 SSLA 2016 (“HB 247”)¹, and (ii) amendments² to prevent the potential overestimation of the PTLA that may occur whenever production from the NPSL qualifies for GVR under AS 43.55.160(f) or when the NPSL production contributes to the generation of non-transferable production tax credits under AS 43.55.024(c), 43.55.024(i), or 43.55.024(j). For the first category, Section 41 of HB 247 establishes that the effective date of that bill was January 1, 2017 and Section 38 allows DNR to adopt regulations retroactively to that date. Thus, the proposed amendments to 11 AAC 83.241(b)(2)(B) and 11 AAC 83.241(c) will apply retroactively to January 1, 2017. For the second category, the amendments will become effective in the production month corresponding with the effective date prescribed by AS 44.62.180.

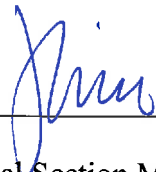
2. Does the retroactive application to January 2017 refer to the production month or the filing month?

¹ They are reflected in the proposed changes to 11 AAC 83.241(b)(2)(B) and 11 AAC 83.241(c).

² They are reflected in the proposed changes to 11 AAC 83.241(a), 11 AAC 83.241(b)(1)(C), 11 AAC 83.241(b)(2)(C), 11 AAC 83.241(b)(2)(D), 11 AAC 83.241(b)(3)(B), and 11 AAC 83.241(f).

The retroactive application of the proposed changes refers to the production month.

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