



August 29, 2013

Re: **Oil and Gas Net Profit Share Lease (NPSL) proposed amended regulations (11 AAC 83 Article 2)**

Dear Alaskan:

The Alaska Department of Natural Resources (DNR) is proposing changes to regulations regarding the accounting and reporting of expenses and revenues for net profit share oil and gas leases (NPSL). Some changes are proposed based on 2013 legislative changes; other changes are intended to clarify NPSL accounting, address retroactive redeterminations, update requirements related to forms and instructions, and to propose charging an administrative fee for late or incomplete NPSL filings. Your comments on these proposed regulations changes are invited and encouraged.

Due to the proposed regulation changes, DNR is also proposing to update its Production Tax (PT) Form, which is an EXCEL form that must be filed by lease-holders with the monthly NPSL reports. DNR is holding a workshop September 13, 2013 to explain the new PT form and take questions about the form. Workshop details are in the Notice of Proposed Regulations as set out below.

As to the proposed regulations themselves, in 2013, the legislature amended the oil and gas production tax (Ch 10, SLA 2013). The NPSL regulations must be amended to reflect the recent legislative changes. NPSL regulations approximate the impact of a lease on the company-wide tax bill by referencing the rates in the production tax law including using revenue, cost, and structural elements analogous to those used in calculating the oil and gas production tax. Issues addressed in the proposed regulations for oil and gas produced after December 2013 include:

1. Incorporating the base tax rate of 35 percent for purposes of calculating the production tax lease allowance;
2. Incorporating the \$5.00 per-barrel-of-oil non-transferable tax credit under AS 43.55.024(i) for oil and gas that meets the criteria of the gross value reduction under AS 43.55.160(f) or (g);
3. Incorporating the sliding scale non-transferable tax credit under AS 43.55.024(j) for oil and gas that does not meet the criteria of the gross value reduction under AS 43.55.160(f) or (g), and limitations to that credit that keep the production tax lease allowance above the minimum tax;

4. Incorporating the reduction in gross value at the point of production for certain North Slope oil and gas that meets the criteria under AS 43.55.160(f) or (g) for purposes of calculating the tax base upon which the 35% tax rate applies;
5. Removing the requirement to discount certain of a lessee's qualified development costs due to the elimination of the 20% Qualified Capital Expenditure credit for the North Slope;
6. Incorporating the increase in the annual loss credit for expenditures incurred on the North Slope for purposes of the development account credits and, after the start of commercial production, credits in the production revenue account; and
7. Eliminating the lease-allocated tax based on price index (progressivity).

Other proposed changes to the NPSL regulations include provisions to clarify monthly accounting for the production revenue account. In addition, as DNR recognizes that accurate and updated forms and instructions must be used for royalty and NPSL reporting purposes, DNR proposes to remove reference to 2002 reporting forms and instructions and reference updated forms and instructions provided by DNR.

Last, DNR proposes to charge an administrative fee for late and incomplete NPSL reports as is currently done for royalty reports. This change is intended to encourage timely and complete filing of NPSL reports.

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 Greg Bidwell at Department of Natural Resources, 550 W. 7<sup>th</sup> Avenue, Suite 1100, Anchorage, Alaska, 99501-3560. Additionally, comments may be submitted by facsimile at 907-269-8938, may be submitted online at <http://dog.dnr.alaska.gov/ContactUs/PublicComment.htm>, and by electronic mail at [dog.comments@alaska.gov](mailto:dog.comments@alaska.gov). For e-mail, please place "Proposed NPSL Regulations" in the subject line. **Comments must be received no later than 5:00 p.m. on Monday, September 30, 2013.** Comments received after this date will not be considered in final action on these regulations.

A public workshop will be held on **Friday, September 13, 2013 from 9:00 a.m. to 11:00 a.m. in the Atwood Building, Room 1270, 550 West 7<sup>th</sup> Avenue, Anchorage, AK 99501.** The workshop may be extended up to one hour if additional time is needed for clarifying the information presented. The workshop will cover the Department's proposed changes to the PT form used to calculate the production tax lease allowance for a Net Profit Share Lease, the mathematics and reporting information required for the form, and clarify questions for accurately completing the form. No comments on the proposed regulations will be taken at the workshop. The forms and instructions will be posted on the Department's web site at <http://dog.dnr.alaska.gov/AboutUs/PublicNotices.htm#pnother>. The workshop will be transcribed. Interested parties outside of Anchorage are invited to participate by teleconference. Please contact the Division of Oil and Gas at 907- 269-8800 for teleconference phone number and access code.

If you are a person with a disability who needs a special accommodation in order to participate in the workshop, please contact the Division of Oil and Gas at 907-269-8800 (TDD 907-269-8411) no later than September 6, 2013 to ensure that any necessary accommodations can be provided.

For a copy of the proposed regulation changes and the proposed amended form, contact the Division of Oil and Gas at 907-269-8800 or go to either the Division's website at <http://dog.dnr.alaska.gov/AboutUs/PublicNotices.htm#pnother> or the Alaska Online Public Notice Website at <http://aws.state.ak.us/OnlinePublicNotices/Notices/Browse.aspx>.

After the public comment period ends, the Department of Natural Resources 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. Comments must be received no later than 5:00 p.m. on Monday, September 30, 2013.** Written comments received are public records and are subject to public inspection.

Thank you for your consideration. I look forward to reading your comments.

Sincerely

/s/

William C. Barron  
Director