Alaska Oil and Gas Association

121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907) 272-1481 Fax: (907) 279-8114
Kara Moriarty, President/CEO

November 6, 2019

Mr. John Larsen, Audit Master
Tax Division, Alaska Department of Revenue
550 West 7th Avenue, Suite 500
Anchorage, AK 99501

Re: Proposed Changes to Regulations (October 4, 2019 Public Notice)

Dear Mr. Larsen:

The Alaska Oil and Gas Association ("AOGA") appreciates the opportunity to provide comments in response to the Department of Revenue's ("DOR") proposed changes to certain regulations in Title 15. For nearly half a century, AOGA has been the trade association of the petroleum industry in Alaska, and our members actively continue to explore for, develop, produce, transport and refine oil and gas in the state. In keeping with our practice regarding tax matters, all our members have had the opportunity to review and contribute to these comments, and they have been approved without dissent.

Our comments concern the regulations that DOR has proposed to change pursuant to the public notice dated October 4, 2019. Based on the public notice, DOR is proposing to revise the calculation of the cost of capital allowance by removing calculations over multiple time periods, which would reduce the scope of input data and simplify the calculation.

We appreciate DOR's efforts to simplify this calculation and reduce the data inputs for it. These proposed changes should substantially reduce the administrative burden on taxpayers and DOR, and — importantly — appear to be revenue neutral.

As previously stated, would also appreciate DOR's attention to a number of items that AOGA has previously discussed with DOR that we believe would further clarify and streamline the implementation and management of the AS 43.55 production tax. These areas for improvement include:

- Providing regulatory guidance regarding the exclusion from lease expenditures for unscheduled interruptions in production under AS 43.55.165(e)(19), including materiality thresholds

- Clarifying the application of AS 43.55.170 to major asset sales
- Aligning the application of 15 AAC 55.260 with modern industry practices in regard to labor charges
- Recognizing that the "applicable tariff" for the calculation of prevailing value under 15 AAC 55.171(g) for North Slope oil sales is the FERC tariff
- Shortening the six year Statute of Limitations ("SOL") to improve compliance and reduce audit burdens
- Clarifying the prevailing value under 15 AAC 55.171(g) so taxpayers can file accurate and complete tax returns
- Revisiting Advisory Bulletin 2017-01 regarding the North Slope minimum tax
- Addressing audit inefficiencies through a variety of means, including:
    - Making good use of joint interest billings in the audit process to increase audit efficiency
    - Implementing policies to refine issue targeting within audits, including issue selection based materiality, sampling, and reducing audit effort on low risk issues
    - Recognizing that many upstream and downstream costs are stable and do not require a detailed review of every account and invoice for every audit
    - Not re-creating a taxpayer's workbooks and calculations from scratch when a review and verification of them is adequate
    - Establishing audit policies that are consistent from one audit cycle to the next—regardless of the auditor
    - Incorporating appeal decisions into audits such that issues need not be repeatedly contested
    - Providing clear, concise audit work papers

We appreciate the opportunity to comment and recognize the value in DOR's efforts to improve regulations and audit processes.

Please contact me if DOR has any questions or would like to meet to discuss these comments.

Very truly yours,

ALASKA OIL AND GAS ASSOCIATION

Kara Moriarty

Kara Moriarty
President/CEO

CC: Colleen Glover, Tax Division Director, Alaska Department of Revenue