

DEPARTMENT OF LAW OIL, GAS AND MINING SECTION
MAJOR LITIGATION

02/06/2014

<u>Case</u>	<u>Approx. Start Date</u>	<u>Issue(s) and Status</u>	<u>Costs *</u>	<u>Value</u>
Tesoro Corporate Income Tax Case (1994-1998)	2004	<p>Issue: Whether a company should have filed its tax returns on a unitary, combined basis and is subject to penalties.</p> <p>Status: Superior court ruled in favor of the state. Tesoro appealed to the Alaska Supreme Court and oral argument was held September 12, 2012. DOR's assessment was upheld by the Alaska Supreme Court on October 25, 2013. The U.S. Supreme Court has granted Tesoro until February 24, 2014 to file its petition for certiorari.</p>	<p>DOL Expenditures from start of case through 12/31/13: \$2,312,440</p> <p>Anticipated Future Costs: \$0</p>	Approx. \$13 million.
Corporate Income Tax Case	Confidential	<p>Issue: Whether DOR properly adjusted a taxpayer's Alaska apportionable income and sales factors.</p> <p>Status: Confidential</p>	<p>DOL Expenditures from start of case through 12/31/13: \$0</p> <p>Anticipated Future Costs: \$250,000</p>	Confidential
TAPS Property Tax Case	<p>June 2006</p> <p>June 2007</p> <p>June 2008</p> <p>June 2009</p> <p>June 2010</p> <p>June 2011</p>	<p>Issue: Whether DOR properly assessed property tax value of TAPS in 2006, 2007, 2008, 2009, 2010 and 2011. 2007-2009 cases were consolidated for trial.</p> <p>Status: Nine week trial ended in November 2011 on consolidated 2007-2009 assessments. Judge Gleason entered a decision on December 29, 2011. 2010 and 2011 appeals awaiting scheduling for trial.</p> <p>The 2006 TAPS valuation appealed to and argued before Alaska Supreme Court in December 2012. Decision anticipated sometime in 2014. Judge Gleason's 2007-2009 decision increased the assessed values for all three years, and is</p>	<p>DOL Expenditures from start of case through 12/31/13: \$2,625,093</p> <p>Anticipated Future Costs: \$1.0 million through trial on the 2010-2013 assessments and Alaska Supreme Court appeals of the 2006-2009 superior court decisions.</p>	<p>State directly receives approximately 48% of TAPS property tax revenue with remainder apportioned among North Slope and Fairbanks Boroughs and City of Valdez. Superior court 2006 decision resulted in approx. \$112 million in additional property tax revenues.</p> <p>The superior court's 2007-2009 decision substantially increased the assessed value of TAPS, which will result in higher property taxes, but also higher</p>

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TAPS Interstate and Intrastate Tariffs Strategic Reconfiguration (SR)	December 2004	<p>Issue: Were \$100's of millions spent on pipeline capital project prudent expenditures? Project is currently more than \$500 million over the budget at project approval. The remedy for imprudent expenditures is removal of the capital costs from rate base, so any reductions result in refunds and increased State royalty and production tax revenues for 2009 through 2014, and lower tariff rates going forward.</p> <p>Status: The State, shippers, and TAPS carriers concluded two series of concurrent hearings at the RCA and the FERC in winter 2011-12 and fall 2012 and have filed over 1800 pages of legal briefs based on a record containing over 2000 exhibits (some of several volumes), and over 12,000 pages of hearing transcripts. The FERC Chief Judge has set a date for issuance of an Initial Decision (ID) by the Administrative Law Judge on February 28, 2014. We anticipate the RCA will also issue its separate decision in spring of 2014. The RCA decision will likely be appealed to the Alaska Superior Court resulting in additional briefing and oral argument in an on-the-record review that we anticipate will result in a decision in 2015. At the FERC, following issuance of the ALJ's recommended decision the parties will file additional briefs and the entire record will be transmitted to the full Commission for review. We anticipate that a final FERC decision and order will then be issued in early 2015.</p>	<p>DOL Expenditures from start of case through 12/31/13: \$17,450,593</p> <p>Anticipated Future Costs: \$1 to 1.5 million through Final Decision and Order by the FERC and appellate review of the RCA decision at the Alaska Superior Court.</p>	Approximately \$60 million in increased royalties and production taxes from tariff refunds for 2009 through 2014; \$100's of millions impact on future royalty and production tax

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ELF Aggregation	<p>June 2012</p> <p>June 2013</p>	<p>consistent with her decision in the 2006 case. This decision also appealed to Alaska Supreme Court and briefing is complete. Awaiting decision from Alaska Supreme Court on 2006 appeals and scheduling order for oral argument on 2007-2009 appeals.</p> <p>SARB appeal of Department of Revenue's 2012 property tax valuation of \$8.25 billion stayed pending resolution of 2006 TAPS valuation appeal to Alaska Supreme Court.</p> <p>The 2013 SARB assessment of \$11.9 billion has been appealed to superior court.</p>		<p>TAPS tariffs because property taxes are an allowable pipeline expense in ratemaking methodology. The higher property taxes will be shared by the municipalities and the state, and the state's share will be offset to some degree by the higher tariff's effect on production tax and royalty revenues.</p>
Point Thomson Unit	<p>Jan. 2013</p> <p>The DNR unit default decision in 2005. PTU settlement executed in March 2012.</p>	<p>Issue: Whether OAH erred by determining that DOR Tax Division decision aggregating PAs constituted invalidly adopted regulation that violated the Alaska Administrative Procedure Act and both state and federal due process guarantees.</p> <p>Status: The working interest owners of the various PAs filed their notice of appeal on Jan. 9, 2013. The case is assigned to Judge Sen Tan and briefing will be complete this spring.</p> <p>Issue: Whether DNR's decision to terminate the Point Thomson Unit (PTU) due to the producers' refusal to commit to development of the unit should be upheld.</p> <p>Status: The PTU litigation was settled in March 2012. Under the settlement the PTU lessees have agreed to develop the unit and build a common carrier pipeline and other infrastructure to produce gas liquids. The settlement agreement has been</p>	<p>DOL Expenditures from start of case through 12/31/13: \$72</p> <p>Anticipated Future Costs: \$0</p> <p>DOL Expenditures from start of case through 12/31/13: \$20,837 (settlement case)</p> <p>Anticipated Future Costs: \$50,000</p>	<p>The value is several hundred million dollars of production tax revenue.</p> <p>Hundreds of millions in additional tax and royalty dollars if the PTU is developed.</p>

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CP Royalty Audit Beluga River Unit	Late 2010	<p>challenged. The superior court ruled in favor of the state on December 7, 2012, and the challenger has appealed to the Alaska Supreme Court. Oral argument is scheduled for March 11, 2014.</p> <p>Issue: Cook Inlet audit BRU.</p> <p>Status: Audit Issued June 2011 for years 2007 through 2009. Lack of confidentiality agreement has precluded moving the case forward. DOL is working on alternative means for disclosing transactions DNR relied on.</p>	<p>DOL Expenditures from start of case through 12/31/13: in-house DOL staff only.</p> <p>Anticipated Future Costs: \$100,000</p>	\$5 million
CP Royalty Audit North Slope 2007	February 2013	<p>Issue: North Slope production audit</p> <p>Status: working on new form lease valuation and valuation of some DL-1 leases not subject to RSA</p>	<p>DOL Expenditures: \$0</p> <p>Anticipated Future Costs: \$100,000</p>	\$700,000
Unocal 2007 Gas Cook Inlet	February 2013	<p>Issue: Cook Inlet Gas production audit</p> <p>Status: Working on confidentiality agreements</p>	<p>DOL Expenditures: \$0</p> <p>Anticipated Future Costs: 50,000</p>	\$350,000
Northstar Production Allocation Dispute	Late 2009	<p>Issue: Dispute between the state and Murphy Exploration (Alaska) Inc. regarding allocation of production from the Northstar participating area between state and federal leases.</p> <p>Status: A week-long evidentiary hearing was held before a DNR hearing officer March 12-16, 2012, followed by post-hearing briefing. The Commissioner issued a decision on June 6, 2013, which Murphy appealed to superior court. Briefing and argument on Murphy's requested for trial de novo is complete.</p>	<p>DOL Expenditures from start of case through 12/31/13: \$28,757</p> <p>Anticipated additional expenditure: \$200,000</p>	\$160 million plus

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Marathon Royalty Audit	2010 Appeal	<p>Issue: Cook Inlet Gas Production 2003 – 2006.</p> <p>Status: On December 6, 2013, DNR Commissioner issued a final decision on this appeal upholding the audit with one adjustment.</p>	<p>DOL Expenditures from start of case through 12/31/13: In-house DOL staff only</p> <p>Anticipated additional expenditure: \$0</p>	\$4.5 million
Gas Pipeline	July 1, 2007	<p>Issue: DOL provides legal advice to DOR and DNR concerning Alaska gas pipeline projects, including the AGIA license and advancing the state's efforts to promote a large-scale LNG project, including treatment, pipeline and liquefaction plant, from the North Slope to markets involving the North Slope Producers, TransCanada and a state subsidiary.</p> <p>Status: Regarding the Governor's initiative to advance development of a large LNG project, DOL OGM Section attorneys manage specialized outside legal counsel to provide advice on federal jurisdictional, statutory, regulatory and other issues regarding TransCanada's and the North Slope gas producers' alignment to develop a large-diameter liquefied natural gas (LNG) pipeline to tidewater in Alaska for in-state use and export; provides legal assistance on complex matters concerning associated transactional developments, commercial and financial arrangements, federal tax issues, federal regulatory, proposed fiscal matters, confidentiality issues and gas pipeline best practices; also due diligence on AGIA license implementation – costs, license reimbursements, compliance and statutory requirements.</p>	<p>DOL Expenditures from start of case through 12/31/13: \$10,135,596</p> <p>Anticipated Future Costs: \$2.0 million in FY 2014.</p>	Major tax and royalty revenues

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CINGSA Pore Space	2012	<p>Issue: Ownership of subsurface for purposes of mineral storage.</p> <p>Status: All parties have filed summary judgment motions. Oral argument has not been scheduled.</p>	<p>DOL Expenditures from start of case through 12/31/13: in-house DOL staff only.</p> <p>Anticipated Future Costs: \$0</p>	<p>\$0</p> <p>Effects statewide ownership of subsurface storage rights.</p>

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