

DEPARTMENT OF LAW OIL, GAS AND MINING SECTION
MAJOR LITIGATION

02/05/2013

<u>Case</u>	<u>Approx. Start Date</u>	<u>Issue(s) and Status</u>	<u>Costs *</u>	<u>Value</u>
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 about \$500 million over budget at project approval. There are other issues related to these tariffs (Phase II) that will be heard after the prudence phase (Phase I).</p> <p>Status: State, shippers, and carriers concluded an additional four weeks of concurrent hearings before the FERC and RCA in September 2012. The parties have each filed two rounds (450 pages) of post-hearing briefs with the Commissions and, after the FERC ALJ issues a recommended decision, the parties will file responses to that proposed decision. We anticipate that the initial decision will issue in March or April 2013. Considering the amounts in controversy, we anticipate that the parties will then file briefs on exceptions to elements of the initial decision of the FERC ALJ, and that a final decision by the full FERC commission will be issued several months later.</p>	<p>DOL Expenditures as of 12/30: \$16,560,104</p> <p>Anticipated Future Costs: \$1.6 million through initial decisions by the Federal Energy Regulatory Commission and the Regulatory Commission of Alaska.</p>	<p>\$15-20 million in refunds, \$100's of millions impact on future royalty and production tax</p>
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.</p>	<p>DOL Expenditures as of 11/30: \$2,311,750</p> <p>Anticipated Future Costs: \$0</p>	<p>Approx. \$13 million.</p>

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Corporate Income Tax Case	Confidential	Status: Confidential	DOL Expenditures as of 11/30: \$127,679 Anticipated Future Costs: \$250,000	Confidential
TAPS Property Tax Case (Nonconfidential)	June 2006 June 2007 June 2008 June 2009 June 2010 June 2011 June 2012	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. 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. The 2006 TAPS valuation appealed to and argued before Alaska Supreme Court in December 2012. Decision anticipated sometime within the year. Judge Gleason's 2007-2009 decision increased the assessed values for all three years, and is consistent with her decision in the 2006 case. This decision also appealed to Alaska Supreme Court and opening briefs due on February 22, 2013. 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.	DOL Expenditures as of 11/30: \$2,438,554 Anticipated Future Costs: \$1.0 million through trial on the 2010-2012 assessments and Alaska Supreme Court appeals of the 2006-2009 superior court decisions.	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. The superior court's 2007-2009 decision substantially increased the assessed value of TAPS, which will result in higher property taxes, but also higher 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.

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ELF Aggregation	Jan. 2013	<p>Issue: Whether OAH erred by determining that DOR Tax Division decision aggregating PAs constituted invalidly adopted regulation that violated 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 has been assigned to Judge Sen Tan and a scheduling order has not been issued.</p>	<p>DOL Expenditure as of 11/30: \$72</p>	<p>The value is several hundreds of millions of production tax revenue.</p>
Point Thomson Unit	The DNR unit default decision in 2005.	<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 challenged. The superior court ruled in favor of the state on December 7, 2012, and the challenger has appealed to the Alaska Supreme Court.</p>	<p>DOL Expenditures as of 11/30: \$2,836,494</p> <p>Anticipated Future Costs: \$50,000</p>	<p>Hundreds of millions in additional tax and royalty if the PTU is developed.</p>

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Royalty Audit Anadarko	2008	<p>Issue: Audit of 2004 – 2007 audit returns focusing on destination value.</p> <p>Status: Anadarko filed an administrative appeal in November 2011.</p>	<p>DOL Expenditures as of 11/30: \$15,000.</p> <p>Anticipated Future Costs: \$150,000</p>	\$1-9 million
Royalty Settlement Agreement Reopener – BP	Late 2008	<p>Issue: The State is preparing to assess a claim under the Royalty Settlement reopener provisions regarding capital construction funds and other tax benefits that reduce BP's transportation costs.</p> <p>Status: Preparing arbitration claim. Anticipate resolution in 2013.</p>	<p>DOL Expenditures as of 11/30: \$413,401</p> <p>Anticipated Future Costs: \$1,000,000 through arbitration.</p>	\$15-20 million
Royalty BP Audit 2007 - 2010	Late 2010	<p>Issue: Value and transportation costs in the 2007 – 2010 period. Approximate audit claim of \$6 million which includes approximately \$4 million related to the aforementioned Royalty Settlement Agreement Reopener – CCF issue.</p> <p>Status: DNR audit is in progress. Anticipate resolution in 2013 for leases not subject to royalty settlement.</p>	<p>DOL expenditures as of 06/30: in-house DOL staff only.</p> <p>Anticipated Future Costs: \$50,000</p>	\$6 million
Net Profit Share Audit BP in the MPU	2011	<p>Issue: BP NPSL development and operating costs and revenue at the Milne Point Unit 2006-2007.</p> <p>Status: DNR issued and settled audit with DOL assistance.</p>	<p>DOL Expenditures as of 11/30: in-house DOL staff only</p> <p>Anticipated Future Costs:</p>	\$7,450,000 million

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CP North Slope Oil Royalty Audit	2008	<p>Issue: 2004 – 2005 audit of CP new form leases on the North Slope, including CRU.</p> <p>Status: Audit issued 7/28/11; ConocoPhillips filed an administrative appeal in January 2012.</p>	<p>DOL Expenditures as of 11/30: in-house DOL staff only.</p> <p>Anticipated Future Costs: \$400,000</p>	\$0-7 million
Net Profit Share Audit CP in the Colville River Unit	Mid-2009	<p>Issue: NPSL audit regarding development costs back to 1991.</p> <p>Status: Audit in progress.</p>	<p>DOL Expenditures as of 11/30: in-house DOL staff only.</p> <p>Anticipated Future Costs: \$50,000</p>	Not determined.
CP Royalty Audit Beluga River Unit	Late 2010	<p>Issue: Cook Inlet audit BRU.</p> <p>Status: Audit Issued June 2011 for years 2007 through 2009. Working on confidentiality agreement for information sharing and case preparation.</p>	<p>DOL Expenditures as of 11/30: in-house DOL staff only.</p> <p>Anticipated Future Costs: \$100,000</p>	\$5 million
Northstar Production Allocation Dispute - BP	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 matter is currently pending before the Commissioner.</p>	<p>DOL Expenditure as of 11/30: approximately \$1 million</p> <p>Anticipated additional expenditure: \$200,000</p>	\$160 million plus

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Net Profit Share Audit BP in Endicott	2011	<p>Issue: BP NPSL development and operating costs and revenue at the Endicott 2006-2007.</p> <p>Status: DNR issued and settled audit with DOL assistance.</p>	<p>DOL Expenditures as of 01/24: \$0</p> <p>Anticipated additional expenditure: \$0</p>	\$2,650,000
Marathon Royalty Audit	2010 Appeal	<p>Issue: Cook Inlet Production 2003 – 2006.</p> <p>Status: Appeal in process.</p>	<p>DOL Expenditures as of 1/24: \$0</p> <p>Anticipated additional expenditure: \$100,000</p>	\$4.5 million
Gas Pipeline	January 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 gasline from the North Slope to markets.</p> <p>Status: DOL continues to provide advice on gasline matters, including due diligence on AGIA license implementation – costs, license reimbursements, compliance, proposed commercial and financial arrangements, fiscal matters, and confidentiality issues. DOL also provides legal advice regarding TransCanada's and the North Slope gas producers' alignment to evaluate viability of a large-diameter liquefied natural gas (LNG) pipeline to tidewater in Alaska for in-state use and export. OGM Section attorneys manage specialized outside legal counsel to provide advice on federal jurisdictional, statutory, regulatory and other issues that affect the gasline projects.</p>	<p>DOL Expenditures as of 11/30: \$2,576,566</p> <p>Approx. \$7.096 million Total to date</p> <p>Anticipated Future Costs: \$2.0 million in FY 2014.</p>	

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CINGSA Pore Space	2012	<p>Issue: Ownership of subsurface for purposes of mineral storage.</p> <p>Status: In discovery, depositions are being scheduled.</p>	<p>DOL Expenditures as of 11/30: 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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