

DEPARTMENT OF LAW OIL, GAS AND MINING SECTION  
MAJOR LITIGATION

02/13/2015

<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><b>Issue:</b> 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><b>Status:</b> 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 filed over 1800 pages of legal briefs based on a record containing over 2000 exhibits and over 12,000 pages of hearing transcripts. An Initial Decision (ID) was issued by the FERC ALJ on February 27, 2014 which held that approximately \$480 million of the capital expenditures made for the SR Project were imprudently incurred and thus not subject to any recovery from ratepayers, and that the additional \$225 million expended could be recovered by amortization over the remaining life of the pipeline but without any return on that investment. All parties filed briefs taking exception with certain portions of the ID. Those two rounds of briefing were completed in July 2014 and a Final Decision and Order from the FERC is anticipated to be issued in the first half of 2015. The TAPS Carriers expressly chose to not challenge the determination of imprudence of \$153.8 million dollars of their SR capital expenditures and have thereby waived any recovery of that amount. Due to the substantial amounts in controversy we expect that the Final</p>	<p><b>DOL Expenditures from start of case through 12/31/14:</b> \$18,876,745</p> <p><b>Anticipated Future Costs:</b> \$500,000 to 600,000 for outside counsel assistance through appeal of the FERC Final Decision at the US Court of Appeals and initial work in response to an RCA decision.</p>	Approximately \$130 million in increased state royalties and production taxes from tariff refunds for 2009 through 2014; \$100's of millions impact on future royalty and production tax based on lower tariffs over the operating life of the pipeline.

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		Decision will likely be appealed to the US Court of Appeals at the DC Circuit. We also anticipate the RCA will issue its separate decision sometime in 2015 and that the RCA decision will likely be appealed to the Alaska Superior Court and Alaska Supreme Court resulting in additional briefing and oral argument.		
Corporate Income Tax Case	Confidential	<b>Issue:</b> Whether DOR properly adjusted a taxpayer's Alaska apportionable income and sales factor.  <b>Status:</b> Confidential	<b>DOL Expenditures from start of case through 12/31/14:</b> \$0  <b>Anticipated Future Costs:</b> \$250,000	Confidential
TAPS Property Tax Case	June 2006  June 2007  June 2008  June 2009  June 2010  June 2011	<b>Issue:</b> Whether DOR properly assessed property tax value of TAPS in 2006, 2007, 2008, 2009, 2010, 2011, 2013 and 2014. 2007-2009 cases were consolidated for trial.  <b>Status:</b> Nine week trial ended in November 2011 on consolidated 2007-2009 assessments. Judge Gleason entered a decision on December 29, 2011. 2010-2011 and 2013-2014 appeals awaiting scheduling for trial.  The 2006 TAPS valuation appealed to and argued before Alaska Supreme Court in December 2012. Decision issued on February 19, 2014. 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 briefing is complete. Oral argument was held on December 16, 2014.	<b>DOL Expenditures from start of case through 12/31/14:</b> \$2,737,491  <b>Anticipated Future Costs:</b> \$1.0 million through trial on the 2010-2014 assessments.	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

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	June 2013  June 2014	The 2013 and 2014 SARB assessments of \$11.9 \$10.2 billion, respectively, have been appealed to superior court.		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.
ELF Aggregation	January 2013	<p><b>Issue:</b> 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><b>Status:</b> The working interest owners of the various PAs filed their notice of appeal on Jan. 9, 2013. The case is assigned to Judge Michael Corey. Briefing is complete but oral argument has not yet been scheduled.</p>	<p><b>DOL Expenditures from start of case through 12/31/14:</b> \$72</p> <p><b>Anticipated Future Costs:</b> \$0</p>	The value is several hundred million dollars of production tax revenue.
CP Royalty Audit Beluga River Unit	Late 2012	<p><b>Issue:</b> Cook Inlet audit BRU.</p> <p><b>Status:</b> Audit Issued June 2011 for years 2007 through 2009. DOL is working on alternative means for disclosing transactions. DNR relied on a valuation that avoids the confidentiality issues that have held this audit appeal up.</p>	<p><b>DOL Expenditures from start of case through 12/31/14:</b> in-house DOL staff only.</p> <p><b>Anticipated Future Costs:</b> \$100,000</p>	\$5.25 million
CP Royalty Audit North Slope 2007	February 2013	<p><b>Issue:</b> North Slope production audit.</p> <p><b>Status:</b> Working on new form lease valuation and valuation of some DL-1 leases not subject to RSA.</p>	<p><b>DOL Expenditures:</b> \$0</p> <p><b>Anticipated Future Costs:</b> \$100,000</p>	\$700,000

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Unocal 2007 Gas Cook Inlet	February 2013	<p><b>Issue:</b> Cook Inlet Gas production audit.</p> <p><b>Status:</b> Working on confidentiality agreements.</p>	<p><b>DOL Expenditures:</b> \$0</p> <p><b>Anticipated Future Costs:</b> 50,000</p>	\$350,000
Gas Pipeline	July 1, 2007	<p><b>Issue:</b> DOL provides legal advice to DOR and DNR concerning Alaska gas pipeline projects, including the AKLNG project to advance the state's efforts to promote a large-scale LNG project, including treatment, pipeline and a liquefaction plant, from the North Slope to in-state markets and for export. The AKLNG project involves the three major North Slope Producers, TransCanada, the Alaska Gasline Development Corporation and the state.</p> <p><b>Status:</b> Under SB 138, DOL OGM Section attorneys manage specialized outside legal counsel to provide advice on federal jurisdictional, statutory, regulatory and other issues regarding the development of 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, and confidentiality issues.</p>	<p><b>DOL Expenditures from start of case through 12/31/14:</b> \$12,700,484</p> <p><b>Anticipated Future Costs:</b> \$5.0 million in FY 2016.</p>	Major tax and royalty revenues

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CINGSA Pore Space	2012	<p><b>Issue:</b> Ownership of subsurface for purposes of mineral storage.</p> <p><b>Status:</b> The superior court granted summary judgment to the State on June 3, 2014. The City of Kenai has appealed that decision to the Alaska Supreme Court where the issue is currently being briefed.</p>	<p><b>DOL Expenditures from start of case through 12/31/14:</b> in-house DOL staff only.</p> <p><b>Anticipated Future Costs:</b> \$0</p>	Effects statewide ownership of subsurface storage rights.

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