

DEPARTMENT OF LAW, NATURAL RESOURCES SECTION
MAJOR OIL & GAS LITIGATION

2/10/2016

<u>Case</u>	<u>Approx. Start Date</u>	<u>Issue(s) and Status</u>	<u>Outside Counsel/Expert Costs *</u>	<u>Value</u>
TransAlaska Pipeline System (TAPS) Interstate and Intrastate Tariffs Strategic Reconfiguration (SR)	December 2004	Issue: Were \$100s of millions spent on pipeline capital project prudent expenditures? A project ran more than \$500 million over budget. The remedy for imprudent expenditures is to remove capital costs from the calculation of tariff rates. Removal results in refunds and increases State royalty and production tax revenues for all impacted years. Status: The State, shippers, and TAPS carriers concluded concurrent hearings at the Regulatory Commission of Alaska (RCA) and the Federal Energy Regulatory Commission (FERC) in 2011-12. In November 2015, the FERC found approximately \$480 million of expenditures to be imprudent. All the carriers appealed the decision to the D.C. Circuit. The RCA has not yet issued its decision. The FERC required the carriers to file new tariffs for 2009 and 2010 that remove the imprudent expenditures. These filings will be reviewed for compliance with FERC's order. The parties are working with the Administrative Law Judge on a process to address the 2011 - 2016 tariffs and future years which will be impacted by Order 544.	DOL Expenditures from start of case through 12/31/15: Approximately \$19,000,000 Anticipated Future Costs: \$200,000 to \$300,000 for outside counsel and expert assistance through appeal to the D.C. Circuit, and initial work relating to the 2009 and 2010 tariff filings. ---- The cost to address the 2011-2016 and future tariff filings not yet determined. The Department of Law (DOL) will use in-house counsel as much as practicable to avoid cost of outside counsel, but still will need to retain counsel with FERC expertise to assist in some capacity. DOL estimates needing about \$300,000 a year for outside counsel, and \$300,000 a year for expert consultants.	Approximately \$234 million in increased state royalties and production taxes from tariff refunds for 2009 and 2010. \$100s of millions impact on future royalty and production tax based on lower tariffs over the operating life of the pipeline.

* Costs are from inception of case and represent only outside counsel and expert witnesses. The identified costs do not include costs for department staff incurred in litigating these cases. Anticipated future costs will change as a result of scheduling and substantive decisions from the tribunal, decisions by client agencies, and positions taken by opposing parties. Some of the cases, such as tariff disputes, property tax litigation, and royalty reopeners recur every year and the new cases may be consolidated with existing cases. These estimates do not reflect costs for the new cases.

DEPARTMENT OF LAW, NATURAL RESOURCES SECTION
MAJOR OIL & GAS LITIGATION

2/10/2016

<u>Case</u>	<u>Approx. Start Date</u>	<u>Issue(s) and Status</u>	<u>Outside Counsel/Expert Costs *</u>	<u>Value</u>
TAPS Property Tax Case	June 2007 June 2008 June 2009 June 2010 June 2011 June 2013 June 2014 June 2015	Issue: Whether DOR properly assessed the property tax value of TAPS in 2007, 2008, 2009, 2010, 2011, 2013, 2014 and 2015. Tax years 2010-2015 cases are consolidated for trial. - o Status: In August 2015, the Alaska Supreme Court upheld TAPS property tax value decisions by the superior court for 2007 (\$8.94B), 2008 (\$9.64B), and 2009 (\$9.25B). - o The SARB TAPS property tax decisions for 2010 (\$9.6B), 2011 (\$8.6B), 2013 (\$11.9B), 2014(\$10.2B) and 2015 (\$9.6B) are on appeal to the superior court for de novo review. An eleven week trial is scheduled in 2017. The TAPS property tax appeal for 2012 settled with an assessment of \$8.25B.	DOL Expenditures from start of case through 12/31/15: \$2,737,491 Anticipated Future Costs: \$1.0 million through trial on the 2010-2015 assessments.	State directly receives approximately 48% of TAPS property tax revenue with the remainder apportioned among North Slope and Fairbanks Boroughs and the City of Valdez. The 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 tariff deduction. 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.

DEPARTMENT OF LAW, NATURAL RESOURCES SECTION
MAJOR OIL & GAS LITIGATION

2/10/2016

<u>Case</u>	<u>Approx. Start Date</u>	<u>Issue(s) and Status</u>	<u>Outside Counsel/Expert Costs *</u>	<u>Value</u>
Economic Limit Factors (ELF) Aggregation	November 2008	Issue: Whether the Office of Administrative Hearings (OAH) erred when it determined that a Department of Revenue (DOR), Tax Division decision aggregating participating areas of the Prudhoe Bay Unit was valid and permissible under existing law. Taxpayers claim the aggregation was invalid without DOR first adopting a regulation defining a statutory term and that by proceeding as it did, DOR violated the Alaska Administrative Procedure Act and both state and federal due process guarantees. Status: The superior court ruled in favor of DOR's Tax Division. The owners of the participating areas appealed to the Alaska Supreme Court, which will hear oral argument on February 17, 2016.	DOL Expenditures from start of case through 12/31/15: \$49,761 Anticipated Future Costs: \$0	The value is several hundred million dollars of production tax revenue.
Gas Pipeline	July 2007	Issue: DOL provides legal advice to DOR, Department of Natural Resources (DNR) and the Alaska Gasline Development Corporation (AGDC) concerning the Alaska Liquefied Natural Gas (AKLNG) project to commercialize North Slope gas, including a gas treatment plant, pipeline and liquefaction plant. Status: Under SB 138, DOL in-house attorneys work with specialized outside legal counsel to provide legal assistance on commercial and regulatory matters concerning gas supply and balancing, governance, fiscal issues, financing, tax issues, confidentiality and other issues.	DOL Expenditures from start of case through 12/31/15: \$19,724,099 Anticipated Future Costs: \$15.5 million in FY2017.	Major tax and royalty revenues.

DEPARTMENT OF LAW, NATURAL RESOURCES SECTION
MAJOR OIL & GAS LITIGATION

2/10/2016

<u>Case</u>	<u>Approx. Start Date</u>	<u>Issue(s) and Status</u>	<u>Outside Counsel/Expert Costs *</u>	<u>Value</u>
CINGSA Pore Space	2012	Issue: Ownership of subsurface for purposes of mineral storage. Status: 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 awaiting decision.	DOL Expenditures from start of case through 12/31/15: In-house DOL staff only. Anticipated Future Costs: \$0	Affects statewide ownership of subsurface storage rights.
Corporate Income Tax Case	Confidential	Issue: Whether DOR properly adjusted a taxpayer's foreign income taxes. Status: Confidential	DOL Expenditures from start of case through 12/31/15: \$4,400 Anticipated Future Costs: \$250,000	Confidential.