

Public Testimony of Kevin Banks  
before the  
Alaska House Finance Committee on House Bill 271  
April 20, 2026

I would like to thank the committee for the opportunity to testify on April 20, 2026, to provide my perspective on House Bill 271, "An Act relating to the royalty rate for the Kitchen Lights Unit; and providing for an effective date." This is a summary of my testimony.

By way of introduction, I became the Director of Oil and Gas in the Department of Natural Resources in 2006 and served for four and a half years. Prior to my tenure as director, I worked for the division as head of its commercial section. I am now retired after a lengthy career as a resource and petroleum economist.

I am representing only myself and not affiliated with any organization. My testimony today is based on my knowledge of the evolution of the royalty reduction statutes in AS 38.05.180, my analyses of royalty reduction applications submitted while working at DNR, and the issues that are the subject matter proposed in HB 271.

**I encourage the House Finance Committee to hold this bill until the committee has conducted its own thorough review of the Kitchen Lights Unit royalty modification application. The committee's review must follow the same statutory guidance that the Department of Natural Resources followed in its determination that a royalty modification is in the State's best interest.**

The Kitchen Lights Unit application for royalty modification falls under the provision of AS 38.05.189(j)(1)(B) to prolong the economic life of an oil or gas field.

I have reviewed the "Final Findings and Determination Regarding the Kitchen Lights Unit Royalty Modification Application by the Commissioner of the Department of Natural Resources dated February 3, 2025." Note that the commissioner's Findings must state that granting a royalty modification meets the definition of "best interests of the State" for oil and gas development as defined by AS 38.05.180(a) and including supporting analysis specified in AS 38.05.180(j).

A lessee under AS 38.05.180(j)(2) must provide a "clear and convincing showing" that a royalty modification is sufficient and effective. The words "clear and convincing" have real meaning and impose a burden on the operator of the Kitchen Lights Unit to provide true information of the lease oil and gas potential, production rates, costs, and revenues. Similarly, DNR must use this information to complete its own economic analysis consistent with this same standard to determine State's best interest.

The commissioner granted royalty modification for seven leases within the Kitchen Lights Unit on February 3, 2025, and reduced the State’s original 12.5 percent royalty share to 3 percent under the authority of AS 38.05.180(j)(1)(B). Furthermore, the commissioner included a condition to increase the original lease royalty rate when the cumulative gross revenue earned by the lessee reaches a target of \$712 million. AS 38.05.180(j)(3) requires that the commissioner.

“shall provide for an increase or decrease or other modification of the state's royalty share by a sliding scale royalty or other mechanism that shall be based on a change in the price of oil or gas and may also be based on other relevant factors such as a change in production rate, projected ultimate recovery, development costs, and operating costs”

Including such a condition in the royalty modification terms is not optional; it is a statutory requirement.

DNR chose as the “other mechanism” a cumulative Gross Revenue Target in lieu of a sliding scale. This target responds to changes to the relevant factors predicted by the applicant, i.e., changes in production rate, total oil and gas recovery, costs, and price. When the State offers to reduce its share of royalty revenue, it is making an investment. If any of these relevant factors should change for the better, i.e., higher prices or more production, the State should also receive a return on its investment.

HB 271 eliminates this condition and permanently sets the royalty rate at 3 percent. The royalty modification offered in HB 271 is different from that granted by DNR. The commissioner’s Finding did not evaluate the royalty modification without the Gross Revenue Target provision.

The assertion in the legislative findings in Section 1.(4) of HB 217 that “a royalty modification is projected to extend gas production” and is in the state’s best interest is unsubstantiated because HB 271 eliminates the Gross Revenue Target mechanism without justification or analysis. Without the benefit of a clear and convincing showing by the Kitchen Lights Unit lessees and the committee’s own analysis HB 271 is precedential. It may weaken the State’s ability to comply with the requirements of the royalty modification statutes in the future.

It also risks the “potential to violate the constitutional prohibition on local or special legislation” according to advice provided by the legislature’s Legal Services memo of December 17, 2025. Legal Services recommends that the legislature develops a “strong legislative record demonstrating the purpose and necessity of special legislation.