



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Natural Resources

OFFICE OF THE COMMISSIONER

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May 8, 2026

The Honorable Cathy Giessel
Chair, Senate Resources Committee
Alaska State Capitol, Room 121
Juneau, AK 99801

Chair Giessel:

This letter provides responses to questions and requests for information from the Department of Natural Resources (DNR) May 1, 2026 hearing regarding SB 280, Oil and Gas Property Tax; Muni Tax.

The first series of questions was about material sales of gravel referencing the April 30, 2026 DNR letter to the Senate Resources Committee.¹ To clarify the State's interest in gravel resources after a material sale under the amended regulation, 11 AAC 71.090(b)² specifically states that DNR conveys the material "without retaining a reversionary interest." This means the Department no longer maintains an interest in the gravel after it is conveyed. Thus, if gravel is conveyed for \$0.00 to a state agency or public corporation (*e.g.*, AGDC), they assume ownership and control, it is no longer under the purview of DNR, and the entity may utilize it consistent with their own statutory missions and obligations.

At this time there has been no application from AGDC or another state agency or public corporation regarding gravel for the Alaska LNG project, and DNR thus does not have specific details it can provide about the amount of gravel that may be needed. AGDC is the authoritative source for estimated gravel needs for the project or how that gravel may be pursued from various sources or used.

In the context of questions about financial assurances for Dismantling, Removal, and Restoration (DR&R), you asked what financial assurances are in place for the Trans-Alaska Pipeline System (TAPS). In 1985, the State of Alaska and TAPS owners entered into a settlement agreement that established the rate-based cost recovery framework that included a dedicated charge for DR&R. The agreement set the expected dismantlement cost at \$872 million, expressed in 1977 dollars and adjusted for inflation. Each year from 1986 to 2004 the TAPS tariff included a DR&R allowance to fully fund these costs in advance. Beginning with the 2005 tariff year, the FERC determined that no further DR&R collections were warranted. At the end of the pipeline systems' life, the TAPS owners will be responsible for DR&R. The State received guarantees that DR&R will be performed as required under the leases from the parents of owners except for ExxonMobil Pipeline Company, which was determined to have sufficient assets to back up its DR&R liability. TAPS Owners will be required to perform their DR&R obligations under their leases even if those obligations exceed the value of the amounts collected for DR&R in rates.

¹ https://www.akleg.gov/basis/get_documents.asp?session=34&docid=15150

² <https://aws.state.ak.us/OnlinePublicNotices/Notices/Attachment.aspx?id=159814>

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Senator Wielechowski asked about the fiscal note and the Division of Oil & Gas (DOG) staffing requirements to process royalties if major North Slope gas sales occur. To clarify current staffing levels, DOG has five royalty accounting positions and nine royalty auditing positions. In a normal month, DOG's royalty accountants process between one and two thousand royalty reports for over one hundred active accounting units while DOG's royalty auditors conduct routine reviews to verify lessees are paying the appropriate royalty amounts. DOG's competent accountants, information systems, and outstanding programming staff enable that processing capacity. The Department expects the existing royalty accounting and auditing teams can handle the increased workload expected from major North Slope gas sales under existing processes and authorities.

The fiscal note requests two new positions, one Accountant V and one Oil and Gas Revenue Specialist, to manage the new work required by Section 23 of SB 280 Version H (formerly Section 20 of Version G). That section of the bill would require DOG to forecast and establish a prevailing value for oil and gas monthly, which is outside DOG's current scope of work. Calculation of values for oil and gas is ordinarily done after royalty reports are filed with transportations costs and pricing information from actual transactions, not before royalty reports are filed and thus derived from estimations or market assessments. Today, royalty values are then confirmed by audits performed by DOG after all data is available. The establishment of a new prevailing value standard would require recurring, time-sensitive data collection and analysis to provide values in advance of royalty filings. Additionally, royalty valuation is currently fixed by contract between DNR and lessees, both in lease terms and settlement agreements, and DOG anticipates that the introduction of a new valuation standard will increase the complexity of its audit processes. The need for new positions is to support compliance with this new requirement.

Please let me know if you have any questions or concerns.

Sincerely,



John Crowther
Commissioner-designee

cc: Jordan Shilling, Legislative Director, Office of the Governor