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Governor Mike Dunleavy

STATE OF ALASKA

January 16, 2024

The Honorable Cathy Tilton
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Tilton:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to temporarily reduced royalty on oil and gas from pools with no previous commercial sales in the Cook Inlet sedimentary basin.

This bill is a key component of the State's efforts to incentivize and develop critical energy resources in the Cook Inlet. To meet the needs of the current environment, the bill modernizes a long-standing royalty reduction statute. The bill provides a royalty rate of five percent for oil or gas pools in the Cook Inlet sedimentary basin that have not previously produced oil or gas for commercial sale. The proposed statutory changes, similar to the existing framework, would apply to existing leases and future leases provided that the oil or gas pool has not previously produced for commercial sales and the lease is part of a unit. The payment of royalty on oil or gas at five percent under the bill would apply for 10 years following the commercial sale of that production.

The reduced royalty rate of five percent in the bill would not apply to leases that already have a royalty rate of five percent or less due to other incentives. The bill would not apply to leases issued with only net profit shares and no royalty rate.

This bill has an immediate effective date to allow the Department of Natural Resources to implement these incentives as soon as possible. This bill is part of my broader strategy for Cook Inlet and attracting investment to Alaska.

I urge your prompt and favorable action on this measure.

Sincerely,

Mike Dunleavy
Governor

Enclosure

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

"An Act relating to temporarily reduced royalty on oil and gas from pools without previous commercial sales in the Cook Inlet sedimentary basin; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** AS 38.05.180(f) is amended to read:

(f) Except as provided by AS 38.05.131 - 38.05.134, the commissioner may issue oil and gas leases or leases for gas only on state land to the highest responsible qualified bidder as follows:

(1) the commissioner shall issue an oil and gas lease or a gas only lease, as appropriate, to the successful bidder determined by competitive bidding under regulations adopted by the commissioner; bidding may be by sealed bid or according to any other bidding procedure the commissioner determines is in the best interests of the state;

(2) whenever, under any of the leasing methods listed in this

subsection, a royalty share is reserved to the state, it shall be delivered in pipeline quality and free of all lease or unit expenses, including but not limited to separation, cleaning, dehydration, gathering, salt water disposal, and preparation for transportation off the lease or unit area;

(3) following a pre-sale analysis, the commissioner may choose at least one of the following leasing methods:

(A) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease;

(B) a cash bonus bid with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease and a fixed share of the net profit derived from the lease of not less than 30 percent reserved to the state;

(C) a fixed cash bonus with a royalty share reserved to the state as the bid variable but no less than 12.5 percent in amount or value of the production removed or sold from the lease;

(D) a fixed cash bonus with the share of the net profit derived from the lease reserved to the state as the bid variable;

(E) a fixed cash bonus with a fixed royalty share reserved to the state of not less than 12.5 percent in amount or value of the production removed or sold from the lease with the share of the net profit derived from the lease reserved to the state as the bid variable;

(F) a cash bonus bid with a fixed royalty share reserved to the state based on a sliding scale according to the volume of production or other factor but in no event less than 12.5 percent in amount or value of the production removed or sold from the lease;

(G) a fixed cash bonus with a royalty share reserved to the state based on a sliding scale according to the volume of production or other factor as the bid variable but not less than 12.5 percent in amount or value of the production removed or sold from the lease;

(4) notwithstanding a requirement in the leasing method chosen of a

minimum fixed royalty share, on and after March 3, 1997, the lessee under a lease issued in the Cook Inlet sedimentary basin who is the first to file with the commissioner a nonconfidential sworn statement claiming to be the first to have drilled a well discovering oil or gas in a previously undiscovered oil or gas pool and who is certified by the commissioner within one year of completion of that discovery well to have drilled a well in that pool that is capable of producing in paying quantities shall pay a royalty of five percent on all production of oil or gas from that pool attributable to that lease for a period of 10 years following the date of discovery of that pool, and thereafter the royalty payable on all production of oil or gas from the pool attributable to that lease shall be determined and payable as specified in the lease; for purposes of this paragraph, the reduced royalty authorized by this paragraph is subject to the following:

(A) only one reduction of royalty authorized by this paragraph may be allowed on each lease that qualifies for reduction of royalty under this paragraph;

(B) if, under this paragraph, application is made for a royalty reduction for a lease that was entered into before March 3, 1997, the commissioner may approve the application only if, on that date, the lease was a nonproducing lease that was not committed to a unit approved by the commissioner under (m) of this section, that is not part of a unit under (p) or (q) of this section, and that has not been made part of a unit under AS 31.05;

(C) if application for a royalty reduction is made under this paragraph for a lease on which a discovery royalty was claimed or may be claimed under the discovery royalty provisions of former AS 38.05.180(a) in effect before May 6, 1969, the commissioner shall disallow the application under this paragraph unless the applicant waives the right to claim the right to a reduced royalty under the discovery royalty provisions of former AS 38.05.180(a) in effect before May 6, 1969; and

(D) the commissioner shall adopt regulations setting out the standards, criteria, and definitions of terms that apply to implement the filing of applications for, and the review and certification of, discovery certifications under this paragraph;

(5) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil or gas **pool in the Cook Inlet sedimentary basin that, subject to determination by the commissioner, has not previously produced for commercial sale oil or gas** [FIELD IDENTIFIED IN THIS SECTION THAT HAS BEEN GRANTED APPROVAL OF A WRITTEN PLAN SUBMITTED TO THE ALASKA OIL AND GAS CONSERVATION COMMISSION UNDER AS 31.05.030(i)] shall [, SUBJECT TO (dd) OF THIS SECTION,] pay a royalty of five percent on [THE FIRST 25,000,000 BARRELS OF] oil **or** [AND THE FIRST 35,000,000,000 CUBIC FEET OF] gas produced for sale from that **pool for** [FIELD THAT OCCURS IN THE] 10 years following the date on which the production for **commercial** sale commences; **for the purposes of this paragraph, the requirement to pay a royalty of five percent may not apply to a lease without a royalty share reserved to the state or a royalty rate payable of at least five percent in the amount or value of production removed or sold from the lease** [THE FIELDS ELIGIBLE FOR ROYALTY REDUCTION UNDER THIS PARAGRAPH, ALL OF WHICH ARE LOCATED WITHIN THE COOK INLET SEDIMENTARY BASIN, WERE DISCOVERED BEFORE JANUARY 1, 1988, AND HAVE BEEN UNDEVELOPED OR SHUT IN FROM AT LEAST JANUARY 1, 1988, THROUGH DECEMBER 31, 1997, ARE

(A) FALLS CREEK;

(B) NICOLAI CREEK;

(C) NORTH FORK;

(D) POINT STARICHKOF;

(E) REDOUBT SHOAL; AND

(F) WEST FORELAND];

(6) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases

unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil field located offshore in Cook Inlet on which an oil production platform specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the field located offshore in Cook Inlet and described in (G) of this paragraph,

(A) shall pay a royalty of five percent on oil produced from the platform if oil production that equaled or exceeded a volume of 1,200 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the platform remains less than 1,200 barrels a day; the provisions of this subparagraph apply to

(i) Dolly;

(ii) Grayling;

(iii) King Salmon;

(iv) Steelhead; and

(v) Monopod;

(B) shall pay a royalty calculated under this subparagraph if the volume of oil produced from the platform that was certified by the Alaska Oil and Gas Conservation Commission under (A) of this paragraph later increases to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a period of at least one calendar quarter; until the royalty rate determined under this subparagraph applies, the royalty continues to be calculated under (A) of this paragraph; on and after the first day of the month following the month the increased production exceeds the period specified in this subparagraph, the royalty payable under this subparagraph is

(i) for production of at least 1,200 barrels a day but not more than 1,300 barrels a day - seven percent;

(ii) for production of more than 1,300 barrels a day but not more than 1,400 barrels a day - 8.5 percent;

(iii) for production of more than 1,400 barrels a day but not more than 1,500 barrels a day - 10 percent; and

(iv) for production of more than 1,500 barrels a day - 12.5 percent;

(C) shall pay a royalty of five percent on oil produced from the platform if oil production that equaled or exceeded a volume of 975 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the platform remains less than 975 barrels a day; the provisions of this subparagraph apply to

(i) Baker;

(ii) Dillon;

(iii) XTO.A; and

(iv) XTO.C;

(D) shall pay a royalty calculated under this subparagraph if the volume of oil produced from the platform that was certified by the Alaska Oil and Gas Conservation Commission under (C) of this paragraph later increases to 975 or more barrels a day and remains at 975 or more barrels a day for a period of at least one calendar quarter; until the royalty rate determined under this subparagraph applies, the royalty continues to be calculated under (C) of this paragraph; on and after the first day of the month following the month the increased production exceeds the period specified in this subparagraph, the royalty payable under this subparagraph is

(i) for production of at least 975 barrels a day but not more than 1,100 barrels a day - seven percent;

(ii) for production of more than 1,100 barrels a day but not more than 1,200 barrels a day - 8.5 percent;

(iii) for production of more than 1,200 barrels a day but not more than 1,350 barrels a day - 10 percent; and

(iv) for production of more than 1,350 barrels a day - 12.5 percent;

(E) shall pay a royalty of five percent on oil produced from the platform if oil production that equaled or exceeded a volume of 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the platform remains less than 750 barrels a day; the provisions of this subparagraph apply to

(i) Granite Point;

(ii) Anna; and

(iii) Bruce;

(F) shall pay a royalty calculated under this subparagraph if the volume of oil produced from the platform that was certified by the Alaska Oil and Gas Conservation Commission under (E) of this paragraph later increases to 750 or more barrels a day and remains at 750 or more barrels a day for a period of at least one calendar quarter; until the royalty rate determined under this subparagraph applies, the royalty continues to be calculated under (E) of this paragraph; on and after the first day of the month following the month the increased production exceeds the period specified in this subparagraph, the royalty payable under this subparagraph is

(i) for production of at least 750 barrels a day but not more than 850 barrels a day - seven percent;

(ii) for production of more than 850 barrels a day but not more than 1,000 barrels a day - 8.5 percent;

(iii) for production of more than 1,000 barrels a day but not more than 1,200 barrels a day - 10 percent; and

(iv) for production of more than 1,200 barrels a day - 12.5 percent;

(G) shall pay a royalty of five percent on oil produced from the field if oil production that equaled or exceeded a volume of 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the field remains less than 750 barrels a day; the provisions of this subparagraph apply to the West McArthur River field;

G

(H) shall pay a royalty calculated under this subparagraph if the volume of oil produced from the field that was certified by the Alaska Oil and Gas Conservation Commission under (G) of this paragraph later increases to 750 or more barrels a day and remains at 750 or more barrels a day for a period of at least one calendar quarter; until the royalty rate determined under this subparagraph applies, the royalty continues to be calculated under (G) of this paragraph; on and after the first day of the month following the month the increased production exceeds the period specified in this subparagraph, the royalty payable under this subparagraph is

(i) for production of at least 750 barrels a day but not more than 850 barrels a day - seven percent;

(ii) for production of more than 850 barrels a day but not more than 1,000 barrels a day - 8.5 percent;

(iii) for production of more than 1,000 barrels a day but not more than 1,200 barrels a day - 10 percent; and

(iv) for production of more than 1,200 barrels a day - 12.5 percent; and

(I) may obtain the benefits of the royalty adjustments set out in (A) - (H) of this paragraph only if the commissioner determines that the reduction in production from the platform or the field is

(i) based on the average daily production during the calendar quarter based on reservoir conditions; and

(ii) not the result of short-term production declines due to mechanical or other choke-back factors, temporary shutdowns or decreased production due to environmental or facility constraints, or market conditions.

* **Sec. 2.** AS 31.05.030(i) and AS 38.05.180(dd) are repealed.

* **Sec. 3.** This Act takes effect immediately under AS 01.10.070(c).

Fiscal Note

State of Alaska
2024 Legislative Session

Bill Version: GB 59
Fiscal Note Number:
() Publish Date:

Identifier: 0381-DNR-DOG-01-16-24
Title: COOK INLET OIL AND GAS ROYALTY
Sponsor: RULES BY REQUEST OF THE GOVERNOR
Requester: Governor

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2025 Appropriation Requested	Included in Governor's FY2025 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2025**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

None							
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None	***		***	***	***	***	***
Total	***	**0.0**	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2024) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2025) cost: 0.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No

(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No

If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version/comments:

Initial version, not applicable

Prepared By:	Jhonny Meza, Commercial Manager	Phone:	(907)269-8774
Division:	Oil & Gas	Date:	12/28/2023 12:00 AM
Approved By:	Theresa Cross, Administrative Services Director	Date:	01/16/24
Agency:	Department of Natural Resources		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2024 LEGISLATIVE SESSION

BILL NO. LL0381

Analysis

This bill amends the 10-year five percent royalty discount on certain Cook Inlet oil and gas fields program found in AS 38.05.180(f)(5) and modifies the program to include new production in Cook Inlet, regardless of discovery date, and removes limits on eligible volumes of oil or gas during the 10-year period of reduced royalty. Eligibility is subject to determination by the Department of Natural Resources (DNR) commissioner, rather than being automatic.

The current statute grants a five-percent royalty rate for oil or gas produced for sale for the first 10 years but is limited to six Cook Inlet fields discovered before 1988 and provides a deadline of January 1, 2004 for start of production (in AS 38.05.180(dd)). The statute limited the eligible volume to the first 25,000,000 barrels of oil and the first 35,000,000,000 cubic feet of gas produced for sale from that field.

Operating Expenditures:
The Division expects to implement this bill with existing resources and does not anticipate requiring additional funding.

Change in Revenue:
The changes to revenue are indeterminate. While the Division expects that companies are more likely to make investments in new Cook Inlet production under this bill than without the changes proposed in this legislation, the timing and scale of those investments, as well as the time to bring new production online are not certain and would affect changes in revenue to the State. Generally, while the bill reduces the State royalty on eligible new production, modeling by the Division indicates that the new production is less likely to occur without the proposed royalty rate modification.