



# House Bill 271

“An act relating to the royalty rate for the Kitchen Lights Unit; and providing for an effective date.”

Representative Zack Fields, February 4, 2026

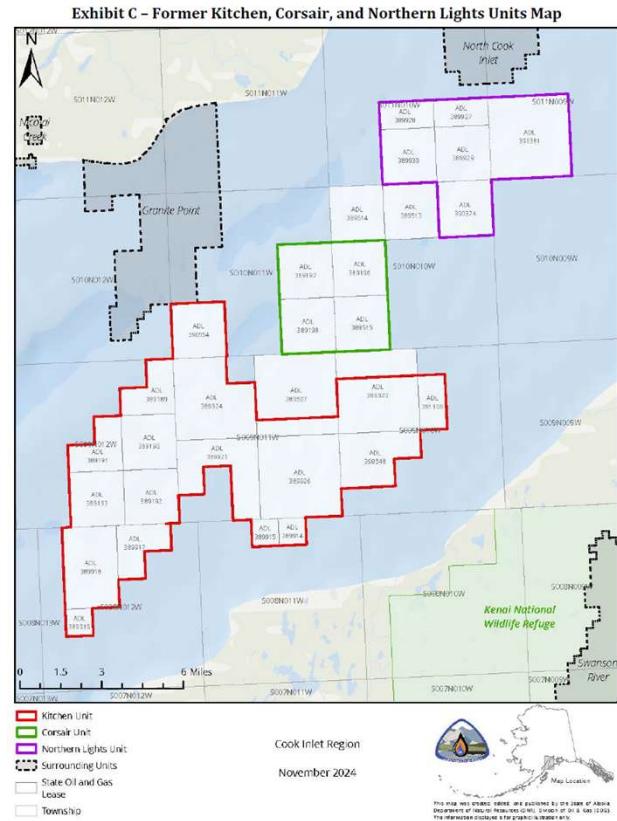


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## KLU Background

### What is the Kitchen Lights Unit (KLU)?

- 83,394 unitized acres in Cook Inlet composed of the former Kitchen and Corsair Units, and the proposed Northern Lights Unit.
- On June 30, 2009, DNR combined the three units to form the Kitchen Lights Unit.
  - The unit was originally formed as the Kitchen Unit in 2007. The Corsair Unit was separated to the north. In 2008 a third Northern Lights Unit was proposed before the consolidation.
- Furie owns and operates a single offshore platform, the Julius R (renamed to the Allegra Leigh Platform (ALP)) that produces 9,100 thousand cubic feet per day (mfcfd) from six total well slots (October 2024).

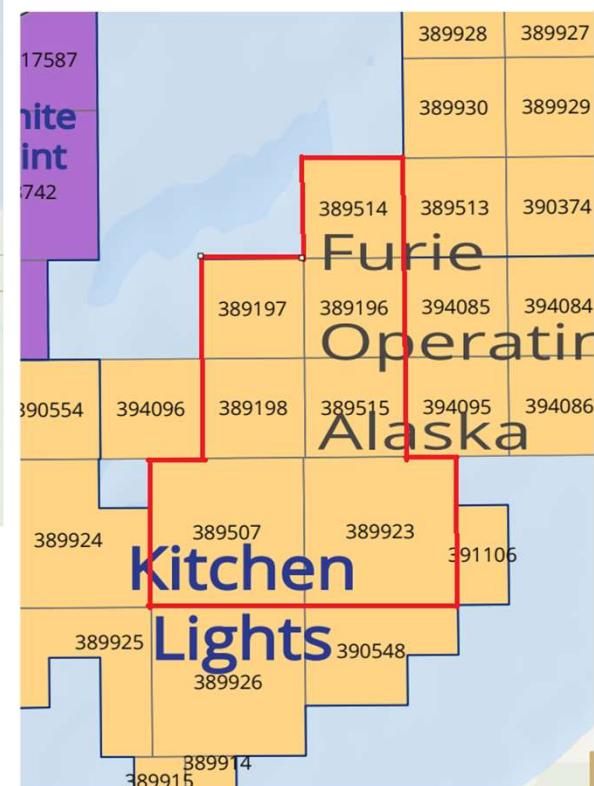
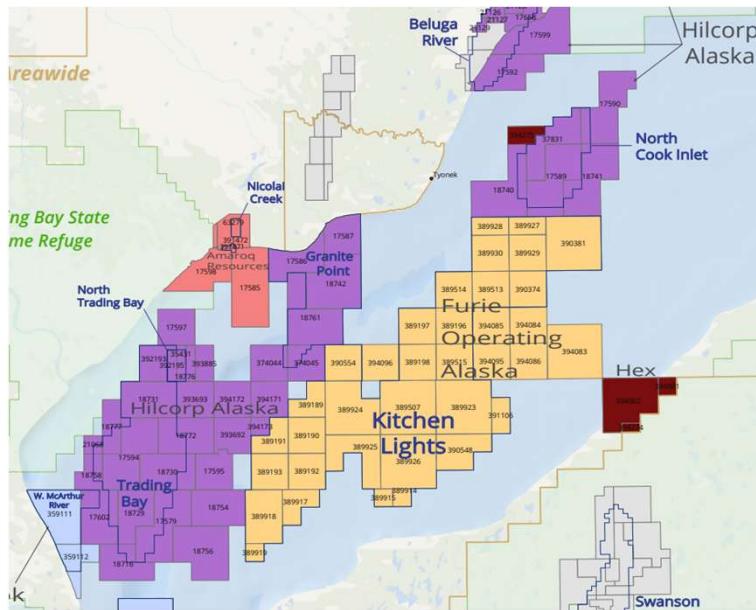
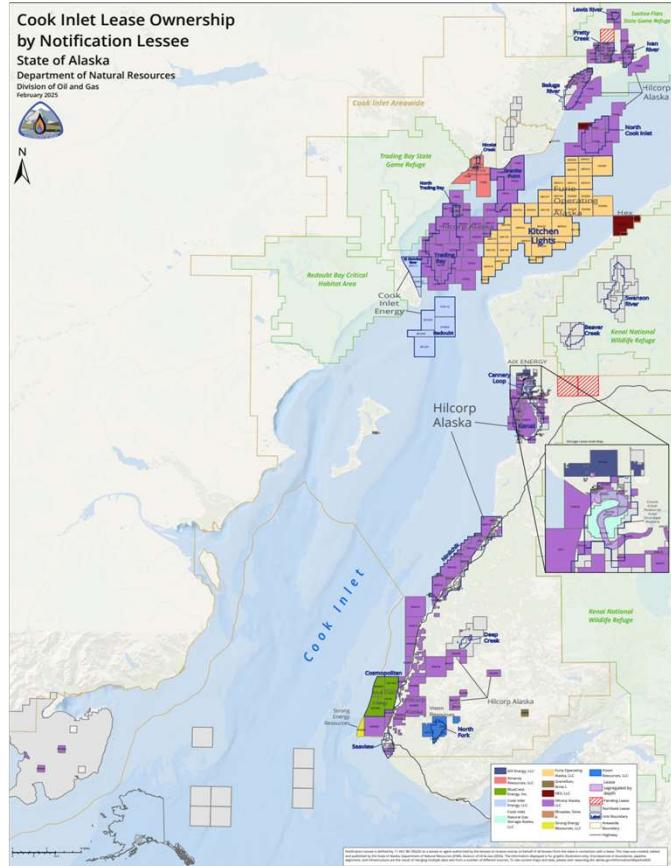


End of Exhibit C



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## KLU Background





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## Background



- Production within the KLU comes from two Participating Areas (PAs), the Beluga PA and the Sterling PA.
- Six current well slots in the KLU penetrate the Beluga and Sterling PAs: KLU A-1A, KLU A-2A, KLU 3, KLU A-4, KLU A-5, KLU A-6.

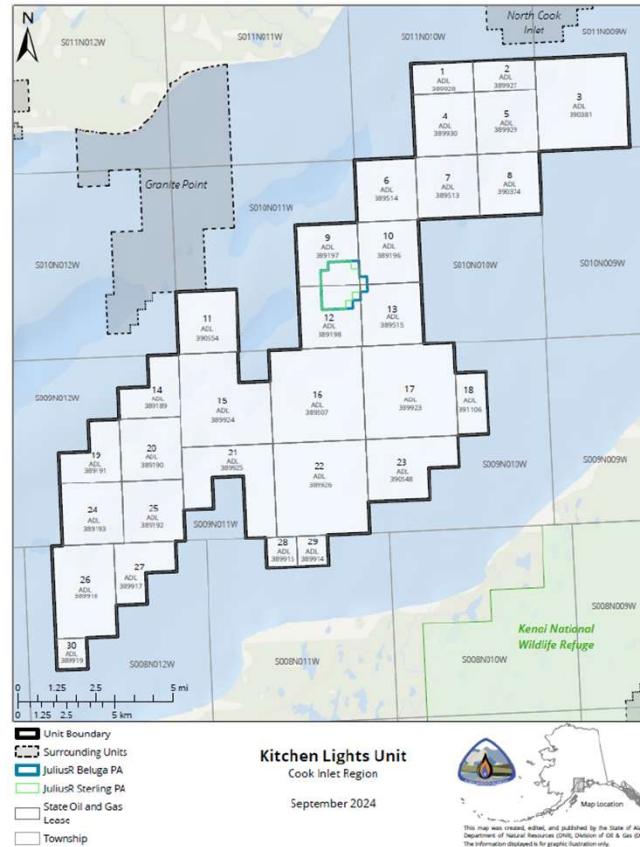
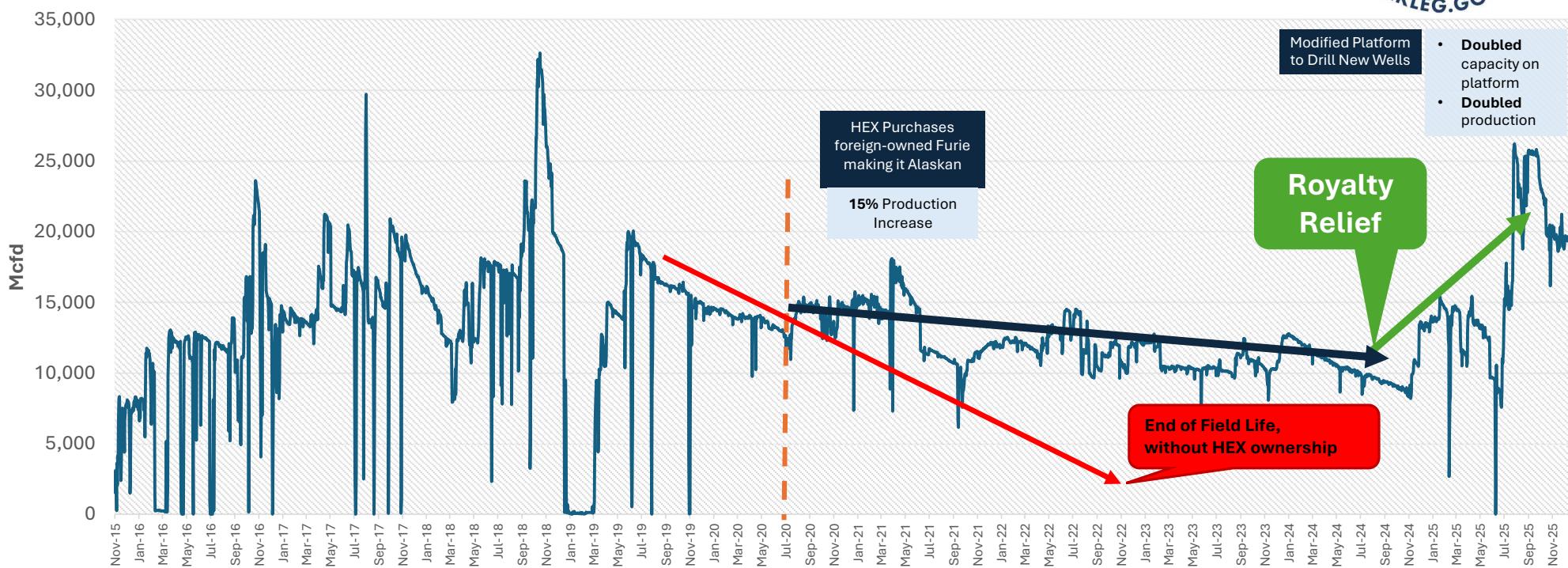


Figure 1: KLU Boundary with Tract Designations, Leases, and PA Boundaries<sup>3</sup>



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## KLU Production 2015-2025



- Production peaked in 2018 after completion of the KLU A-1 and KLU 4 wells. In early 2019, hydrates formed within the gathering line resulting in a 3-month shut-in resulting in a Chapter 11 bankruptcy filing by the prior owner of Furie.



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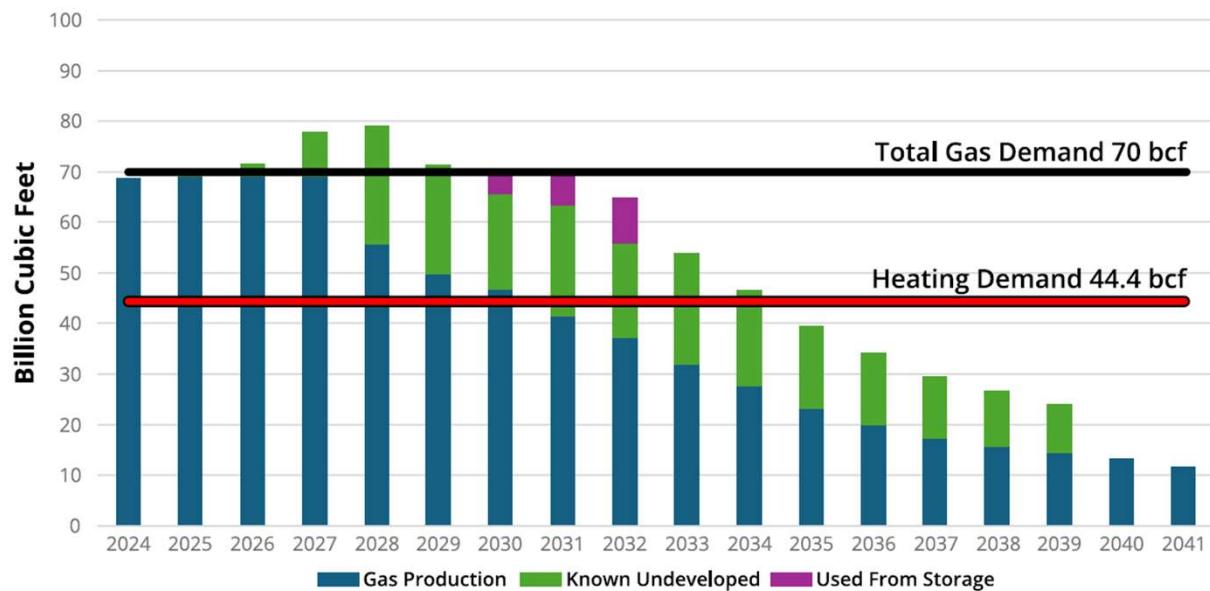
## Cook Inlet Gas Supply/Demand



### "RUNWAY" OF COOK INLET GAS



Cook Inlet Gas Production

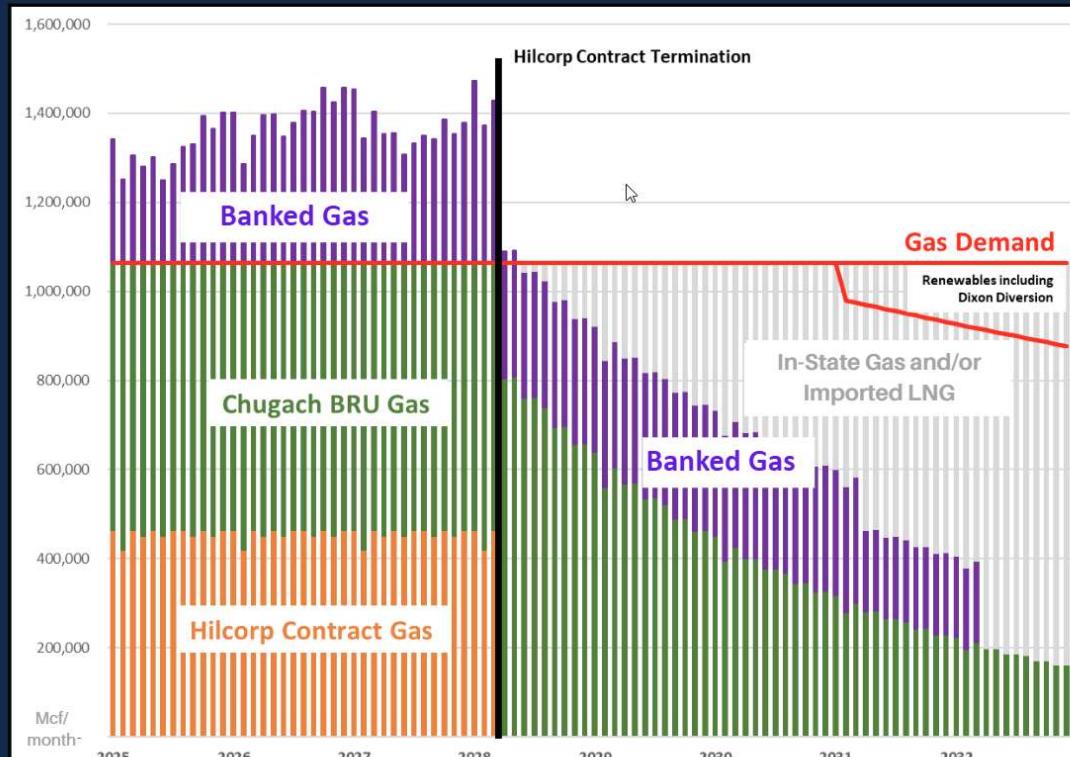




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## Chugach Electric Gas

### CHUGACH GAS SUPPLY





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## Cook Inlet Gas Crisis



Offshore in Cook Inlet, a 'silent economy' hunts for gas to keep Alaska running

By Nathaniel Herz, Northern Journal  
June 17, 2025

1987

Alaska Economic Report

Alaska's natural gas shortage: How did we get here and what comes next?

Alaska Public Media | By Michael Fanelli  
Published June 2, 2023 at 7:57 PM AKDT



BY: NATHANIEL HERZ, NORTHERN JOURNAL - JUNE 9, 2025  
5:55 AM



Why are the warnings about Cook Inlet gas getting more dire?

Imports will be delayed, supposedly available gas may not be there, and stopgap imports will come at triple current prices. But household energy costs won't change as much as many fear.

ERIN MCKITTRICK  
JUN 04, 2024

**Enstar warns of possible natural gas shortage issues by 2026**

Enstar breaks record for most energy use in its history

**Amid gas crunch, Alaska could revoke leases from a company whose drilling has stalled**

The Dunleavy administration is threatening to strip Texas-based BlueCrest Energy of oil and gas leases near Anchorage, saying it's failed to advance development that could delay urban Alaska's impending gas shortage.

**From offshore to online: Furie's new Cook Inlet gas wells set for July launch**

By Suzanne Downing - June 30, 2025



Alaska Produces a Ton of Gas. Soon, Its Biggest City Might Not Have Enough.

The feared energy crisis in Anchorage offers a lesson in the downsides of relying on fossil fuels.

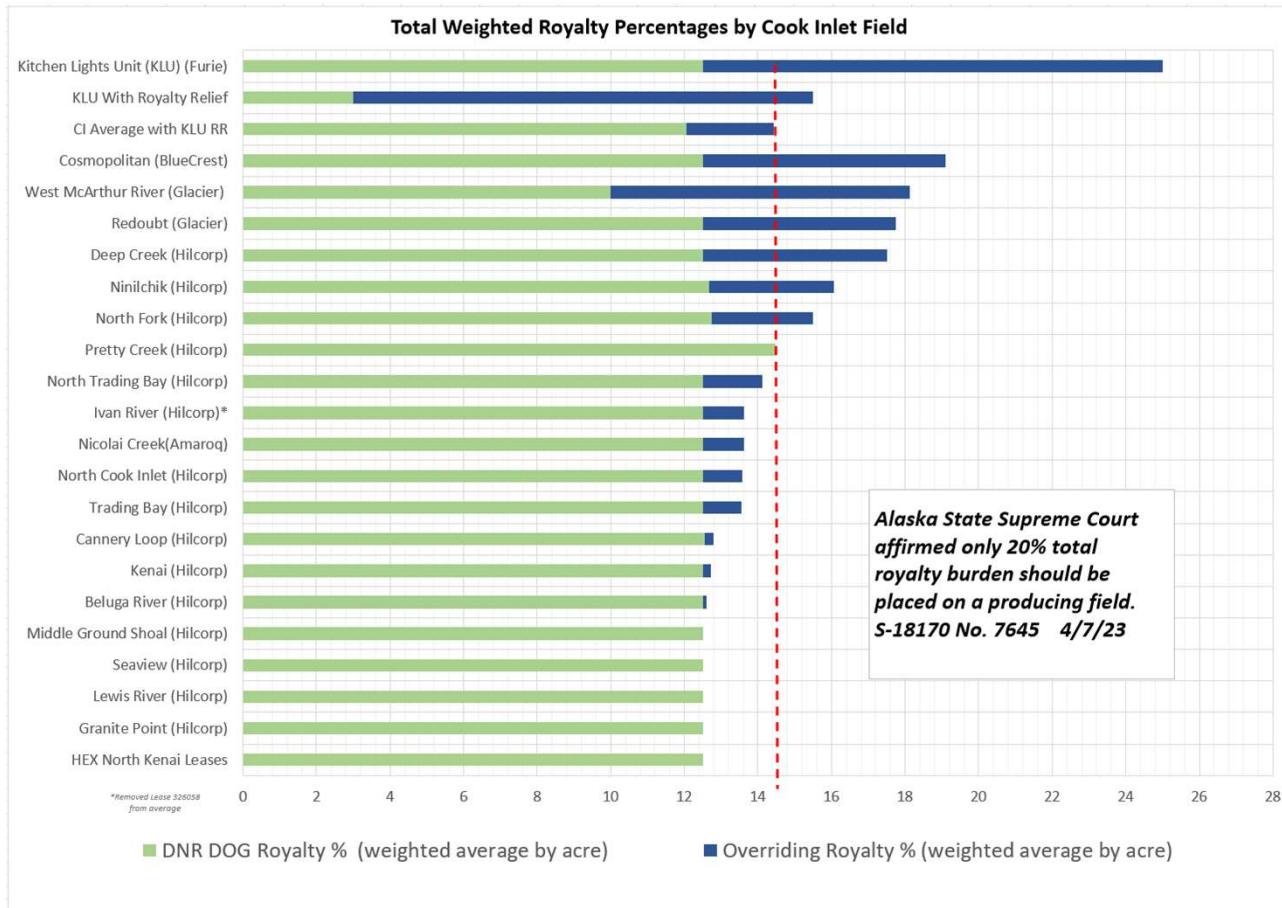
**Concerns grow over Cook Inlet's natural gas supply**

Ian Stewart, Your Alaska Link | Sep 3, 2025 Updated Sep 4, 2025



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## Royalties on Cook Inlet Units





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## DNR Background



- IV. Applicant's Clear and Convincing Showing for Royalty Modification As Required Under AS 38.05.180(j)** – “...full development of the acreage surrounding JRP by Furie is essential for the KLU. Furie also showed full development of the acreage surrounding the JRP would likely extend field life for more than ten years. Either way, royalty modification would prolong field life at least through this winter while southcentral Alaska’s gas needs are high, provide Furie the ability to sustain operations while planning additional well work to restore any lost production from existing wells, and implement full development of the acreage surround the JRP over time.”
- VI. C. DNR Financial Modeling Review** – “DNR compared the estimated direct impacts to State revenues (royalties, production tax, property tax, and corporate income tax) and estimated the extensions to the life of the field from granting royalty modification as opposed to not doing so. This enabled DNR to determine a royalty modification mechanism that both brought meaningful extension to the life of KLU while being statutorily compliant.”

-Department of Natural Resources, Commissioner's Final Findings and Determination for Kitchen Lights Unit Royalty Modification, February 3, 2025.



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## DNR Background



Table 3: DNR Final Modeling Results

Results of Probabilistic Price Scenarios								
Price Path Scenario	SOA Royalty \$MM (NPV12.5)	End of Field Life Extension Over June 2025 (months)	End of Field Life Extension Over June 2025 (Years)	End of Field Life	Cumulative Production From Sept 2024 MMSCF	Production Tax \$MM (NPV12.5)	State Share of Property Tax (50%) \$MM (NPV12.5)	Total State Revenue \$MM (NPV 12.5)
Scenario 1: No Royalty Modification (baseline)	\$2.75	0	0	June 2025	2,496	\$0.41	\$0.79	\$3.94
Scenario 2: Furie's Updated Price Estimate	\$17.11	126	10.5	December 2035	65,724	\$6.30	\$16.92	\$40.33
Scenario 3: Random Furie Updated Price +/- \$1 (medium case)	\$17.24	126	10.5	December 2035	65,724	\$6.30	\$16.92	\$40.46
Scenario 4: Uniform Price (medium-high case)	\$18.65	126	10.5	December 2035	65,724	\$6.30	\$16.92	\$41.87
Scenario 5: Normal Price (high case)	\$26.91	138	11.5	December 2036	68,369	\$6.40	\$17.71	\$51.02



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## Key Takeaways



- DNR tested 22 different simulation scenarios before deciding on the royalty modification.
- Concluded that the royalty reduction is in the best interest of the state.
  - Prolongs the economic life of the KLU.
  - Allows HEX/Furie to meet Plans of Development.
  - Incremental royalties paid to the state from an increased field life.
  - Continued local gas production.
  - Jobs for Alaskans – Furie is located and headquartered in Anchorage and 84% of Furie employees live in Alaska.



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## Conclusion



# Questions?