

ALASKA STATE LEGISLATURE



REPRESENTATIVE ZACK FIELDS

Fairview • South Addition • Forest Park • Downtown • North Star

January 26, 2026

HB 271 Sponsor Statement version G

House Bill 271 puts royalty relief in statute for the Kitchen Lights Unit of the Cook Inlet basin. HB 271 is designed to increase both production and competition in Cook Inlet.

The Cook Inlet oil and gas leases are divided amongst 12 entities; however, one entity alone holds 90% of the oil and gas leases in Cook Inlet and produces more than 80% of the Inlet's gas. The lessee of the Kitchen Lights Unit is HEX, the only Alaska-owned and headquartered oil and gas production company. The Commissioner of the Department of Natural Resources has stated that it is important to secure local natural gas supplies for Alaskans along the Railbelt, the area stretching from the Kenai Peninsula through Anchorage to Fairbanks. The Kitchen Lights Unit's current total royalty percentage is twenty-five percent, nearly nine percent higher than the average royalty percentages in similar units. HB 271 extends in statute royalty relief rates that have been established by the Department of Natural Resources in regulation.

A 2022 Cook Inlet forecast report released by the Alaska Division of Oil and Gas lays out a natural gas crisis that is set to hit the Railbelt as early as 2027. The largest supplier of Alaska's natural gas utility, Enstar, relies on Cook Inlet gas for more than 80% of their fuel needs. The five utility stakeholders that rely on Cook Inlet's natural gas production are Golden Valley Electric Association, Matanuska Electric Association, Chugach Electric Association, Homer Electric Association, and the City of Seward.

HOUSE BILL NO. 271

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-FOURTH LEGISLATURE - SECOND SESSION

BY REPRESENTATIVE FIELDS

Introduced: 1/23/26

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the royalty rate for the Kitchen Lights Unit; and providing for an**
2 **effective date."**

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

4 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
5 to read:

6 LEGISLATIVE FINDINGS. The legislature finds that

7 (1) the Kitchen Lights Unit, located in the Cook Inlet, is an important source
8 of natural gas for the Southcentral region of the state;

9 (2) without a modification of the royalty rate, production from the Kitchen
10 Lights Unit is not economically feasible because of declining production and rising costs;

11 (3) gas production in Cook Inlet is necessary to ensure reliable and affordable
12 energy supply for Southcentral utilities and ratepayers, to protect jobs, and to avoid reliance
13 on imported fuels; and

14 (4) granting royalty modification for certain Kitchen Lights Unit leases is in

1 the best interests of the state because a royalty modification is projected to extend gas
2 production from the leases for use by state residents and to maximize economic benefits to the
3 state, when compared with no modification.

4 * **Sec. 2.** AS 38.05.180 is amended by adding a new subsection to read:

5 (mm) Under (j) of this section, beginning January 1, 2026, the commissioner
6 shall modify the leases within the Kitchen Lights Unit so that the royalty rate for
7 leases within the Kitchen Lights Unit is three percent each month of the gross value of
8 production from the lease. Royalty calculations may be audited by the department at
9 any time. The royalty modification under this subsection may be terminated if the
10 commissioner determines that the royalty modification was assigned without approval
11 of the commissioner, consistent with (j)(5) of this section. In this subsection, "Kitchen
12 Lights Unit" means leases with division of lands numbers 389196, 389197, 389198,
13 389507, 389514, 389515, and 389923.

14 * **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to
15 read:

16 RETROACTIVITY. This Act is retroactive to January 1, 2026.

17 * **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).

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HB 271 Sectional Analysis version G

Section 1: This section states the legislative findings of the Kitchen Lights Unit located in Cook Inlet as an important source of natural gas for Alaska, stating that royalty modification is in the best interest of the state.

Section 2: This section amends AS 38.05.180 with a new subsection that sets a three percent royalty rate of the gross value of production for the leases within the Kitchen Lights Unit, codifying the rate that the Department of Natural Resources established through regulation. There are seven leases identified under this section as part of the unit. This provision has no sunset.

Section 3: This section sets an effective date for Section 1 to January 1, 2026.

Section 4: This section sets an immediate effective date for Section 2.



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



House Bill 271

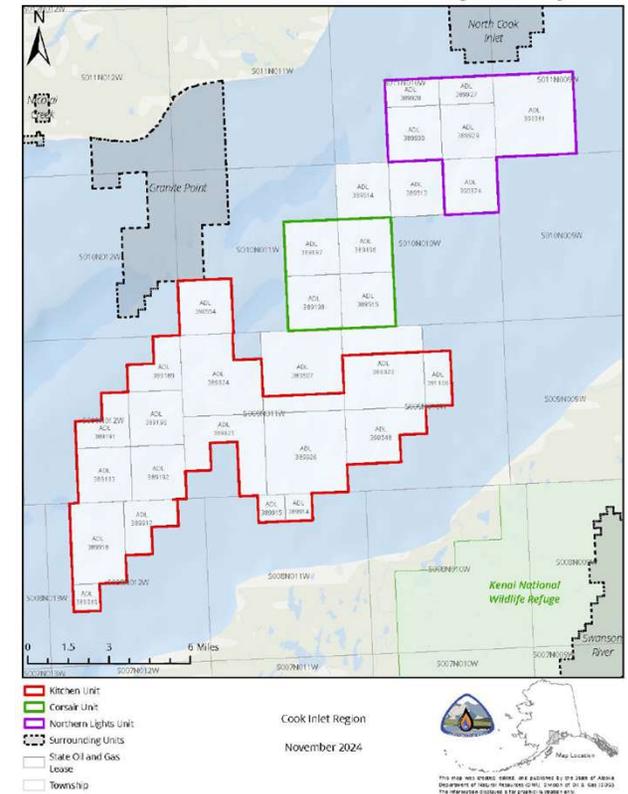
KLU Background



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 (mcfcd) from six total well slots (October 2024).

Exhibit C - Former Kitchen, Corsair, and Northern Lights Units Map



End of Exhibit C



House Bill 271 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.

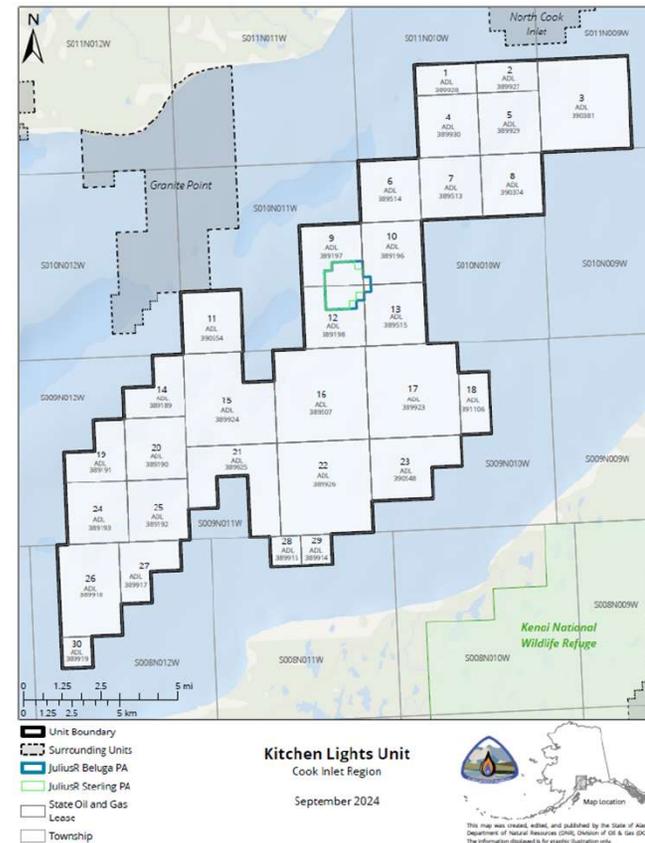
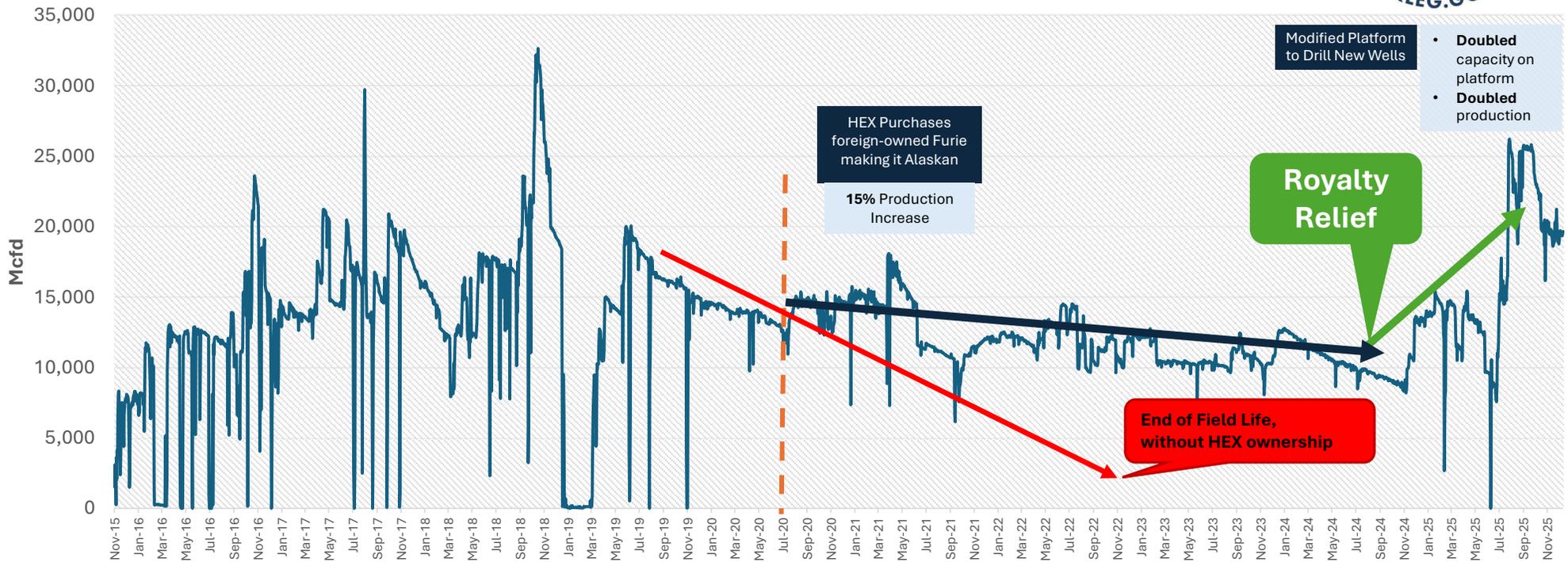


Figure 1: KLU Boundary with Tract Designations, Leases, and PA Boundaries³



House Bill 271

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.

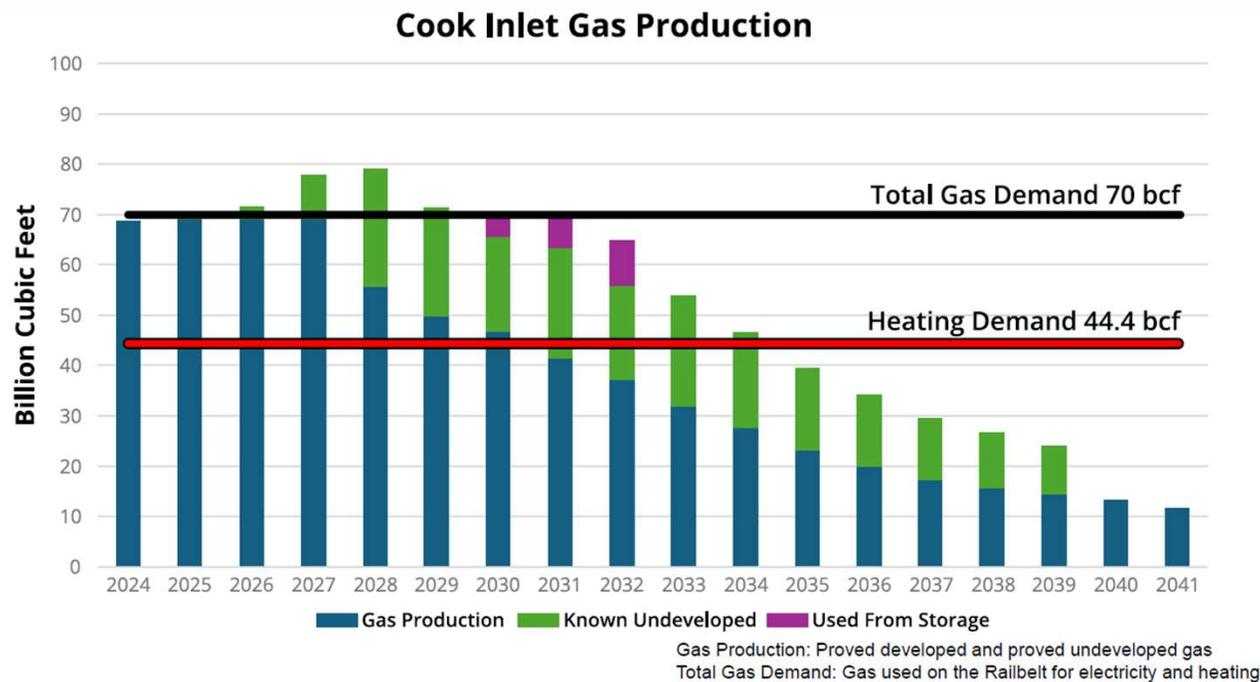


House Bill 271

Cook Inlet Gas Supply/Demand



"RUNWAY" OF COOK INLET GAS



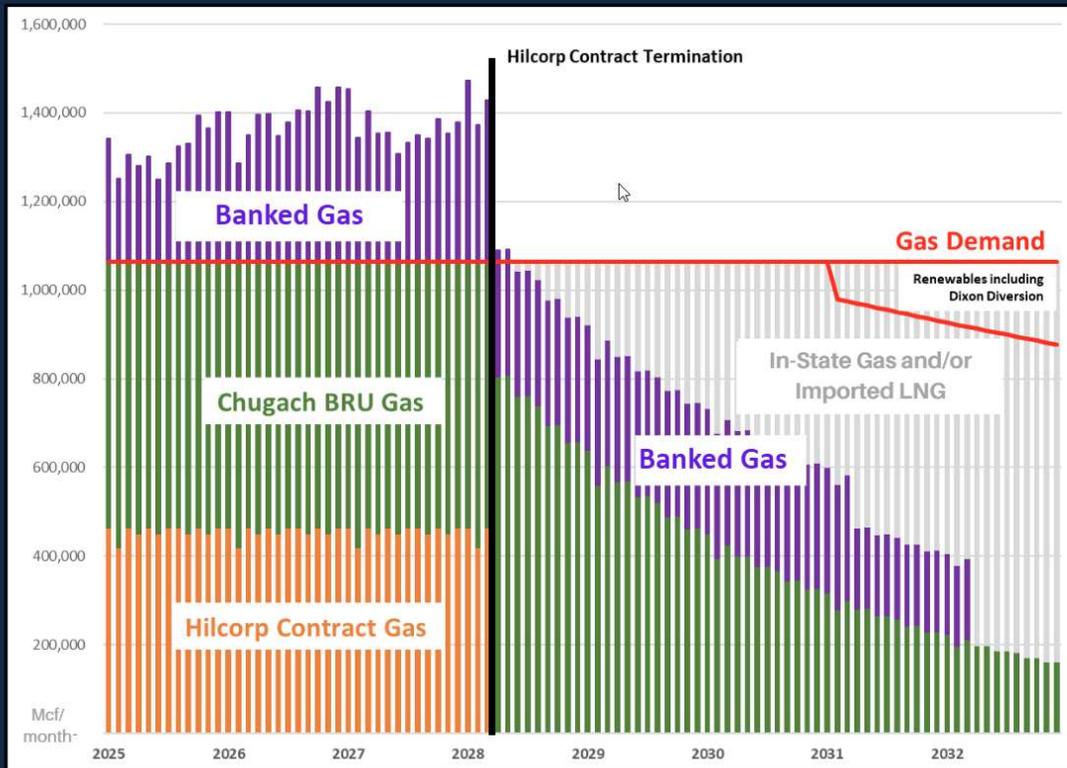


House Bill 271

Chugach Electric Gas



CHUGACH GAS SUPPLY





House Bill 271 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, 2025 at 7:37 PM AKDT



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.

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

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.

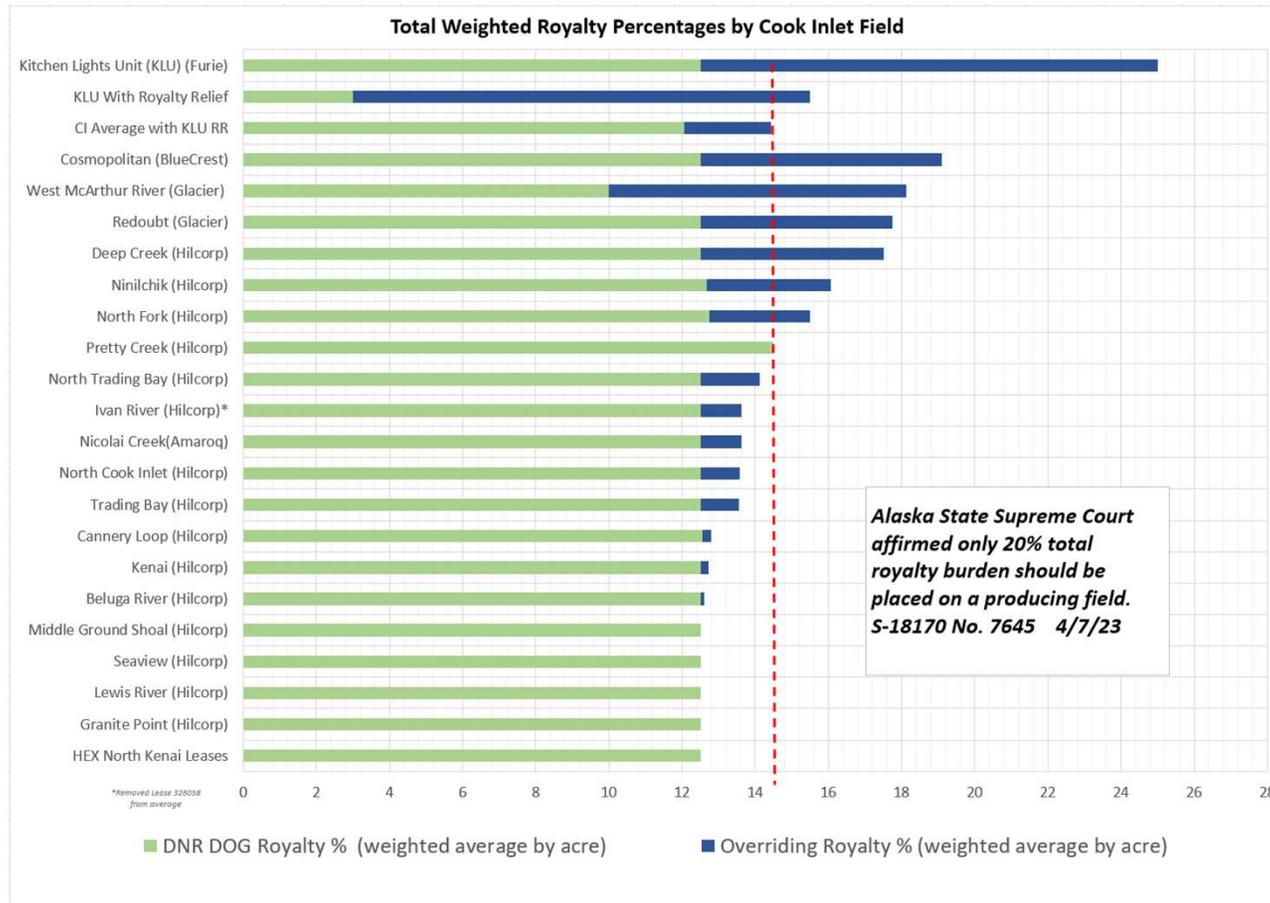
Concerns grow over Cook Inlet's natural gas supply

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



House Bill 271

Royalties on Cook Inlet Units





House Bill 271

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)
<i>Scenario 1: No Royalty Modification (baseline)</i>	\$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.



House Bill 271

Conclusion



Questions?

Fiscal Note

State of Alaska
2026 Legislative Session

Bill Version: HB 271
 Fiscal Note Number: _____
 () Publish Date: _____

Identifier: HB271-DNR-DOG-1-30-26
 Title: KITCHEN LIGHTS UNIT ROYALTY
 MODIFICATION
 Sponsor: FIELDS
 Requester: (H)Resources

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)

	FY2027	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2027 Request	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
OPERATING EXPENDITURES	FY 2027	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
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						

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)							(1,316.7)
1105 PF Gross (Other)							(1,330.0)
Total	0.0	0.0	0.0	0.0	0.0	0.0	(2,646.7)

Estimated SUPPLEMENTAL (FY2026) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2027) 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?

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

Prepared By: <u>Ryan Fitzpatrick, Commercial Manager</u>	Phone: <u>(907)269-8800</u>
Division: <u>Division of Oil and Gas</u>	Date: <u>01/30/2026 01:00 PM</u>
Approved By: <u>Melissa Hurley-Marvin, Division Operation Manager</u>	Date: <u>01/30/2026</u>
Agency: <u>Natural Resources</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2026 LEGISLATIVE SESSION

BILL NO. HB 271

Analysis

On February 3, 2025, the Department of Natural Resources (DNR) Commissioner published a final decision, modifying the royalty rate for the leases within the Kitchen Lights Unit (KLU) to 3%. The Commissioner's decision made the royalty modification contingent on the operator's compliance with ongoing development obligations, and included a phase-out of the royalty modification based on a Gross Revenue Target (calculated based on the operator's cost estimates for ongoing drilling, operations and maintenance, rig acquisition, etc.) pursuant to AS 38.05.180(j)(3).

This legislation directs the DNR Commissioner to modify the oil and gas leases contained within the KLU to reduce the royalty to 3%. It further provides for termination of the royalty modification if the modification is assigned without the consent of the DNR Commissioner. It would not include either conditions for ongoing development or the Gross Revenue Target phase-out for royalty modification.

DNR estimates that KLU will currently reach the Gross Revenue Target in mid-FY2032, at which time royalties for KLU will presently revert to 12.5%. The revenue estimate for FY2032 consists of the difference between the estimated royalties once the leases revert to 12.5% compared with the royalty collections assuming the 3% royalty rate remains in perpetuity. Revenue impacts in future fiscal years would be approximately twice the estimated impact as in FY 2032, due to the royalty rate difference persisting for the entire fiscal year.

In addition to revenue estimates provided for General Fund (UGF) (Code 1104) and Permanent Fund Gross (Other) (Fund 1105), DNR estimates a revenue impact for School Fund Designated General Fund (DGF) (Code 1030) of -13.3 in FY2032, similarly increasing in future fiscal years.