

Fiscal Note

State of Alaska
2024 Legislative Session

Bill Version: HB 393
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB393-DNR-DOG-03-30-24
Title: COOK INLET/MIDDLE EARTH GAS ROYALTIES
Sponsor: RESOURCES
Requester: (H)RES

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	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2025 Request	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
OPERATING EXPENDITURES	FY 2025	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	0.0

Fund Source (Operating Only)

None								
Total	0.0	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If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version/comments:

Initial version, not applicable.

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Division: <u>Oil & Gas</u>	Date: <u>03/29/2024 12:00 AM</u>
Approved By: <u>Theresa Cross, Administrative Services Director</u>	Date: <u>03/29/24</u>
Agency: <u>Natural Resources</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2024 LEGISLATIVE SESSION

BILL NO. HB 393

Analysis

This bill adds a new subsection AS 38.05.180(f)(7) to reduce Cook Inlet royalties under these conditions: (A) Gas wells drilled after July 1, 2024, pay zero royalty, (B) Oil wells drilled after July 1, 2024, pay 5% royalty, and (C) Oil and gas produced from wells drilled before July 1, 2024, pay 5% royalty.

This bill adds a new subsection AS 38.05.180(mm) to defer the requirement to pay royalties on non-North Slope oil and gas until development costs are recovered. For Cook Inlet, we interpret this to apply to any existing oil and gas produced from leases where the new gas wells are located, since new gas is already reduced to zero royalty under AS 38.05.180(f)(7)(A) (Section 1 of the bill). This would apply to both oil and gas for Middle Earth production, i.e., production outside of Cook Inlet or the North Slope, but there is no Middle Earth exploration or development on State lands expected soon. We assume that it would take 10 years for the drilling costs (in this case, for the production of additional gas only) to be recovered through revenue. Therefore, the royalty rate for existing oil and gas production from leases where new gas wells were drilled would increase from 0% to 5% at the end of this 10-year period.

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 for the next six fiscal years are indeterminate but would likely result in negative revenues, the scale of which would require further assessment. This is mainly driven by the impact of the reduction of the royalty rates to 5% for existing oil and gas production. Also, the royalty rate would be 0% for production from wells to be drilled by operators (after July 1, 2024) to meet their existing gas contracts. While the Division expects that this reduction could incentivize companies to pursue even more investments (in addition to the forecasted drilling schedule) in new Cook Inlet production under this bill than without the changes proposed in this legislation, the uncertainty around the timing and scale of those investments is a limiting factor when accounting for their potential impact on revenues to the State.