

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

February 10, 2021

3:34 p.m.

MEMBERS PRESENT

Senator Joshua Revak, Chair
Senator Peter Micciche, Vice Chair
Senator Click Bishop
Senator Gary Stevens
Senator Natasha von Imhof
Senator Jesse Kiehl
Senator Scott Kawasaki (via teleconference)

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 61

"An Act authorizing the commissioner of natural resources to modify a net profit share lease."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 61

SHORT TITLE: OIL/GAS LEASE: DNR MODIFY NET PROFIT SHARE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/29/21	(S)	READ THE FIRST TIME - REFERRALS
01/29/21	(S)	RES, FIN
02/10/21	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

JHONNY MEZA, Commercial Manager
Division of Oil and Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of Senate Bill 61.

ACTION NARRATIVE

[3:34:11 PM](#)

CHAIR JOSHUA REVAK called the Senate Resources Standing Committee meeting to order at 3:34 p.m. Present at the call to order were Senators Kiehl, Stevens, Bishop, von Imhof, Kawasaki (via teleconference), and Chair Revak. Senator Micciche arrived as the meeting was in progress.

SB 61-OIL/GAS LEASE: DNR MODIFY NET PROFIT SHARE

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CHAIR REVAK announced the consideration of Senate Bill 61 "An Act authorizing the commissioner of natural resources to modify a net profit share lease."

He noted that the Department of Natural Resources (DNR) will provide a presentation on Senate Bill 61 (SB 61)—Oil/Gas Lease: DNR Modifying Net Profit Shares.

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JHONNY MEZA, Commercial Manager, Division of Oil and Gas, Department of Natural Resources, Anchorage, Alaska, explained SB 61 would modify certain aspects of the existing statutes for royalty modifications.

He addressed slide 2, Outline, noting the department's goal is to provide the committee with a brief description of what net profit share leases (NPSLs) are, and where they are on the North Slope.

MR. MEZA detailed in section 2 of his overview, the department explain its rationale for proposing that the ability to modify NPSLs and all the changes present in the bill; section 3, the department will provide another view of the modification process for royalty and how its proposed changes will reflect within it; and section 4, contains appendices with more detailed information.

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He referenced slides 3 and 4 regarding an overview of NPSL. He explained by statute, the DNR commissioner has the authority to issue oil and gas leases via competitive bidding. In doing so, the commissioner has a series of lease sale methods available, allowing the offer of different types of oil and gas leases. Most frequently, the leases that the state offers have only a royalty component as a revenue source in its role as lessor.

However, in some cases in the North Slope, DNR has also offered other leases which in addition to royalty, also have a provision for net profit sharing—these are NPSLs.

MR. MEZA said prior to delving into the definition of net profit sharing, the department will first highlight a couple of differences in royalty revenue and net profit share revenue to help illustrate the [net profit sharing] concept.

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He explained royalty revenue begins with commercial production based on gross revenue. There is a subtle distinction between the royalty value and the proceeds that the lessee receives. However, royalty valuation calculation does not consider exploration, development, operating, processing, or other production costs. On the other hand, for a NPSL the sharing of net profits only occurs when the lease is set to have reached the payout stage. This is the stage at which the lease recoups exploration and development costs allocated to the lease through revenues and net operating costs associated with a particular lease.

MR. MEZA detailed with the beginning of activities in the lease viability associated with exploration and development activities, some of those costs will be allocated to the net profit sharing. Since there is no production—therefore no revenues—the cumulative balance of costs associated to a NPSL will continue to accumulate and the department keeps a balance of such costs. Some of the [cost balance] erodes when production and revenue occurs until full costs recovery via revenues and net operating costs; at that point when the balance is fully eroded, the department then says the NPSL has reached the payout stage. Net profits occurs when any amount exceeds the recovery of development costs at which point the lessee pays the state a share of the net profits pursuant to the share established in the lease—the net profit share.

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He noted a map of the North Slope in slide 5 that depicts existing oil and gas units with existing NPSL units highlighted—26 units. He explained an oil and gas unit contains a set of oil and gas leases. Oil and gas units are at times composed of leases with only a royalty component and other times with NPSLs—which contain both royalty and a net profit-sharing provision.

MR. MEZA detailed the NPSLs are in seven units—noting various units from west to east on the map as follows:

- Colville River Unit
- Ooguruk Unit
- Kuparuk River Unit
- Milne Point
- Duck Island Unit
- Point Thomson

MR. MEZA said the NPSLs were issued in the late 1970s and early 1980s, most offered with a fixed royalty rate and a fixed net profit sharing rate. In other cases, the net profit share was a bid variable with values as high as 79 percent for an [inaudible] NPSL in Duck Island, or 93 percent for a NPSL in the Northstar unit.

He explained the reason why the department does not show NPSLs for the Northstar unit in the map is due to legislative action in 1996 that transformed five NPSLs in the Northstar unit into leases with only a royalty component—further explanation will occur later in the presentation to exemplify one of the reasons for proposing SB 61.

MR. MEZA noted the NPSLs which have reached the payoff stage are in Colville River, Ooguruk, Milne Point, and Duck Island units. The net profit share revenue has been an important source of additional revenue to the state, and the largest contributors of such additional revenue are in the NPSLs in the Duck Island and Milne Point units—accounting for approximately \$1 billion. The total revenue coming from NPSLs amount to close to \$1.2 billion.

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CHAIR REVAK asked him of the 26 active NPSLs on the North Slope, how many does he anticipate needing to change and what is the need to change now.

MR. MEZA replied, the department has prepared information as to the need for proposing SB 61. The department cannot guess which NPSLs will submit applications. The following slide will show information the department thinks warrants the proposed change.

CHAIR REVAK asked him to confirm that he said some NPSLs were as high as 90 percent.

MR. MEZA answered yes. He noted the Northstar unit offered DNR a NPSL that contained the net profit share at the bidding variable. The successful bidder for that lease sale submitted an

offer for 93 percent of the net profit share. The legislature modified those NPSLs in 1996—including the 93 percent share rate—to only contain a royalty component.

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MR. MEZA addressed slides 6 and 7 regarding why to allow NPSL modification. He said one of the reasons for why DNR believes SB 61 will provide benefits to the state is that the department believes [NPSL modification] will increase production for otherwise uneconomic sources.

He detailed the current statute for royalty modification, AS 38.05.180(j), enables the DNR commissioner to modify the royalty rates under specific scenarios—discussed later in the presentation—with the objective to encourage production which would otherwise remain uneconomic in the absence of such modification—the modification process discussed later in the presentation. However, there is a possibility that even with a royalty modification, such production could remain uneconomic.

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SENATOR VON IMHOF noted he mentioned on slide 7, "Under circumstances, even with royalty modification is possible for continuing." She asked him if DNR has done royalty modification in the past and what were the results.

MR. MEZA answered yes. He explained he believed the legislature enacted the royalty modification statute in 1995 and then amended the statute in 2003. The state has received eight applications for royalty modification with two denied and three withdrawn.

CHAIR REVAK asked Mr. Meza to provide the committee with information on how the royalty modifications have done since their approval.

MR. MEZA answered yes.

CHAIR REVAK asked Mr. Meza if the royalty modification ended in 2003.

MR. MEZA answered no. He specified he said the legislature amended the statute in 2003.

CHAIR REVAK asked him when the last royalty modification occurred.

MR. MEZA answered the last application that DNR received was in 2014 for the Oooguruk unit.

SENATOR VON IMHOF addressed the last bullet point on slide 7 as follows:

This would result in additional royalties, net profit share, taxes, etc. that the state would not otherwise receive.

She said she assumed the royalty modifications resulted in net profit shared, taxes, etcetera. She asked how much money the state made that it would not otherwise have made, assuming the three applications received approval—without the royalty modification.

MR. MEZA answered yes. He said the department will have the information available to committee members.

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SENATOR BISHOP asked if there was some royalty rate modification discussed for the [Nuna Development] as well after 2014.

MR. MEZA answered yes. He noted he referred to the Nuna case earlier in his presentation. The department received an application in 2014 for royalty modification for the development of the Nuna prospect residing in the Oooguruk unit.

SENATOR STEVENS noted the department's proposal is a tradeoff where the state receives less but extends the life of the field. He asked him what the advantage to the state is with their proposal.

MR. MEZA explained that applications for royalty modifications and net profit share modifications, as proposed in SB 61, does not automatically translate into an approval. The department performs a full review process that entails a review of technical and commercial information by the applicant. According to statute, the applicant needs to provide a convincingly and clear showing that the project is not economic and therefore will not occur without the modification.

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CHAIR REVAK asked him to explain in the simplest terms what the state is trying to achieve by modifying a lease and under what circumstances. He said his understanding is modifying a lease is

due to a lease not being economic given the amount of net profit the state would take for the company to drill more oil.

MR. MEZA answered when the department references to a project or production being economic or not economic, what they are trying to do is influence the lessee's investment decision by modifying either royalty or net profit share because investment will not occur without modification. However, the department does not guarantee modification results in profitability.

He noted later in his presentation he will refer to one measure of profitability that the department uses often—the net present value—which is a comparison of the cost and revenue of a project in simple terms.

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CHAIR REVAK announced Senator Micciche has joined the committee meeting.

SENATOR KIEHL remarked many committee members as well as the presenter are experts in the oil and gas field. He said he requires a more basic explanation.

He asked Mr. Meza what the difference is between a NPSL and a royalty lease, and how net profit share differs from the state's production tax which is also based on net profits. He noted the difficulty in getting his head around the notion that, "Once we are into net profits, something that is not economic, how is it not economic if you are making a profit?"

CHAIR REVAK suggested to Mr. Meza to start out with the difference between the royalties and the net profits in the simplest of terms.

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MR. MEZA explained the department uses the term "net profit" in the context of both NPSLs and production taxes. The department's hope during the presentation is to explain the key differences between "net profits" in the context of NPSLs and how that differs from "project profitability" from the standpoint of the lessee. One key aspect illustrating the distinction is not considering certain costs for profit determination under a NPSL context versus a company's profitability determination for a project.

He said other examples of other costs not considered for profit sharing leases includes an allowance for overhead and a return

on cost not recouped based on the prime rate—oil and gas companies require a return much higher than the prime rate.

CHAIR REVAK asked Senator Kiehl if Mr. Meza's explanation helps him.

SENATOR KIEHL answered Mr. Meza's response is a start and he likely has some of the answers built into his presentation.

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MR. MEZA said slide 8 references the second reason for purposing SB 61, which is to provide DNR with additional, valuable flexibility for modifying the existing royalty modification statute and the proposed modification of net profit-sharing rates.

He detailed the current royalty modification statute enables the DNR commissioner to modify the royalty rate under specific scenarios to encourage production which would otherwise remain uneconomic—the department will later define via example.

He said the department believes SB 61 importantly provides the DNR commissioner with the ability to modify not just royalty but net profit share as well. For example, in the review process of an application for modification, the state may find that it is in its best interest to modify net profit sharing instead of royalty—the department has prepared a draft to exemplify the particular case.

He explained if only modifying net profit share helps to make an uneconomic production come to fruition, then the state would not have to defer its royalty revenue because—as previously noted—they receive concurrent payment with production. Alternatively, the state may find that a blended structure of NPSLs and royalty modification could be in the best interest rather than just using one modification.

He noted the current statute for royalty modification allows the commissioner to increase or decrease the royalty rate which could allow for the possibility of recovery of forgone revenue. Also, SB 61 includes net profit share as another variable.

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He explained slide 9 provides a hypothetical graph of what the department means for a project trying to develop economic production.

MR. MEZA reiterated SB 61 has the objective of encouraging economic production and provides the state with valuable, additional modification flexibility if the department finds modification is in the project's best interest.

He referenced the economic model that provides two production scenarios for a hypothetical project. One graph defines a set of leases with one containing royalty and the other with NPLS, the second graph with all NPLS—previously noted to contain both royalty and a net profit share component. The graphs show one measure of profitability for a company in terms of net present value. The graphs represent the lessee's expectations via production, price, and cost variables. The evaluation determines whether a project is economic and warrants investment.

[He detailed various economic and uneconomic project scenarios shown on the graphs.]

He noted under the existing modification framework, the DNR commissioner can only modify the royalty rates to encourage production which otherwise would remain economic.

He reiterated when evaluating modification requests, the department's goal is not to guarantee project profitability or to provide more than necessary profitability. The modification goal is to improve the chances for project profitability, but only to the point necessary to impact the investment decision by the lessee—one circumstance includes using the net profit share instead of the royalty rate.

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SENATOR KIEHL asked him what discount rate the department is using in their analysis, noting he mentioned prime rate earlier and that companies use a significantly higher rate. He said the discount rate used for a net present value analysis makes a huge difference.

MR. MEZA answered the department does not use a set discount rate. The department first looks at economic profitability for a project from the company's perspective to evaluate whether the company will make an investment decision. However, the department realizes there are different types of North Slope operators, some are financially stronger with a worldwide project portfolio, and some have different types of project investment in their portfolios. The department uses a "prudent operator's" standpoint for determining whether a project is economic.

SENATOR MICCICHE asked him to confirm that the combined relief of royalty modification and NPSL—with a minimum of 10 percent—could possibly stop the abandonment of unprofitable production. Anything back to the state above that unprofitable line is far more beneficial to the State of Alaska than abandoned production.

MR. MEZA answered yes, the department encourages production that would otherwise remain uneconomic and not come to fruition without the modification.

He reiterated the department's goal is not to guarantee a certain profit level or profit under all circumstances, but rather to influence the investment decision by the applicant.

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SENATOR KIEHL asked him how the department sets the "prudent operator" standard. He noted an oil business might say a prudent operator is not going to make less than a very high number, but a state revenue department might be interested in a much lower number. He inquired if the department determines the standard via regulation or "are we to trust one another."

MR. MEZA answered what he meant by the term "prudent operator" is from an economic standpoint. DNR considers different scenarios in its review process as well as the opportunity cost for the state.

He explained if DNR were to hypothetically deny an application, the department would consider the state's opportunity cost for not sanctioning a project via waiting for another operator, market conditions or technology improvements, or for a different project configuration.

He summarized DNR is always comparing its opportunity cost and revenue benefit that could occur with the modification versus the revenues that might or might not occur in the future by delaying a project.

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CHAIR REVAK asked him to confirm that DNR currently does not have the ability to negotiate NPSLs and the department feels having the ability to negotiate under certain circumstances would be a greater benefit to the state.

MR. MEZA answered yes. He noted a NPSL modification occurred in 1996 for the Northstar unit, but the process entailed legislation. SB 61 would provide the DNR commissioner with the authority to modify royalties and net profit share rates.

CHAIR REVAK asked him how many NPSLs are currently in production.

MR. MEZA referenced the map on slide 5 and detailed the units that currently have NPSLs in production as follows:

- Colville River
- Ooguruk
- Nikaitchuq
- Milne Point
- Dick Island
- Northstar
 - Originally had NPSL.
 - Applicant sanctioned modification and project is producing.

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CHAIR REVAK asked how many NPSLs are not in production.

MR. MEZA answered the Point Thomson unit is producing but not associating its production to NPSL.

SENATOR BISHOP asked him if he is talking about having the ability to modify existing production, new projects going forward, or both.

MR. MEZA answered royalty modification under the existing statute and NPSLs under SB 61 can only occur under specific scenarios described by the statute—additional detail provided in the next slide.

SENATOR STEVENS noted Judge Sharon Gleason—former state judge, now a federal judge—made a decision on the issue of how much money from the [Trans-Alaska Pipeline System (TAPS)] taxes would go to communities. Judge Gleason stated that oil will be flowing from Prudhoe Bay for the next 50 to 100 years. He said he thinks Judge Gleason was saying that sometimes it is best to leave oil in the ground because in the future the oil might be of more value to the state.

SENATOR STEVENS said he is truly concerned if the department is truly looking with a 50-to-100-year view of the oil industry for the state, or is the department just looking at the immediate production of oil.

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MR. MEZA answered the DNR review process looks at both short and long-term effects from modification for existing and future production. He noted Alaska built a pipeline infrastructure not for one unit, but for the benefit of other types of development throughout the North Slope.

SENATOR MICCICHE noted NPSLs ranged from 30 to 79 percent in the 1970s and 1980s. However, the department's request via SB 61 could drop the NPSL percentage amount to 10 percent.

He asked if the department is thinking of utilizing the practice as combined relief between royalty and the need for a lower NPSL to make economic sense, and does the department envision the 10 percent minimum is something realistic.

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MR. MEZA replied the department is not proposing to reduce the net profit share to the 10 percent level, but for a floor to exist under which modifications cannot go beyond should the department consider modification in the interest of the state. Just because the department has a minimum does not mean the department will go to the minimum, and the same applies for the existing statute of royalty modification, which contains minimum levels of royalties. The department in its review does not have the intent to necessarily go to the minimum, but the decision to modify the rate is based incentivizing the investment decision by the applicant.

He referenced the graph from the economic model on slide 9 that contains a hypothetical scenario of combined relief. The right graph on slide 9 illustrates the possibility that separate royalty and NPSL modification may not be large enough to change the decision from no investment to investment. DNR may find under certain circumstances the need for combined relief. However, the department does not mean it will go all the way up to provide the greatest profitability to a project, but only to the point where the applicant acts on conducting its investment decision.

SENATOR MICCICHE noted he will follow up later in the overview regarding questions on modifications if a well ends up looking

borderline profitable and there is combined relief and then the profitability becomes remarkably successful later.

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MR. MEZA said slide 10 describes the third section of the department's presentation which addresses the process for modification that currently exists, and how SB 61 proposes to modify the process.

He explained that SB 61 will amend the existing royalty modification statute to provide authority to modify the net profit share with a goal of encouraging production which would otherwise remain uneconomic.

He noted the department is providing a third reason to allow NPSL modification by streamlining the process. In 1996, DNR presented a proposal to the legislature for modifying four NPSLs in the Northstar unit. The offered NPSLs included the net profit share rate as the [inaudible] variable; the highest bidder in that lease sale offered a net profit share rate in a NPSL as high as 93 percent.

MR. MEZA said DNR is proposing via SB 61 to authorize the department to modify the net profit share to streamline the NPSL process in conjunction with the existing statute that allows royalty rate modification. Also, the department will publish and report the proposed net profit share modification decision for royalty modification through a best practice interest finding to the Legislative Budget and Audit Committee.

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SENATOR KIEHL asked him what currently requires legislative approval, what simply requires reporting to the legislature under the status quo, and how that would change.

MR. MEZA explained under the existing statute which allows only for royalty modification, the department—once it receives an application for modification of royalty—performs its review process and if the department finds that granting a modification of royalty is in the best interest of the state, the department publishes a best interest finding allowing for public comment and offers a presentation to the Legislative Budget and Audit Committee; the SB 61 proposal tries to include the modifications for net profit share in this process while maintaining the same review process, the same publication of the best interest finding, and offers to make presentations to the legislature.

SENATOR KIEHL asked him why the Northstar unit modifications required legislative action.

MR. MEZA answered at that time—and currently—the statute does not allow the DNR commissioner to modify net profit share. In 1996, the lessee reached out to the department which led to the legislature receiving tentatively negotiated terms for the proposed NPSL modification.

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CHAIR REVAK summarized that SB 61 seeks to solve the very problem he noted. He said the committee has asked for details related to those conducted NPSLs and how they have worked so far.

MR. MEZA explained that slide 12 addresses the third section in the presentation that covers the current modification process—information the committee previously asked, and how SB 61 proposes the process.

He said that under the current statute the commissioner has the authority to modify royalty rates. SB 61 proposes the commissioner would also have the authority to modify net profit share rates with the objective to encourage production which would otherwise remain uneconomic.

MR. MEZA said the department is also proposing to ask for a fourth scenario for applicant eligibility regarding incremental production for producing pools which need significant capital expenditures.

He added that SB 61 proposes to clarify a potential ambiguity in the criteria for one of the scenarios for modification eligibility in test production [during exploration] would not necessarily disqualify an applicant.

SENATOR BISHOP asked what the test production cutoff is.

MR. MEZA said he will cover that in slide 14.

[4:31:12 PM](#)

MR. MEZA said slide 13 addresses, within the same context of the modification process, the current and proposed types of modifications. Currently the royalty modification contains a minimum floor of 5 percent and 3 percent under corresponding scenarios—noted on slide 14. SB 61 would also establish a minimum net profit share rate of 10 percent; the intent is not

necessarily to go there, but to have a minimum under which does not allow the department to offer for modification.

MR. MEZA explained consistent with existing statute—which allows for a sliding scale mechanism to vary royalty rate according to price, production, or other measure—SB 61 proposes that the net profit share also is subject to the sliding scale mechanism. Also, the bill would include a provision for certain circumstances where the state could recapture forgone revenues from the beginning of the project by participating in outside price movement or other types of variables.

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He said slide 14 provides more details on scenarios for eligible modification applications. He reiterated SB 61 proposes the consideration for both royalty and net profit share modification for the three existing scenarios in the statute, but also to include a fourth scenario.

He explained in the first scenario, the pool under consideration has not yet produced and would need modification for future production to occur economically. The scenario has one condition in that the field or pool has not yet previously produced for sale. He noted the scenario has a potential ambiguity referred to earlier in the overview that SB 61 is trying to address and clarify.

He noted in the development stage of a given project as the company starts its appraisal stage and drilling some wells, naturally some of its resource will flow to the ground and tested for quality and pressure information. The department wants to clarify that such a test production scenario would not necessarily disqualify a potential applicant that is seeking modification. Also, to provide clarity, the term "commercial production" will refer to production after project sanctioning for a pool not having produced before.

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MR. MEZA explained that the second scenario on slide 14 references a situation where production already exists, but with lower production levels, high operating costs, or lower prices that makes abandonment expectations likely; for this case, royalty modification or the proposed NPSL may prevent existing production from becoming uneconomic.

MR. MEZA said in the third scenario, production has already ceased, and wells are likely shutting. The idea is that the

modification of royalties or NPSL may bring that production back online.

He explained that in the proposed fourth scenario, production already exists—like in the second scenario—but the key distinction is that the production and review is incremental to the existing one where it only comes to fruition after significant capital investment. However, such incremental investment would be uneconomic unless royalty modification or NPSL occurs. Incremental investment examples include expansion of existing pools, additional drilling pads, enhanced oil recovery projects, etcetera. He noted the additional production decision addresses both short term and long-term impact perspectives.

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CHAIR REVAK asked how the proposed fourth scenario of incremental production differs from the second scenario. He inquired whether the second scenario would not suffice for what the state needs.

MR. MEZA replied his question allows him to highlight the key distinction between the second and fourth scenarios. In the second scenario when the department refers to rising per-barrel costs, the department refers to costs the lessee is already incurring. However, the costs in the fourth scenario have not occurred and are under evaluation to bring incremental production into existence—a key distinction. To qualify for the second scenario, the lessee would have to first incur their costs, but more likely the lessee would not do so if they deemed the project as uneconomic.

[4:39:10 PM](#)

MR. MEZA addressed slide 15 regarding the decision-making process for royalty and net profit share modification. SB 61 does not propose to change the modification process, applicants still need to provide a clear and convincing showing that their application meets the statutory requirements.

He explained the bar for standard of proof is much higher when compared to other types of DNR applications. The applicant must show a clear and convincing case at a higher degree of certainty for their claim that production is not economic without modifications. The applicant needs to provide abundant technical and financial information—held confidential upon request.

MR. MEZA added DNR retains the ability to require applicants to pay for each application to allow the department to reach out for consulting work to assist in specific areas of technical information that the department may not have the expertise. The department will keep the same process of publishing a best interest finding and offering a presentation to the legislature.

He noted even if DNR grants the modification, the modification will contain a series of conditions and provisions intended to prevent any deviation of the claims made by the applicant with respect to the proposed project's timeline, investment expenditures, and application conditions. Application approval—currently in statute—requires authorization by the DNR commissioner.

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SENATOR MICCICHE mentioned new production and asked if there is a claw-back adjustment that the department can automatically initiate to a more traditional royalty production tax if a project ends up being enormously more productive than it was thought to be in the original negotiation and modification.

MR. MEZA answered yes the state may find in its review process that a claw-back provision is in its best interest if an outside case were to occur.

SENATOR MICCICHE asked him to clarify that he does not mean within the ranges of NPSL or royalty relief, but he is saying the department could convert to a traditional royalty and production tax.

MR. MEZA replied that when the department refers to modification, it is referring in the context of changes in the royalty rate, changes in the net profit share, or a combination if the department finds it is in its best interest; however, nothing about production tax.

[4:45:13 PM](#)

SENATOR KIEHL asked if the state could initiate a modification to raise the net profit share or royalty if it did not have the best information when the negotiation was initiated.

MR. MEZA answered the department would consider such a scenario of recapture of what the department granted initially through a provision within the initial modification decision if the department deemed the modification required granting within the series of conditions.

SENATOR KIEHL commented he thinks the answer to the question is "no." However, the department's hope is to always foresee all scenarios with a modification.

He noted to Chair Revak that he needs some additional help and basic understanding before the bill comes back. He said he will reach out to the department to better understand what information the department has access to, how the department performs some of its analysis, what information is available to the public, and what information is available to legislators to help him analyze whether the bill is something that makes sense going forward.

CHAIR REVAK concurred and noted the committee will hear the bill in the future and get more informational briefings. He thanked Mr. Meza for the presentation.

[CHAIR REVAK held SB 61 held in committee.]

[4:48:18 PM](#)

There being no further business to come before the committee, Chair Revak adjourned the Senate Resources Standing Committee meeting at 4:48 p.m.