

Fiscal Note

State of Alaska
2024 Legislative Session

Bill Version:	CSHB 223(FIN)
Fiscal Note Number:	3
(H) Publish Date:	5/11/2024

Identifier: HB223CS(RES)-DNR-DOG-04-30-24
 Title: TAX & ROYALTY FOR CERTAIN GAS
 Sponsor: RAUSCHER
 Requester: (H)FIN

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 If yes, by what date are the regulations to be adopted, amended or repealed?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

The analysis has been updated to reflect changes to the bill made in the House Resources committee which removed components affecting the oil and gas production tax, added a royalty reduction for qualified new oil, and refined the qualifying criteria for qualified new gas.

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Division:	Oil & Gas	Date:	04/30/2024 12:00 AM
Approved By:	Theresa Cross, Administrative Services Director	Date:	05/01/24
Agency:	Natural Resources		

REPORTED OUT OF
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FISCAL NOTE ANALYSIS

STATE OF ALASKA
2024 LEGISLATIVE SESSION**Analysis**

This bill adds a new subsection to AS 38.05.180 and reduces the royalty rate for "qualified new gas" and "qualified new oil." The royalty rate would be zero percent on qualified new gas for a period of 10 years following the commencement of production beginning after July 1, 2024 or the start of gas exports, whichever occurs earlier. The royalty rate would be reduced by 50 percent for oil, with the same time expiration as in the case of gas.

The bill provides discretion to the DNR commissioner to determine whether new oil and gas production qualifies for the reduction in royalty rates. While producers have publicly stated their plans to continue drilling for gas wells in Cook Inlet, it is currently uncertain if those wells will be produced from new pools, from pools that did not produce in 2024, or if the drilling of those wells is not expected to be economically feasible. The department assumes that roughly a quarter of the gas wells scheduled to be drilled may qualify for the reduction of royalty to 0%. Cook Inlet operators have not stated any plans to drill oil wells for the foreseeable future.

Under the 3 criteria considered in the bill, the reduction of royalty rates on gas wells to be drilled in the near future may represent a loss of revenue to the State, with the reduction of royalty revenue exceeding marginal increases in production tax and property tax. The estimated impact on revenue to the State for fiscal years 2025 - 2030 is estimated to be a loss of roughly \$11 million over this period.

However, if the known but undeveloped gas resources that Cook Inlet operators have publicly stated at the Cosmopolitan, North Fork, and Kitchen Lights Units are realized as a result of the incentive generated by this bill, then the combined impact on revenues to the State for fiscal years 2025 - 2030 would offset the losses estimated under the previous scenario or result in a slight revenue increase.

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.