

**ALASKA STATE LEGISLATURE  
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

Anchorage, Alaska

December 23, 2024

9:04 a.m.

**MEMBERS PRESENT**

Representative Ben Carpenter, Chair  
Senator Bert Stedman, Vice Chair (via teleconference)  
Representative DeLena Johnson  
Representative Sarah Vance (via teleconference)  
Representative Frank Tomaszewski (via teleconference)  
Representative Andy Josephson (via teleconference)  
Senator Bill Wielechowski (via teleconference)  
Senator James Kaufman (via teleconference)  
Senator Scott Kawasaki (via teleconference)  
Representative Mike Cronk (alternate)

**MEMBERS ABSENT**

Senator Lyman Hoffman  
Senator Click Bishop (alternate)

**OTHER LEGISLATORS PRESENT**

Representative Tom McKay  
Representative Julie Coulombe  
Senator Elvi Gray-Jackson

**COMMITTEE CALENDAR**

PRESENTATION(S): KITCHEN LIGHTS UNIT OIL ROYALTY MODIFICATION

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

JOHN CROWTHER, Deputy Commissioner  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Provided introductory remarks and answered questions during the Kitchen Lights Unit Oil Royalty Modification presentation.

HALEY PAINE, Deputy Director  
Division of Oil and Gas  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint during the Kitchen Lights Unit Oil Royalty Modification presentation.

RYAN FITZPATRICK, Commercial Section Manager  
Division of Oil and Gas  
Department of Natural Gas  
Anchorage, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint during the Kitchen Lights Unit Oil Royalty Modification presentation.

JUSTIN BLACK, Commercial Analyst  
Division of Oil and Gas  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint during the Kitchen Lights Unit Oil Royalty Modification presentation.

#### **ACTION NARRATIVE**

[9:04:41 AM](#)

**CHAIR BEN CARPENTER** called the Legislative Budget and Audit Committee meeting to order at 9:04 a.m. Representatives D. Johnson, Vance (via teleconference), Tomaszewski (via teleconference), Cronk (alternate), and Carpenter and Senators Wielechowski (via teleconference), Kaufman (via teleconference), Kawasaki (via teleconference), and Stedman (via teleconference) were present at the call to order. Representative Josephson (via teleconference) arrived as the meeting was in progress. Also present were Representatives McKay and Coulombe, and Senator Gray-Jackson.

#### **PRESENTATION(S): Kitchen Lights Unit Oil Royalty Modification**

[9:05:37 AM](#)

CHAIR CARPENTER announced that the only order of business would be the Kitchen Lights Unit Oil Royalty Modification presentation.

[9:06:16 AM](#)

JOHN CROWTHER, Deputy Commissioner, Department of Natural Resources (DNR), said he and his colleagues would be providing an overview of the proposed determination for royalty modification for a portion of the Kitchen Lights Unit (KLU) in the Cook Inlet. The intent is to reflect the economic realities of this particular field within the context of department-wide efforts to boost natural gas supply in the region.

[9:07:10 AM](#)

HALEY PAINE, Deputy Director, Division of Oil and Gas, Department of Natural Resources (DNR), said the Division of Oil and Gas was delegated, by the commissioner, the responsibility of performing an analysis and writing a best interest finding for the KLU royalty modification, entitled "Preliminary Findings and Determination Regarding the Kitchen Lights Unit Royalty Modification Application" [included in the committee packet]. The preliminary findings were issued on December 6, 2024, and are currently in the 30-day comment period. She directed attention to a PowerPoint presentation, entitled "Preliminary Findings and Determination Furie Royalty Modification," beginning with an outline of the presentation on slide 2. She noted that this is the first royalty modification that has been granted in the 180J inlet and the first royalty modification specifically for natural gas.

[9:09:24 AM](#)

MS. PAINE continued to slide 3, "Executive Summary," which read as follows [original punctuation provided]:

- Furie Operating Alaska, LLC ("Furie"), operator of the Kitchen Lights Unit ("KLU"), submitted a royalty modification application to DNR on September 5, 2024
- The application to reduce royalty is intended to prolong the economic life of the unit as per barrel equivalent costs were increasing due to declining production
- DNR engaged in an extensive review and analysis process of confidential financial and production information provided by the applicant

- DNR concluded that, absent additional production from new drilling, the unit would likely reach the end of the economic field life in June 2025
- DNR has recommended a royalty modification mechanism based on cumulative gross revenues beginning on September 1, 2024
- DNR analyses showed that royalty modification would extend the life of the field by 10.5 years with an expected \$37.62 million increase in direct revenue to the State

[9:11:41 AM](#)

The committee took a brief at-ease at 9:11 a.m.

[Due to technical difficulties, portions of the audio are indiscernible throughout.]

[9:12:19 AM](#)

RYAN FITZPATRICK, Commercial Section Manager, Division of Oil and Gas, Department of Natural Resources (DNR), continued the presentation on slide 4, "Royalty Modification - Relevant Statutes," which read as follows [original punctuation provided]:

- The Commissioner:
- AS38.05.180(j)(1)(B): may provide modification of royalty "to prolong the economic life of an oil or gas field or pool as per barrel or barrel equivalent costs increase or as the price of oil or gas decreases, and the increase or decrease is sufficient to make future production no longer economically feasible."
- AS38.05.180(j)(4)(B) "may not grant a royalty reduction ... under 1(B) of this subsection...of less than three percent ..."
- The lessee needs to:
- AS38.05.180(j)(2): "make a clear and convincing showing that a modification of royalty" meets the statutory requirements and "is in the best interest of the state."
- AS38.05.180(j)(3): The royalty modification mechanism "... shall be based on a change in the price of oil or gas and may also be based on other relevant factors such as a change in production rate..."

[9:17:09 AM](#)

The committee took a brief at-ease at 9:17 a.m.

[9:17:46 AM](#)

MR. FITZPATRICK concluded slide 4 and turned to slide 5, which showed a chart depicting the history of royalty modification decisions starting in 1995 through 2023.

[9:21:02 AM](#)

JUSTIN BLACK, Commercial Analyst, Division of Oil and Gas, Department of Natural Resources (DNR), advanced to slide 6, "KLU Background - Unit Location," which featured a map of the northern portion of the Cook inlet and read as follows [original punctuation provided]:

- Unit formed in 2009
- 83,394 acres
- Julius R Platform ("JRP") installed in 2015 - newest and smallest platform in the Cook Inlet
- Production began November 2015
- Furie management changed June 30, 2020, with HEX's bankruptcy acquisition

[9:23:27 AM](#)

REPRESENTATIVE D. JOHNSON recalled that Mr. Black had stated that technically, KLU has had the same operator. She asked why that's important in this discussion.

MR. BLACK explained that anything before June 30, 2020, was Escopeta Oil and Gas, considered the "old Furie," and anything after June 30, 2020, was managed by John Hendrix's company, HEX LLC, or "new Furie."

REPRESENTATIVE JOHNSON sought to confirm that the transfer of ownership did not impact the royalty modification.

MR. BLACK confirmed, that is correct.

[9:25:23 AM](#)

MR. BLACK resumed the presentation on slide 7, which showed a map of the lease boundaries within the unit and a list of the lessees and their working interest. The combined interest of Cornucopia Oil & Gas Company, LLC; Furie Operating Alaska, LLC;

and Corsair Oil & Gas LLC total 90 percent and are controlled by HEX LLC. Overall, with 100 percent working interest there is a 75 percent net revenue interest. Essentially, the state's royalty interest of 12.5 percent and the overriding royalty interests (ORRIs), collectively, of 12.5 percent make a combined burden on KLU leases of 25 percent and a total net revenue interest for the KLU of 75 percent.

[9:28:25 AM](#)

MR. BLACK continued to slide 8, "KLU Background - Lease Information," which read as follows [original punctuation provided]:

- Overriding Royalty Interests (ORRIs) total 12.50%
- KLU ORRIs were created between 2002-2010
- Last ORRI transaction was in 2010, five years before KLU began production
- DNR only approves initial creation of an ORRI and does not take action to approve or post records of any subsequent assignments of ORRIs

CHAIR CAPENTER asked for confirmation that the State of Alaska royalty interest of 12.5 percent is paid by HEX to the state, and the collective ORRIs of 12.5 percent is also paid by HEX to those owners.

MR. BLACK answered yes, that is correct.

[9:31:18 AM](#)

SENATOR STEDMAN pointed out that companies have different capital structures and asked why the ORRIs would be recognized differently than those companies' debt level, or ownership interest, for example.

CHAIR CARPENTER asked Mr. Black to explain why the ORRIs would be important to the state's analysis on the viability of the KLU.

MR. BLACK pointed out that the royalty modification statutes make reference to extending the life of a field as per barrel costs go up. He added that the context of a company's financial structure affects those costs. This information, he said, is being included as an extensive background overview of the entity's costs and operations and provide context as to how the

royalty modification would change end of field life and royalty return to the state.

SENATOR STEDMAN said he would like to see the analysis without the ORRIs. He opined that this sets a precedent of looking at the capital structure when considering the tax and royalty structures throughout the state.

MR. FITZPATRICK clarified that ORRIs run with the land and are part of the property record of that particular unit, as opposed to being specific to the individual company. He noted that during the course of royalty modification, DNR analyzes the capital structure of a company for the purpose of market comparison.

REPRESENTATIVE D JOHNSON asked, if the state believes that changing the royalty share would help produce more gas in the Cook Inlet, how could the other companies with royalty interest be expected to participate in the same type of royalty reduction.

MR. FITZPATRICK explained that per the statutory authority granted to the department, royalty modifications cannot be actively sought out by DNR. Instead, those decisions are based on applications submitted to the department by the operator. He deferred to Mr. Crowther for further comment.

[9:39:36 AM](#)

MR. CROWTHER agreed that as a condition of the department's royalty modification authority, DNR cannot solicit modification from owners. Nor can it change or adjust royalties once issued. He shared his belief that the net revenue to the state from the KLU royalty modification would be positive. In addition, it would extend gas production and the end of field life projections significantly further.

CHAIR CAPENTER suggested that if the department does not have the ability to solicit a royalty reduction that is intended to produce more gas, perhaps this concern should be addressed by the legislature.

[9:41:54 AM](#)

MR. BLACK noted that Furie had stated that it unsuccessfully attempted to reduce the ORRIs on its own. In addition, through this royalty modification, DNR is looking at the things it has

control of. He reiterated that once an ORRIs is created, it runs with the land and the department does not have the authority to "claw back" that interest; however, it does have the statutory authority to consider royalty modification if it's in the best interest of the state, which Furie demonstrated with a projected \$30 million-plus in revenue to the state. He resumed the presentation on slide 8 and continued to slide 9, "KLU Background - Production History," which featured a graph of KLU production history and read as follows [original punctuation provided]:

- Current production averages ~10,000 thousand cubic feet per day (mcf/d)
- ~ Half comes from A-2a well
- Declining reservoir pressures pose a risk that any well could cease producing

MR. BLACK described the graph as showing sustained production beginning in November 2015 with a period of no production when the sub-sea gathering line plugged up with hydrates under prior management. He emphasized that beyond the production rate, the declining reservoir pressure could become an issue that affects production and poses a real risk to end of field life. He said a royalty reduction would help Furie with its development and re-working of the field.

[9:45:49 AM](#)

MR. BLACK advanced to slide 10, "Meeting Statutory Criteria," which read as follows [original punctuation provided]:

- The applicant made a clear and convincing showing that the requested royalty modification met the requirements of AS 38.05.180
- Furie provided sufficient technical and financial information per AS38.05.180(j)(6)
- DNR examined cash flow models, production profiles, and financial statements; held multiple meetings with Furie
- Furie provided DNR information both initially and during the review process

[9:46:57 AM](#)

MR. BLACK turned to slide 11, "Meeting Statutory Criteria," which read as follows [original punctuation provided]:

- Furie demonstrated the per-barrel-equivalent costs increase will make future production uneconomic per AS38.05.180(j)(2)
- The increase in per-barrel-equivalent costs is mainly due to declining production from current wells
- Continued development of the KLU would be uneconomic due to per-barrel-equivalent costs
- Furie demonstrated that royalty modification would prolong the economic life of KLU per AS38.05.180(j)(1)(B)
- Furie showed that the KLU would begin shutting down in June 2025 as drilling or reworking wells would be uneconomic without relief
- With relief, Furie showed how drilling would occur in 2024 and continue each year until 2028 with a total of 12 wells
- Furie proposed a royalty modification mechanism that was fixed for 5 years and then sliding scale based on price thereafter for a total of 20 years of relief

[9:49:33 AM](#)

SENATOR WIELECHOWSKI questioned the projected rate of return that led to the conclusion that continued development of the KLU would be uneconomic.

MR. BLACK stated that net present value without relief would be a negative number; however, by granting royalty modification, the negative number would be flipped to a positive, thereby making it economic to continue development.

SENATOR WIELECHOWSKI asked for the rate of return that the calculation is based on.

MR. FITZPATRICK reported that the analysis for this particular application assumed a discount rate of 12.5 percent.

SENATOR WIELECHOWSKI agreed with Senator Stedman on the importance of performing the analysis without the ORRIs. He asked whether that analysis had been done.

MR. FITZPATRICK said DNRs analysis only looked at the field with the ORRIs. He acknowledged that the ORRIs impact the economics of the field because they're required to be paid by the operator. Consequently, he shared his belief that the operator does not have the potential to eliminate the payment stream of those ORRIs from obligation to the unit.

SENATOR WIELECHOWSKI concluded that years ago, the field became burdened by the ORRIs, and the owners are not taking cuts on their interest, but the state is being forced to take massive cuts on its royalties to make up for bad decisions from years past.

MR. FITZPATRICK agreed that the ORRIs were created from 2002-2010 and have continued to affect the unit's economics. He reiterated his belief that even with the unit as is, the consequences of the royalty modification would increase net present value of total return to the state, extension of field life, and gas supply. He opined that the state would continue to be economically advantaged from this decision.

SENATOR WIELECHOWSKI asked whether the executive branch had ever granted royalty relief for an ORRI. In addition, if the state were to terminate the leases for failure to produce, he asked whether those ORRIs would disappear.

MR. CROWTHER shared his belief that some of the other applications may have featured ORRIs. It's common practice for leases to include small ORRIs; however, the ORRI amount in these leases is admittedly higher than usual. He confirmed that if the leases were terminated, the ORRIs as a property right would also be terminated.

[9:56:06 AM](#)

CHAIR CARPENTER asked whether the state would have the ability to reduce the ORRIs if it were economically beneficial to the state.

MR. CROWTHER hesitated to speculate on the scope of the legislature's legal authority. Nonetheless, he acknowledged that the legislature could pass laws that can diminish or eliminate property rights subject to different constitutional authorities. He reiterated that DNR, however, does not have the statutory authority to take such action.

[9:57:24 AM](#)

MR. BLACK continued the presentation on slide 12, "Best Interest of the State," which read as follows [original punctuation provided]:

- DNR's royalty modification expected to extend field life by 10.5 years
- The modification mechanism accounts for price and production
- DNR model accounted for multiple price and shutdown scenarios
- Modification is in the best interest of the State per AS38.05.180(j)(2)
- DNR modification extends field life; generates significant State revenues; offers indirect benefits

[9:58:46 AM](#)

MR. BLACK proceeded to slide 13, "Best Interest of the State," which read as follows [original punctuation provided]:

- To extend field life, Furie plans to continue its drilling campaign for a total of 12 wells from the JRP
- Drill eight new wells
- Re-drill the four existing wells
- JRP fully drilled out by the end of 2028

[9:59:27 AM](#)

MR. BLACK turned to slide 14, "Scenario Modeling: Key Results," which featured a chart of 5 different scenarios and the following categories of projected outcomes: State of Alaska royalty, end of field life, cumulative production from September 2024 in million standard cubic feet (MMSCF), production tax, the state's share of property tax, and total state revenue. He noted that all numbers are in millions of dollars and calculated with a net present value of 12.5 percent. The baseline scenario of no royalty modification anticipates \$1.67 million in state royalty with an end of field life of June 2025 totaling \$2.71 million in total state revenue. The most likely scenario based on Furie's updated prices due to its updated contract with ENSTAR Natural Gas Company anticipates \$17.11 million in state royalty with an end of field life of December 2035 totaling \$40.33 million in total state revenue. He explained that the various scenarios were modeled to ensure that the royalty modification mechanism that's selected would not grant too much and would be appropriate for a prudent operator to continue development.

CHAIR CAPENTER asked how "too much" was determined.

MR. BLACK reiterated that the net present value at this discount rate would become a positive number. He opined that it would not be appropriate to grant a royalty modification that would be "giving away the farm." He said it should do just enough to enable the continued development of the field and continued gas production from the KLU.

CHAIR CARPENTER asked whether the positive number is subject to confidentiality.

MR. BLACK answered yes.

MR. CROWTHER stated that allowing the cumulative revenue number to rise significantly higher would allow the operator to profit past the cost of developing the field, so setting the number higher than \$713 million would give away too much.

CHAIR CARPENTER asked how the department is determining a fair product.

MR. CROWTHER said DNR determined that recovering the cost of development with the reduced royalty would be appropriate, but profiting from the reduced royalty once costs are recovered would not be.

CHAIR CARPENTER repeated his question, asking whether [Furie's] potential profit is part of a confidentiality agreement.

MR. FITZPATRICK answered yes, certain financial information is subject to confidentiality and cannot be publicly disclosed.

CHAIR CARPENTER referring to slide 14, asked whether the modeling considered changes to the production tax and state property tax.

MR. FITZPATRICK said the analysis is constrained to existing statutes and does not take into account potential changes to statutes. He added that the amount of production tax generated by properties in the Cook Inlet tends to be relatively low compared to production tax in other parts of the state. Slide 14 reflects the property tax paid to the state; however, an equivalent portion would go to local municipalities, providing additional benefit to the state.

CHAIR CARPENTER suggested that tax changes should be modeled in conjunction with conversations about overcoming the structural deficit during the next legislative session.

[10:13:46 AM](#)

MR. BLACK resumed the presentation on slide 15, "Quantified Benefits of Royalty Modification," which read as follows [original punctuation provided]:

- In the likely scenario 2, the quantified benefits of royalty modification over the baseline scenario 1 include:
- \$15.44 million (NPV 12.5) more in State royalty
- 10.5 years of KLU field life extension
- 63,228 million cubic feet of additional gas
- \$6.06 million (NPV 12.5) more in Production Tax
- \$16.12 million (NPV 12.5) more in State's share of Property Tax
- \$37.62 million (NPV 12.5) incremental direct revenue to the State

[10:14:58 AM](#)

MR. BLACK advanced to slide 16, "Unquantified Indirect Benefits," which read as follows [original punctuation provided]:

- Ensuring Energy Supply for Alaskans
- Cook Inlet utilities face a natural gas shortfall as soon as this winter
- Continued production at KLU provides a reliable and potentially lower-cost alternative to LNG imports or other energy sources
- Supports the energy supply for both residential and industrial users, including critical facilities like Marathon
- Maintains demand for energy services and supports the Cook Inlet supplier and support services industry and sustains competition and diversity among Cook Inlet operators, fostering a robust energy sector
- Environmental and Other Important Considerations
- Lease stipulations mitigate potential environmental impacts, protecting fish and wildlife habitats, subsistence activities, and waterfowl areas
- Furie employs 19 staff and two full-time contractors, with 84 percent of employees residing in Alaska, supporting local employment and economic activity
- The royalty modification is an administrative action and does not convey authority for operations without

further regulatory approvals, ensuring ongoing oversight of environmental and social impacts

[10:17:59 AM](#)

MR. BLACK continued to slide 17, "DNR Royalty Modification Mechanism," which read as follows [original punctuation provided]:

- 3 percent royalty rate per month until gross revenue generated from KLU beginning September 1, 2024, reaches a cumulative amount of \$712 million ("Gross Revenue Target")
- Accounts for both production and price
- After the Gross Revenue Target is reached, the royalty rate returns to 12.5 percent and royalty modification will expire
- Depending on price and production levels, DNR estimates royalty modification should lapse in the early 2030s
- Gross Revenue Target was generated from total monthly cost and expense estimates for continued development from JRP

[10:23:45 AM](#)

REPRESENTATIVE CRONK questioned the oil intake of the wells.

MR. BLACK stated that there is no current or anticipated oil production from the KLU. However, if a well were to be drilled and oil discovered, the royalty modification would not apply, as it only applies to gas production.

CHAIR CARPENTER asked whether all twelve wells covered under this royalty modification would be drilled from the Julius R Platform (JRP).

MR. BLACK answered yes, noting that slide 19 showed a map of the seven leases that the KLU royalty modification would apply to and are reachable from the JRP.

CHAIR CARPENTER sought to confirm that the JRP is the location where the gas would come soonest.

MR. CROWTHER reiterated that the royalty modification focuses on production from the seven leases and wells associated with the JRP.

MR. BLACK added that due to the smaller size of the JRP, a jack-up rig would be necessary to drill wells from the platform. He emphasized that the infrastructure is already in place to do so, versus installing a new platform in another location.

CHAIR CARPENTER asked whether a second jack-up rig had been brought to the Cook Inlet in 2024.

MR. CROWTHER responded that only one jack-up rig is operating in the Cook Inlet at this time.

[10:29:15 AM](#)

MR. BLACK continued the presentation on slide 18, "DNR Royalty Modification Mechanism," which read as follows [original punctuation provided]:

- Minimum royalty rate is 3 percent
- Subject to routine DNR royalty audit
- DNR shall have the right to obtain expense invoices and financial/accounting records from Furie every six months
- DNR shall have the right, upon notice to Furie, to terminate the royalty modification in whole or in part:
  - If criteria of AS38.05.180(j)(1)(B) or 38.05.180(j)(2) are no longer met
  - If DNR finds KLU operator to be in default per 11AAC83.374 (failure to comply with terms of an approved plan of development), and the default is not cured, royalty modification will terminate
- Royalty modification can only be assigned upon written approval of the Commissioner
- Royalty modification applied retroactively to September 1, 2024

CHAIR CARPENTER asked how long it would take on average to reach the \$712 million, as suggested by the modeling.

MR. BLACK said modeling suggests that the gross revenue target of \$712 million would be reached somewhere in the early 2030s, wherein the royalty modification would expire and return back to the 12.5 percent.

[10:32:12 AM](#)

MR. BLACK concluded on slide 19, "DNR Royalty Modification Mechanism," which featured a map of the seven leases and read as follows [original punctuation provided]:

- Royalty modification applies to seven leases:
- ADLs 389196, 389197, 389198, 389507, 389514, 389515, and 389923
- KLU Tracts 10, 9, 12, 16, 6, 13, and 17 respectively

MR. BLACK noted that a scrivener's error was made with regard to the KLU tract numbers in the preliminary findings document. He said the error has been fixed on slide 19 and the correction would be made in the final best interest finding.

[10:33:43 AM](#)

MS. PAINE concluded the presentation on slide 20, "Summary," which read as follows [original punctuation provided]:

- Royalty modification is in the best interest of the State per AS38.05.180(j)(2)
- 3 percent royalty rate per month until gross revenue generated from KLU beginning September 1, 2024, reaches a cumulative amount of \$712 million
- Applies to seven leases in the KLU
- 10.5 years of field life extension, 63.2 BCF of incremental gas, and \$37.62 million (NPV 12.5) in estimated incremental direct benefit to the State

CHAIR CARPENTER, referring to page 16 of the Preliminary Findings and Fetermination document, read that the best interest finding is contingent upon agreeing to amend the Dismantlement Removal, and Restoration Financial Assurances Agreement. He asked whether there are any anticipated hurdles to making that happen.

MR. CROWTHER answered no, DNR anticipates working with the operator to effectuate the amendment without any challenges.

[10:35:46 AM](#)

REPRESENTATIVE JOSEPHSON invited the department to discuss how a statutory reduction would have been better or worse than the proposed regulatory reduction. He surmised that this process would be longer and more cumbersome.

MR. CROWTHER acknowledged that preparing a royalty modification application is a significant undertaking by the operator. In addition, the department has devoted hundreds of staff hours to this effort, which is standard for this practice. He agreed that when there's a strong public policy interest, a statutory general modification would result in administrative savings to the state.

REPRESENTATIVE JOSEPHSON shared his understanding that Furie would cite a lack of jack-up rig opportunities as a contributing factor. He asked whether DNR could recommend something that would be curative of that problem.

MR. CROWTHER acknowledge that an additional rig may be helpful in the Cook Inlet; however, DNR does not have direct authority to enable, finance, or compel a second rig. He said setting a specific well target would obligate a producer to somehow achieve that and may indirectly create pressure to bring in a second rig to meet those commitments.

[10:43:33 AM](#)

SENATOR KAUFMAN asked whether any modeling had been done on the changing energy portfolio in the Railbelt.

MR. CROWTHER said the department has not developed a global model of state revenue associated with the energy mix in the Cook Inlet.

SENATOR KAUFMAN inquired about the total impact to revenues with any kind of energy transition from the status quo.

MR. CROWTHER explained that because the natural gas in the Cook Inlet is a state-produced resource, there are state royalty and production taxes and property taxes associated with it. If different kinds of energy generation were to be imported, there may be less mineral royalty and more property tax revenue associated with it. He said it's hard for DNR to speak to the scope and scale of those relative potentials.

[10:48:03 AM](#)

REPRESENTATIVE CRONK conveyed Alaskans' frustration with the inability to discern a reasonable profit margin because of confidentiality agreements. He emphasized the importance of maximizing state revenue and questioned whether the state is getting the best return, despite wanting these companies in

Alaska to produce energy and jobs. He recognized the need to trust the department on these issues.

[10:49:38 AM](#)

**ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 10:49 a.m.