

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

Anchorage, Alaska

August 2, 2023

1:02 p.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Senator Bert Stedman, Vice Chair
Representative DeLena Johnson
Representative Sarah Vance
Representative Frank Tomaszewski
Representative Andy Josephson
Senator Lyman Hoffman
Senator James Kaufman
Senator Scott Kawasaki

MEMBERS ABSENT

Senator Bill Wielechowski
Representative Mike Cronk (alternate)
Senator Click Bishop (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
BADAMI ROYALTY MODIFICATION

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "Preliminary Findings and Determination Badami Royalty Modification," dated 8/2/23.

DEREK NOTTINGHAM, Director
Division of Oil and Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "Preliminary Findings and Determination Badami Royalty Modification," dated 8/2/23.

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

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "Preliminary Findings and Determination Badami Royalty Modification," dated 8/2/23.

CHALINDA WEERASINGHE, Commercial Analyst
Division of Oil and Gas
Department of Natural Resources
Juneau, Alaska

POSITION STATEMENT: Answered questions during the presentation on the Badami royalty modification.

ACTION NARRATIVE

[1:02:28 PM](#)

CHAIR BEN CARPENTER called the Legislative Budget and Audit Committee meeting to order at [1:02] p.m. Senators Hoffman, Kaufman, Kawasaki, and Stedman (via teleconference) and Representatives D. Johnson (via teleconference), Vance (via teleconference), Tomaszewski (via teleconference), Josephson, and Carpenter were present at the call to order.

Approval of Minutes

[1:03:42 PM](#)

CHAIR CARPENTER announced that the first order of business would be the approval of minutes.

[1:03:50 PM](#)

SENATOR KAUFMAN moved that the Legislative Budget and Audit Committee approve the minutes for the June 28, 2023, meeting, as presented. There being no objection, the minutes were approved.

Badami Royalty Modification

[1:04:15 PM](#)

CHAIR CARPENTER announced that the final order of business would be a presentation by the Department of Natural Resources (DNR) on preliminary findings and determination of the Badami Royalty Modification.

[1:05:03 PM](#)

JOHN CROWTHER, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), before addressing the presentation, noted that three respected scientists and geologists that were part of the DNR family in the Division of Geological and Geophysical Surveys passed away in a helicopter accident while on duty. He acknowledged their work, sacrifice, and contributions to the state. Their names, he said, were Ronald Daanen, Justin Germann, and Tori Moore.

CHAIR CARPENTER expressed condolences on behalf of the committee, adding that the members' prayers and thoughts were with the families.

[1:07:23 PM](#)

MR. CROWTHER noted that in the history of the department, royalties were rarely modified and there had been few instances in which they were granted. He added that public comment and feedback from the committee would be incorporated into the preliminary decision. The intent of the Badami royalty modification, he said, was to prologue the life of a field that had been producing on the North Slope for some time; however, he pointed out that, across its history, [the Badami oil field] had struggled with production. He shared his belief that the royalty modification would result in direct benefit in terms of extending the field life and revenue to the State of Alaska. Additionally, he highlighted a variety of important benefits to the department, such as the position of the infrastructure and the role it could play in future opportunities to develop and maximize the value of state resources across the area.

[1:08:55 PM](#)

DEREK NOTTINGHAM, Director, Division of Oil and Gas, Department of Natural Resources, directed attention to a PowerPoint presentation [included in the committee packet], titled "Preliminary Findings and Determination Badami Royalty Modification." He began on slide 2 by offering an executive summary, which read as follows [original punctuation provided]:

Savant Alaska, LLC, operator of the Badami Unit, submitted a royalty modification application to DNR in 2021.

The application to reduce royalty is intended to prolong the economic life of the unit as per barrel 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, increasing per barrel costs at Badami would likely result in the unit reaching the end of the economic field life.

DNR has recommended a royalty modification mechanism based on monthly revenues.

DNR analyses showed that royalty modification would extend the life of the field with an expected increase in revenue to the State.

MR. NOTTINGHAM identified the field's remoteness and reservoir complexity as challenges contributing to the decline in production. He reiterated that the intent of the Badami royalty modification was to extend the life of Badami, a field that provided infrastructure with strategic value for future operations on the North Slope. After conducting an extensive analysis and review of confidential financial information submitted in 2021, the division concluded that the royalty modification should be granted. The DNR analysis showed that the royalty modification would extend the life of the field by six to seven months, which would provide the operators with enough time to improve production and get the field "back in shape" financially. He proceeded to slide 3, which offered an outline of the presentation.

[1:14:09 PM](#)

SENATOR HOFFMAN asked whether the word "expected" would be addressed in the presentation, inferring that [an "expected" increase in revenue] could presumably leave [the forecast] open to a decrease in revenue.

MR. NOTTINGHAM believed that it would be addressed in a future slide.

[1:14:52 PM](#)

JOHNNY MEZA, Commercial Section Manager, Division of Oil and Gas, DNR, resumed the presentation on slide 4, outlining the relevant statutes to the royalty modification, which read as follows [original punctuation provided]:

The commissioner: AS 38.05.180(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."

AS 38.05.180(j)(4)(B) "may not grant a royalty reduction ... under 1(B) of this subsection...of less than three percent ..."

The lessee needs to:

AS 38.05.180(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."

AS 38.05.180(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..."

[1:16:55 PM](#)

SENATOR KAWASAKI asked whether the request from Savant Alaska, LLC for a royalty modification was transferrable to another future company.

MR. MEZA confirmed that a transfer was possible; however, such a transfer would not be automatic and must be requested through the DNR commissioner.

SENATOR KAWASAKI shared his understanding that future price projections were utilized in the oil valuation for a royalty modification and asked whether the assessment was done as "a point in time" analysis. Additionally, he asked whether a larger company would have the same ability to request a statutory royalty modification.

MR. MEZA answered yes, [AS 38.05.180] allowed any LLC on the North Slope or Cook Inlet to make the request on the basis of demonstrating that continuous production was no longer economically feasible. He acknowledged that the applicant would

use the price forecast, which had a great impact on those projections, adding that the department used a variety of scenarios to account for that uncertainty.

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MR. MEZA continued the presentation on slide 5, which offered a history of prior decisions made by DNR regarding the modification of royalty rates. Of the nine formal applications for royalty modifications, only three were granted, he said. The rest were either withdrawn by the applicant or denied by the department. He noted that only two of the three granted applications came to fruition.

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MR. NOTTINGHAM directed attention to slide 6, which illustrated the location of the Badami Unit relative to the North Slope infrastructure. He highlighted the challenges associated with the remoteness of the unit, noting that the field could only be accessed by personnel via helicopter or airplane. The transportation of heavy equipment was accomplished by barge or ice road in the winter. He explained that the oil from Point Thomson flowed through Badami to the main infrastructure, adding that possible prospects to the south could potentially utilize the available space in the pipeline at the Badami facility, making the unit's location strategic to the North Slope.

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MR. NOTTINGHAM discussed the production history of Badami on slide 7, which read as follows [original punctuation provided]:

Badami facilities designed for 35,000 barrels of oil per day (bopd). Expected peak production was 30,000 bopd, but actual production declined to 1,400 bopd in 2003.

BP Exploration (Alaska) (BP) suspended operations from 2003-2005 and 2007-2011.

Badami reservoir has always been challenging to develop due to compartmentalization.

Historically shown very steep declines (around 15-20% average; 30-50% after periods of flush production, gas lift, and perforations).

If not for B1-07 well in 2018, Badami may have been at end of field life earlier.

MR. NOTTINGHAM described the graph on slide 7, explaining that compartmentalization of the reservoir was causing the decline in production. He commended the current operator, Savant Alaska, LLC, for maintaining the field and keeping it in an "economic state" amidst the rate of decline, which required difficult well work and challenging operations. He estimated that current production was around 1,000 barrels per day, noting that actual production data had not come in and was not reflected on the graph.

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CHAIR CARPENTER sought to understand the point at which Badami would be economically feasible in terms of oil price and production.

MR. MEZA detailed acreage and lease information on slide 8, noting that the majority of leases had a royalty rate of 12.5 percent.

CHAIR CARPENTER sought to clarify that the modification of all rates listed on slide 8 were being discussed.

MR. MEZA answered yes. He proceeded to slide 9, outlining the department's analysis of Savant Alaska's application based on statutory criteria, which read as follows [original punctuation provided]:

The applicant made a clear and convincing showing that the requested royalty modification meets the requirements of AS 38.05.180.

Savant: Provided sufficient technical and financial information per AS 38.05.180(j)(6)

DNR examined cash flows models, financial statements, and production profiles; held multiple meetings with Savant.

Savant provided DNR information both initially and during the review and analysis process.

DNR kept apprised of changes in circumstances in the unit.

Demonstrated the per-barrel costs increase will make future production uneconomic per AS 38.05.180(j)(2)

The increase in per-barrel costs is mainly due to declining production for current wells.

Lease operating expenditures and general and administrative costs expected to remain relatively constant and not change with production.

DNR reviewed current and historical data for Badami to verify expectations for the short-term future.

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SENATOR KAWASAKI asked whether the provision of technical and financial information by the applicant was dependent upon the company's size or wherewithal to produce oil.

MR. MEZA explained that by principle, the department mainly analyzed the capability of the field in terms of production and economic benefit. Other considerations, he said, were secondary to that point.

[1:32:47 PM](#)

CHAIR CARPENTER asked how much of the economic analysis was based on fixed costs versus price of oil and declining production levels.

MR. MEZA acknowledged that it was an integral part of the department's analysis. He explained that in terms of status quo production, fixed costs played a significant part in the company's operating costs. If future production were to come into play, he said, fixed costs would no longer determine the viability of the field.

[1:34:44 PM](#)

SENATOR STEDMAN requested the shut-in price, the break-even point, and the price at which a royalty modification would no longer be warranted.

MR. MEZA indicated that the sensitive financial and technical information submitted by the applicant was, by statute, held confidentially by the department. However, the "trigger point" determining the reduction in the royalty rate would be shared in future slides, providing an indication of what the department considered a reasonable threshold to determine the extension of the field's economic life.

SENATOR STEDMAN pointed out that the Senate Finance Committee reviewed this type of information often when looking at the tax

structure of a future field. He questioned the range used by DNR when dealing with royalties.

MR. CROWTHER conveyed, for context, that Badami was producing approximately 1,000 barrels per day. The oil price had been considered by the department at a variety of levels. He explained that the proposed mechanics of the modification were based on field revenue and field cost in a given month, adding that the threshold and basis for the Badami proposal was set at \$1.4 million. When the revenues associated with the field - accounting for volume produced in addition to oil price - exceed that threshold, the royalty modification, as proposed, would not be triggered. Therefore, increasing production, improving the fixed cost per barrel, or increased revenue would avoid triggering the royalty modification, he said.

1:39:00 PM

CHAIR CARPENTER asked members to hold their questions until after the presentation.

MR. MEZA resumed the presentation on slide 10, which continued the analysis of Savant Alaska's application based on statutory criteria as follows [original punctuation provided]:

Savant: Demonstrated that royalty modification would prolong the economic life of Badami Unit per AS 38.05.180(j)(1)(B).

Savant application showed an extension of 1 to 3 months.

Savant proposed a royalty modification mechanism that was based on production only.

It did not meet the requirement per AS 38.05.180(j)(3) because it did not include oil price.

DNR royalty modification expected to extend field life by 6 to 7 months.

The modification mechanism is based on monthly revenues.

DNR model accounted for multiple price, production and possible shutdown scenarios.

Modification is in the best interests of the State per AS 38.05.180(j)(2)

DNR modification extends life of field; generates revenues, both State and local; offers indirect benefits.

Savant application offered extension to field life but did not result in increased revenues for the State.

[1:41:59 PM](#)

MR. MEZA discussed the key results of 10 most likely scenarios for price and production on slide 11. Based on historical determinations, he said it was reasonable to believe that operating costs would remain at the level consistent with the current level of production under the status quo. The key results read as follows [original punctuation provided]:

Field life expected to be extended on average by 6 to 7 months.

Highest expected extension was 10 months for most likely scenarios.

In general, higher prices and more forward-looking Savant shutdown horizons resulted in longer extensions to field life.

Extension to field life accompanied by expected increases in revenues to the State.

Average expected revenues to the State approximately \$145,000

Local governments expected to see an additional \$540,000 in property tax revenue.

MR. MEZA noted that the earliest shutdown without modification was estimated to be August 2025, whereas February 2026 was the earliest shutdown with modification. He calculated that on average, the expected revenues to the state were approximately \$145,000 as a result of the extension. The figure of \$145,000 was further split into two "buckets" for state revenue gains: those related to the royalty and production tax directly associated with the Badami field activity, and the estimated savings from delaying pipeline tariff increases on the average extension of 7 months, amounting to \$518,000.

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MR. MEZA continued to slide 12, which detailed the estimated savings from delaying pipeline tariff increases. Should the Badami revenues fail to offset expenditures, the field could potentially shut down, he explained, which would cease throughput in the Badami pipeline and a portion of the Endicott pipeline. Consequently, the absence of production from the Badami field would lower the throughput for other pipelines,

leading to an increase in tariffs for the existing fields, such as Point Thomson. Alternatively, extending the life of the Badami field would extend production and higher throughput, which would prevent or delay the increase in tariffs.

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MR. MEZA reviewed the modeled revenue results on slide 13, which read as follows [original punctuation provided]:

On average, the State gains revenue in the modeled scenarios

While royalty revenues are reduced as the royalty rate is lowered, the State gains additional production tax and property tax revenues.

Extending the life of Badami, and its production throughput, delays pipeline tariff increases, increasing State tax and royalty revenues on other oil.

Overall, combined increases from tax and tariff revenues more than offset reductions in royalty revenue.

MR. MEZA calculated that the average state revenue was estimated at \$145,000. He highlighted the unquantified indirect benefits on slide 14, which read as follows [original punctuation provided]:

Other Developments Around Badami

Explorers have obtained strategic positions around Badami: Lagniappe Alaska, LLC, Oil Search (Alaska), LLC, and Balcony Natural Resources, Inc.

Extending field life and preserving existing infrastructure may be beneficial for new developments.

DNR analysis shows that presence of oil and gas infrastructure increases interest in surrounding lease sales.

Any developments surrounding Badami may result in increased throughput through the Badami pipeline system, lowering tariffs.

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MR. MEZA continued to discuss unquantified indirect benefits on slide 15, which read as follows [original punctuation provided]:

Future Investment Potential

Without new capital investment drilling, Badami will be near the end of its economic field life.

Extending field life maintains options for possible future development and delays dismantlement, removal, and restoration (DR&R) costs; royalty relief will phase out if revenues increase due to additional drilling/production (price, etc.).

Environmental and Social Impacts

Extending the life of Badami potentially allows for future exploration and development with less additional infrastructure construction.

Savant has a proven track record of safety and compliance at Badami; Savant has 20 employees at Badami with additional contractors.

[1:53:49 PM](#)

MR. MEZA proceeded to slide 16, which outlined DNR's royalty modification mechanism as follows [original punctuation provided]:

DNR grants royalty reduction, via a mechanism based on price and production (i.e., actual monthly revenue generated by the sale of crude oil from Badami).

Monthly Thresholds are based on projections for lease operating expenses, field maintenance & supply, general and administrative expenses, taxes, and royalty payments, allocated monthly.

If Monthly Revenue **is greater than or equal to** Monthly Threshold, then the royalty rate is unchanged.

Royalty rate reduced only if Badami:

Monthly Revenues **is less than** Monthly Thresholds

Royalty rate reduced so that the benefit from royalty reduction plus the monthly revenue equals the Monthly Threshold.

Minimum royalty rate is 3 percent.

Subject to routine DNR royalty audit.

MR. MEZA reminded the committee that the monthly threshold represented the "trigger point" for revenues. The monthly threshold for 2023 was \$1.4 million, decreasing to \$1.3 million in 2024-2029.

[1:55:55 PM](#)

MR. MEZA concluded on slide 17 by describing the terms of the proposed royalty modification, which read as follows [original punctuation provided]:

Royalty modification will only apply to the seven leases included in the Badami Unit.

DNR shall have the right to obtain expense invoices & financial/accounting records from Savant every six months.

DNR shall have the right, upon notice to Savant, to terminate the royalty modification in whole or in part.

Royalty modification shall expire on December 31, 2030, unless terminated previously by DNR.

Royalty modification may not be assigned by Savant to another lessee without written approval of DNR Commissioner.

Royalty modification shall not be applied retroactively; commences on effective date of Final Determination.

CHAIR CARPENTER invited questions from members of the committee.

[1:57:24 PM](#)

REPRESENTATIVE JOSEPHSON sought to confirm that DNR could terminate the royalty modification at any time; however, he assumed that the termination could not be arbitrary or capricious.

MR. MEZA confirmed that the decision would not be made arbitrarily. He alluded to the thresholds on slide 16, reiterating that DNR would maintain its ability to review invoices and analyze an outlook of "reasonable" expenditures for the field based on the comparison of historical expenditures. Should the expenditures be much lower than projected, DNR would eventually find that in the audit, he said.

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SENATOR STEDMAN restated his prior request for the shut-in price per barrel, opining that it shouldn't be a secret. He indicated that the Dallas Federal Reserve published monthly shut-in prices for its fields in Texas.

CHAIR CARPENTER asked why the shut in price was not included in the presentation.

MR. MEZA confirmed that DNR had access to the applicant's projected operating expenditures and production; however, according to statute, the applicant had the ability to request that the department keep that information confidential. Nonetheless, he suggested that members calculate a dollar figure by dividing the monthly threshold of \$1.4 million by the production rate of 1,000 barrels per day.

[2:01:00 PM](#)

CHAIR CARPENTER remarked, "Your suggestion to the public to go find the data and do the math indicates to me that whatever data point their using to come to a conclusion to answer that questions isn't confidential."

MR. CROWTHER replied that the monthly threshold figure was not confidential; however, it was the product of specific confidential capital operating investments that were necessary to keep the field operating. He added that [the threshold] represented the distillation and conclusion of the confidential information. Nonetheless, he shared his understanding that the components could be generally extrapolated with simple math. He shared an example in reference to the Dallas Federal Reserve, as mentioned by Senator Stedman. He offered to provide, for the public, a table of hypothetical prices of oil and the corresponding volume of production to meet the threshold.

[2:03:13 PM](#)

CHAIR CARPENTER indicated that it was a good suggestion. He speculated that although the price of oil could be easily identified online, the public may have a hard time figuring out the revenue of the company at any given time.

MR. CROWTHER agreed, he said the department would look to provide that information and any final findings to educating the public. He explained that the department wanted the royalty modification to be sensitive to the price of oil. He pointed out that low production volumes and high prices of oil could lead to a scenario in which the field had revenues sufficient to meet its fixed and operating costs. He added that DNR wanted to have a structure in place that didn't disadvantage the state royalty in those scenarios. He reasoned that the threshold model, reviewed and calculated monthly, would take into

consideration the variability inherent to production and oil price and protect both the department in high price environments and the operator from shutting in the field. He characterized the mechanism, as proposed, as an insurance policy to protect both the operator and the state from down months and to extend the life consistent with the statute while continuing to gain other benefits in the interest of the state.

[2:05:25 PM](#)

SENATOR KAWASAKI recalled the Pioneer royalty modification in 2005, which was intended to get the field to an operative status. He questioned whether it should be known that in the future, the legislature would need to subsidize fields that were less than producing and asked whether that would become typical of future royalty modification requests.

MR. CROWTHER pointed out that the Badami application was intended to extend the life of the field. He asked Mr. Meza to list other [modification requests] in the same category.

MR. MEZA expounded, clarifying that [Badami] was the first time this particular scenario was used in terms of the field approaching its economic end of life. In general, he said, with fields getting to a mature stage where additional production avenues were declining, it was natural to expect that there could be cases in which the life of the field needed to be extended.

[2:07:19 PM](#)

SENATOR KAWASAKI said he wanted to make sure that, as fields become less profitable in future years, the state was consciously implementing a policy of taking on potential risk to the treasury.

CHAIR CARPENTER conveyed that he had considered the implications of a dwindling resource on state revenue many times. He concluded that these conversations would continue if the desire was to extend the finite resource.

[2:08:17 PM](#)

SENATOR STEDMAN asserted that royalty modification was a good tool to extend field life; however, companies should be asked to waive confidentiality if they want a contract modification. Additionally, he suggested that the royalty modification option

should be integrated into the annual legislative updates on oil and gas, adding that the Badami royalty modification could be used as an example. He requested the tariff on Point Thomson per barrel.

MR. MEZA replied that the tariff on the Point Thomson pipeline was public. He estimated \$18, noting that he could not recall the exact number.

SENATOR STEDMAN asked for the tariff on Badami.

[2:11:00 PM](#)

CHALINDA WEERASINGHE, Commercial Analyst, Division of Oil and Gas, DNR, responded that the tariff rate for Badami was \$1.47.

[2:11:31 PM](#)

REPRESENTATIVE JOSEPHSON shared his understanding that, compared to the other applications, Badami was an incredibly low risk proposition. He asked whether that was accurate.

MR. NOTTINGHAM confirmed that the department viewed the proposal as low risk with intangible benefits in terms of high future revenue to the state.

[2:12:43 PM](#)

CHAIR CARPENTER asked whether there was any risk to the throughput from Point Thomson if Badami were to shut in and cease to produce.

MR. NOTTINGHAM believed that from a technical standpoint, there was no significant risk to Point Thomson.

CHAIR CARPENTER returned to slide 11 and asked whether the operator was on board with the modification proposal of a 6-to-7-month extension. Specifically, he asked whether the operator could pull the application, as other companies had done in the past.

MR. NOTTINGHAM stated that the operator had submitted a letter of support for the application.

[2:15:18 PM](#)

CHAIR CARPENTER shared his understanding that AS 38.05.180(j)(6) authorized the Legislative Budget and Audit Committee to have confidential data brought before the committee, which would require an executive session. He noted that the committee was not prepared to enter executive session today; however, he advised members to notify him if there was a desire to review confidential data in executive session at a later date.

REPRESENTATIVE JOSEPHSON inquired about the timeline and asked whether the [Badami royalty modification] was time sensitive.

CHAIR CARPENTER clarified that there was no statutory requirement for the Legislative Budget and Audit Committee to approve the royalty modification. He added that the presentation was informational only in an effort to keep the public and the legislature informed of the administration's decisions.

REPRESENTATIVE JOSEPHSON sought to confirm that Savant Alaska would have to wait until January at the earliest.

CHAIR CARPENTER was unsure of the answer.

MR. MEZA stated that after August 13, 2023, the department would review the comments and issue a publication of final findings. Once the document was issued, a prospective effective date would be provided.

[2:18:50 PM](#)

CHAIR CARPENTER returned to slide 11, pointing out that the earliest shutdown [of the Badami field] without modification was estimated to be August 2025. He asked whether that date was confirmed by the operator, or whether it was an assessment by the state.

MR. MEZA confirmed that the date was an assessment by the state based on 10 most likely scenarios that were considered by the department.

CHAIR CARPENTER pointed out that Savant Alaska submitted the royalty modification request in 2021, and now that it was 2023, he believed it was fair to ask when it would go into effect.

MR. CROWTHER agreed that it had been some time since the initial application was filed, for which there were rationales on the operator's side due to significant changes in corporate

ownership. Additionally, he shared that there was a challenge with the B1-07 well, which affected [Savant Alaska's] operational plans, as well as how the state was evaluating the scenarios. He said the department aspired to address these kinds of requests with alacrity and focus; however, with Badami, a series of intervening events required additional analysis, due diligence, and clear and convincing statutory standard to show that the royalty modification was in the best interest of the state. He pointed out that if a shutdown was perceived by the department to be inevitable, modifying the royalty on the way out might not be appropriate to earn final revenue from the state. Fortunately, he said, DNR was not in that scenario.

[2:22:29 PM](#)

CHAIR CARPENTER invited final comment from the deputy commissioner.

MR. CROWTHER thanked the committee for its insight and input, adding that DNR would continue to go through the public process and incorporate the feedback received today in any final findings issued by the department.

CHAIR CARPENTER asked where the public could go to issue comment.

MR. CROWTHER directed the public to the Division of Oil and Gas's online portal. He deferred to Mr. Meza.

MR. MEZA added that the department issued a public notice on its website, which could be found, along with an email address, by searching the keyword "Badami" or "royalty modification."

CHAIR CARPENTER thanked the presenters and offered closing remarks.

[2:23:27 PM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at [2:23] p.m.