

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

May 9, 2024

2:01 p.m.

**MEMBERS PRESENT**

Senator Click Bishop, Co-Chair  
Senator Cathy Giessel, Co-Chair  
Senator Bill Wielechowski, Vice Chair  
Senator Scott Kawasaki  
Senator James Kaufman  
Senator Forrest Dunbar  
Senator Matt Claman

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

SENATE BILL NO. 194

"An Act relating to temporarily reduced royalty on oil and gas from pools without previous commercial sales in the Cook Inlet sedimentary basin; and providing for an effective date."

- MOVED CSSB 194 (RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 194

SHORT TITLE: REDUCE ROYALTY ON COOK INLET OIL & GAS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/18/24	(S)	READ THE FIRST TIME - REFERRALS
01/18/24	(S)	RES, FIN
02/23/24	(S)	RES AT 3:30 PM BUTROVICH 205
02/23/24	(S)	Heard & Held
02/23/24	(S)	MINUTE (RES)
03/20/24	(S)	RES AT 3:30 PM BUTROVICH 205
03/20/24	(S)	Heard & Held
03/20/24	(S)	MINUTE (RES)
04/26/24	(S)	RES AT 3:30 PM BUTROVICH 205
04/26/24	(S)	Heard & Held
04/26/24	(S)	MINUTE (RES)
05/06/24	(S)	RES AT 3:30 PM BUTROVICH 205

05/06/24 (S) Heard & Held  
05/06/24 (S) MINUTE (RES)  
05/08/24 (S) RES AT 3:30 PM BUTROVICH 205  
05/08/24 (S) Heard & Held  
05/08/24 (S) MINUTE (RES)  
05/09/24 (S) RES AT 2:00 PM BUTROVICH 205

**WITNESS REGISTER**

NICHOLAS FULFORD, Senior Director  
Gas and Energy Transition  
GaffneyCline  
Houston, Texas

**POSITION STATEMENT:** Presented GaffneyCline Modeling on SB 194.

JOHN BOYLE, Commissioner  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions on Amendment [6] (A.15).

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

**POSITION STATEMENT:** Agreed on Amendment [6] (A.15).

**ACTION NARRATIVE**

2:01:04 PM

**CO-CHAIR CATHY GIESSEL** called the Senate Resources Standing Committee meeting to order at 2:01 p.m. Present at the call to order were Senators Wielechowski, Kawasaki, Dunbar, Kaufman, Claman and Co-Chair Giessel. Co-Chair Bishop arrived thereafter.

**SB 194-REDUCE ROYALTY ON COOK INLET OIL & GAS**

2:01:37 PM

**CO-CHAIR GIESSEL** announced the consideration of SENATE BILL NO. 194 "An Act relating to temporarily reduced royalty on oil and gas from pools without previous commercial sales in the Cook Inlet sedimentary basin; and providing for an effective date."

**CO-CHAIR GIESSEL** stated the committee would continue its discussion from [May 8, 2024] on SB 194. She said it is the intent of the committee to finish hearing a presentation from GaffneyCline, revisit amendments, and move SB 194 from committee.

[2:02:54 PM](#)

NICHOLAS FULFORD, Senior Director, Gas and Energy Transition, GaffneyCline, Houston, Texas, presented Gaffney Modeling on SB 194. He stated that on May 8, 2024, the committee concluded discussion with a series of financial projections based on a model developed by GaffneyCline. He said the model focused on a potential new gas development in Cook Inlet and included scenarios involving royalty relief for 10 years and indefinitely. He noted that, at the committee's request, he worked with the Department of Natural Resources (DNR) to reconcile the models. He intended to present an illustrative case to assist the committee in forming its recommendations:

[Original punctuation provided.]

#### Model Reconciliation

- **Model structure and methodology**

- Mechanics and methodology is consistent.
- Small property tax modification was made to GC model to reflect typical DNR modelling approach
- Since DNR is using monthly profiles and the GC model is based on annual, some difference remain in NPV/IRR but we believe conclusions are broadly aligned.
- GC model does not yet reflect waterfall royalty concept option

- **Assumptions:**

- GC/DNR have reconciled their assumptions about utilization factor (differences between actual daily nomination and max production) and agreed a factor for the model
- GC's cost estimation arises from an industry standard, detailed costing tool, updated regularly and with location specific factors. DNR have focused more on specific project opportunities in the public domain. In general GC suggests higher capex and opex than the assumptions used by DNR
- GC model also has an assumption for Abandonment CAPEX, though this does not materially influence results.

- **Oil**

- GC model does not yet reflect oil scenarios, but we have assessed the DNR approach to oil modelling and agree with the methodology
- With these features reconciled, we have focused on two scenarios, a 250bcf offshore new gas development

tied back to onshore, using a "base case" and a "downside case" which involves a lower utilization rate, and higher capex/opex

MR. FULFORD stated that the modeling conclusions reached were based on consistent methods between GaffneyCline and the Department of Natural Resources (DNR). He noted that a small adjustment was made to the property tax modeling and the gas decline model to align with DNR practices in Alaska. He explained that differences remained, such as GaffneyCline's model using annual intervals while DNR's operates monthly, causing minor phasing issues. He also mentioned that their model does not yet incorporate a proposed royalty waterfall and that both parties agreed to include a utilization factor to account for storage efficiencies and daily production.

[2:05:16 PM](#)

MR. FULFORD said the other main difference was that GaffneyCline used a sophisticated, industry-standard cost estimation modeling approach that includes detailed inputs such as platform weights and drill depths. He noted the model is updated quarterly, making it relatively current. This approach formed the basis for their economic modeling assumptions and development concepts. He stated that, in general, the capital expenditures (Capex) and operating expenses (Opex) produced by their model were somewhat higher than those used by DNR, which tended to depress the economics. He said another feature, though relatively minor, was the inclusion of abandonment Capex, which investors typically factor into models and is becoming increasingly important, especially in Cook Inlet. He reminded the committee that [GaffneyCline's] modeling does not yet include the oil scenarios analyzed by DNR. However, he confirmed that they reviewed DNR's methodology and process and found them sound. Based on DNR's assumptions, he stated support for the figures DNR presented.

[2:06:51 PM](#)

MR. FULFORD moved to slide 3:

[Original punctuation provided.]

Model Output for 250bcf Base Case (10 year relief)

**Base Case**  
**[Left side of slide]**

<u>Royalty Relief Case</u>	<u>NPV10</u>	<u>IRR</u>	<u>COP</u>	<u>Payback</u>
Gas12.5 percent	81	18 percent	2046	8

Gas0 percent	176	26 percent	2046	6
Gas5 percent	138	23 percent	2046	7
Gas6.25 percent	128	22 percent	2046	7

**Downside Case**  
[Right side of slide]

<u>Royalty Relief Case</u>	<u>NPV10</u>	<u>IRR</u>	<u>COP</u>	<u>Payback</u>
Gas12.5 percent	-34	7 percent	2045	11
Gas0 percent -	56	15 percent	2045	9
Gas5 percent -	20	12 percent	2045	9
Gas6.25 percent	11	11 percent	2045	9

MR. FULFORD said he developed two scenarios for the committee's review. The left scenario represents the base case economics for a 250 billion cubic feet (BCF) Cook Inlet gas development, using assumptions aligned with potential investments discussed by producers. He described it as reflecting best-estimate capital and operating costs and an efficient production regime with minor limitations. The right scenario reflects a downside case, accounting for risks such as aged infrastructure, slot reclamation, and tie-in tariffs for existing facilities, which could significantly affect project economics. He emphasized that investors may prioritize this downside scenario when evaluating capital deployment due to associated risks discussed in the previous meeting.

MR. FULFORD stated that under the base case scenario with the current gas royalty rate, the project yields an internal rate of return (IRR) of approximately 18 percent. He noted that public statements from companies such as BP, Exxon, and Shell indicate a general IRR target of 15 to 20 percent or higher, particularly for oil, with gas requiring even higher returns due to added risk.

[2:09:38 PM](#)

MR. FULFORD said under the downside scenario, the IRR drops to 7 percent, which he characterized as suboptimal; however, removing the gas royalty raises it to about 15 percent. He concluded that an IRR range from 15 to 26 percent, depending on royalty terms and scenario, outlines the spectrum of outcomes a developer might consider, and said the two tables offer a clear summary for discussion of SB 194.

[2:10:41 PM](#)

SENATOR WIELECHOWSKI asked if the downside case is a comparison of the pessimistic DNR case for new offshore gas only.

[2:11:03 PM](#)

MR. FULFORD replied he believes so.

[2:11:09 PM](#)

SENATOR WIELECHOWSKI noted a significant disparity in the status quo, particularly regarding internal rate of return (IRR) and net present value (NPV) assumptions. He highlighted that under a 12.5 percent royalty rate, the downside case IRR was 14.5 percent in one model versus 7 percent in the GaffneyCline model. He observed that GaffneyCline used a 10 percent NPV discount rate, while the other model used 15 percent. He pointed out further discrepancies, such as GaffneyCline showing a 6.25 percent IRR for gas versus 20.7 percent in the alternative model and asked for clarification on the reasons behind using a lower net present value.

[2:11:50 PM](#)

MR. FULFORD explained that two key factors contribute to the discrepancies in IRR and NPV between the models. First, he noted that the Department of Natural Resources (DNR) model includes only half a year of production at the front end of the profile, which affects the NPV and IRR. Second, he stated that the DNR model does not account for production inefficiencies such as storage or adjustments in daily nominations, whereas the GaffneyCline model includes a 90 percent utilization factor. He acknowledged the existence of discrepancies not yet fully resolved but emphasized that the models are directionally aligned.

[2:12:57 PM](#)

SENATOR WIELECHOWSKI said the optimistic case between the models appears fairly similar, but the pessimistic case shows a significant difference. He characterized the situation as a "battle of the experts" and stated that he personally leans toward the Department of Natural Resources (DNR), given their daily involvement with the data and familiarity with the Cook Inlet basin. He acknowledged that GaffneyCline joined the process recently and questioned whether GaffneyCline believes its expectations are more realistic than those of DNR.

[2:13:40 PM](#)

MR. FULFORD responded that much of his commentary is informed by global trends and international project data, which GaffneyCline used as a proxy for conditions in Cook Inlet. He acknowledged that while their modeling aims to reflect the cost base and environment of Cook Inlet, he respects DNR's deeper, day-to-day familiarity with the region and ongoing discussions with

producers. He emphasized that the GaffneyCline model incorporates substantial risks—such as permitting challenges, environmental assessments, aging infrastructure, and negotiations with facility and pipeline owners—which may influence the higher operating expense (Opex) assumptions. He concluded that while their model highlights these risks, the DNR downside case may better reflect the specific realities of Cook Inlet.

[2:15:53 PM](#)

SENATOR WIELECHOWSKI stated that he believes everyone is aware of which project the modeling refers to and expressed confidence that DNR has had extensive discussions with the project owner. He asked whether GaffneyCline has had any direct conversations with the project owner involved in the modeling.

[2:16:12 PM](#)

MR. FULFORD replied no, GaffneyCline has not spoken to any of the development companies.

[2:16:24 PM](#)

SENATOR KAWASAKI asked Mr. Fulford for a high-level response on what other jurisdictions engaged in natural gas development are doing outside of the Cook Inlet Basin.

[2:16:45 PM](#)

MR. FULFORD stated that several of his earlier slides addressed the question, but summarized that many oil and gas jurisdictions are reassessing their fiscal terms and regulatory frameworks to compete for a shrinking pool of investment capital. He explained that a key trend is recognizing that each asset type requires tailored treatment, and instead of applying uniform fiscal regimes, governments are increasingly targeting specific sub-basins or development types. In the case of dry gas, he said the development conditions can be so unique that legislation must often be designed specifically for the asset. He concluded that Alaska's consideration of SB 194 reflects this global trend of asset-specific fiscal assessment.

[2:18:51 PM](#)

SENATOR KAWASAKI stated that during his involvement with House Bill 280 in 2010, he felt the state was chasing a goal without long-term stability in its fiscal regime. He noted that while the approach initially showed results, it ultimately lacked durability. He pointed out that major shifts occurred since then, including the United States becoming a net exporter of natural gas and the rise of hydraulic fracturing. Comparing

Alaska's current position to other regimes nationwide, he said the outlook appears bleak if the state must commit significant funds with no guaranteed gas return. He expressed opposition to subsidizing projects that are not economically viable.

[2:19:52 PM](#)

MR. FULFORD responded that while the question contains both technical and policy elements, he could offer insights from his experience in the gas industry. He emphasized that Cook Inlet holds a pivotal role in Alaska's economy due to its importance in supplying gas to electric and gas utilities. Unlike regions such as the shallow water Gulf of Mexico, where gas enters a mature, supply-and-demand-driven wholesale market, Cook Inlet serves a much more localized and unique market. He added that he has been surprised by how significantly capital has withdrawn from the oil and gas sector, largely due to climate policy and related concerns. However, he observed early signs of a slow return of capital in the past six months, driven by growing recognition that without reinvestment, regions like Alaska—and others—face serious challenges in energy costs and supply. He expressed hope that a combination of royalty reductions and renewed investor interest in traditional energy infrastructure could help bring in investment and additional new supplies.

[2:22:20 PM](#)

SENATOR WIELECHOWSKI stated that if the royalty in Cook Inlet were reduced to 0 percent, the internal rate of return (IRR) would increase from 18 to 26 percent in the base case and from 7 to 15 percent in the downside case. He then asked Mr. Fulford for his opinion on the likelihood of a producer moving forward with the project and bringing the gas to development under those conditions.

[2:22:48 PM](#)

MR. FULFORD replied that the question is obviously tricky to answer. He said that based on the modeled numbers, mitigating some of the downside risks would likely make an investor more comfortable about moving forward with the project. He added that other factors come into play, including actions that gas buyers could take to strengthen the investment case. He stated that the nature of the dialogue between Cook Inlet producers, the context of infrastructure and storage, and various other elements could all move the needle and make development more feasible. He noted that some of this involves potential actions by the legislature, some by regulatory agencies, and some by the developers themselves.

[2:24:13 PM](#)

SENATOR WIELECHOWSKI said the project appears to carry enormous risk, but also has the potential to secure Cook Inlet's power supply and support Alaska's economy for at least a decade. He stated that the development could effectively solve gas prices for that period, and if the cost is around \$120 million—the Department of Natural Resources' (DNR) estimate of lost royalty revenue—it does not seem like a bad investment. However, he acknowledged that it is not a guaranteed outcome. He referenced an alternative provision involving reserves-based lending, which has not been modeled, and asked Mr. Fulford for his perspective on a scenario where the state directly funds the project. He suggested this approach may be more certain and financially beneficial to the state, depending on how the terms are negotiated.

[2:25:37 PM](#)

MR. FULFORD stated that he agreed with most of the point made by Senator Wielechowski. He said that based on the project's economics, the state's cost of capital, and the lending mechanisms available through various captive agencies, providing reserves-based lending could be a prudent step forward. He explained that this approach would effectively hedge the state's exposure—potentially losing gas royalties but gaining appropriate interest on loans made to the project. He added that while such a strategy might not be suitable in jurisdictions without a direct connection between gas resources and the broader economy, in Alaska's case, where that link is critical, it appears to be an appropriate use of state resources.

[2:26:50 PM](#)

SENATOR WIELECHOWSKI asked whether there is a better path forward, emphasizing that the state must act. He reflected on past efforts involving tax breaks, deductions, and incentives like bringing in jack-up rigs, which provided only temporary solutions. He stated that the situation now feels like "the cliff," with limited options remaining. He referenced the current policy choices under consideration—royalty relief at various levels, potential reserves-based lending—and stressed that with heat and electricity for 70 percent of Alaskans at stake, the consequences are serious. He asked for a recommendation and if there is a better alternative.

[2:27:41 PM](#)

MR. FULFORD said he is happy to offer directional comments but emphasized that management and policy decisions ultimately fall under the jurisdiction of the legislature. Referring to his

final slide from the previous day, he noted that state lending is clearly one lever that may remove "one feature from the log jam." He added that another material factor— though not part of the modeling request— is the presence of five or six key gas buyers, including power generators, industrial users, and gas utilities, each with different demand profiles and risk tolerances. He explained that in other countries, governments have acted as aggregators on the buy side, creating a mechanism to pool and allocate gas among these varied buyers, which would not happen if each buyer acted alone. He suggested that a buyer cooperative model, with the state playing an intermediary role, could reduce risk for Cook Inlet gas developers. While he acknowledged the complexity of such a structure, he said the concept may be worth consideration.

SENATOR GIESSEL said that it sounds like an RRC and an RTO.

[2:29:59 PM](#)

SENATOR DUNBAR stated that even a 7 percent internal rate of return (IRR), while insufficient for a private investor, may still be acceptable for the state. He pointed out that some state accounts and entities currently earn much lower returns. He suggested that if Alaska could invest at that rate—or ideally achieve something higher—while also securing gas supply for Cook Inlet, it would be a sensible move. He said this aligns with what he interpreted Mr. Fulford as indicating [that state involvement could both support energy needs and generate a reasonable financial return.]

[2:30:38 PM](#)

MR. FULFORD explained that a 7 percent IRR might be acceptable for a wind or solar project, as, in today's world, capital is generally more willing to support those types of developments. However, he noted that the trend for oil and gas is moving in the opposite direction, with investor expectations significantly higher. He said that for a private oil and gas investor, a 7 percent IRR would fall far below what could be considered acceptable. He acknowledged, however, that from the state's perspective, the return profile might be viewed differently.

[2:31:39 PM](#)

SENATOR DUNBAR stated that the Permanent Fund Dividend earns approximately a 9 percent return and is regarded as well-managed. He emphasized that an investment by Alaska in Cook Inlet, with the understanding that the gas produced would directly serve constituents and neighbors, justifies accepting a

lower return and a different risk profile. He expressed hope that the provision remains in the final legislation.

[2:32:17 PM](#)

SENATOR KAUFMAN said that when evaluating an investment, it's essential to assess both the risk profile and the expected returns. He noted that the lack of interest from investors in Cook Inlet reflects not only a static economic view but also a dynamic, probabilistic assessment— similar to a Monte Carlo analysis— that considers not just whether a bad year might occur, but when it occurs and how it affects returns. He highlighted global uncertainties, such as the resolution of the Russia-Ukraine conflict and its impact on gas markets, which underpin GaffneyCline's globally oriented presentation. He stressed that Cook Inlet faces significant local constraints, including complex geology, harsh environmental conditions, and infrastructure limitations. These are compounded by broader policy dynamics like portfolio standards aimed at reducing hydrocarbon reliance and the potential for North Slope gas monetization, which could saturate the market. He stated that given these constraints, the state's options are limited to either direct capitalization of the project or indirect support through royalty reductions.

[2:35:18 PM](#)

SENATOR KAUFMAN emphasized that while fine-tuning financial projections is important, the primary objective should be to stimulate gas development. He argued that royalty relief could incentivize producers to invest but acknowledged the need to address the broader risk landscape. He then asked whether reduced royalties alone could provide sufficient incentive for investment, or if a more complex solution is necessary to move projects forward.

[2:35:59 PM](#)

MR. FULFORD said that one positive aspect of the current analysis is that the project economics fall within a range where policy changes can make a meaningful difference. He explained that if the numbers were either clearly unviable or extremely strong, altering the royalty structure would have little impact. However, in the downside case, removing the royalty significantly mitigates the weaker financial outcome—precisely the scenario investors are most concerned about. He stated that for that reason, royalty relief would likely be viewed very positively and could be a deciding factor for investment.

MR. FULFORD added that other measures discussed, such as lending mechanisms and structured financial support, would further enhance the project's attractiveness. These tools could shift the investment outlook enough to prompt developers to reevaluate and reengage. He concluded by emphasizing the importance of the broader signal sent by legislation—that the state is committed to supporting development and is willing to work with developers to make it happen.

[2:38:18 PM](#)

At ease.

[2:40:33 PM](#)

CO-CHAIR GIESSEL reconvened the meeting.

[2:40:37 PM](#)

CO-CHAIR GIESSEL said the committee would consider 8 amendments to SB 194.

[2:40:50 PM](#)

CO-CHAIR GIESSEL moved to rescind action in adopting Amendment 1 (A.1).

[2:41:04 PM](#)

SENATOR KAUFMAN objected for purposes of discussion.

[2:41:08 PM](#)

CO-CHAIR GIESSEL said her intent is to withdraw Amendment 1 (A.1) because it is non-essential.

[2:41:25 PM](#)

SENATOR KAUFMAN removed his objection.

[2:41:30 PM](#)

CO-CHAIR GIESSEL found no further objection, which brought Amendment 1 (A.1) before the committee. She withdrew Amendment 1 (A.1).

CO-CHAIR GIESSEL sought confirmation that Amendment [2] (A.2) would remain withdrawn.

SENATOR WIELECHOWSKI answered in the affirmative.

[2:41:51 PM](#)

CO-CHAIR GIESSEL stated Amendment [3] (A.7), by Senator Claman, was adopted [at a previous meeting] on a vote of 4:3. She stated

since Amendment [3] (A.7) has no fiscal impact and there being no objection, it will remain adopted.

[2:42:27 PM](#)

CO-CHAIR GIESSEL asked if Amendment [4] (A.10) remained withdrawn.

SENATOR WIELECHOWSKI stated he was not offering Amendment [4] (A.10).

CO-CHAIR GIESSEL stated Amendment [4] (A.10) remained withdrawn.

[2:42:42 PM](#)

CO-CHAIR GIESSEL stated Amendment [5] (A.14), as amended, was adopted by unanimous consent. The amendment to Amendment [5] (A.14) changed the year on line 4 to 2031.

[2:43:13 PM](#)

At ease.

[2:44:09 PM](#)

CO-CHAIR GIESSEL reconvened the meeting and restated that Amendment [5] (A.14), as amended, remained adopted.

[2:44:29 PM](#)

CO-CHAIR GIESSEL stated Amendment [6] (A.15), by Senator Kaufman, was previously withdrawn.

[2:44:37 PM](#)

SENATOR KAUFMAN moved to adopt Amendment [6] (A.15).

33-GS2381\A.15  
Nauman  
5/2/24

**A M E N D M E N T [6]**

OFFERED IN THE SENATE  
TO: SB 194

BY SENATOR KAUFMAN

Page 4, line 11:

Delete "a royalty of five percent"

Insert "**the** [A] royalty **percentage set out in**  
**this paragraph** [OF FIVE PERCENT]"

Page 4, line 13:  
Delete "for"

Page 4, lines 14 - 15:  
Delete "] 10 years following the date on which the production for commercial sale commences"  
Insert "10 YEARS FOLLOWING THE DATE ON WHICH THE PRODUCTION FOR SALE COMMENCES]"

Page 4, line 16:  
Delete "of five percent may"  
Insert "percentage described in this paragraph does"

Page 4, line 17:  
Delete "five percent in"  
Insert "the applicable percentage of"

Page 4, line 18, following "lease":  
Insert "; the royalty rate under this paragraph is  
(A) 0.1 percent for oil or gas produced on and after January 1, 2025, and before January 1, 2028;  
(B) 0.1 percent for gas produced and five percent for oil produced on and after January 1, 2028, and before January 1, 2031;  
(C) five percent for gas produced and five percent for oil produced on and after January 1, 2031, and before January 1, 2036"

[2:44:41 PM](#)

CO-CHAIR GIESSEL objected for purposes of discussion.

[2:44:43 PM](#)

SENATOR KAUFMAN explained that the purpose of Amendment [6] (A.15) is to shape an incentive structure that communicates urgency and establishes an economic rationale for acting quickly. He stated that the amendment sets an initial royalty of 0.1 percent for oil and gas produced between January 1, 2025, and before January 1, 2028. The rate then increases to 1 percent for gas and 5 percent for oil produced between January 1, 2028, and before January 1, 2031. Finally, the royalty becomes 5 percent for oil and 5 percent for gas from January 1, 2031, and before January 1, 2036.

SENATOR KAUFMAN addressed the question of why oil is included when the state is focused on gas, explaining that oil acts as a

strong incentive— “oil is to gold as gas is to silver.” The analogy illustrates the value of incentivizing exploration. He concluded that a powerful, front-loaded incentive structure will attract producers sooner and encourage faster development compared to a flat-rate approach that lacks a clear signal of urgency.

[2:46:43 PM](#)

SENATOR DUNBAR said he supports the concept of Amendment [6] (A.15) but would like to tweak the numbers and may offer a conceptual amendment to the amendment. He pointed to slide 6 of the DNR presentation, which shows the pessimistic case and models both gas and oil. He noted that gas is set at zero, and oil at 6.25 percent is still profitable across all projects and scenarios, even more so at 5 percent. His concern with the current [royalty] waterfall structure is that it sets oil at 0.1 percent during the first period, and he said, “We’re not trying to incentivize things that are going to happen anyway.”

SENATOR DUNBAR proposed the following adjustments:

- a) keep gas close to zero and oil at 5 percent;
- b) keep gas close to zero and raise oil to 6.25 percent;
- c) increase the final step from 5 percent to 6.25 percent.

He said that if the pessimistic case is accurate, then even at 6.25 percent the projects still go forward, and the state loses less revenue. He reiterated his support for the idea of front-loading the incentive but said his only issue with the [royalty] waterfall is giving a break to oil that DNR modeling suggests doesn’t need it.

[2:48:36 PM](#)

CO-CHAIR GIESSEL invited DNR to comment.

[2:48:55 PM](#)

JOHN BOYLE, Commissioner, Department of Natural Resources (DNR), Anchorage, Alaska, answered questions on Amendment [6] (A.15). He stated that the Department is supportive of the concept in Amendment [6] (A.15). He described it as a novel approach to incentivizing quick action, which aligns with the Department’s policy intent behind offering the bill. He called the proposal a relatively straightforward yet elegant solution to address the need for urgency. He also emphasized the importance of including royalty relief for both oil and gas, noting that doing so

supports the overall health of the Cook Inlet ecosystem. He concluded that, based on how the amendment has been presented so far, the Department is very supportive.

[2:50:08 PM](#)

JOHN CROWTHER, Deputy Commissioner, Department of Natural Resources, Anchorage, Alaska, agreed on Amendment [6] (A.15).

[2:50:19 PM](#)

SENATOR KAUFMAN said that, personally, he views the current proposal as a framework and believes more work is needed. He emphasized the value of additional modeling to fine-tune the royalty structure, including both the rates and the timing. He stated that while the structure is sound, the specific numbers—percentages and timeframes—should continue to be debated and refined. He noted that although a graphic presentation is not available at this stage due to the bill moving forward today, it would be helpful in the future to visualize the timeframes and rates in order to find the "sweet spot." He concluded that having a clear, well-calibrated structure would not only inspire confidence but also have real impact in the marketplace.

[2:51:32 PM](#)

SENATOR DUNBAR stated his intent to offer a conceptual amendment to Amendment [6] (A.15). He said he agreed with Senator Kaufman's point about the need for further refinement of SB 194 in the Finance Committee, but emphasized that he does not want to send the bill to Finance with oil royalties dropping to zero at any point. He noted that a zero oil royalty was not part of the governor's original proposal and that modeling indicates such a reduction is unnecessary. He expressed concern that sending the bill forward with a zero oil royalty would give the impression that the Resources Committee ignored the modeling data.

SENATOR DUNBAR offered Conceptual Amendment 1 to Amendment [6] (A.15), authorizing Legislative Legal Services to make technical and conforming changes:

**CONCEPTUAL AMENDMENT 1 TO AMENDMENT [6]**

BY SENATOR DUNBAR

Page 2, line 1, following "for":

Delete: "oil or"

Page2, line 1, following "produced":

Insert: "and 5 percent for oil produced"

Page 2, line 3, following "and":

Delete: "five"

Insert: "6.25"

Page 2, line 5, following "and":

Delete: "five"

Insert: "6.25"

[2:53:15 PM](#)

CO-CHAIR GIESSEL found no objection and Conceptual Amendment 1 to Amendment [6] (A.15) was adopted. Amendment [6] (A.15), as amended, was before the committee.

[2:53:30 PM](#)

CO-CHAIR GIESSEL asked what the production tax rate is in Cook Inlet.

[2:53:39 PM](#)

MR. CROWTHER replied that he did not want to misstate the exact formulation or percentages and said the Department of Revenue would be the appropriate source for that information. He noted that it would be an easy question for them to answer. He added that, to his understanding, Cook Inlet has a very low, flat production tax and does not include the complex elements found in the North Slope production tax.

[2:54:07 PM](#)

CO-CHAIR GIESSEL stated her belief that Mr. Crowther was correct and recalled legislation passed in 2018 addressing the issue. She noted that someone in the audience also confirmed this. She asked committee members to keep in mind that when discussing royalty rates, the production tax in Cook Inlet is very low—close to zero— and it is the last remaining portion of revenue the state receives from Cook Inlet.

[2:54:47 PM](#)

CO-CHAIR GIESSEL removed her objection. She found no further objection and Amendment [6] (A.15), as amended, was adopted.

[2:55:30 PM](#)

CO-CHAIR GIESSEL said Amendment [7] (A.16) was withdrawn at the committee's last meeting.

[2:55:35 PM](#)

CO-CHAIR GIESSEL solicited a motion.

[2:55:36 PM](#)

SENATOR WIELECHOWSKI said he was not offering Amendment [7] (A.16).

[2:55:42 PM](#)

CO-CHAIR GIESSEL said Amendment [7] (A.16) remains withdrawn.

[2:55:48 PM](#)

CO-CHAIR GIESSEL stated the committee is on Amendment [8] (A.17) and solicited a motion.

[2:56:09 PM](#)

SENATOR WIELECHOWSKI said Amendment [8] (A.17) relates to reporting, DNR supports the amendment, and it should remain in SB 194.

[2:56:17 PM](#)

CO-CHAIR GIESSEL said the adoption of Amendment [8] (A.17) was maintained.

[2:56:24 PM](#)

CO-CHAIR GIESSEL said Senator Wielechowski asked to revisit Amendment [5] (A.14).

[2:56:36 PM](#)

SENATOR WIELECHOWSKI stated that, in light of the adoption of Amendment [6] (A.15), as amended, Amendment [5] (A.14) likely presents a conflict. He said he wanted to confirm this with Senator Kaufman.

[2:56:50 PM](#)

SENATOR KAUFMAN stated his belief that it might.

[2:56:54 PM](#)

SENATOR WIELECHOWSKI moved to rescind action in adopting Amendment [5] (A.14).

[2:57:03 PM](#)

CO-CHAIR GIESSEL found no objection and the action in adopting Amendment [5] (A.14) was rescinded.

[SENATOR WIELECHOWSKI withdrew Amendment 5 (A.14).]

[2:57:29 PM](#)

CO-CHAIR GIESSEL stated, in summary, the committee adopted Amendment [3] (A.7), Amendment [6] (A.15), and Amendment [8] (A. 17).

[2:57:58 PM](#)

CO-CHAIR GIESSEL solicited the will of the committee.

[2:58:15 PM](#)

SENATOR WIELECHOWSKI moved to report SB 194, work order 33-GS2381\A, as amended, from committee with individual recommendations and attached fiscal note(s). He said that Legislative Legal has the authority to make any technical and conforming changes.

[2:58:32 PM](#)

CO-CHAIR GIESSEL found no objection and CSSB 194 (RES) was reported from committee.

[2:59:01 PM](#)

There being no further business to come before the committee, Co-Chair Giessel adjourned the Senate Resources Standing Committee meeting at 2:59 p.m.