

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

August 21, 2025

1:01 p.m.

MEMBERS PRESENT

Senator Elvi Gray-Jackson, Chair
Representative Zack Fields, Vice Chair
Senator Cathy Giessel
Senator Bill Wielechowski
Representative Neal Foster
Representative Andy Josephson
Representative Cathy Tilton
Senator Scott Kawasaki (alternate)
Representative Bryce Edgmon (alternate)

MEMBERS ABSENT

Senator Bert Stedman
Senator Lyman Hoffman
Representative Chuck Kopp

COMMITTEE CALENDAR

PRESENTATION(S): NICOLAI CREEK UNIT ROYALTY MODIFICATION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOHN CROWTHER, Commissioner
Department of Natural Resources
Juneau, Alaska

POSITION STATEMENT: Co-presented the Nicolai Creek Unit Royalty Modification presentation.

WESTON NASH, Commercial Analyst
Division of Oil and Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Co-presented the Nicolai Creek Unit Royalty Modification presentation.

ACTION NARRATIVE

[1:01:52 PM](#)

CHAIR ELVI GRAY-JACKSON called the Legislative Budget and Audit Committee meeting to order at 1:01 p.m. Representatives Foster, Josephson, Edgmon, and Fields and Senators Giessel, Wielechowski (via teleconference), and Gray-Jackson were present at the call to order. Representatives Tilton (via teleconference) and Kawasaki (via teleconference) arrived as the meeting was in progress.

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

PRESENTATION(S): Nicolai Creek Unit Royalty Modification

[1:02:25 PM](#)

CHAIR GRAY-JACKSON announced that the only order of business would be the Nicolai Creek Unit Royalty Modification presentation.

[1:03:04 PM](#)

SENATOR GRAY-JACKSON gave the following opening remarks [original punctuation provided]:

This is an informational hearing – no votes will be taken today. We all know how important Cook Inlet natural gas is to the people of Alaska, especially Southcentral and the Railbelt, and to the overall economy of our state. That’s why our job today is oversight – making sure Alaskans understand the tradeoffs when the State reduces its share of resource revenues. A royalty modification means the State takes a smaller share of oil and gas revenues up front, with the hope that it will encourage more investment and production. We need to ask whether this proposal is truly in the best interest of Alaskans, balancing energy security with protecting the State’s long-term finances.

Thank you to the Department and my colleagues for joining us on short notice – we look forward to an informative discussion.

1:04:48 PM

JOHN CROWTHER, Commissioner, Department of Natural Resources (DNR), said DNR has been actively trying to understand the Cook Inlet natural gas supply and use its authority to maximize gas production and availability for Alaskans while paying close attention to royalty revenue obligations to make best interest findings. He said the purpose of today's hearing is to share information on the department's proposal.

1:06:21 PM

WESTON NASH, Commercial Analyst, Division of Oil and Gas, Department of Natural Resources (DNR), gave a PowerPoint presentation, titled "Preliminary Findings and Determination Nicolai Creek Unit Royalty Modification" [included in the committee packet]. She began the presentation on slide 2, "Outline," which read as follows [original punctuation provided]:

1. Executive Summary
2. Royalty Modification - Relevant Statutes and History
3. Nicolai Creek Unit Background
4. Statutory Criteria
5. Best Interest of the State
6. Scenario Modeling - Key Results
7. Quantified Impacts and Unquantified Indirect Benefits of Royalty Modification
8. Royalty Modification Mechanism

1:07:46 PM

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

- Amaroq Resources, LLC (Amaroq), operator of the Nicolai Creek Unit (NCU), submitted a royalty modification application to Department of Natural Resources (DNR) on September 3, 2024
- The application to reduce royalty is intended to prolong the economic life of the unit as per barrel equivalent costs are increasing due to declining production

- DNR engaged in an extensive review and analysis of both public and 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 September 2026
- DNR recommends a royalty modification mechanism based on cumulative gross revenues beginning on September 1, 2024
- DNR analyses showed that royalty modification would, in the mean case, extend the life of the field by four years with an expected \$0.9 million increase in direct revenue to the State

[1:10:39 PM](#)

MR. NASH advanced to slide 4, "Royalty Modification - Relevant Statutes," which read as follows [original punctuation provided]:

- The Commissioner:
 - Alaska Statute (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..."

[1:12:14 PM](#)

VICE CHAIR FIELDS shared his understanding that Hilcorp, a monopoly producer, is refusing to explore beyond its minimum contract obligations with utilities, which is pushing up the

price of gas. He asked whether that increase would justify a royalty modification for future producers in the Cook Inlet basin.

MR. CROWTHER said an increase in the price of gas alone wouldn't suddenly make operators eligible that otherwise wouldn't be eligible.

VICE CHAIR FIELDS sought to confirm that its no longer economically feasible to price the production at a competitive market price at a certain point in time.

MR. CROWTHER said yes, for a modification to be granted, per barrel costs must be increasing and one would need to consider whether the modification would extend the end of field life in the best interest of the state. It's quite feasible that increased prices and end of field lives extending would make it harder to receive the royalty modification in the context of best interest.

[1:14:35 PM](#)

MR. NASH resumed the presentation on slide 5, "Royalty Modification - History," which showed a complete list of royalty modifications and their outcomes. He continued to slide 6, "Royalty Modification - Results," explaining that the two active modifications are the Badami Unit and the Kitchen Lights Unit (KLU). The Badami Unit was granted in 2023 to extend the field life and has produced 1.3 million barrels since 2023 with plans for new drilling in 2025. The KLU royalty modification was granted in 2024 for the purpose of extending the field life and has resulted in three new wells and produced 1.1 billion cubic feet (Bcf) of Cook Inlet Gas on top of expectations.

[1:19:45 PM](#)

REPRESENTATIVE JOSEPHSON referenced the "Oooguruk (Nuna Torok Pool)" and sought to confirm that ConocoPhillips Alaska, Inc. acquired leases in 2019 and began drilling new wells in 2023 with a fully royalty.

MR. NASH responded correct, there was no royalty modification.

[1:20:14 PM](#)

MR. NASH resumed the presentation on slide 7, "NCU Background - Unit Location," which read as follows [original punctuation provided]:

- Unit formed in 1968 by Texaco
- 470 acres
- Originally produced until 1977
- Production restarted by Aurora Gas in 2001
- Amaroq acquired NCU in 2018 due to Aurora Gas' bankruptcy
- Annual production 0.2 percent of total Cook Inlet production

MR. NASH continued to slide 8, "NCU Background - Lease Information," which showed the layout of the unit and a detailed table with information on the 5 leases that it's comprised of.

[1:25:13 PM](#)

SENATOR GIESSEL asked for an explanation of the columns on slide 8.

MR. NASH explained the Overriding Royalty Interest (ORRI), total burden, production allocation, shallow burden, and deep burden categories to illustrate the complication of the lease structure.

[1:27:28 PM](#)

MR. NASH continued the presentation on slide 9, "NCU Background - Production History," which read as follows [original punctuation provided]:

- Amaroq produced about 60 million cubic feet (MMscf) through June 30, 2025
- Production comes from three wells:
 - NCU 02
 - NCU 09
 - NCU 11

[1:29:02 PM](#)

MR. NASH turned to slide 10, "Statutory Criteria," which read as follows [original punctuation provided]:

- Amaroq demonstrated the per-barrel-equivalent costs increase will make future production uneconomic per AS 38.05.180(j)(2)
- The increase in per-barrel-equivalent costs is mainly due to declining production from current wells
- Continued operation of the NCU would be uneconomic due to per-barrel-equivalent costs
- Amaroq demonstrated that royalty modification would prolong the economic life of the NCU per AS 38.05.180(j)(1)(B)
- Absent relief, the NCU would begin shutting down in September 2026 as operating the field would become uneconomic
- With relief, modeling showed operations could continue for an additional year
- Amaroq proposed a royalty modification mechanism at a fixed rate until profitable

[1:31:01 PM](#)

MR. NASH moved to slide 11, "Statutory Criteria [continued]," which read as follows [original punctuation provided]:

- Amaroq demonstrated that under current royalty it was uneconomic to drill additional wells per AS 38.05.180(j)(1)(C)
- Amaroq provided a reserves report analyzed by a third party identifying proven and probable gas reserves in the NCU
- Amaroq provided sufficient information for the development costs and financing to show that drilling would be uneconomic without relief
- With relief, Amaroq's economics are improved and will help secure funding for the drilling program

[1:33:22 PM](#)

VICE CHAIR FIELDS asked why a 9 percent reduction is necessary.

MR. NASH responded 9 percent provides the best economic outcome for drilling the wells.

MR. CROWTHER added that toggling the royalty rate extends the rate incrementally. He stated that getting the most activity in the unit is the most important thing for the state, which would likely occur at [9] percent.

VICE CHAIR FIELDS asked whether data supports the positive binary decision at 9 percent, versus 5 or 7 percent. In addition, he asked whether the statutory minimum is 3 percent.

MR. CROWTHER said when evaluating royalty modifications, the focus is on expected recovery rate, revenue, and maximizing the dollar.

[1:36:22 PM](#)

MR. NASH resumed the presentation on slides 12-13, "Best Interest of the State," which read as follows [original punctuation provided]:

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

- DNR modification extends field life and provides:
 - Continued Cook Inlet gas production
 - Diversity in Cook Inlet explorers and producers
 - Additional indirect benefits (details on slide 18)
- DNR's royalty modification expected to extend field life by one year
 - Modification mechanism accounts for price and production
 - Multiple development, price, and shutdown scenarios were modeled
 - Preserves potential of additional drilling
- Amaroq is seeking funding to drill two or three additional wells
 - Further extend field life
 - Produce additional gas (details on slide 18)
- Wells will reestablish production from gas zones not produced in five to 10 years
 - Two wells could be drilled from existing pads
 - An additional third well could be drilled from a new pad

[1:39:47 PM](#)

MR. NASH turned to slide 13, which showed scenario modeling for end of field life with the royalty modification versus no royalty modification. Scenario 1a, "Royalty Modification - No Development Drilling," would extend the end of field life from September 2026 to September 2027; however, total revenue to the state would decrease significantly and both production tax and

property tax would rise. He reiterated that the goal is to get an additional 80 million standard cubic feet (MMscf) of gas in the Cook Inlet system and extended time to get drilling sanctioned and funded.

[1:41:02 PM](#)

REPRESENTATIVE EDGMON sought to confirm that the benefit of the royalty modification is to produce more gas, more revenue to the state, and most importantly, more development opportunities.

MR. NASH clarified that total revenue would decline, but the tradeoff for a deduction in revenue is more gas and opportunity.

[1:42:55 PM](#)

MR. NASH continued the presentation on slides 15-16, which showed more scenario modeling for development drilling at different production levels with two different price paths: Amaroq and DNR Utility. For Amaroq, the total revenue to the state ranges from a low of \$650,800 to a high of \$1,696,500 with 2,773.1 MMscf of additional gas in the high case scenario.

[1:45:07 PM](#)

VICE CHAIR FIELDS asked how 2,773.1 MMscf compares to daily Cook Inlet field production and consumption.

MR. NASH said it remains at .2 percent of production.

MR. CROWTHER noted that although the cumulative volume of the additional gas projected between 1.2 Bcf and 2.7 Bcf is not large, even a single Bcf going into storage helps at this stage. He estimated that the annual usage in the Cook Inlet is around 70-72 [Bcf].

[1:46:25 PM](#)

MR. NASH continued the presentation on slide 16, which showed the scenario modeling for the DNR Utility Price Path. He pointed out that both price paths are extremely similar with a difference of only \$0.25 to \$0.30. Scenario 3c is the expected case, which makes up high and medium production and an expected end of field life of August 2030 with an additional 1,902 MMscf over a four-year period. This scenario would yield just under \$900,000 in revenue to the state. He turned to slide 17,

"Quantified Impacts of Royalty Modification," which read as follows [original punctuation provided]:

- The initial extension of field life yields the following:
 - One year of additional field life
 - (\$154,000) in total state revenue (NPV 12.5)
 - 79.7 MMscf (0.08 Bcf) in additional gas
- Development drilling, Scenario 3c, yields:
 - Four years of additional field life, beyond September 2026
 - \$894,000 total state revenue (NPV 12.5)
 - \$523,000 Royalty
 - \$267,000 Production tax
 - \$104,000 Property tax
 - 1,902 MMscf (1.9 Bcf) in additional gas

MR. NASH moved to slide 18, "Unquantified Benefits," which read as follows [original punctuation provided]:

- Continued local gas production
 - Cook Inlet utilities face natural gas deliverability and supply issues in coming years
 - Continued production at NCU is potentially a lower-cost alternative to liquified natural gas imports or other energy sources
 - Maintains demand for energy services and associated jobs in the region
- Diversity in producers in the Cook Inlet basin
- Environmental, social, and cultural impacts
 - Leases contain stipulations to protect the environment
 - Amaroq employs three staff with additional contractors

[1:52:25 PM](#)

REPRESENTATIVE EDGMON asked whether these exercises would become more frequent as fields age. Further, in terms of qualitative and quantitative considerations, he questioned whether there is a precedent setting aspect that might apply to future decision making.

MR. CROWTHER said ultimately, the decision to apply rests with the operator in consideration of its economics, DNR's evaluation, and field economics all within the context of the

overall market. He said the decisions are "informative but not controlling in the precedential sense." The decisions, while made by the commissioner, are based on statutory criteria that balances the best interest of the state. He said this is viewed as something that would inform the department without constraining it and referenced the success of the prior KLU royalty modification.

[1:56:41 PM](#)

MR. NASH advanced to slide 19, "DNR Royalty Modification Mechanism," which read as follows [original punctuation provided]:

- Three percent royalty rate per month until gross revenue generated from NCU beginning September 1, 2024, reaches a cumulative amount of \$25.3 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 drilling at NCU

MR. NASH moved to slide 20, "DNR Royalty Modification Mechanism," which read as follows [original punctuation provided]:

- Minimum royalty rate is three percent
- Subject to routine DNR royalty audit
- DNR has the right to obtain expense invoices and financial/accounting records from Amaroq every six months
- DNR shall have the right, upon notice to Amaroq, to terminate the royalty modification in whole or in part:
 - If criteria of AS 38.05.180(j)(1)(B) or 38.05.180(j)(2) are no longer met
 - If DNR finds NCU operator to be in default per 11 AAC 83.374 (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

[2:01:02 PM](#)

REPRESENTATIVE JOSEPHSON questioned whether this informational hearing is a statutory requirement.

MR. CROWTHER stated that AS 38.05.180(j)(9) describes the offer to appear before the Legislative Budget and Audit Committee to inform the public and receive public comment. He added that public comment would be reviewed and may be incorporated into the final decision. Certainly, he said it's the legislature's prerogative to take additional action, but there is no statutory requirements other than holding this hearing.

[2:02:56 PM](#)

MR. NASH concluded on slide 21, "Summary," which read as follows [original punctuation provided]:

- Royalty modification is in the best interest of the State per AS 38.05.180(j)(2)
- Three percent royalty rate per month until gross revenue generated from NCU beginning September 1, 2024, reaches a cumulative amount of \$25.3 million
- At least ~ one year of field life extension and 0.08 Bcf of incremental gas
- With additional drilling, estimated incremental direct revenue to the State of \$0.9 million (NPV 12.5) and ~2 Bcf of additional gas

[2:04:56 PM](#)

SENATOR GIESSEL emphasized that the gas situation in Cook Inlet matters to Alaskans. In a sense, she said, rather than creating its own oil and gas company, the state is partnering with existing companies that are taking on the risk of developing these resources. She thanked DNR for considering the importance of producing more gas despite the cost. She said the message to Alaskans is that this royalty relief is the state subsidizing and encouraging this critical piece.

[2:06:40 PM](#)

CHAIR GRAY-JACKSON thanked the testifiers and reminded the public that DNR's findings are published on the online public notice system and the Division of Oil and Gas's website. Preliminary findings are open to public comment until Friday September 5, 2025.

[2:07:21 PM](#)

REPRESENTATIVE EDGMON asked for an update on SB 183.

CHAIR GRAY-JACKSON shared her understanding that the Department of Revenue (DOR) would be directed to cooperate with the state auditor and provide the necessary information in the correct format.

[2:09:46 PM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 2:09 p.m.