

CS FOR HOUSE BILL NO. 223(FIN) am

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Amended: 5/12/24

Offered: 5/11/24

Sponsor(s): REPRESENTATIVES RAUSCHER, Allard, Josephson, Carpenter, Saddler

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to royalty rates and payments for certain oil and gas; relating to state**
2 **loans for oil and gas development projects in the Cook Inlet sedimentary basin; relating**
3 **to the creation of subsidiaries related to development projects in the Cook Inlet**
4 **sedimentary basin by the Alaska Industrial Development and Export Authority; relating**
5 **to the Cook Inlet reserve-based lending fund and the payment of dividends from the**
6 **fund; relating to a report to the legislature related to oil and gas development projects in**
7 **the Cook Inlet sedimentary basin; and providing for an effective date."**

8 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

9 * **Section 1.** AS 38.05.180 is amended by adding new subsections to read:

10 (mm) Notwithstanding and in lieu of a requirement in the leasing method
11 chosen of a minimum fixed royalty share or the royalty provision of a lease, for leases
12 issued for land south of 68 degrees North latitude from which commercial production
13 of oil or gas begins after July 1, 2024, and before January 1, 2035, the lessee shall pay

1 a royalty of three percent for qualified new gas and 6.25 percent for qualified new oil,
 2 unless payment is lower under another subsection of this section. A royalty rate in this
 3 subsection applies until the earlier of

4 (1) 10 years following the commencement of commercial production;
 5 or

6 (2) the date on which a commercial quantity of oil or gas produced by
 7 the lessee from land south of 68 degrees North latitude is shipped out of the state.

8 (nn) In (mm) of this section,

9 (1) "qualified new gas" means gas produced from

10 (A) a field or pool that the commissioner determines has not
 11 previously produced gas for commercial sale before January 1, 2024;

12 (B) a field or pool that the commissioner determines has not
 13 produced gas during the preceding six months but that has previously produced
 14 gas; or

15 (C) a well that did not exist on January 1, 2025, if the
 16 commissioner determines that production of that gas from the field or pool
 17 from an existing well was not feasible;

18 (2) "qualified new oil" means oil produced from

19 (A) a field or pool that the commissioner determines has not
 20 previously produced oil for commercial sale before January 1, 2024;

21 (B) a field or pool that the commissioner determines has not
 22 produced oil during the preceding one year but that has previously produced
 23 oil; or

24 (C) a well that did not exist on January 1, 2025, if the
 25 commissioner determines that production of that oil from the field or pool from
 26 an existing well was not feasible.

27 (oo) Notwithstanding and in lieu of a requirement in the leasing method
 28 chosen of a minimum fixed royalty share, or the royalty provision of a lease or an
 29 existing royalty settlement agreement, for gas that is produced from leases that include
 30 land north of 68 degrees North latitude and that is subsequently liquefied or used in
 31 the liquefaction or transportation process, the lessee shall pay a royalty rate of one

1 percent if the lessee agrees to sell the gas to a publicly owned utility or a utility
 2 regulated under AS 42.05 at a rate that reflects the discounted royalty rate provided
 3 under this subsection. The royalty rate under this subsection applies until the earlier of
 4 either

5 (1) 10 years following the first commercial use of liquefied natural gas
 6 receiving the royalty rate under this subsection; or

7 (2) the date on which a commercial quantity of liquefied natural gas
 8 produced from the lease receiving the royalty rate under this subsection is shipped out
 9 of the state.

10 * **Sec. 2.** AS 44.88.088(a) is amended to read:

11 (a) The authority shall adopt a policy for payment of a dividend from the
 12 revolving fund, the Alaska Industrial Development and Export Authority sustainable
 13 energy transmission and supply development fund (AS 44.88.660), [AND] the Arctic
 14 infrastructure development fund (AS 44.88.810), **and the Cook Inlet reserve-based**
 15 **lending fund (AS 44.88.850)** to the state each fiscal year. The dividends for a fiscal
 16 year shall be made available by the authority before the end of that fiscal year. The
 17 authority shall notify the commissioner of revenue when the dividends for a fiscal year
 18 are available for appropriation. The amount of the dividend payable from the

19 (1) revolving fund for a fiscal year may not be less than 25 percent nor
 20 more than 50 percent of the net income of the revolving fund for the base fiscal year;
 21 however, in no event [,] may the dividend payable from the revolving fund for a fiscal
 22 year exceed the total unrestricted net income of the revolving fund for the base year;

23 (2) Alaska Industrial Development and Export Authority sustainable
 24 energy transmission and supply development fund (AS 44.88.660) for a fiscal year
 25 may not be less than 25 percent nor more than 50 percent of the net income of the
 26 Alaska Industrial Development and Export Authority sustainable energy transmission
 27 and supply development fund for the base fiscal year; however, the dividend payable
 28 from the Alaska Industrial Development and Export Authority sustainable energy
 29 transmission and supply development fund for a fiscal year may not exceed the total
 30 unrestricted net income of the Alaska Industrial Development and Export Authority
 31 sustainable energy transmission and supply development fund for the base year;

1 (3) Arctic infrastructure development fund (AS 44.88.810) for a fiscal
 2 year may not be less than 25 percent nor more than 50 percent of the net income of the
 3 Arctic infrastructure development fund for the base fiscal year; however, the dividend
 4 payable from the Arctic infrastructure development fund for a fiscal year may not
 5 exceed the total unrestricted net income of the Arctic infrastructure development fund
 6 for the base year;

7 **(4) Cook Inlet reserve-based lending fund (AS 44.88.850) for a**
 8 **fiscal year may not be less than 25 percent nor more than 50 percent of the net**
 9 **income of the Cook Inlet reserve-based lending fund for the base fiscal year;**
 10 **however, the dividend payable from the Cook Inlet reserve-based lending fund**
 11 **for a fiscal year may not exceed the total unrestricted net income of the Cook**
 12 **Inlet reserve-based lending fund for the base year.**

13 * **Sec. 3.** AS 44.88.178 is amended to read:

14 **Sec. 44.88.178. Creation of subsidiaries.** The authority may create one or
 15 more subsidiary corporations for the purpose of acquiring, constructing, owning,
 16 operating, or financing a project financed under AS 44.88.172 **or 44.88.850**. A
 17 subsidiary corporation created under this section may be incorporated under
 18 AS 10.20.146 - 10.20.166. The authority may transfer assets of the authority to a
 19 subsidiary created under this section. A subsidiary created under this section may
 20 borrow money and issue bonds as evidence of that borrowing [,] and has all the
 21 powers of the authority that the authority grants to it. Unless otherwise provided by the
 22 authority, the debts, liabilities, and obligations of a subsidiary corporation created
 23 under this section are not the debts, liabilities, or obligations of the authority.

24 * **Sec. 4.** AS 44.88 is amended by adding a new section to read:

25 **Sec. 44.88.385. Cook Inlet oil and gas development projects; report.** The
 26 authority shall evaluate oil and gas development projects that have the potential to
 27 increase oil and gas production from the Cook Inlet sedimentary basin. Each year, the
 28 authority shall prepare a report related to those oil and gas development projects and
 29 shall, by the first day of each regular session of the legislature, deliver the report to the
 30 senate secretary and the chief clerk of the house of representatives and notify the
 31 legislature that the report is available. At the request of a legislative committee, a

1 representative of the authority shall appear in that committee to review the report. For
2 each oil and gas development project, the report must include

- 3 (1) a cost estimate for the project;
- 4 (2) the potential recoverable gas from the project; and
- 5 (3) the amount necessary to be appropriated to the Cook Inlet reserve-
6 based lending fund to finance the project.

7 * **Sec. 5.** AS 44.88 is amended by adding a new section to read:

8 **Article 10A. Cook Inlet Reserve-Based Lending.**

9 **Sec. 44.88.850. Cook Inlet reserve-based lending fund.** (a) The Cook Inlet
10 reserve-based lending fund is established in the authority. The fund consists of
11 appropriations made to the fund by the legislature, money or other assets transferred to
12 the fund by a vote of the members of the authority under AS 44.88.050 from any other
13 fund controlled by the authority, and unrestricted loan repayments, interest, or other
14 income earned on loans, investments, or assets of the fund. The fund is not an account
15 in the revolving fund established in AS 44.88.060, and the authority shall account for
16 the fund separately from the revolving fund. The authority may create additional
17 accounts in the fund. Subject to agreements made with the holders of the authority's
18 bonds or with other persons, the authority may transfer amounts from an account in
19 the fund to another account in the fund. The authority may not transfer to another fund
20 in the authority amounts that were appropriated to the fund by the legislature.

21 (b) The authority may use money in the fund to make one or more reserve-
22 based loans to fund oil and gas development projects the authority considers necessary
23 to increase oil and gas production from the Cook Inlet sedimentary basin.

24 (c) The authority shall set the interest rate for a reserve-based loan under this
25 section. The interest rate may be less than the cost of funds to the authority. In this
26 subsection, "cost of funds" means earnings, expressed as an annual interest rate, the
27 authority would receive on a comparable financial security.

28 * **Sec. 6.** AS 44.88.900 is amended by adding new paragraphs to read:

29 (20) "oil and gas development project" means a development project to
30 produce proven oil or gas reserves;

31 (21) "reserve-based loan" means a loan made against and secured by

- 1 an oil and gas field or undeveloped or developed oil and gas assets.
- 2 * **Sec. 7.** AS 31.05.030(i); AS 38.05.180(f)(5), and 38.05.180(dd) are repealed.
- 3 * **Sec. 8.** AS 38.05.180(mm) and 38.05.180(nn) are repealed January 1, 2045.
- 4 * **Sec. 9.** This Act takes effect immediately under AS 01.10.070(c).