



Governor Mike Dunleavy STATE OF ALASKA

March 23, 2022

The Honorable Peter Micciche
Senate President
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Micciche:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to approval and ratification of the sale of royalty oil by the State of Alaska to Marathon Petroleum and Trading Company LLC (Marathon).

The Commissioner of the Department of Natural Resources (DNR) has determined that it is in the best interest of the State to take royalty oil in-kind from leases on the North Slope. To this end, DNR has negotiated a proposed contract titled "Agreement for the Sale of Royalty Oil between and among the State of Alaska, and Marathon Petroleum Supply and Trading LLC, a Delaware Limited Liability Company and Marathon Petroleum Corporation, a Delaware Corporation" (Proposed Contract). This bill would approve and ratify the Proposed Contract.

The Proposed Contract obligates the State to deliver between a minimum of 10,000 barrels per day (bpd) and a maximum of 15,000 bpd to Marathon. Based on yearly average forecasts, Marathon's nominations under the Proposed Contract could represent 15 percent to 31 percent of the State's North Slope royalty oil. The State will receive a price for its royalty oil that will equal or exceed the price it would have received had it elected to keep its royalty in-value. In total, the Proposed Contract is expected to net the State roughly \$3 to \$13 million in revenue above what the State would receive by taking the royalty in-value.

The State currently sells royalty oil to Marathon under a one-year contract, which, due to its short duration, did not require legislative approval. The current contract terminates on July 31, 2022. The Proposed Contract would take effect on August 1, 2022 and terminate on July 31, 2025.

The bill is the culmination of diligent analysis and public process that are imperative for responsible resource stewardship. DNR and the Alaska Royalty Oil and Gas Development Advisory Board (Board) considered the fiscal, economic, societal, and environmental impacts

The Honorable Peter Micciche

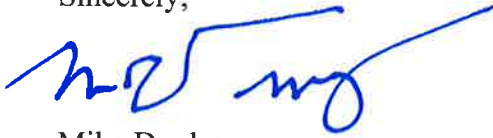
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and benefits of the agreement. DNR issued a Final Best Interest Finding and Determination on the agreement that included analysis of the factors for the sale of royalty oil in AS 38.05.183. The Department did not receive any comments from the public on the sale during the public comment period that ended on March 2, 2022. Additionally, the Board held two public hearings on the sale. In accordance with AS 38.06.050, the Board voted to approve a written recommendation and report on March 9, 2022, recommending legislative approval of the agreement.

This bill would allow the State to obtain the maximum value for its royalty oil. I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mike Dunleavy", with a long horizontal flourish extending to the right.

Mike Dunleavy
Governor

Enclosure

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTY-SECOND LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 **"An Act approving and ratifying the sale of royalty oil by the State of Alaska to**
2 **Marathon Petroleum Supply and Trading Company LLC; and providing for an**
3 **effective date."**

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

5 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
6 to read:

7 ROYALTY OIL SALE CONTRACT WITH MARATHON PETROLEUM SUPPLY
8 AND TRADING COMPANY LLC APPROVED AND RATIFIED. In accordance with
9 AS 38.06.055, the legislature approves and ratifies the "Agreement for the Sale of Royalty Oil
10 between and among the State of Alaska, and Marathon Petroleum Supply and Trading
11 Company LLC, a Delaware Limited Liability Company and Marathon Petroleum
12 Corporation, a Delaware Corporation," attached as Exhibit 1 to the March 18, 2022 "Final
13 Best Interest Finding and Determination for the Sale of Alaska North Slope Royalty Oil to
14 Marathon Petroleum Supply and Trading Company LLC."

1 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

Fiscal Note

State of Alaska
2022 Legislative Session

Bill Version: GB 120
Fiscal Note Number: _____
() Publish Date: _____

Identifier: LL0122-DNR-DOG-3-20-22
Title: Royalty In Kind Marathon
Sponsor: Rules by Request of the Governor
Requester: Rules by Request of the Governor

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2023	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2023 Request	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
OPERATING EXPENDITURES	FY 2023	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)		2,160.8	2,360.3	2,354.3	199.5		
1050 PFD Fund (Other)		720.3	786.8	784.8	66.5		
Total	0.0	2,881.1	3,147.1	3,139.1	266.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2022) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2023) cost: 0.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

Prepared By: <u>Jhonny Meza, Commercial Section Manager</u>	Phone: <u>(907)269-8774</u>
Division: <u>Oil and Gas</u>	Date: <u>03/20/2022 05:00 PM</u>
Approved By: <u>Theresa Cross, Administrative Services Director</u>	Date: <u>03/20/22</u>
Agency: <u>Department of Natural Resources</u>	

FISCAL NOTE ANALYSIS

**STATE OF ALASKA
2022 LEGISLATIVE SESSION**

BILL NO. LL0122

Analysis

This bill provides legislative approval of a contract negotiated between the State of Alaska and Marathon Petroleum Supply and Trading Company LLC for the sale of the state's royalty oil for a term of three years. The agreement provides for the following barrels per day: 10,000–15,000.

The number of barrels per day is multiplied by a negotiated Royalty In Kind differential per barrel to arrive at the expected revenue increase. There will be no fiscal impact to the operating expenditures. The proposed contract is expected to generate between \$3 million and \$14 million in revenues in addition to the amount that would have been collected if the royalty oil sold under this contract had been disposed of in value.