Royalty-in-Kind

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Royalty-in-Kind

The state receives a royalty share of oil and gas produced from the land the state has leased to the oil producers. By statute, regulation, and the terms of the oil and gas leases the state has the choice to take its royalty "in-kind" or "in-value." When it takes its royalty in-kind, the state takes possession of its royalty share of the oil and gas produced by the lessee and sells it. When the state takes its royalty in-value, the lessee takes possession of the royalty share and pays the state for it.

The Decision Process for the Sale of State Royalty Oil

Royalty-in-Kind or Royalty-in-Value?

Alaska law under **AS 38.05.182** compels the Commissioner of Natural Resources to take oil and gas royalty in-kind unless he determines that taking royalty in-value is in the best interests of the state. Conversely, the law also requires that he must determine that taking royalty in-kind is in the best interest of the state.

Competitive Bid or Negotiated Contract?

Royalty oil must be sold by competitive bid (AS **38.05.183**(a)). The commissioner may negotiate a royalty oil sale agreement with a single buyer if (a) he finds that a negotiated sale is in the state's best interest or (b) no competition exists for the royalty oil.

Export or In-state Use of Royalty Oil?

Under AS **38.05.183**(d), the commissioner must determine if the royalty-in-kind oil is surplus to the "present and projected intrastate domestic and industrial needs" of the state.

What are the state's "best interests?"

The commissioner must consider the following in evaluating proposals for the disposition of royalty oil, whether the disposition is by competitive bid or negotiated agreements (**AS 38.05.183**(e)):

- the cash value offered;
- the projected effects of the sale on the economy of the state;
- the projected benefits of refining or processing the oil in the state;
- the ability of the prospective buyer to provide refined products to the citizens of the state at competitive prices;
- the criteria listed in **AS 38.06.070(a)** which are:
  - the revenue needs and projected fiscal condition of the state;
  - the existence and extend of present and projected local and regional needs for oil products, the effect of state or federal commodity allocation requirements which might be applicable to those products, and the priorities among competing needs;
  - the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale;
  - the projected social impacts of the sale;
  - the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivision by developments related to the transaction;

- The existence of specific local or regional labor or consumption markets or both which should be met by the sale;
- The projected environmental effects related to the sale;
- The projected effects of the proposed sale upon existing private commercial enterprise and patterns of investment.

The Division must thoroughly document each of these decisions before a sale of royalty oil can occur. The law requires public notice and review of the royalty oil sale and the commissioner's best interest findings. As part of the public review of any royalty sale, commissioner will inform the Alaska Royalty Oil and Gas Development Advisory Board who will examine the proposed sale in a public hearing and, if necessary, recommend that the sale be approved by the Alaska Legislature.

Under **AS 38.06.055**, legislative approval is required for long-term royalty sales, i.e., dispositions in excess on one year. The legislature approves royalty sales by enacting legislation.

Final Best Interest Finding and Determination for an Amendment of the "Agreement for the Sale of Royalty Oil between and among the State of Alaska and the Tesoro Corporation and Tesoro Refining & Marketing Company LLC, October 25, 2013"

It includes the following:

- **The Commissioner's finding dated January 8, 2014 and the proposed contract.**

Final Best Interest Finding for Sale of North Slope Oil to Tesoro Refining & Marketing Company LLC

It includes the following:

- **The Commissioner's finding dated October 24, 2013 and the proposed contract.**

Final Best Interest Finding and Determination for Royalty-in-Kind Sale

It includes the following:

- the contract;
- the Report to the Alaska Legislature from the Alaska Royalty Oil and Gas Development Advisory Board;
- the Royalty Board's Resolution No 13-1 documenting its approval of the contract and recommending it to the Legislature;
- **Final Best Interest Finding and Determination for the Sale of North Slope Oil to Flint Hills Resources Alaska, LLC (March 22, 2013)**

Invitation to Submit Expressions of Interest Cook Inlet Royalty-in-Kind Gas April 2004

The state solicited "expressions of interest" from parties that may be interested in and/or affected by the sale of royalty-in-kind gas in Cook Inlet. The comment period closed April 2, 2004. The expression of interest invitation and responses are as follows:

Expression of Interest Invitation

For more information about the Royalty-in-Kind gas or oil please contact Kevin Banks **by email** or telephone 907-269-8781.

Final Finding and Determination of the Commissioner to Sell Royalty Oil in Competitive Sale - Aug 7, 2000

Royalty-in-Kind Statute and Regulations

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