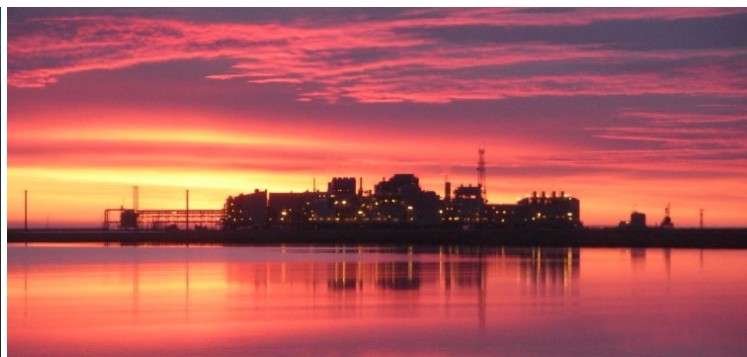




# PETROLEUM REVENUE SYSTEMS: ROYALTIES

*House Resources Committee*

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Alaska Department of Natural Resources  
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# STATE OIL & GAS LEASE REVENUE TYPES

## Royalty

- Share of gross production of oil and gas from the lease owed to the landowner.
- Set as a fraction (e.g. 1/8) or percentage (e.g. 12.5%) or production.
- Owed upon severance from the lease.
- May be taken as payment in value ("RIV") or as delivery in kind ("RIK").
- Generally free of costs of production (CAPEX and OPEX), but subject to transportations costs.

## Net Profit Share

- Share of net profits generated by the lease from oil and gas production.
- Set as a percentage (e.g. 30%, 40%, 79.59%) of net profits.
- Owed once developments costs have been recovered (with interest).
- Always taken as a payment.
- Paid on net profits after deducting costs of production (both OPEX and CAPEX).

## Bonus Bid

- Cash payment paid when lease is issued.
- Typically the bid variable, so lessees compete on the bonus bid amount.

## Lease Payment

- Annual cash payment, may be credited against royalty
- Set as a dollar per acre amount for each lease, some leases include increases during the lease term.

# ROYALTY CALCULATION EXAMPLES

## Royalty (in Value)

*Individual Lease, 1,000 bbl/day production, 16.67% Royalty Rate*

ANS Oil Price (\$/bbl)	\$65.00
Less Pipeline Tariffs (\$/bbl)	(\$7.50)
Less Marine Transportation (\$/bbl)	(\$2.50)
<i>Royalty Netback Value/bbl</i>	<i>\$55.00</i>
Production from the lease (bbl/month)	30,000
Royalty Rate	16.67%
<i>Royalty Share of Production (bbl/month)</i>	<i>5,000</i>
<b>Royalty Revenue (\$/month)</b>	<b>\$275,000</b>

## Royalty (in Kind)

*Sales Contract: taking 5,000 bbl/day of royalty in kind*

ANS Oil Price (\$/bbl)	\$65.00
Less Pipeline Tariffs (\$/bbl)	(\$7.50)
Less Location Differential (\$/bbl)	(\$1.95)
<i>Royalty Netback Value/bbl</i>	<i>\$55.55</i>
Nominations of royalty (bbl/day)	5,000
<b>Royalty Revenue (\$/day)</b>	<b>\$277,750</b>

*Note: All values are hypothetical, and are presented for demonstration purposes. These values do not represent a representation or estimate of any actual price, production, cost, or other value.*

# NET PROFIT SHARE CALCULATION EXAMPLES

## Net Profit Share Lease

*Individual Lease, 1,000 bbl/day production, 16.67% Royalty Rate, 40% Net Profit Share*

Oil Price (\$/bbl)	\$65.00
Less Pipeline Tariffs (\$/bbl)	(\$7.50)
Less Marine Transportation (\$/bbl)	(\$2.50)
<i>Producer's Netback Value/bbl</i>	<i>\$55.00</i>
Production (bbl/month)	30,000
Royalty Rate	16.67%
<i>Lessee's Share of Production (bbl/month)</i>	<i>25,000</i>
<b>Lessee's Gross Revenue (\$/month)</b>	<b>\$1,375,000</b>

*\* For simplification purposes, interest on the Development Account is omitted.*

*Note: All values are hypothetical, and are presented for demonstration purposes. These values do not represent a representation or estimate of any actual price, production, cost, or other value.*

## Scenario: Lease is not in Payout

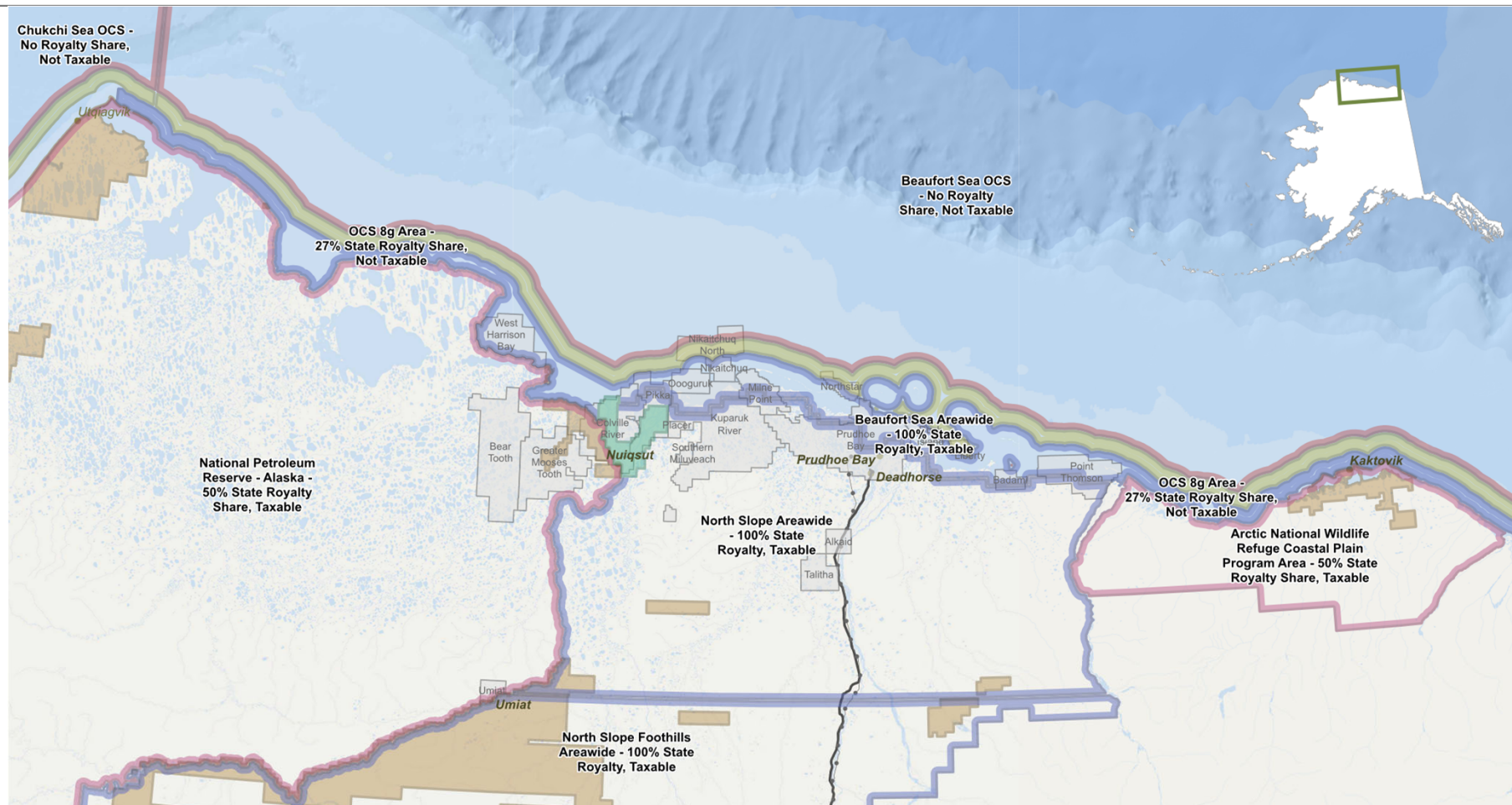
*\$10,000,000 Development Account Balance\**

<b>Lessee's Gross Revenue (\$/month)</b>	<b>\$1,375,000</b>
Less Operating Costs (\$/month)	\$750,000
Less Oil & Gas Production Tax (\$/month)	\$100,000
<b>Lessee's Net Revenue (\$/month)</b>	<b>\$525,000</b>
Beginning Development Account Balance	\$10,000,000
Less Lessee's Net Revenue (\$/month)	\$525,000
Ending Development Account Balance	\$9,475,000

## Scenario: Lease is in Payout

*\$0 Development Account Balance*

<b>Lessee's Gross Revenue (\$/month)</b>	<b>\$1,375,000</b>
Less Operating Costs (\$/month)	\$750,000
Less Oil & Gas Production Tax	\$100,000
<b>Lessee's Net Revenue (\$/month)</b>	<b>\$525,000</b>
Net Profit Share Rate	40%
<b>Net Profit Share to State</b>	<b>\$210,000</b>



#### State Percent of Royalty Share

- |                          |  |                               |
|--------------------------|--|-------------------------------|
| OCS - No Royalty Share   | ANWR Coastal Plain - 50%                     | ASRC Lands - No Royalty Share |
| State-owned Lands - 100% | NPRA - 50%                                   | Oil and Gas Unit              |
| OCS 8g Area - 27%        | State-owned with ASRC - Royalty Share Varies | Trans-Alaska Pipeline System  |
|                          |  | Dalton Highway                |



Prepared by the SOA DNR Division of Oil and Gas.  
Email [dog.leasing@alaska.gov](mailto:dog.leasing@alaska.gov) for more information

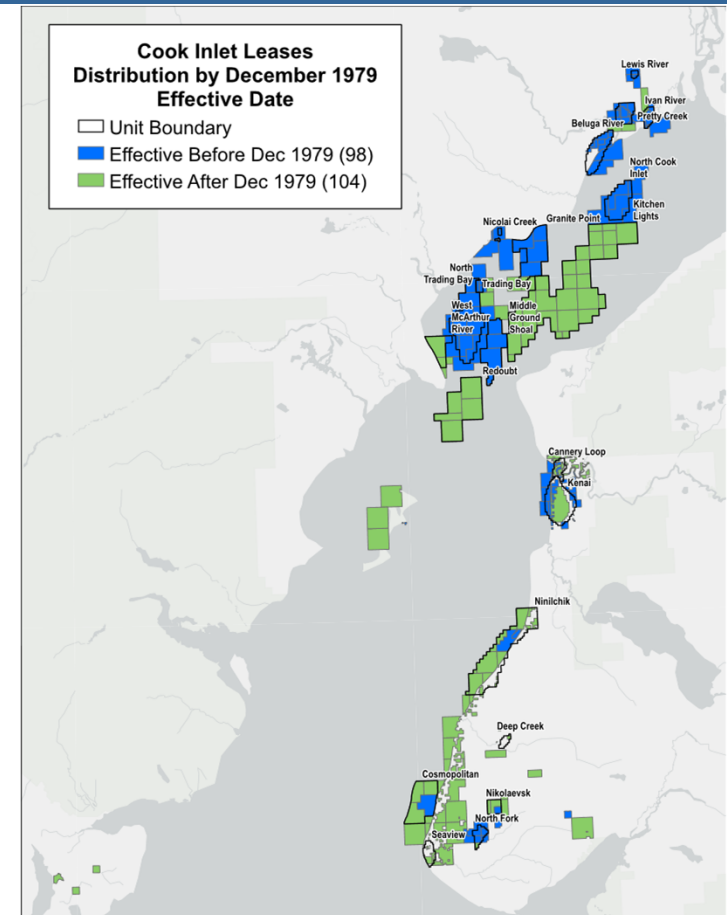
# APPENDIX

# DIVISION OF OIL & GAS - FUNDS DISTRIBUTION OVERVIEW -

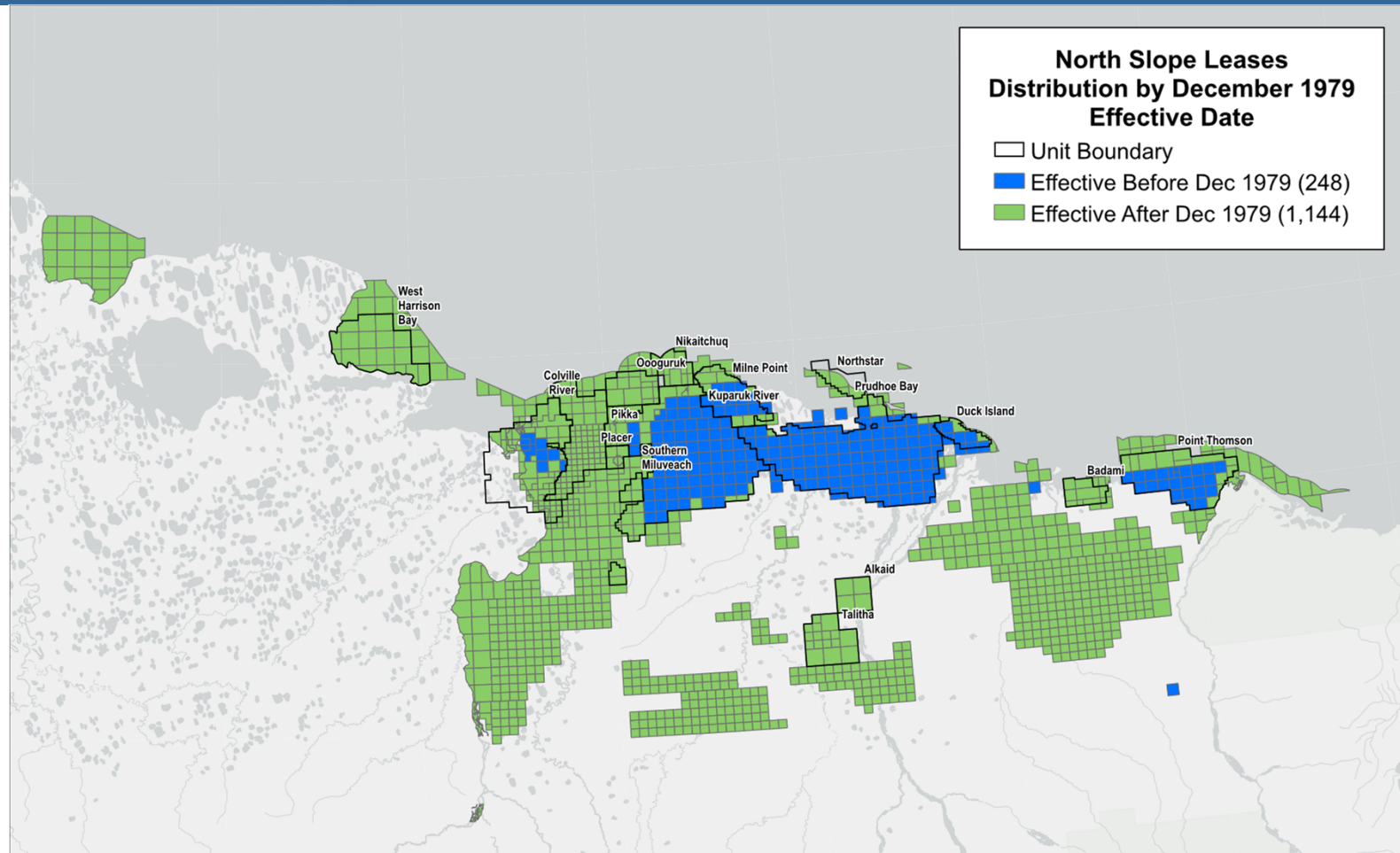
ROYALTY		
FUND TYPE	DL-1: LESASES BEFORE DECEMBER 1979	NFC: NEW FORM LEASES AFTER DECEMBER 1979
Permanent Fund	25%	50% *
General Fund	74.5%	49.5%
School Fund	0.5%	0.5%

NET PROFIT SHARE LEASES	
Permanent Fund	50% *
General Fund	49.5%
School Fund	0.5%

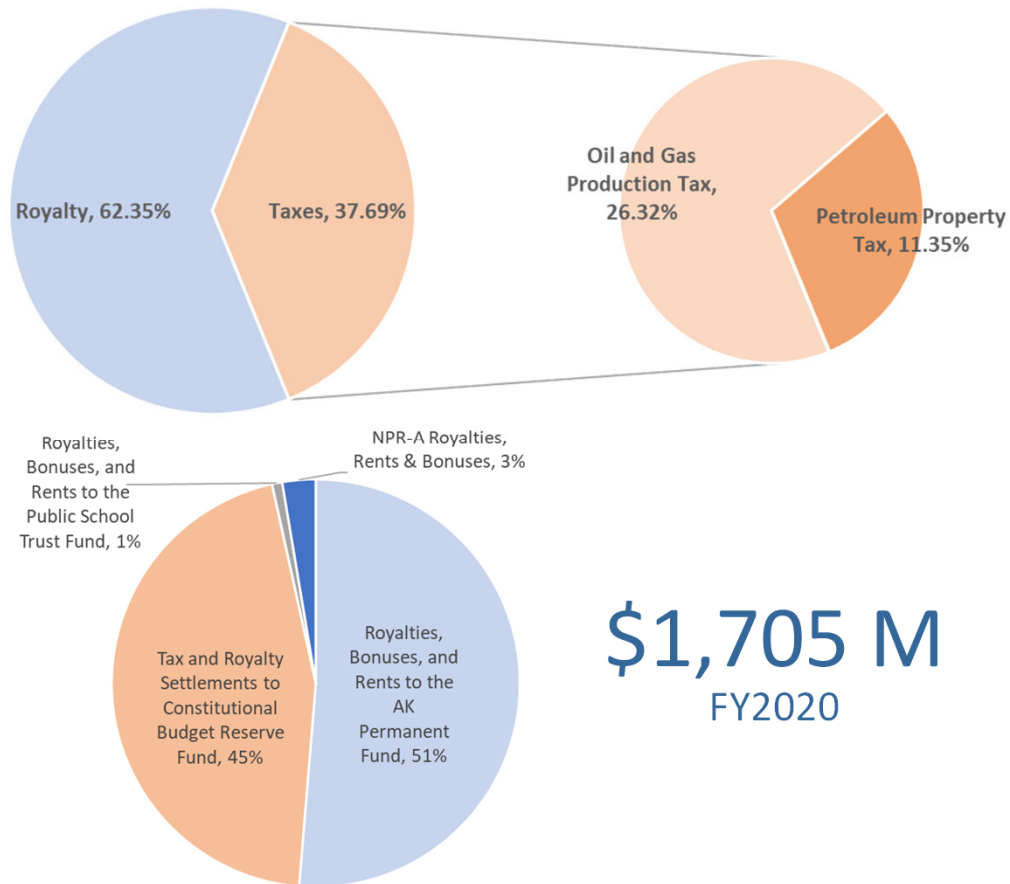
\* 25% of mineral revenues are dedicated to the Permanent Fund by Constitution. An additional 25% of mineral revenues for leases issued after December 1, 1979 are designated for the Permanent Fund per AS 37.13.010(a).



# DIVISION OF OIL & GAS - FUNDS DISTRIBUTION OVERVIEW -



# TOTAL PETROLEUM REVENUE - BY RESTRICTION AND TYPE, MILLIONS OF DOLLARS -



Unrestricted Petroleum Revenue		FY 2020
Royalties (including bonuses, rents, and interest)		675.3
Oil and Gas Production Tax		285.1
Petroleum Corporate Income Tax		-0.2
Petroleum Property Tax		122.9
<b>Total Unrestricted Petroleum Revenue</b>		<b>1,083.1</b>
Restricted Petroleum Revenue		
Royalties, Bonuses, and Rents to the AK Permanent Fund		318.9
Royalties, Bonuses, and Rents to the Public School Trust Fund		5.0
Tax and Royalty Settlements to Constitutional Budget Reserve Fund		281.2
NPR-A Royalties, Rents & Bonuses		16.4
<b>Total Restricted Petroleum Revenue</b>		<b>621.5</b>

Source: Revenue Sources Book, Fall 2020

# FY20 DIVISION OF OIL AND GAS REVENUE - BY REVENUE FUND & TYPE, MILLIONS OF DOLLARS -

## UNRESTRICTED GENERAL FUND 675.3M

- Bid Bonus & Bonus Deposit
- Exploration Drill Permit
- Federally Shared Leases
- Gas Royalty in Value
- Interest Federal Share Royalty
- Interest on Bid Payment
- Lease Rental Payment
- Minimum Royalty
- Net Interest O&G Royalty Payment
- Net Profit Share O&G Leases
- Oil Royalty in Kind
- Oil Royalty in Value
- Royalty Payment (Federally Shared)
- State Storage Lease

## PERMANENT FUND 318.9M

- Bid Bonus & Bonus Deposit
- Federally Shared Leases
- Gas Royalty in Value
- Interest on Bid Payment
- Lease Rental Payment
- Minimum Royalty
- Net Interest O&G Royalty Payment
- Net Profit Share O&G Leases
- Oil Royalty in Kind
- Oil Royalty in Value
- Royalty Interest Payment (Federally Shared)
- Royalty Payment (Federally Shared)

## SCHOOL TRUST FUND 5.0M

- Bid Bonus & Bonus Deposit
- Federally Shared Leases
- Gas Royalty in Value
- Interest Federal Share Royalty
- Interest on Bid Payment
- Lease Rental Payment
- Minimum Royalty
- Net Interest O&G Royalty Payment
- Net Profit Share O&G Leases
- Oil Royalty in Kind
- Oil Royalty in Value
- Royalty Payment (Federally Shared)

## RESTRICTED GENERAL FUND 9.5M

- Lease & Easement Payments
- O&G Filing Fees
- Right of Way Lease Payments
- Right of Way Material Sales
- Survey Instructions/Plat Review

**\$1,013.5M**

Source: DNR Financial Services, September 2020

## CONSTITUTIONAL BUDGET RESERVE 4.8M

- Gas Royalty in Value
- Net Interest O&G Royalty Payment
- Net Profit Share O&G Leases
- Oil Royalty in Value

# QUESTIONS

Thank you!

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