

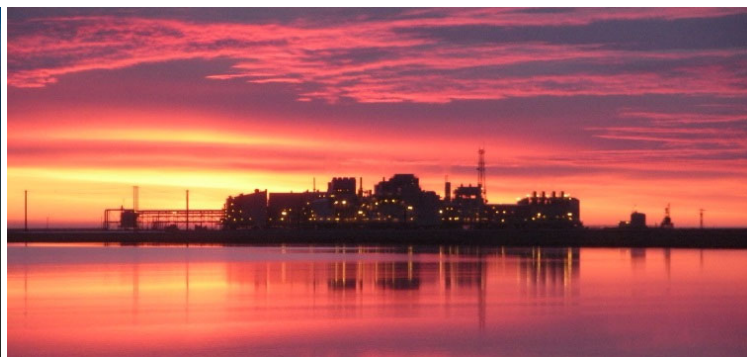


THE PROCESS FOR THE SALE OF ANS ROYALTY OIL IN-KIND AND THE PROPOSED CONTRACTS WITH MARATHON AND PETRO STAR – SB 239 AND SB 240

PRESENTATION TO THE HOUSE FINANCE COMMITTEE

Division of Oil & Gas, Alaska Department of Natural Resources

April 14, 2022



IT IS CRITICAL THAT THE PROPOSED CONTRACTS CAN BE EXECUTED BY APRIL 22, 2022

Current Marathon
contract expires
July 31, 2022.

DNR required to provide notice to
North Slope producers of its intent to
take royalty in-kind 90 days in
advance of delivery for August 2022.

May 1, 2022

- Refineries to send "nomination" letters to DNR after contract execution.
- DNR to determine from which fields to take royalty in-kind and inform producers.

April 27 - 29, 2022

- DNR and refineries to execute contracts.
- Refineries to provide financial assurance.

April 25 - 26, 2022

Legislative approval no later
than April 22, 2022

- Failing to do so could translate into uncertainty of supply for the refineries and decision to buy less royalty oil from the State.

CONTRACT TERMS FOR MARATHON AND PETRO STAR

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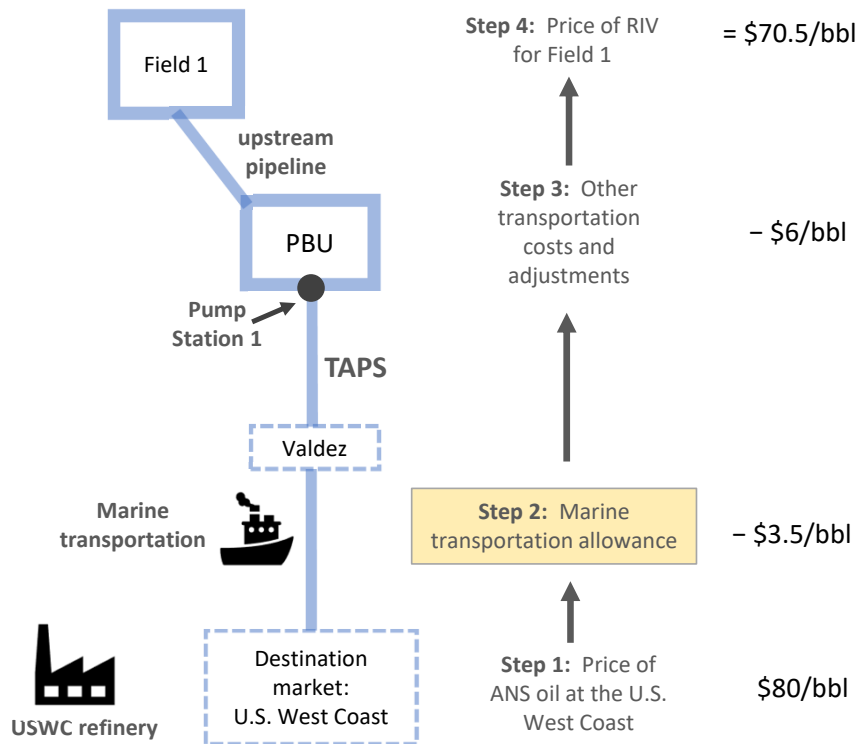
OVERVIEW OF RECENT AND PROPOSED RIK CONTRACT TERMS

Contract for sale of RIK oil	Period	Royalty barrels for sale	Netback pricing	RIK differential
Tesoro (2016)	5 years (Aug 2016 – Jul 2021)	20,000 – 25,000 bpd	<ul style="list-style-type: none"> DNR sells its royalty oil at the field. Thus, the price of royalty oil is calculated by “netting back” the price of ANS oil at the U.S. West Coast to the field. <p>RIK price =</p> <p>ANS price at the U.S. West Coast</p> <p>– RIK differential</p> <p>– pipeline transportation cost</p> <p>– quality bank adjustments</p> <p>– line loss</p>	\$1.95/bbl
Petro Star (2016)	1 year (Jan – Dec 2017) 4 years (Jan 2018 – Dec 2021)	2017: 18,800 – 23,500 bpd 2018: 16,400 – 20,500 bpd 2019: 13,200 – 16,500 bpd 2020: 10,800 – 13,500 bpd 2021: 8,400 – 10,500 bpd		\$1.95/bbl
Marathon (2021)	1 year (Aug 2021 – Jul 2022)	10,000 – 15,000 bpd		\$2.17/bbl
Petro Star (2021)	1 year (Jan – Dec 2022)	10,000 bpd		\$2.17/bbl
Marathon (2022)	3 years (Aug 2022 – Jul 2025)	10,000 – 15,000 bpd		\$2.23/bbl
Petro Star (2022)	5 years (Jan 2023 – Dec 2027)	2023-2024: 12,500 bpd 2025-2027: 10,000 – 12,500 bpd		\$2.25/bbl

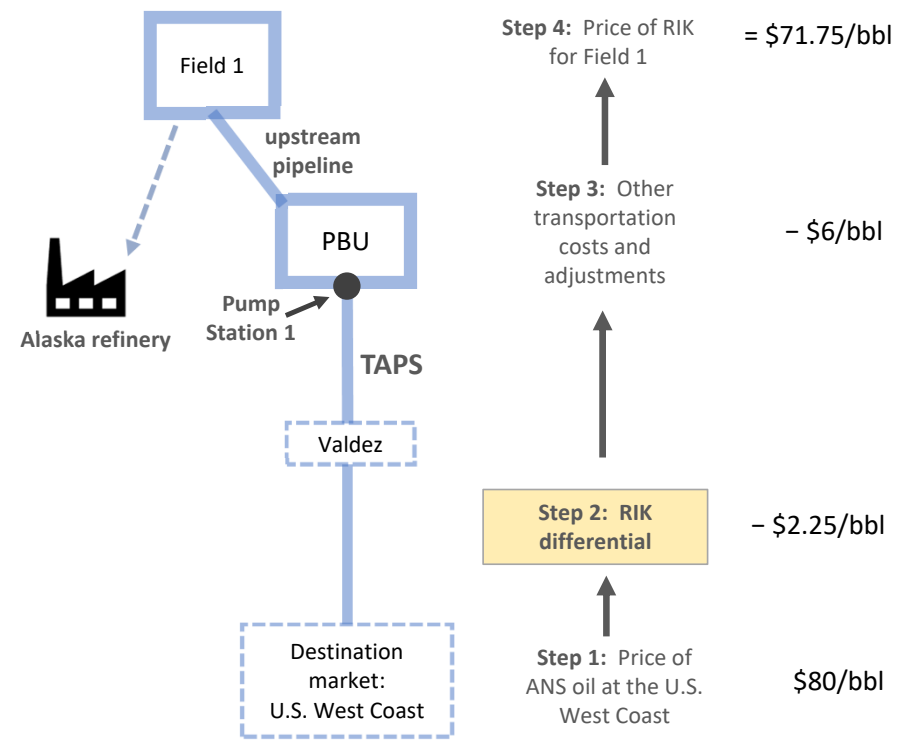
CONTRACT TERMS FOR MARATHON AND PETRO STAR

RIK DIFFERENTIAL IS THE SOURCE OF THE PREMIUM OF RIK OVER RIV

When the State elects its royalty ANS oil in-value, producers typically sell that oil **outside** of Alaska

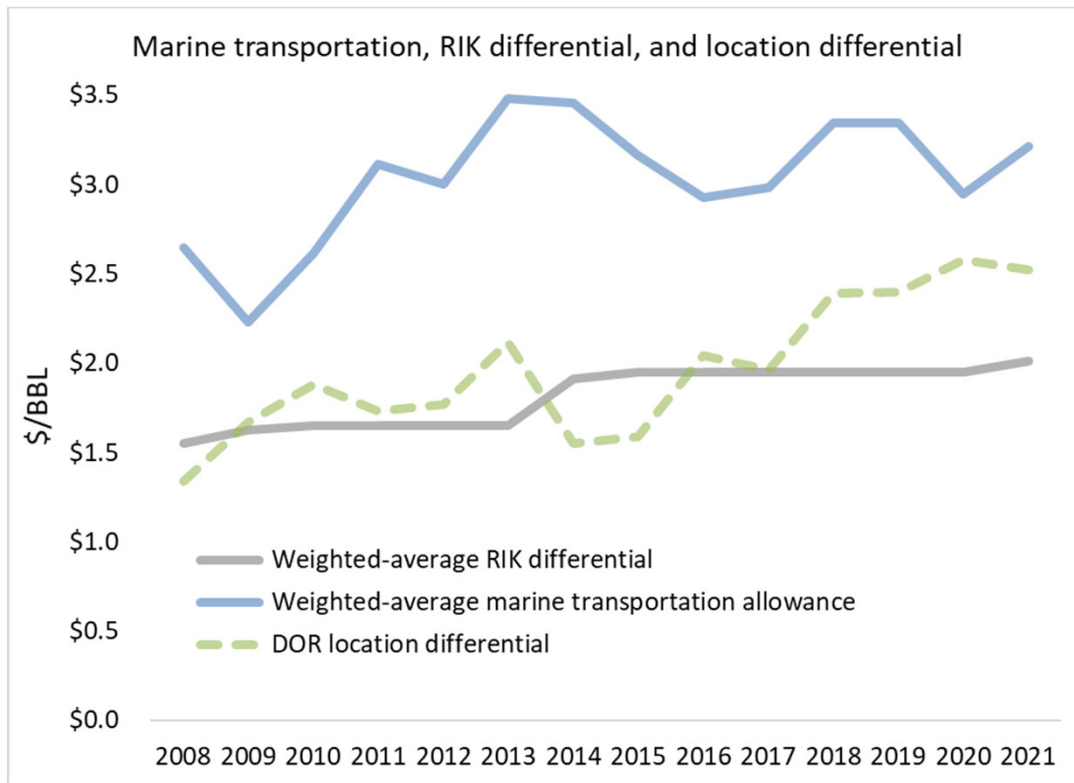


When the State elects its royalty ANS oil in-kind, it typically sells it **inside** of Alaska



CONTRACT TERMS FOR MARATHON AND PETRO STAR

RIK DIFFERENTIAL IS THE SOURCE OF THE PREMIUM OF RIK OVER RIV



- There is a consistent difference between the marine transportation allowance and the negotiated values of the RIK differential.
- Why, for the proposed RIK contracts, is the RIK differential higher?
 - ✓ When the in-state refineries buy ANS oil from North Slope producers, they use a similar netback methodology for arriving at the price of ANS oil at the field.
 - ✓ In doing so, they use a “location differential.”
 - ✓ DOR publishes the weighted average of these location differentials for all contracts for the sale of ANS oil within Alaska.
 - ✓ From the perspective of the RIK buyer, the royalty oil in-kind needs to be as competitive as other sources of crude oil from the North Slope.

CONTRACT TERMS FOR MARATHON AND PETRO STAR

FLEXIBILITY FOR BUYER AND SELLER

Contract for sale of RIK oil	Period	Royalty barrels for sale	Flexibility for the RIK buyer (refineries)		Flexibility for the RIK seller (DNR)
Tesoro (2016)	5 years (Aug 2016 – Jul 2021)	20,000 – 25,000 bpd	RIK buyer may...		
Petro Star (2016)	1 year (Jan – Dec 2017) 4 years (Jan 2018 – Dec 2021)	2017: 18,800 – 23,500 bpd 2018: 16,400 – 20,500 bpd 2019: 13,200 – 16,500 bpd 2020: 10,800 – 13,500 bpd 2021: 8,400 – 10,500 bpd	1. nominate <u>0 barrels</u> for up to 2 consecutive months or for 3 months under “turnaround” clause.		1. <u>Proration</u> : If nominations by all RIK buyers is greater than 95% of ANS royalty oil, then DNR will prorate nominations of RIK buyers consistent with the 95% threshold.
Marathon (2021)	1 year (Aug 2021 – Jul 2022)	10,000 – 15,000 bpd	2. request, subject to DNR approval, a <u>permanent reduction</u> of nominations below what was agreed.		2. <u>No guarantee</u> in the quantity, quality, or source of royalty oil.
Petro Star (2021)	1 year (Jan – Dec 2022)	10,000 bpd	3. temporarily reduce royalty oil purchase under force majeure event.		3. <u>Excess royalty</u> : DNR can sell additional ANS royalty oil if all nominations are below the 95% threshold and RIK buyers wish to buy more royalty oil.
Marathon (2022)	3 years (Aug 2022 – Jul 2025)	10,000 – 15,000 bpd	4. request, subject to DNR approval, <u>additional</u> royalty oil for purchase.	▪ RIK buyer may <u>temporarily</u> nominate below the agreed range but must meet a minimum annual amount.	
Petro Star (2022)	5 years (Jan 2023 – Dec 2027)	2023-2024: 12,500 bpd 2025-2027: 10,000 – 12,500 bpd			

CONTRACT TERMS FOR MARATHON AND PETRO STAR

OTHER PROVISIONS

Contract for sale of RIK oil	Period	Financial assurance: type and amount		Retroactivity	Other provisions
Tesoro (2016)	5 years (Aug 2016 – Jul 2021)	Guarantor of the RIK buyer has the option 1. Letter of credit 2. Surety bond 3. Opinion letter by an independent financial analyst that the current and projected credit rating of guarantor is at investment grade.	90 days' worth of royalty oil	<ul style="list-style-type: none"> There could be grounds for changing the amount for an invoice already paid (in terms of the price or quantity) There is an 8-year period allowed for adjustment of invoices (even after termination of the agreement). 	<ul style="list-style-type: none"> <u>In-state processing:</u> RIK buyer agrees to use commercially reasonable efforts to manufacture refined products from the royalty oil in Alaska. <u>Employment of Alaska residents:</u> RIK buyer agrees to employ Alaska residents and Alaska companies to the extent they are available, willing, and at least as qualified as other candidates.
Petro Star (2016)	1 year (Jan – Dec 2017) 4 years (Jan 2018 – Dec 2021)		50 days' worth of royalty oil		
Marathon (2021)	1 year (Aug 2021 – Jul 2022)		90 days' worth of royalty oil		
Petro Star (2021)	1 year (Jan – Dec 2022)		50 days' worth of royalty oil		
Marathon (2022)	3 years (Aug 2022 – Jul 2025)		90 days' worth of royalty oil		
Petro Star (2022)	5 years (Jan 2023 – Dec 2027)		50 days' worth of royalty oil		

CONTRACT TERMS FOR MARATHON AND PETRO STAR CONTRACTS ARE IN THE BEST INTEREST OF THE STATE

Contract for sale of RIK oil	Period	Royalty barrels for sale	<u>Additional</u> revenue to the State
Tesoro (2016)	5 years (Aug 2016 – Jul 2021)	20,000 – 25,000 bpd	\$31 million
Petro Star (2016)	1 year (Jan – Dec 2017) 4 years (Jan 2018 – Dec 2021)	2017: 18,800 – 23,500 bpd 2018: 16,400 – 20,500 bpd 2019: 13,200 – 16,500 bpd 2020: 10,800 – 13,500 bpd 2021: 8,400 – 10,500 bpd	\$23 million
Marathon (2021)	1 year (Aug 2021 – Jul 2022)	10,000 – 15,000 bpd	\$3 million (5 months of data)
Petro Star (2021)	1 year (Jan – Dec 2022)	10,000 bpd	\$0.7 million (1 month of data)
Marathon (2022)	3 years (Aug 2022 – Jul 2025)	10,000 – 15,000 bpd	Estimate: \$3 – \$14 million
Petro Star (2022)	5 years (Jan 2023 – Dec 2027)	2023-2024: 12,500 bpd 2025-2027: 10,000 – 12,500 bpd	Estimate: \$17 – \$19 million



This is the revenue in addition to what the State would have received had it elected to take 100% of its royalty oil in-value.

THANK YOU

DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES