House Bill 194 – Approve Marathon Petro Royalty Oil Sale

Department of Natural Resources
Division of Oil and Gas

DNR is seeking legislative approval, as required by AS 38.06, to execute a three-year contract with seven options for one-year extensions, to sell between 10,000 and 15,000 barrels of royalty in-kind (RIK) oil to Marathon Petroleum to support in-state refining at its Kenai refinery.

Alaska's Royalty Oil

The State reserves a percentage of oil produced from its leases for itself – the "royalty" share. The State can take this royalty in-value by receiving revenue from a producer selling the oil on behalf of the State, or in-kind, where the State sells its oil directly to buyers. The State has exercised both options for decades. RIK oil sales to in-state refineries have enabled the State to earn revenue premiums while supporting the benefits associated with in-state refineries.

HB 194

HB194 approves a multi-year contract to sell a portion of the State's royalty oil to Marathon Petroleum Corporation, the operator of the Kenai oil refinery. The contract is for three years, with seven one-year extensions possible. The State has sold a portion of its North Slope royalty oil to Marathon's Kenai refinery for years, and the existing three-year contract expires mid-2025. The Kenai refinery produces all of the gasoline manufactured in Alaska and nearly half of the jet fuel used at Ted Stevens Anchorage International Airport.

Oversight and Public Process

Alaska Statute AS 38.05.183 provides a preference for royalty oil sales to support the in-state refining industry. RIK contracts must be supported by a best interest finding to ensure the sale aligns with the Alaska Constitution; reviewed and recommended by the Alaska Royalty Oil and Gas Development Advisory Board; and then, under AS 38.06, approved by the Legislature. This contract has met the first two steps and now requires legislative approval to be executed this year.

Maximizing the Value of State Resources

Under Article VIII, DNR has a constitutional mandate to maximize the value of State resources. DNR has negotiated a term that prices RIK oil sold under this contract at a level above the indexed average sales price for Alaska crude oil. As a result, DNR expects to receive an additional $4 to $18 million for these RIK oil sales as compared to the same volume of oil sold at the indexed average royalty in-value price over the life of the contract.

Additional State Benefits

While this contract is expected to generate more revenue for the State, the benefits are far-reaching. The sale of RIK oil to the Kenai refinery provides a secure supply of feedstock to maintain the flow of refined products – including gasoline, diesel and jet fuel, and asphalt – to Alaskans, which increases energy security. The products support highway construction and maintenance, local transportation, trucking and air freight, and aviation. The royalty sale also supports hundreds of direct jobs in the local refining industry, and many more throughout Alaska.

April 15, 2025