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Governor Bill Walker
STATE OF ALASKA

January 19, 2017

The Honorable Pete Kelly
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Kelly:

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 Petro Star Inc.

The Commissioner of Natural Resources has determined that it is in the best interest of the State to take royalty oil in-kind from lessees on the North Slope. Under two proposed contracts, the Department of Natural Resources (Department) will sell North Slope royalty oil to Petro Star Inc. for a combined period of five years. The first contract does not require legislative approval as an agreement lasting one year or less and entered into with the objective to relieve market conditions under AS 38.06.055(b). The Department proposes to deliver between 18,800 to 23,500 barrels per day (bpd) under the first contract. The Department estimates that the one-year contract will begin delivery of royalty oil on January 1, 2017, and continue until December 31, 2017.

The second contract, which requires legislative approval, will have a term of four years, beginning on January 1, 2018, and ending on December 31, 2021. The bill would approve and ratify the "Agreement for the Sale of Royalty Oil Between and Among the State of Alaska, and Petro Star Inc. and Arctic Slope Regional Corporation." The agreement provides for the sale of 16,400 to 20,500 bpd of the royalty oil in the first year; from 13,200 to 16,500 bpd in the second year; from 10,800 to 13,500 bpd in the third year; and from 8,400 to 10,500 bpd in the fourth year. The royalty oil would be sold to Petro Star Inc. at a price in the agreement calculated to equal or exceed the value that the State would obtain for the royalty oil if it was taken in-value. The agreement includes provisions to support employment of state residents and in-state processing. Arctic Slope Regional Corporation guarantees the performance of Petro Star Inc., its wholly-owned subsidiary, for all of Petro Star Inc.'s obligations under the contract.

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

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the agreement. The Department 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 August 29, 2016. Additionally, the Board held a public hearing on the sale. In accordance with AS 38.06.050, the Board voted to approve a written recommendation and report on August 31, 2016, recommending legislative approval of the agreement.

The 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,



Bill Walker
Governor

Enclosure