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

PRESENTATION TO THE SENATE RESOURCES COMMITTEE

Division of Oil & Gas, Alaska Department of Natural Resources
March 25, 2022

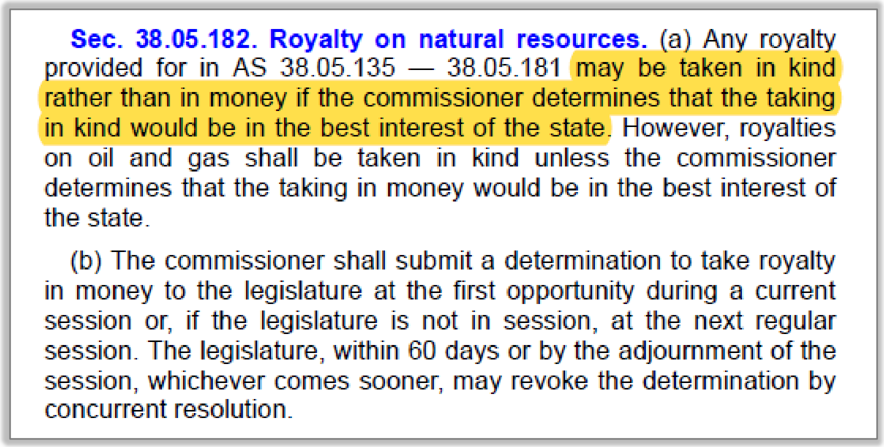
AGENDA

1. What is Royalty In-Kind?
2. History of Royalty In-Kind Sales
3. Statutory and regulatory mandate for Royalty In-Kind
4. The process that DNR has followed for this sale of Royalty In-Kind oil
5. Contract terms for Marathon and Petro Star

1. WHAT IS ROYALTY IN-KIND?

1. WHAT IS ROYALTY IN-KIND?
STATUTORY REFERENCE

Alaska Statute

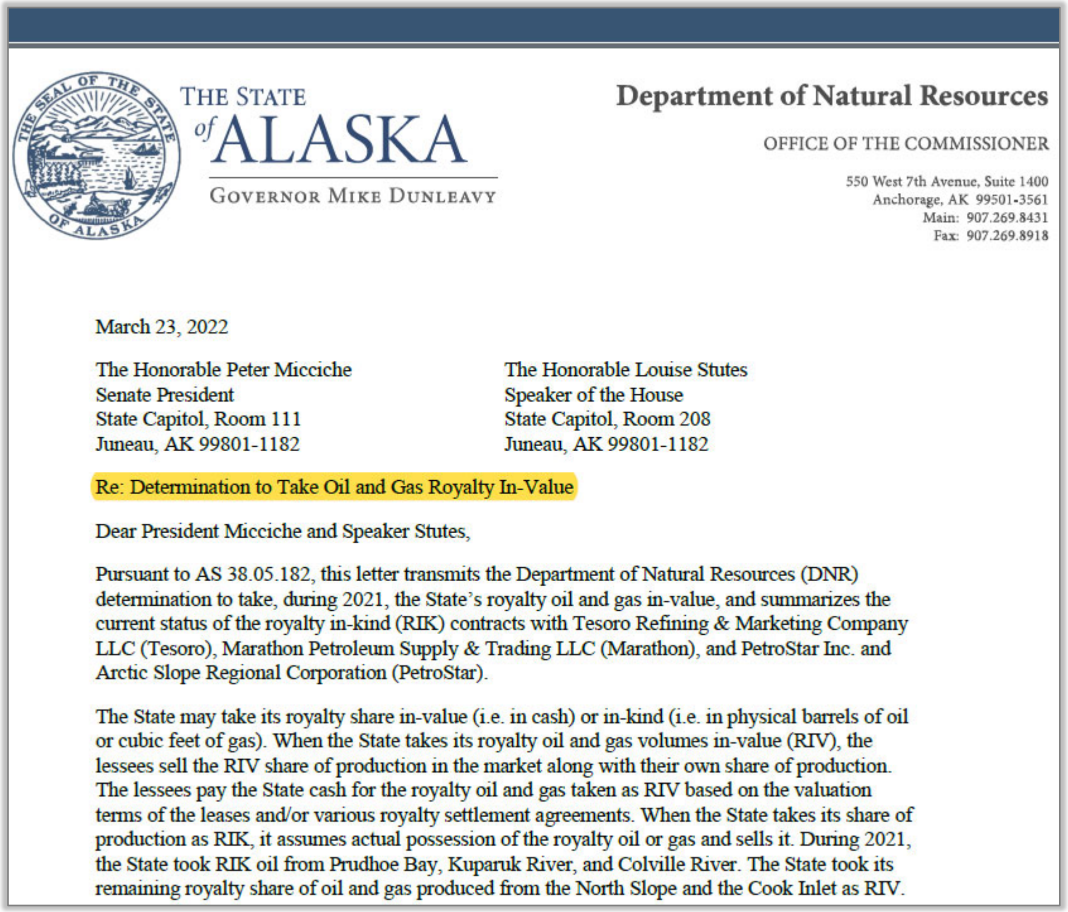


Sec. 38.05.182. Royalty on natural resources. (a) Any royalty provided for in AS 38.05.135 — 38.05.181 may be taken in kind rather than in money if the commissioner determines that the taking in kind would be in the best interest of the state. However, royalties on oil and gas shall be taken in kind unless the commissioner determines that the taking in money would be in the best interest of the state.

(b) The commissioner shall submit a determination to take royalty in money to the legislature at the first opportunity during a current session or, if the legislature is not in session, at the next regular session. The legislature, within 60 days or by the adjournment of the session, whichever comes sooner, may revoke the determination by concurrent resolution.

The State has the option to take its royalty oil and gas in-value (RIV) or in-kind (RIK).

- RIV: Lessees market the royalty oil or gas alongside their own equity production. Then the State receives a portion of the proceeds subject to fair market value.
- RIK: Lessees provide royalty oil or gas (of sales quality) to the State. Then the State becomes responsible for the marketing of its royalty oil or gas.



THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Natural Resources
OFFICE OF THE COMMISSIONER
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March 23, 2022

The Honorable Peter Micciche
Senate President
State Capitol, Room 111
Juneau, AK 99801-1182

The Honorable Louise Stutes
Speaker of the House
State Capitol, Room 208
Juneau, AK 99801-1182

Re: Determination to Take Oil and Gas Royalty In-Value

Dear President Micciche and Speaker Stutes,

Pursuant to AS 38.05.182, this letter transmits the Department of Natural Resources (DNR) determination to take, during 2021, the State's royalty oil and gas in-value, and summarizes the current status of the royalty in-kind (RIK) contracts with Tesoro Refining & Marketing Company LLC (Tesoro), Marathon Petroleum Supply & Trading LLC (Marathon), and PetroStar Inc. and Arctic Slope Regional Corporation (PetroStar).

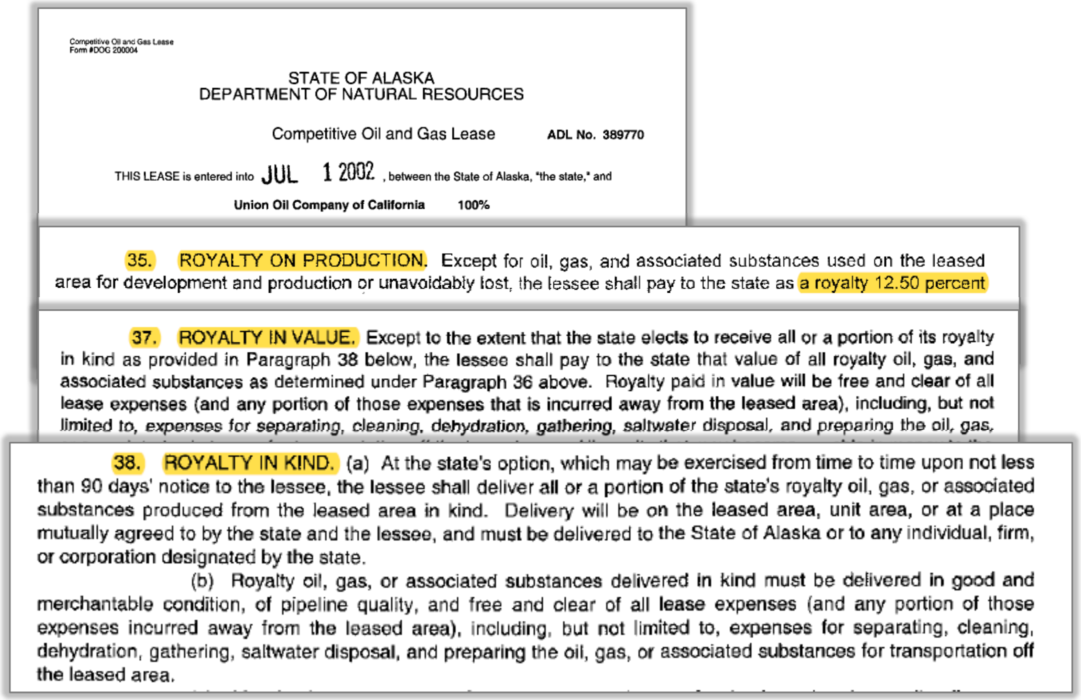
The State may take its royalty share in-value (i.e. in cash) or in-kind (i.e. in physical barrels of oil or cubic feet of gas). When the State takes its royalty oil and gas volumes in-value (RIV), the lessees sell the RIV share of production in the market along with their own share of production. The lessees pay the State cash for the royalty oil and gas taken as RIV based on the valuation terms of the leases and/or various royalty settlement agreements. When the State takes its share of production as RIK, it assumes actual possession of the royalty oil or gas and sells it. During 2021, the State took RIK oil from Prudhoe Bay, Kuparuk River, and Colville River. The State took its remaining royalty share of oil and gas produced from the North Slope and the Cook Inlet as RIV.

1. WHAT IS ROYALTY IN-KIND?

CONTRACTUAL REFERENCE

State of Alaska oil and gas lease:

Contract between the State and a producer



Competitive Oil and Gas Lease
Form #DOG 200004

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

Competitive Oil and Gas Lease ADL No. 389770

THIS LEASE is entered into JUL 1 2002, between the State of Alaska, "the state," and

Union Oil Company of California 100%

35. ROYALTY ON PRODUCTION. Except for oil, gas, and associated substances used on the leased area for development and production or unavoidably lost, the lessee shall pay to the state as a royalty 12.50 percent

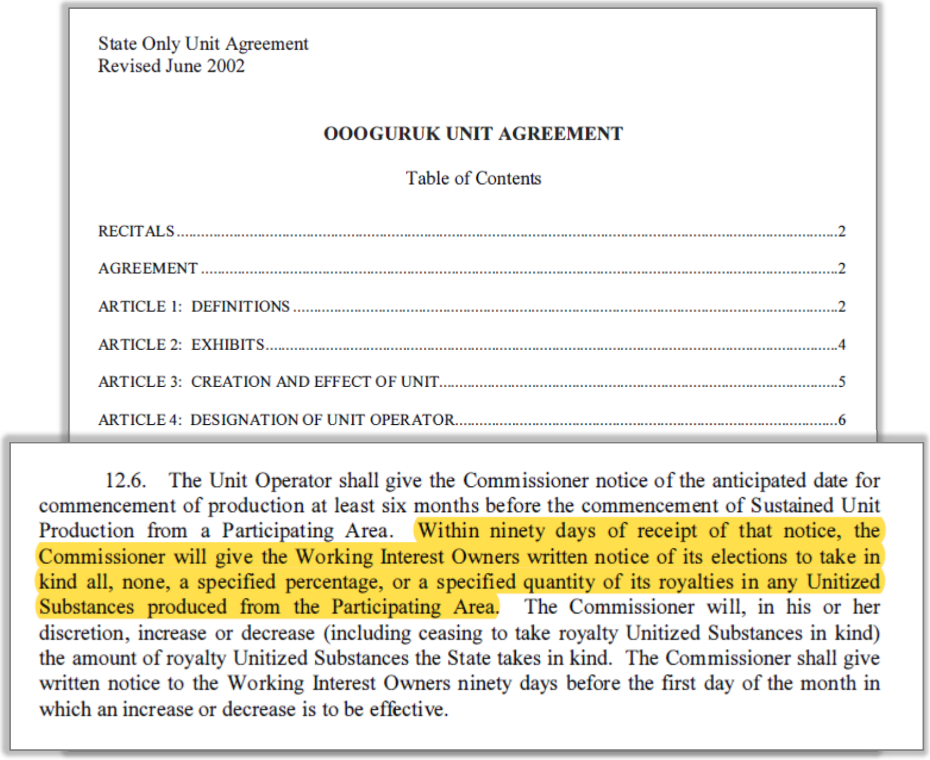
37. ROYALTY IN VALUE. Except to the extent that the state elects to receive all or a portion of its royalty in kind as provided in Paragraph 38 below, the lessee shall pay to the state that value of all royalty oil, gas, and associated substances as determined under Paragraph 36 above. Royalty paid in value will be free and clear of all lease expenses (and any portion of those expenses that is incurred away from the leased area), including, but not limited to, expenses for separating, cleaning, dehydration, gathering, saltwater disposal, and preparing the oil, gas,

38. ROYALTY IN KIND. (a) At the state's option, which may be exercised from time to time upon not less than 90 days' notice to the lessee, the lessee shall deliver all or a portion of the state's royalty oil, gas, or associated substances produced from the leased area in kind. Delivery will be on the leased area, unit area, or at a place mutually agreed to by the state and the lessee, and must be delivered to the State of Alaska or to any individual, firm, or corporation designated by the state.

(b) Royalty oil, gas, or associated substances delivered in kind must be delivered in good and merchantable condition, of pipeline quality, and free and clear of all lease expenses (and any portion of those expenses incurred away from the leased area), including, but not limited to, expenses for separating, cleaning, dehydration, gathering, saltwater disposal, and preparing the oil, gas, or associated substances for transportation off the leased area.

Oil and gas Unit Agreement:

Contract between the State and a producer



State Only Unit Agreement
Revised June 2002

OOOGURUK UNIT AGREEMENT

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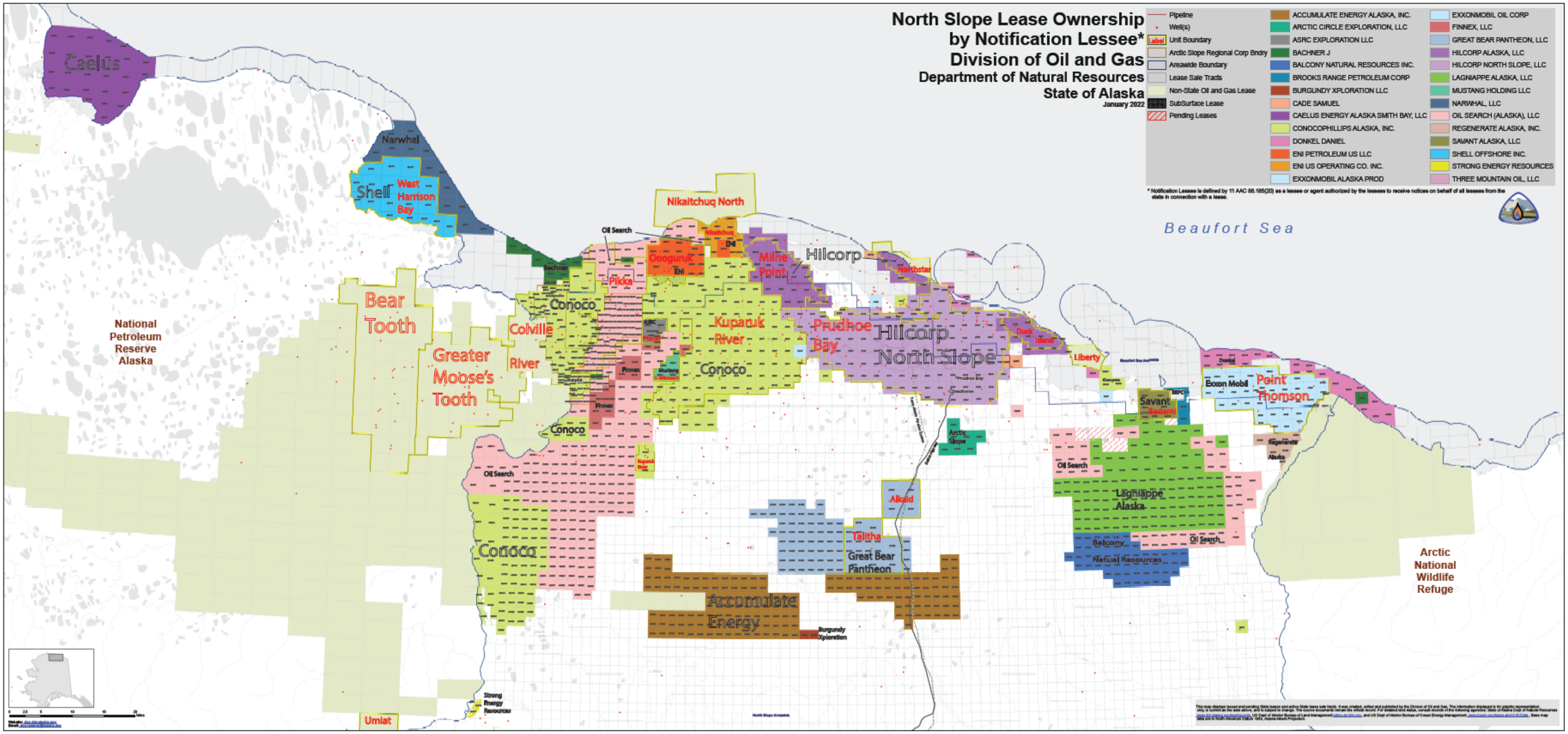
12.6. The Unit Operator shall give the Commissioner notice of the anticipated date for commencement of production at least six months before the commencement of Sustained Unit Production from a Participating Area. Within ninety days of receipt of that notice, the Commissioner will give the Working Interest Owners written notice of its elections to take in kind all, none, a specified percentage, or a specified quantity of its royalties in any Unitized Substances produced from the Participating Area. The Commissioner will, in his or her discretion, increase or decrease (including ceasing to take royalty Unitized Substances in kind) the amount of royalty Unitized Substances the State takes in kind. The Commissioner shall give written notice to the Working Interest Owners ninety days before the first day of the month in which an increase or decrease is to be effective.

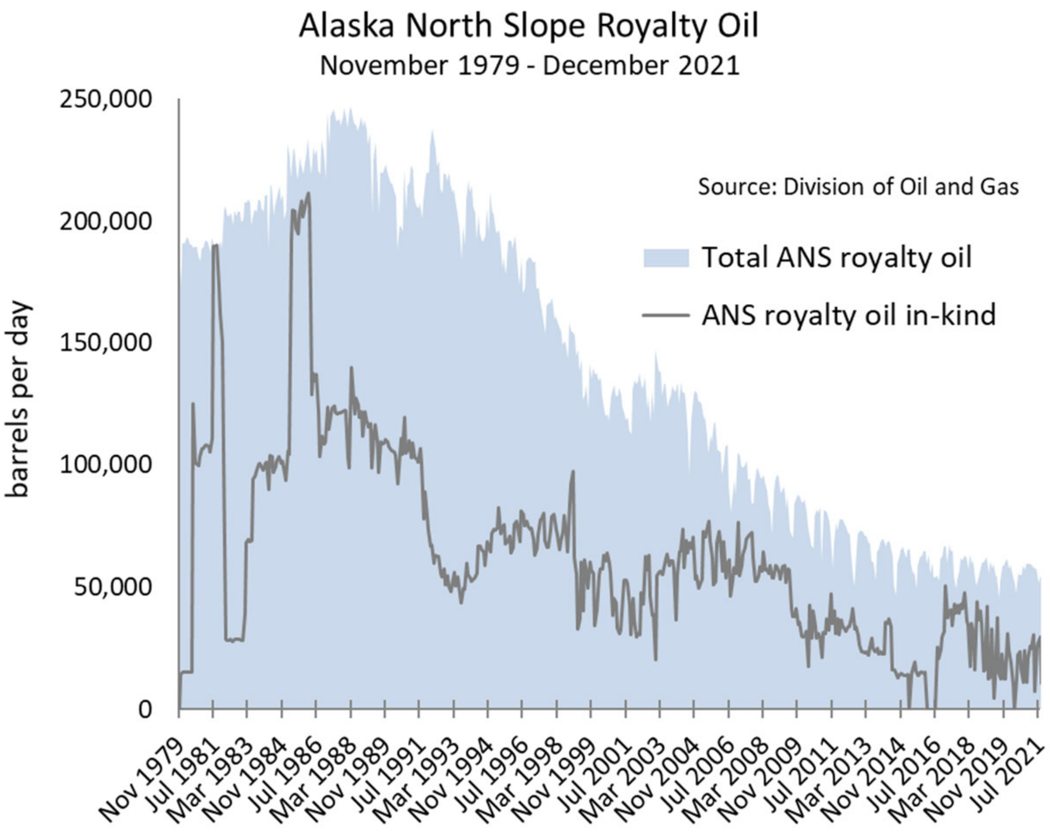
1. WHAT IS ROYALTY IN-KIND?
STATE OWNERSHIP IN THE NORTH SLOPE (AS OF JANUARY 2022)



2. HISTORY OF ROYALTY IN-KIND

2. HISTORY OF ROYALTY IN-KIND
ALASKA NORTH SLOPE OIL

1) The State has historically selected to receive its royalty oil both in-kind and in-value.
2) About 97% of the royalty oil in-kind selections by the State has been for oil from the North Slope.
   - ✓ The State has never nominated Cook Inlet royalty gas in-kind.
   - ✓ Cook Inlet royalty oil in-kind has gone to the Nikiski refinery (in the 1970s-1980s) and to Chinese Petroleum (1987-1991).
3) The amount of RIK oil that the State sells varies, and depends on…
   - ✓ ANS oil production from State-owned mineral resources.
   - ✓ The royalty rates for State oil and gas leases.
   - ✓ The State's selection of the fields from which to choose RIK oil (as not all fields may be selected).
   - ✓ The quantity of crude oil demanded by the in-state refineries or other potential buyers.
   - ✓ The competitiveness of ANS royalty oil versus other sources of crude oil for the in-state refineries or other potential buyers.



Alaska North Slope Royalty Oil

November 1979 - December 2021

Source: Division of Oil and Gas

2. HISTORY OF ROYALTY IN-KIND
TYPES OF CONTRACTS AND BUYERS

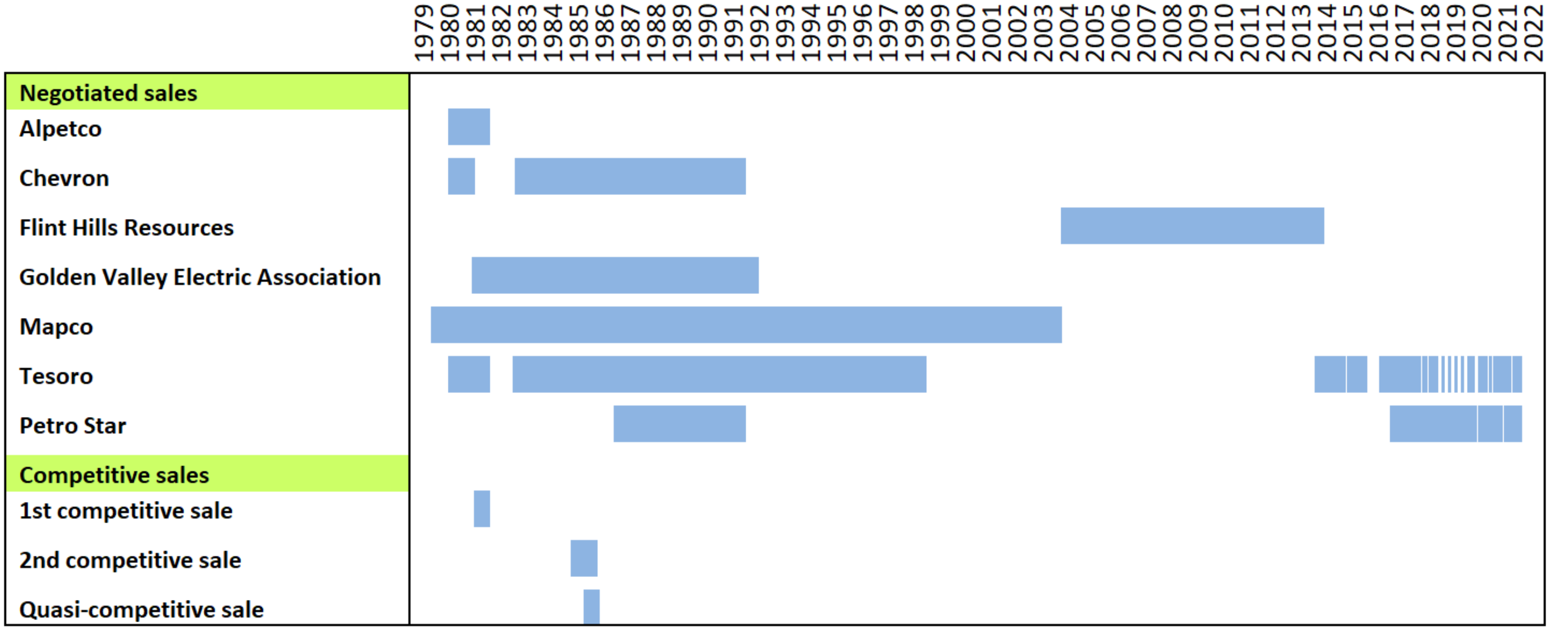
a) Of all RIK oil sold to date - over 900 million barrels (mmbbls) – the majority has been sold via non-competitive sales.

b) Less than 5% of RIK oil (46 mmbbls) has been sold via competitive sales. The effective terms of these contracts were short in duration.

c) The large majority of RIK oil sold to date has been to in-state entities, but there are a few historical cases where RIK oil was sold for export outside of Alaska.

In-state buyers for negotiated sales:

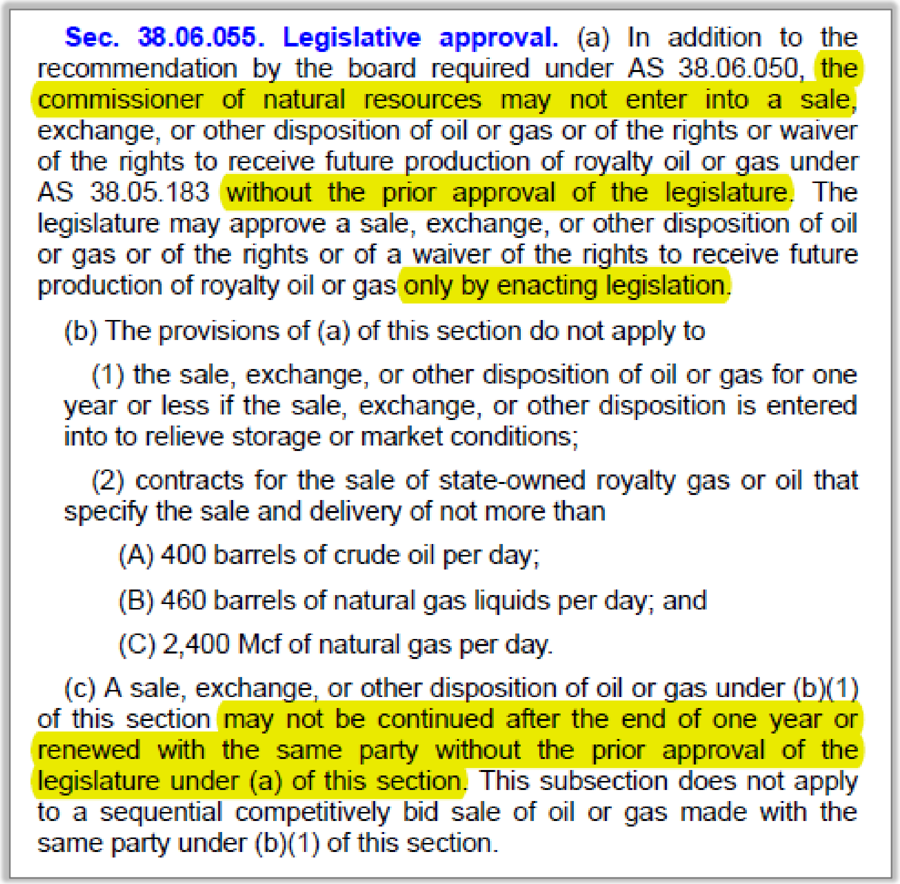
- Alpetco: export refinery (oil-based petrochemical plant)
- Chevron: Nikiski refinery (built in 1963, dismantled in 1991)
- Mapco/Williams/Flint Hills Resources: North Pole refinery (1977)
- Petro Star: North Pole (1985) and Valdez (1992) refineries
- Tesoro/Marathon: Nikiski refinery (1969)



3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND

3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND LEGISLATIVE APPROVAL

- Per statute, the sale of royalty by the DNR commissioner requires:
  - ✓ The written recommendation of the Alaska Royalty Oil and Gas Development and Advisory Board, and
  - ✓ The approval of the Legislature via the enactment of legislation.
- The are also statutory exceptions to when legislative review is required:
  - ✓ If the sale of royalty is to "relieve storage or market conditions" (which can only be used for a contract of up to 1 year)
  - ✓ If the sale of royalty oil is at most 400 bpd



Sec. 38.06.055. Legislative approval. (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature. The legislature may approve a sale, exchange, or other disposition of oil or gas or of the rights or of a waiver of the rights to receive future production of royalty oil or gas only by enacting legislation.

(b) The provisions of (a) of this section do not apply to

(1) the sale, exchange, or other disposition of oil or gas for one year or less if the sale, exchange, or other disposition is entered into to relieve storage or market conditions;

(2) contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than

(A) 400 barrels of crude oil per day;

(B) 460 barrels of natural gas liquids per day; and

(C) 2,400 Mcf of natural gas per day.

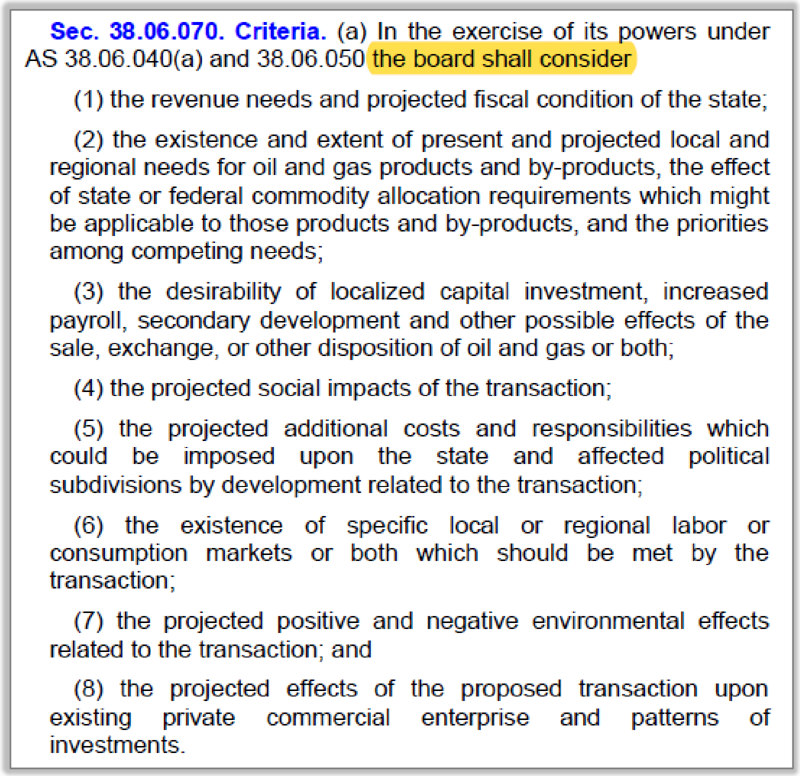
(c) A sale, exchange, or other disposition of oil or gas under (b)(1) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.

3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND RECENT HISTORY OF APPROVAL

Contract for sale of RIK oil	Period	Royalty barrels for sale	Royalty Board Review	Legislative approval?
Tesoro (2016)	5 years (Aug 2016 – Jul 2021)	20,000 – 25,000 bpd	Support (per recommendation to the Legislature)	Yes
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	Support (per recommendation to the Legislature)	NA (for 1-year contract) Yes (for 4-year contract)
Marathon (2021)	1 year (Aug 2021 – Jul 2022)	10,000 – 15,000 bpd	NA	NA (1-year contract)
Petro Star (2021)	1 year (Jan – Dec 2022)	10,000 bpd	NA	NA (1-year contract)
Marathon (2022)	3 years (Aug 2022 – Jul 2025)	10,000 – 15,000 bpd	Support (per recommendation to the Legislature)	Pending
Petro Star (2022)	5 years (Jan 2023 – Dec 2027)	2023-2024: 12,500 bpd 2025-2027: 10,000 – 12,500 bpd	Support (per recommendation to the Legislature)	Pending

3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND ROYALTY BOARD REVIEW

Royalty Board review criteria



Sec. 38.06.070. Criteria. (a) In the exercise of its powers under AS 38.06.040(a) and 38.06.050 the board shall consider

(1) the revenue needs and projected fiscal condition of the state;

(2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange, or other disposition of oil and gas or both;

(4) the projected social impacts of the transaction;

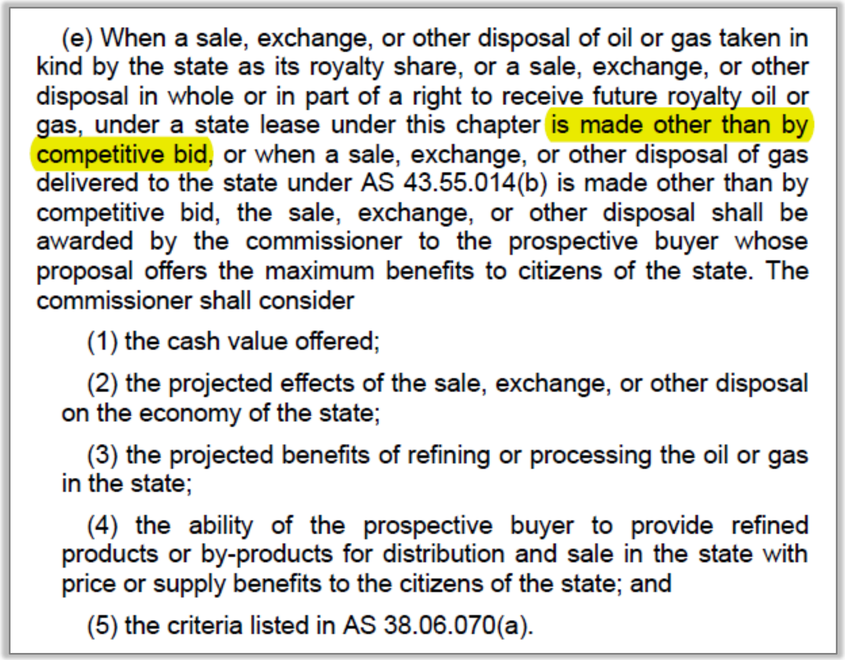
(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

(7) the projected positive and negative environmental effects related to the transaction; and

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

DNR criteria used for finding that a contract is in the best interest of the State



(e) When a sale, exchange, or other disposal of oil or gas taken in kind by the state as its royalty share, or a sale, exchange, or other disposal in whole or in part of a right to receive future royalty oil or gas, under a state lease under this chapter is made other than by competitive bid, or when a sale, exchange, or other disposal of gas delivered to the state under AS 43.55.014(b) is made other than by competitive bid, the sale, exchange, or other disposal shall be awarded by the commissioner to the prospective buyer whose proposal offers the maximum benefits to citizens of the state. The commissioner shall consider

(1) the cash value offered;

(2) the projected effects of the sale, exchange, or other disposal on the economy of the state;

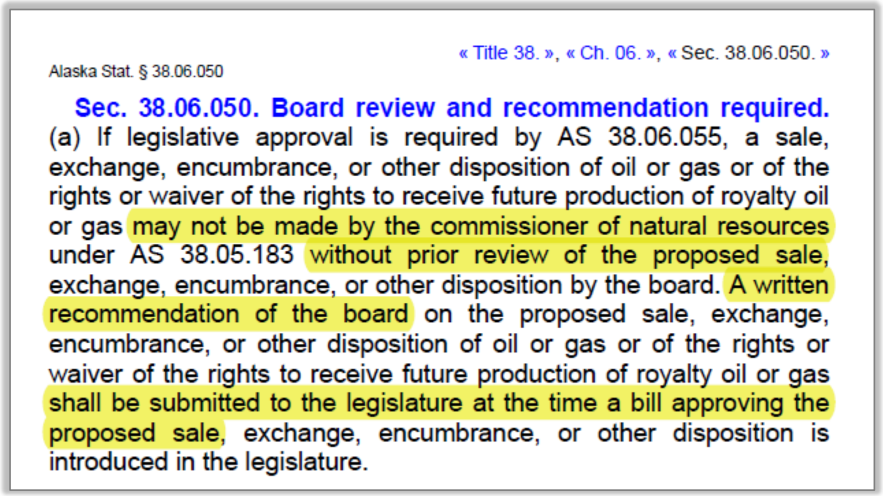
(3) the projected benefits of refining or processing the oil or gas in the state;

(4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state; and

(5) the criteria listed in AS 38.06.070(a).

- The Preliminary and Final Best Interest Findings, published by DNR, provides an analysis for how these criteria are met.

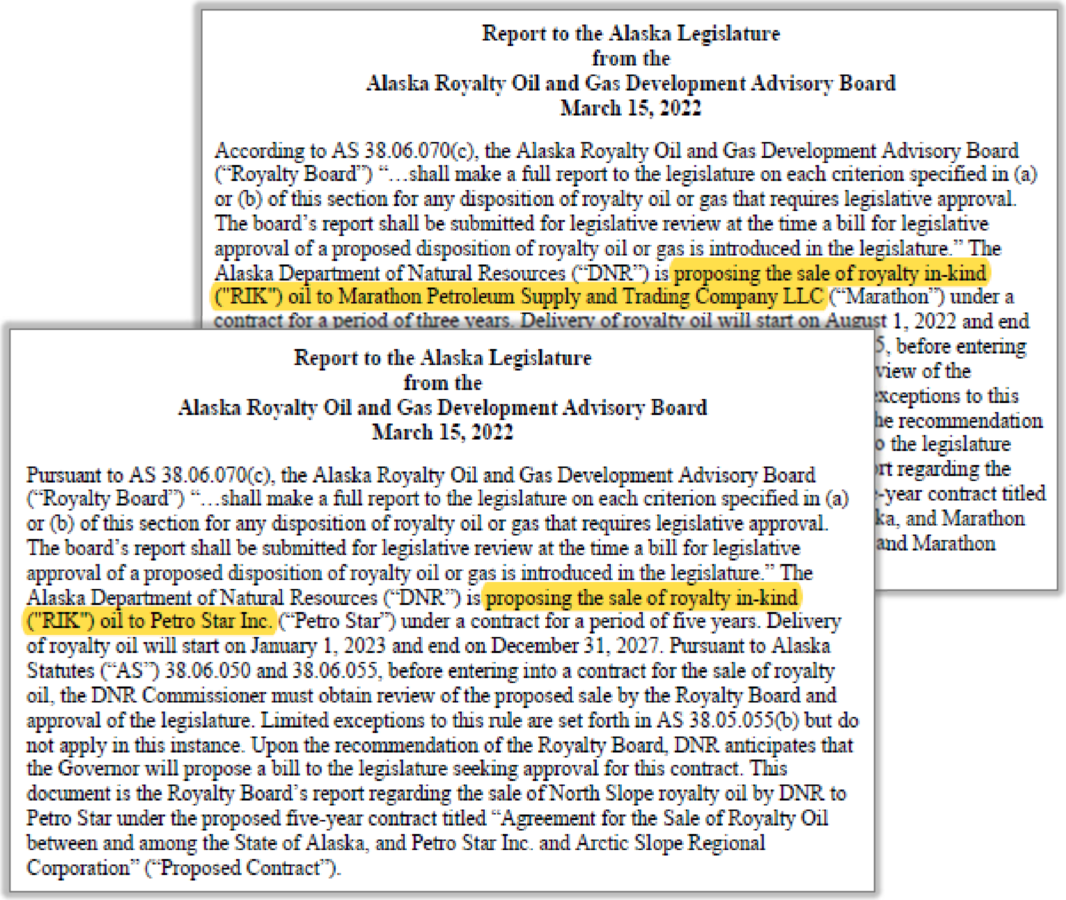
3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND ROYALTY BOARD REVIEW



« Title 38. », « Ch. 06. », « Sec. 38.06.050. »

Alaska Stat. § 38.06.050

Sec. 38.06.050. Board review and recommendation required. (a) If legislative approval is required by AS 38.06.055, a sale, exchange, encumbrance, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas may not be made by the commissioner of natural resources under AS 38.05.183 without prior review of the proposed sale, exchange, encumbrance, or other disposition by the board. A written recommendation of the board on the proposed sale, exchange, encumbrance, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas shall be submitted to the legislature at the time a bill approving the proposed sale, exchange, encumbrance, or other disposition is introduced in the legislature.



Report to the Alaska Legislature
from the
Alaska Royalty Oil and Gas Development Advisory Board
March 15, 2022

According to AS 38.06.070(c), the Alaska Royalty Oil and Gas Development Advisory Board ("Royalty Board") "…shall make a full report to the legislature on each criterion specified in (a) or (b) of this section for any disposition of royalty oil or gas that requires legislative approval. The board's report shall be submitted for legislative review at the time a bill for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature." The Alaska Department of Natural Resources ("DNR") is proposing the sale of royalty in-kind ("RIK") oil to Marathon Petroleum Supply and Trading Company LLC ("Marathon") under a contract for a period of three years. Delivery of royalty oil will start on August 1, 2022 and end

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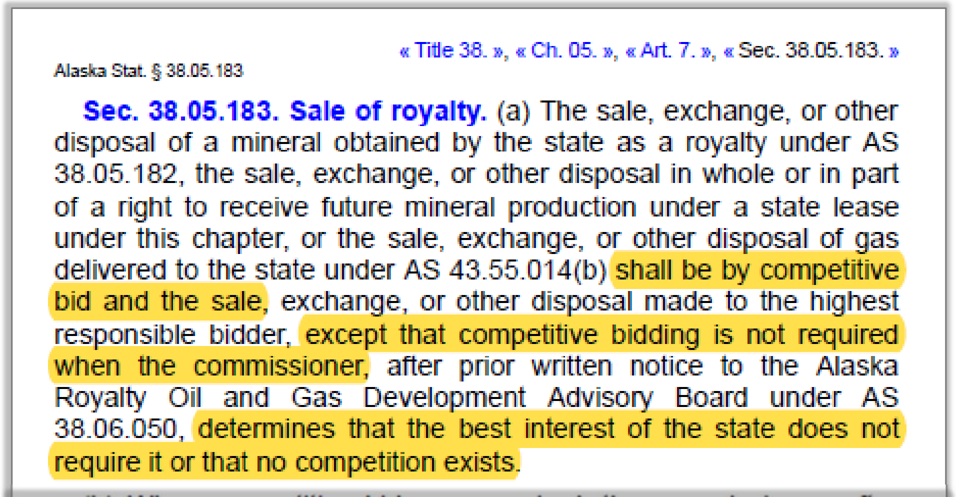
Report to the Alaska Legislature
from the
Alaska Royalty Oil and Gas Development Advisory Board
March 15, 2022

Pursuant to AS 38.06.070(c), the Alaska Royalty Oil and Gas Development Advisory Board ("Royalty Board") "…shall make a full report to the legislature on each criterion specified in (a) or (b) of this section for any disposition of royalty oil or gas that requires legislative approval. The board's report shall be submitted for legislative review at the time a bill for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature." The Alaska Department of Natural Resources ("DNR") is proposing the sale of royalty in-kind ("RIK") oil to Petro Star Inc. ("Petro Star") under a contract for a period of five years. Delivery of royalty oil will start on January 1, 2023 and end on December 31, 2027. Pursuant to Alaska Statutes ("AS") 38.06.050 and 38.06.055, before entering into a contract for the sale of royalty oil, the DNR Commissioner must obtain review of the proposed sale by the Royalty Board and approval of the legislature. Limited exceptions to this rule are set forth in AS 38.05.055(b) but do not apply in this instance. Upon the recommendation of the Royalty Board, DNR anticipates that the Governor will propose a bill to the legislature seeking approval for this contract. This document is the Royalty Board's report regarding the sale of North Slope royalty oil by DNR to Petro Star under the proposed five-year contract titled "Agreement for the Sale of Royalty Oil between and among the State of Alaska, and Petro Star Inc. and Arctic Slope Regional Corporation" ("Proposed Contract").

3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND COMPETITIVE VS. NON-COMPETITIVE SALE

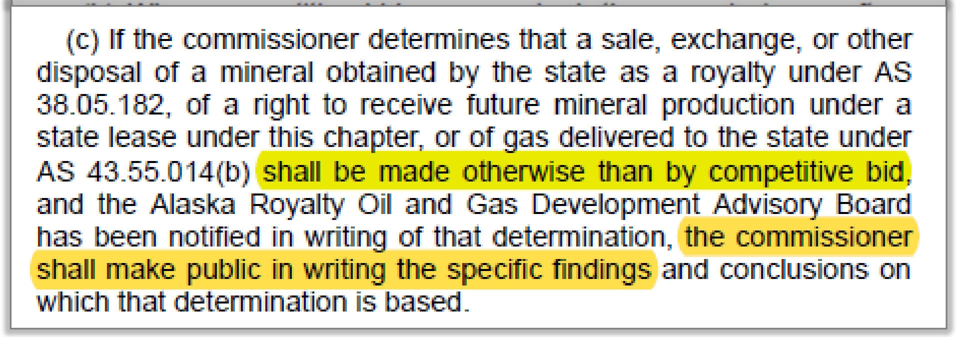
1) By statute, the default is a competitive sale.
    - Competitive sales of RIK oil occurred in 1981, 1985, and 1986.
    - Less than 5% of the RIK oil (46 mmbbls) sold to date has been via competitive sales.
2) A non-competitive sale requires a written finding by DNR.
3) How does DNR decide between a competitive and non-competitive sale?
    - DNR publishes a "Solicitation of Interest" letter with the goal of gauging the interest of the market.
    - In this letter, DNR establishes its preferred method of sale (*i.e.*, competitive disposition) with non-binding parameters for such sale.
    - Interested parties are invited to comment on their willingness to buy RIK oil and their preferred terms.
    - DNR analyzes those responses and makes a written determination of the method of sale that is in the best interest of the State.



« Title 38. », « Ch. 05. », « Art. 7. », « Sec. 38.05.183. »

Alaska Stat. § 38.05.183

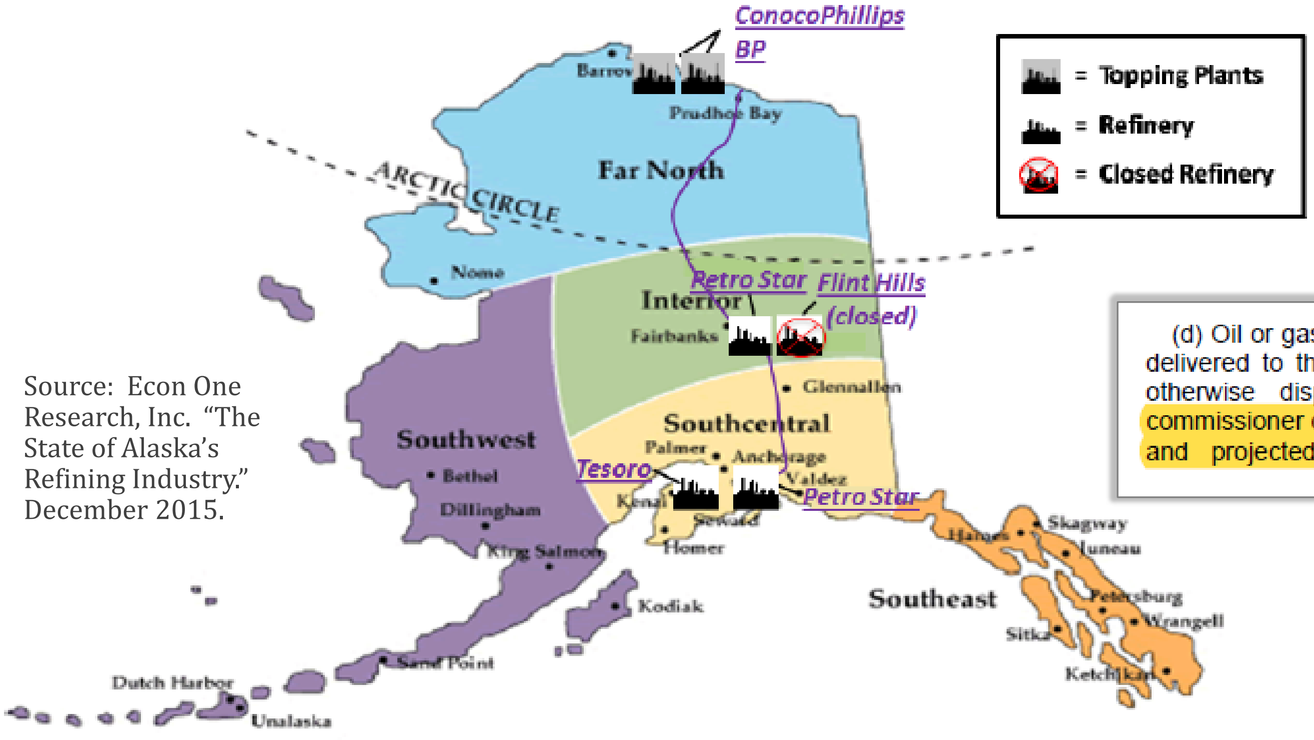
Sec. 38.05.183. Sale of royalty. (a) The sale, exchange, or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182, the sale, exchange, or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, or the sale, exchange, or other disposal of gas delivered to the state under AS 43.55.014(b) shall be by competitive bid and the sale, exchange, or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050, determines that the best interest of the state does not require it or that no competition exists.



(c) If the commissioner determines that a sale, exchange, or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182, of a right to receive future mineral production under a state lease under this chapter, or of gas delivered to the state under AS 43.55.014(b) shall be made otherwise than by competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board has been notified in writing of that determination, the commissioner shall make public in writing the specific findings and conclusions on which that determination is based.

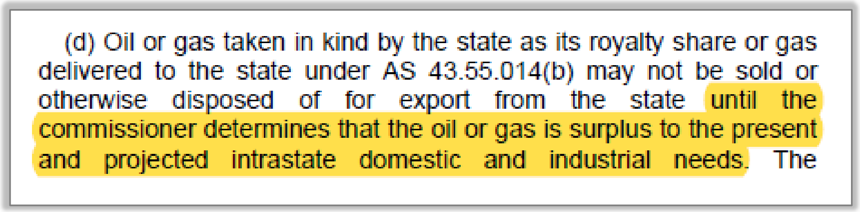
3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND SALE WITHIN THE STATE OR FOR EXPORT?

Figure I.1
Location of Alaska Refineries



Source: Econ One Research, Inc. "The State of Alaska's Refining Industry." December 2015.

Priority goes to in-state needs for royalty oil, per AS 38.05.183(d):

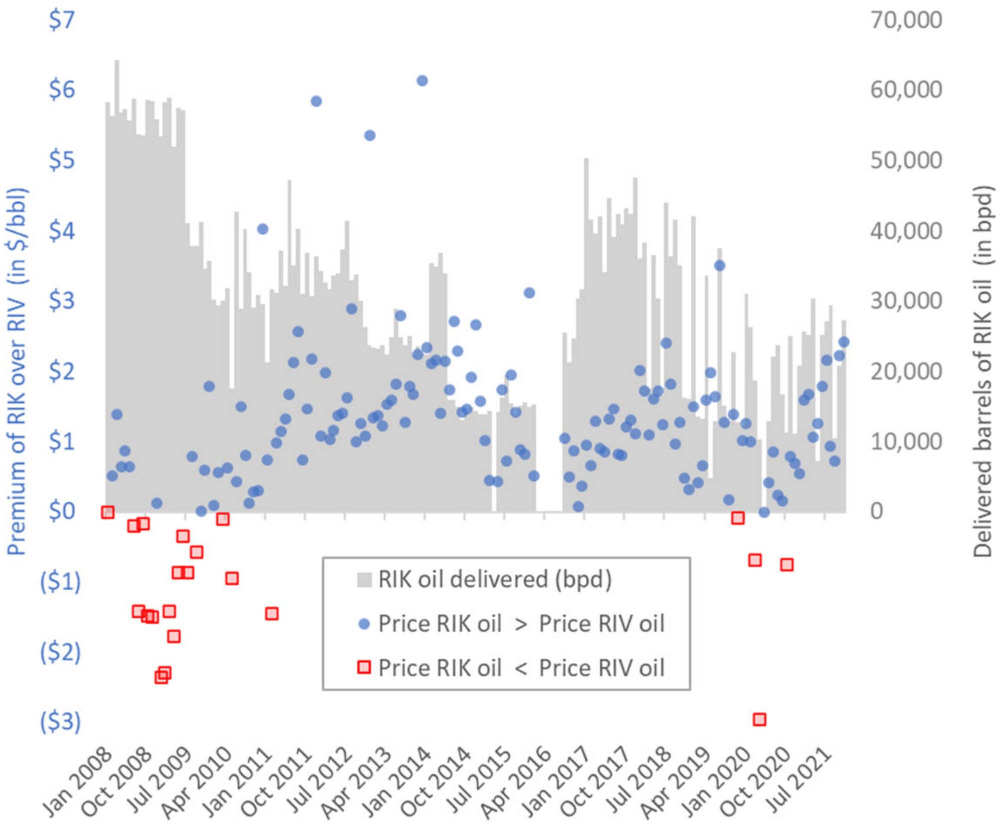


(d) Oil or gas taken in kind by the state as its royalty share or gas delivered to the state under AS 43.55.014(b) may not be sold or otherwise disposed of for export from the state until the commissioner determines that the oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The

3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND INFORMATION ON IN-STATE REFINERIES

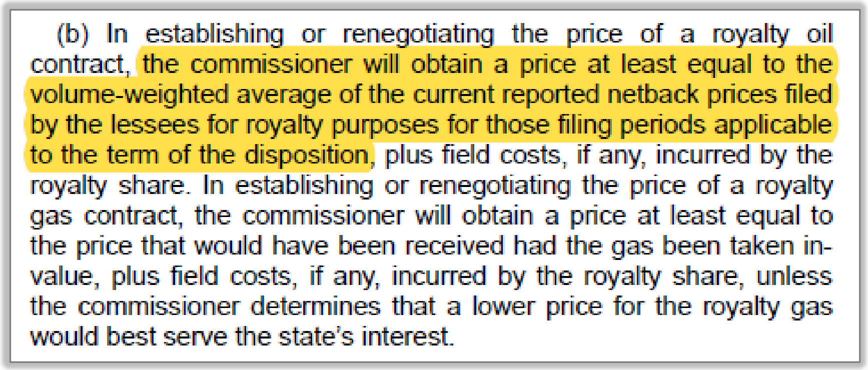
	Marathon: Nikiski refinery	**Petro Star: North Pole and Valdez refineries**
Production	55,000 barrels per day (bpd) of refined product: ▪ 30% Jet fuel to Anchorage, ▪ 27% Gasoline, ▪ 43% a mix of liquid petroleum gas (LPG), distillate, vacuum gas oil, fuel oil, and seasonal asphalt. ▪ Most of these refined products are consumed in Alaska. Some heavy oils are shipped to other Marathon refineries.	North Pole: 22,000 bpd maximum capacity Valdez: 60,000 bpd maximum capacity ▪ 65% Jet fuel ▪ 35% Ultra-low sulfur diesel, asphalt, heating oil ▪ *No gasoline* ▪ Refined product transported to Anchorage via railroad from North Pole and via barge from Valdez. ▪ Occasionally, Petro Star sells refined product to Canada and Pacific Northwest.
Typical sources of crude oil	▪ ANS crude oil, 60% ▪ Cook Inlet oil, 20% ▪ Other US and foreign crude oil, 20%	▪ ANS crude oil, 100%
Employment	▪ 220 Alaskans in full-time positions in Nikiski ▪ 60 contracted service providers in Alaska ▪ 40 Alaskans employed at terminals in Anchorage and North Pole.	▪ More than 80 Alaskans employed full time at both refineries. ▪ 275 positions across the company.

3. STATUTORY AND REGULATORY MANDATE FOR ROYALTY IN-KIND PRICING REQUIREMENT FOR RIK



At what price should DNR sell RIK?

- Per regulation, the price of RIK should be at least equal to the price of RIV. 11 AAC 03.026(b):

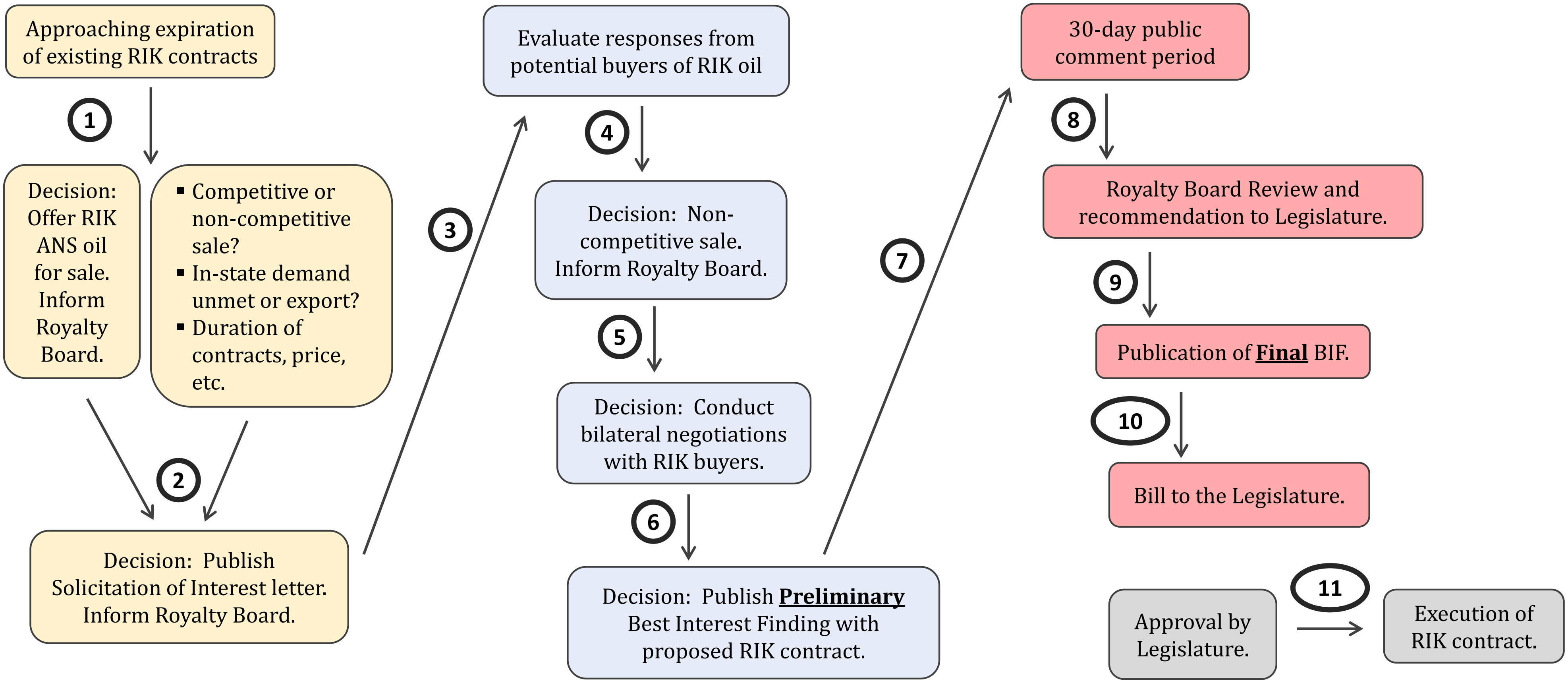


(b) In establishing or renegotiating the price of a royalty oil contract, the commissioner will obtain a price at least equal to the volume-weighted average of the current reported netback prices filed by the lessees for royalty purposes for those filing periods applicable to the term of the disposition, plus field costs, if any, incurred by the royalty share. In establishing or renegotiating the price of a royalty gas contract, the commissioner will obtain a price at least equal to the price that would have been received had the gas been taken in-value, plus field costs, if any, incurred by the royalty share, unless the commissioner determines that a lower price for the royalty gas would best serve the state's interest.

- For the 2008 – 2021 period, the price of RIK oil was, on average, greater than the price of RIV oil by $0.93/bbl.
- The State sold 148 million barrels of royalty oil during this period.
- Total proceeds from these RIK sales amount to $10.99 billion.
- This translates into $137 million of revenue in addition to what DNR would have obtained had it decided to receive these royalty barrels in-value.

4. THE PROCESS THAT DNR HAS FOLLOWED FOR THIS SALE OF RIK OIL

4. THE PROCESS THAT DNR FOLLOWED FOR THIS SALE OF RIK OIL



Approaching expiration of existing RIK contracts

1

Decision: Offer RIK ANS oil for sale. Inform Royalty Board.

- Competitive or non-competitive sale?
- In-state demand unmet or export?
- Duration of contracts, price, etc.

2

Decision: Publish Solicitation of Interest letter. Inform Royalty Board.

3

Evaluate responses from potential buyers of RIK oil

4

Decision: Non-competitive sale. Inform Royalty Board.

5

Decision: Conduct bilateral negotiations with RIK buyers.

6

Decision: Publish **Preliminary** Best Interest Finding with proposed RIK contract.

7

30-day public comment period

8

Royalty Board Review and recommendation to Legislature.

9

Publication of **Final** BIF.

10

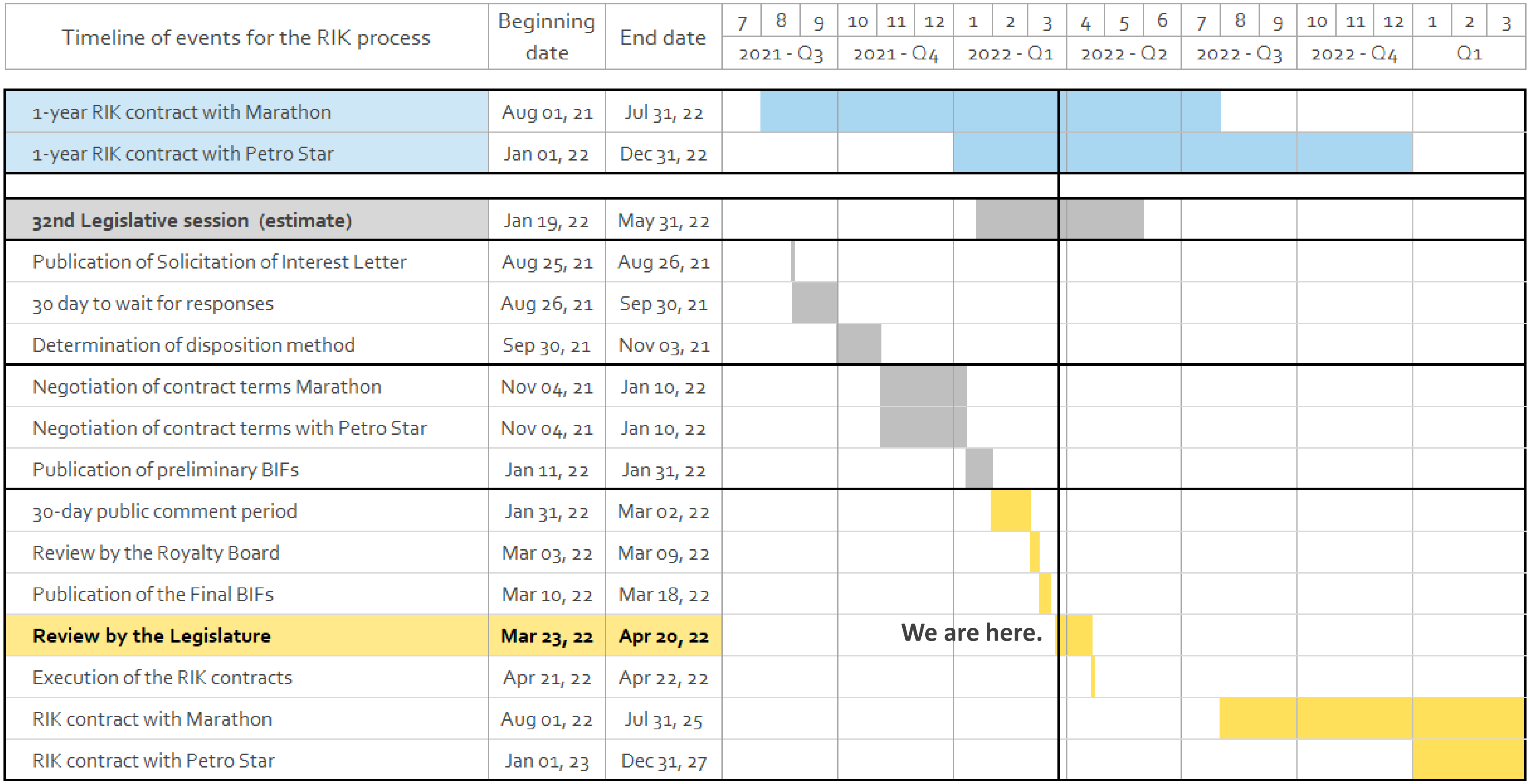
Bill to the Legislature.

Approval by Legislature.

11

Execution of RIK contract.

4. THE PROCESS THAT DNR FOLLOWED FOR THIS SALE OF RIK OIL



Timeline of events for the RIK process	Beginning date	End date
1-year RIK contract with Marathon	Aug 01, 21	Jul 31, 22
1-year RIK contract with Petro Star	Jan 01, 22	Dec 31, 22
32nd Legislative session (estimate)	Jan 19, 22	May 31, 22
Publication of Solicitation of Interest Letter	Aug 25, 21	Aug 26, 21
30 day to wait for responses	Aug 26, 21	Sep 30, 21
Determination of disposition method	Sep 30, 21	Nov 03, 21
Negotiation of contract terms Marathon	Nov 04, 21	Jan 10, 22
Negotiation of contract terms with Petro Star	Nov 04, 21	Jan 10, 22
Publication of preliminary BIFs	Jan 11, 22	Jan 31, 22
30-day public comment period	Jan 31, 22	Mar 02, 22
Review by the Royalty Board	Mar 03, 22	Mar 09, 22
Publication of the Final BIFs	Mar 10, 22	Mar 18, 22
Review by the Legislature	**Mar 23, 22**	**Apr 20, 22**
Execution of the RIK contracts	Apr 21, 22	Apr 22, 22
RIK contract with Marathon	Aug 01, 22	Jul 31, 25
RIK contract with Petro Star	Jan 01, 23	Dec 31, 27

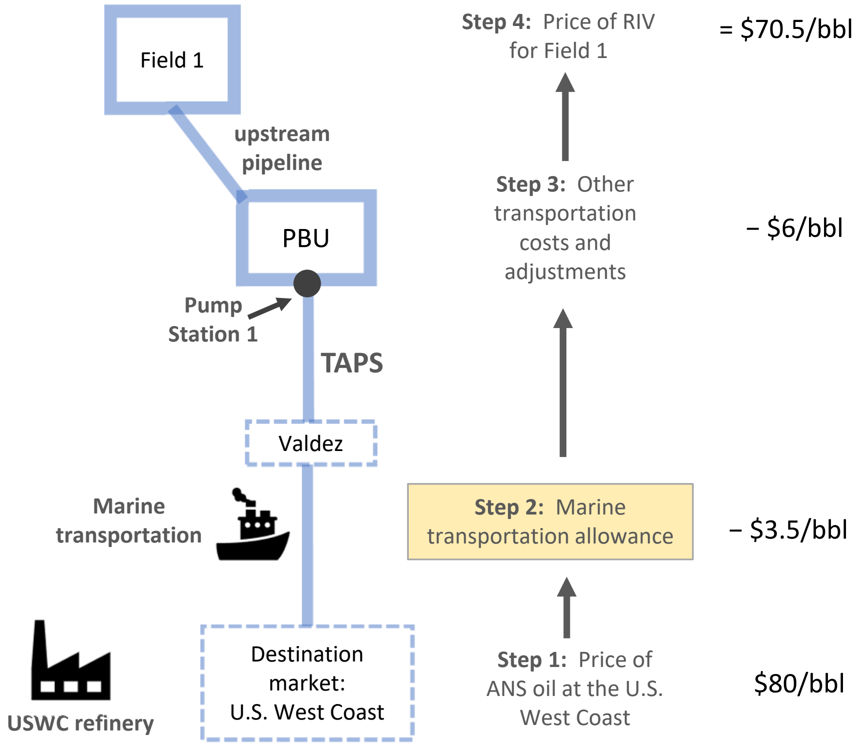
5. CONTRACT TERMS FOR MARATHON AND PETRO STAR

5. Contract terms for Marathon and Petro Star
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	▪ 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. RIK price = ANS price at the U.S. West Coast – **RIK differential** – pipeline transportation cost – quality bank adjustments – line loss	$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**

5. 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



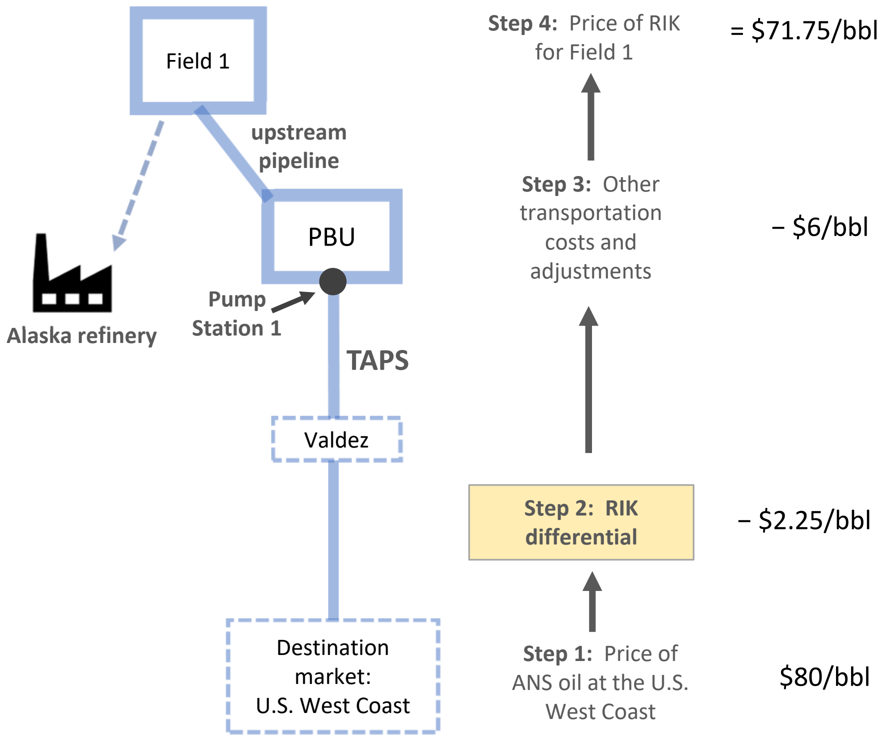
Step 4: Price of RIV for Field 1 = $70.5/bbl

Step 3: Other transportation costs and adjustments – $6/bbl

Step 2: Marine transportation allowance – $3.5/bbl

Step 1: Price of ANS oil at the U.S. West Coast $80/bbl

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



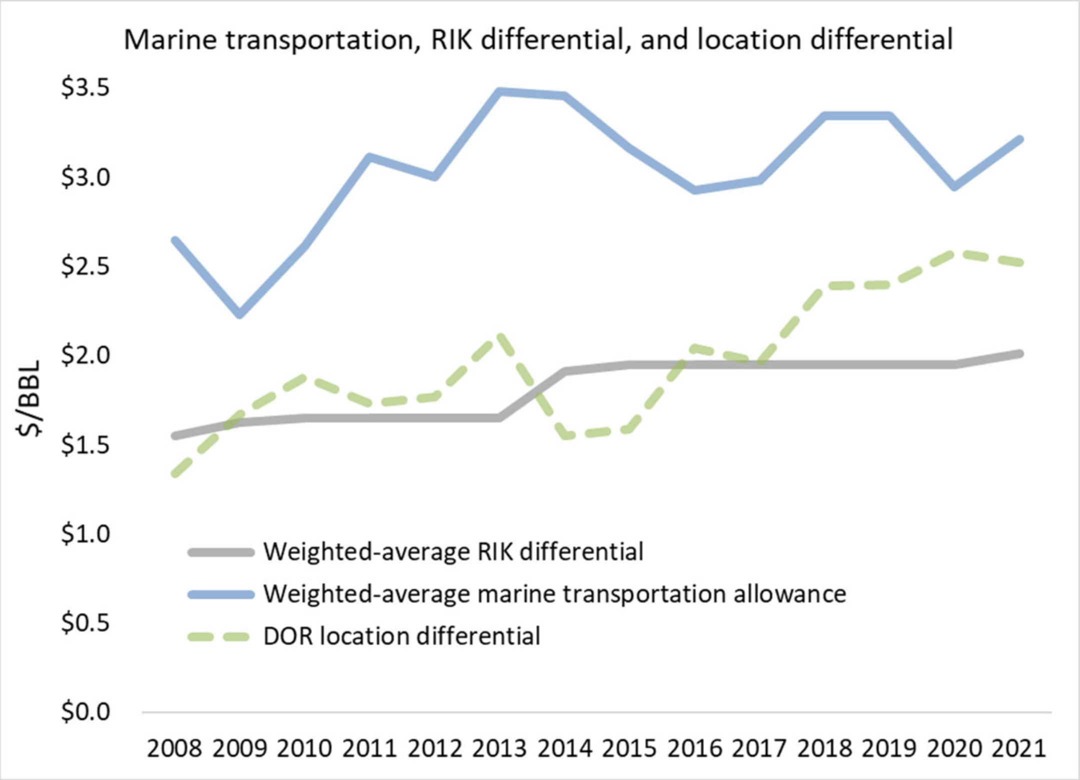
Step 4: Price of RIK for Field 1 = $71.75/bbl

Step 3: Other transportation costs and adjustments – $6/bbl

Step 2: RIK differential – $2.25/bbl

Step 1: Price of ANS oil at the U.S. West Coast $80/bbl

5. 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.

5. 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... 1. nominate **<u>0 barrels</u>** for up to 2 consecutive months or for 3 months under "turnaround" clause. 2. request, subject to DNR approval, a **<u>permanent reduction</u>** of nominations below what was agreed. 3. temporarily reduce royalty oil purchase under force majeure event. 4. request, subject to DNR approval, **<u>additional</u>** royalty oil for purchase.		**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. **2. <u>No guarantee</u>** in the quantity, quality, or source of royalty oil. **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.
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			
Marathon (2021)	1 year (Aug 2021 – Jul 2022)	10,000 – 15,000 bpd			
Petro Star (2021)	1 year (Jan – Dec 2022)	10,000 bpd			
Marathon (2022)	3 years (Aug 2022 – Jul 2025)	10,000 – 15,000 bpd		▪ 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			

5. 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	- 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).	- **<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		

5. 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	Additional 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