

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

March 30, 2022

3:34 p.m.

**MEMBERS PRESENT**

Senator Peter Micciche, Vice Chair  
Senator Click Bishop  
Senator Gary Stevens  
Senator Jesse Kiehl  
Senator Scott Kawasaki (via Teams)

**MEMBERS ABSENT**

Senator Joshua Revak, Chair  
Senator Natasha von Imhof

**COMMITTEE CALENDAR**

SENATE BILL NO. 121

"An Act relating to pollutants; relating to perfluoroalkyl and polyfluoroalkyl substances; relating to the duties of the Department of Environmental Conservation; relating to firefighting substances; relating to thermal remediation of perfluoroalkyl and polyfluoroalkyl substance contamination; and providing for an effective date."

- MOVED CSSB 121(RES) OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 34

Supporting oil and gas leasing and development within the National Petroleum Reserve in Alaska.

- MOVED HJR 34 OUT OF COMMITTEE

HOUSE BILL NO. 304

"An Act modifying the boundary of Chugach State Park; directing the sale of land to the Eagle River Lions Club; and providing for an effective date."

- MOVED HB 304 OUT OF COMMITTEE

SENATE BILL NO. 239

"An Act approving and ratifying the sale of royalty oil by the State of Alaska to Petro Star Inc.; and providing for an effective date."

- MOVED SB 239 OUT OF COMMITTEE

SENATE BILL NO. 240

"An Act approving and ratifying the sale of royalty oil by the State of Alaska to Marathon Petroleum Supply and Trading Company LLC; and providing for an effective date."

- MOVED SB 240 OUT OF COMMITTEE

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 209(FIN)

"An Act relating to emergency firefighters; and providing for an effective date."

- BILL HEARING CANCELED

HOUSE BILL NO. 148 AM

"An Act relating to emergency firefighters; and providing for an effective date."

- BILL HEARING CANCELED

#### **PREVIOUS COMMITTEE ACTION**

BILL: SB 121

SHORT TITLE: PFAS USE & REMEDIATION; FIRE/WATER SAFETY

SPONSOR(S): SENATOR(S) KIEHL

04/07/21	(S)	READ THE FIRST TIME - REFERRALS
04/07/21	(S)	RES, FIN
04/28/21	(S)	RES AT 3:30 PM BUTROVICH 205
04/28/21	(S)	-- MEETING CANCELED --
05/03/21	(S)	RES AT 3:30 PM BUTROVICH 205
05/03/21	(S)	Heard & Held
05/03/21	(S)	MINUTE(RES)
02/16/22	(S)	RES AT 3:30 PM BUTROVICH 205
02/16/22	(S)	Heard & Held
02/16/22	(S)	MINUTE(RES)
03/30/22	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: HJR 34

SHORT TITLE: NAT'L PETROLEUM RESERVE IN ALASKA

SPONSOR(S): REPRESENTATIVE(S) PATKOTAK

02/22/22 (H) READ THE FIRST TIME - REFERRALS  
 02/22/22 (H) RES  
 03/09/22 (H) RES AT 1:00 PM BARNES 124  
 03/09/22 (H) Heard & Held  
 03/09/22 (H) MINUTE (RES)  
 03/11/22 (H) RES AT 1:00 PM BARNES 124  
 03/11/22 (H) Moved HJR 34 Out of Committee  
 03/11/22 (H) MINUTE (RES)  
 03/14/22 (H) RES RPT 5DP  
 03/14/22 (H) DP: SCHRAGE, GILLHAM, RAUSCHER,  
 HOPKINS, PATKOTAK  
 03/18/22 (H) TRANSMITTED TO (S)  
 03/18/22 (H) VERSION: HJR 34  
 03/21/22 (S) READ THE FIRST TIME - REFERRALS  
 03/21/22 (S) RES  
 03/28/22 (S) RES AT 3:30 PM BUTROVICH 205  
 03/28/22 (S) -- MEETING CANCELED --  
 03/30/22 (S) RES AT 3:30 PM BUTROVICH 205

BILL: HB 304

SHORT TITLE: CHUGACH STATE PARK/EAGLE RIVER LIONS CLUB  
 SPONSOR(S): REPRESENTATIVE(S) MERRICK

02/04/22 (H) READ THE FIRST TIME - REFERRALS  
 02/04/22 (H) RES  
 03/16/22 (H) RES AT 1:00 PM BARNES 124  
 03/16/22 (H) Heard & Held  
 03/16/22 (H) MINUTE (RES)  
 03/18/22 (H) RES AT 1:00 PM BARNES 124  
 03/18/22 (H) Moved HB 304 Out of Committee  
 03/18/22 (H) MINUTE (RES)  
 03/21/22 (H) RES RPT 7DP 1NR  
 03/21/22 (H) DP: SCHRAGE, GILLHAM, RAUSCHER,  
 HOPKINS, CRONK, FIELDS, MCKAY  
 03/21/22 (H) NR: PATKOTAK  
 03/22/22 (H) TRANSMITTED TO (S)  
 03/22/22 (H) VERSION: HB 304  
 03/23/22 (S) READ THE FIRST TIME - REFERRALS  
 03/23/22 (S) RES  
 03/30/22 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 239

SHORT TITLE: APPROVE PETRO STAR INC. ROYALTY OIL SALE  
 SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/25/22 (S) READ THE FIRST TIME - REFERRALS  
 03/25/22 (S) RES, FIN

03/25/22 (S) FINDINGS REPORT  
03/25/22 (S) RES AT 3:30 PM BUTROVICH 205  
03/25/22 (S) APPROVE MARATHON PETRO ROYALTY OIL SALE  
03/28/22 (S) RES AT 3:30 PM BUTROVICH 205  
03/28/22 (S) -- MEETING CANCELED --  
03/30/22 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 240

SHORT TITLE: APPROVE MARATHON PETRO ROYALTY OIL SALE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/25/22 (S) READ THE FIRST TIME - REFERRALS  
03/25/22 (S) RES, FIN  
03/25/22 (S) FINDINGS REPORT  
03/25/22 (S) RES AT 3:30 PM BUTROVICH 205  
03/25/22 (S) -- Public & Invited Testimony --  
03/28/22 (S) RES AT 3:30 PM BUTROVICH 205  
03/28/22 (S) -- MEETING CANCELED --  
03/30/22 (S) RES AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

REPRESENTATIVE JOSIAH PATKOTAK

Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** Sponsor of HJR 34.

BRIDGET ANDERSON, Vice President of External Affairs

Arctic Slope Regional Corporation (ASRC)

Anchorage, Alaska

**POSITION STATEMENT:** Testified by invitation on HJR 34.

KARA MORIARITY, President/CEO

Alaska Oil and Gas Association (AOGA)

Anchorage, Alaska

**POSITION STATEMENT:** Stated unequivocal support for HJR 34.

REPRESENTATIVE KELLY MERRICK

Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** Sponsor of HB 304.

DAN BEUTEL, Natural Resources Specialist III

Department of Natural Resources (DNR)

Anchorage, Alaska

**POSITION STATEMENT:** Presented the PowerPoint Lions Club Park Chugach State Park during the hearing on HB 304.

RICHARD FAGG, President  
Eagle River Lions Club  
Eagle River, Alaska

**POSITION STATEMENT:** Testified by invitation on HB 304.

RYAN JOHNSTON, Building Manager and Second Vice President  
Eagle River Lions Club  
Eagle River, Alaska

**POSITION STATEMENT:** Testified in support of HB 304.

BILL STOLTZE, former Senator representing self  
Eagle River Lions Club  
Chugiak, Alaska

**POSITION STATEMENT:** Testified in support of HB 304.

JOHN CROWTHER, Deputy Commissioner  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information during the hearing on SB 239.

JHONNY MEZA, Commercial Analyst  
Commercial Section  
Division of Oil and Gas  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented SB 239 on behalf of the administration.

DOUG CHAPADOS, President/CEO  
Petro Star  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 239.

CASEY SULLIVAN, Government and Public Affairs Manager  
Marathon Petroleum  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 240.

## **ACTION NARRATIVE**

[3:34:42 PM](#)

**CHAIR JOSHUA REVAK** called the Senate Resources Standing Committee meeting to order at 3:34 p.m. Present at the call to

order were Senators Kiehl, Stevens, Bishop, Kawasaki (via Teams) and Senator Micciche.

**SB 121-PFAS USE & REMEDIATION; FIRE/WATER SAFETY**

[3:35:50 PM](#)

VICE CHAIR MICCICHE announced the consideration of SENATE BILL NO. 121 "An Act relating to pollutants; relating to perfluoroalkyl and polyfluoroalkyl substances; relating to the duties of the Department of Environmental Conservation; relating to firefighting substances; relating to thermal remediation of perfluoroalkyl and polyfluoroalkyl substance contamination; and providing for an effective date."

He noted that there was discussion during previous hearings about reducing the cost of the bill and the potential to hold the federal government responsible. The committee worked with the sponsor and he agreed to changes to achieve those goals.

VICE CHAIR MICCICHE solicited a motion to adopt the work draft committee substitute (CS).

[3:36:30 PM](#)

SENATOR STEVENS moved to adopt CSSB 121, work order 32-LS0001\W, as the working document.

VICE CHAIR MICCICHE objected for purposes of discussion.

[3:36:58 PM](#)

SENATOR JESSE KIEHL, speaking as sponsor, reviewed the following changes from version G to version W of SB 121:

**Explanation of Changes: ver. G to ver. W**

**Section 1:**

**46.03.340:** Removes blood testing requirements.

He reminded the committee that the primary focus of the bill was preventing future releases of PFAS to the water and environment in Alaska. Based on old analyses, he offered his estimate that removing the blood testing requirements would reduce the fiscal note by more than \$1 million. He clarified that this was his estimate of the fiscal note that the Department of Environmental Conservation (DEC) would subsequently provide.

**46.03.345(a):** Technical fix to clarify the liability provisions apply to providing clean drinking water.

**46.03.345(b):** Adds a new provision saying a government entity that required the release of PFAS-containing foam is liable for drinking water testing and providing clean drinking water in the areas of the release.

SENATOR KIEHL stated that this new provision was the second large change reflected in the CS. He added that the CS also makes a technical fix to clarify that the liability provisions apply to providing clean drinking water throughout the process. This corrects an error in the original draft. The second small fix updates the effective date.

**Section 5:** Updates the effective date.

[3:38:49 PM](#)

VICE CHAIR MICCICHE withdrew his objection; finding no further objections, CSSB 21(RES) was adopted as the working document.

SENATOR STEVENS asked why blood tests were removed from the committee substitute since those seemingly would be an important component in protecting the public. He asked who will pay for the tests if not the state.

SENATOR KIEHL answered that the cost of blood tests is significant and DEC expressed concern about its ability to recover all the costs from responsible parties, which was the only time the bill would have a fiscal impact. It was a difficult decision to remove that provision and it may be a disappointment to some. However, it's important to note that the state does not require parties responsible for other contamination to provide blood tests for those contaminants as a consistent regular requirement. Perfluoroalkyl and polyfluoroalkyl substance (PFAS) chemicals would have been treated differently and the compromise was to remove that provision from the bill.

[3:40:19 PM](#)

VICE CHAIR MICCICHE found no further questions or comments and he solicited the will of the committee.

[3:40:30 PM](#)

SENATOR STEVENS moved to report CSSB 121, work order 32-LS0001\W, from committee with attached [fiscal notes] and individual recommendations.

VICE CHAIR MICCICHE asked Senator Kiehl whether he was okay with the bill moving from committee.

SENATOR KIEHL responded that he would live with it.

VICE CHAIR MICCICHE found no objection and CSSB 121(RES) was reported from committee.

### **HJR 34-NAT'L PETROLEUM RESERVE IN ALASKA**

[3:41:11 PM](#)

VICE CHAIR MICCICHE announced the consideration of HOUSE JOINT RESOLUTION NO. 34 Supporting oil and gas leasing and development within the National Petroleum Reserve in Alaska.

[3:41:31 PM](#)

REPRESENTATIVE JOSIAH PATKOTAK, Alaska State Legislature, Juneau, Alaska, sponsor of HJR 34, introduced the legislation speaking to the following sponsor statement:

In 1923, a large swath of land on Alaska's North Slope was set aside by the federal government for the purpose of providing a potential supply of oil for the United States Navy. Later redesignated the National Petroleum Reserve in Alaska (NPR-A), this 23.5-million-acre area has become a critical source of oil and gas production in Alaska and holds vast potential for future development that could provide thousands of jobs and billions of dollars of revenue for local communities, the state, and the nation.

The most recent Integrated Activity Plan for the NPR-A was finalized by the Department of Interior in 2020, following a multi-year planning process that included extensive input and consultation with the State of Alaska, the North Slope Borough, North Slope tribes, Alaska Native corporations, and impacted communities. That plan opened over 18 million acres of the Reserve to responsible oil and gas leasing that has the potential to

- Generate over \$4.75 billion in state, federal, and local government revenues

- Create over 3,600 direct and 2,750 indirect jobs annually
- Increase throughput and extend the life of the Trans Alaska Pipeline System
- Strengthen national security, bolster the US economy, and provide affordable energy to US customers

However, in January of this year, the Department of the Interior elected to revert to the 2013 NPR-A Integrated Activity Plan, which would remove nearly 7 million acres - or roughly 28 percent of the entire Reserve - from oil and gas leasing.

With the goal of realizing the enormous benefits development of oil and gas in the NPR-A would bring to local communities, tribal governments, the state, and the nation, House Joint Resolution 34 urges the Department of the Interior to maximize the area available for oil and gas leasing and development within the NPR-A while conserving and protecting valued fish, wildlife, subsistence, and cultural resources.

[3:45:05 PM](#)

SENATOR BISHOP asked whether the Secretary of the Interior had responded to any requests to meet with any of the leaders of the North Slope Borough.

REPRESENTATIVE PATKOTAK answered not yet, but requests have been sent to the Secretary of the Interior for conversations. Conversations have occurred with staff from the Department of the Interior, as a community. The borough mayor spoke about the importance of responsible development in the district and what it means to the economic livelihood of indigenous people. A meeting is in the works, but nobody has confirmed. However, he anticipates that the Department of Interior staff, or maybe the Secretary, will attend along with representatives from the Department of Energy.

[3:46:11 PM](#)

SENATOR BISHOP asked Representative Patkotak to apprise the Senate Resources Standing Committee once the meeting was confirmed.

REPRESENTATIVE PATKOTAK answered that he would do his best to keep everyone in the loop, especially since the meetings will

provide legislative leadership an opportunity to voice their opinions.

[3:46:49 PM](#)

SENATOR STEVENS observed that HJR 34 had twelve Senate cross sponsors.

REPRESENTATIVE PATKOTAK expressed appreciation for the support.

[3:47:12 PM](#)

SENATOR KIEHL advised that we was not a cross sponsor because he wasn't sure he disagreed with all the changes in the 2020 plan, but he did agree with the resolves in HJR 34 that call for the maximum use of the land for development consistent with good environmental management and renewable use of the resources. He added that he absolutely agreed that local consultation including travel consultation, is critical. If it did not happen, the state should call it out.

REPRESENTATIVE PATKOTAK expressed appreciation for Senator Kiehl's comments.

[3:49:20 PM](#)

VICE CHAIR MICCICHE turned to invited testimony on HJR 34.

[3:49:35 PM](#)

BRIDGET ANDERSON, Vice President of External Affairs, Arctic Slope Regional Corporation (ASRC), Anchorage, Alaska, provided invited testimony on HJR 34.

She stated that ASRC is one of the 12 land-owning Alaska Native corporations that were created under the 1971 Alaska Native Claims Settlement Act (ANCSA). ASRC represents the business interests of the corporations more than 13,000 Inupiat shareholders.

MS. ANDERSON stated that ASRC has advocated for years alongside the other North Slope entities for the responsible development of the natural resources in the region, including the NPR-A. ASRC will celebrate its 50<sup>th</sup> anniversary this year and during that time has found ways to work with partners, the State of Alaska, industry, and the federal government to fulfill the directives in ANCSA, one of which is to provide benefits to shareholders. Thus, ASRC uses the land conveyed through ANCSA for the cultural and economic benefit of its shareholders. Some of these lands are within the NPR-A. Despite sustained efforts share ASRC's perspective on responsible resource development in

the region with the federal government, ASRC's voice is often drowned out by entities with no ties to the region or understanding of the nuanced ANCSA model for indigenous representation. She called the choices that Congress and the administration have made to overlook ASRC's voice frustrating and insulting.

MS. ANDERSON stated that ASRC is keenly aware that advances in responsible resource development on the North Slope and NPR-A have benefited the region and state. But for Alaska Native corporations it goes beyond jobs and increased revenues. She highlighted that the ANCSA Regional Association reported that the regional Native corporations have disbursed more than \$3.5 billion through the revenue sharing provisions of ANCSA. Section 7(i) of ANCSA requires 70 percent of revenues from subsurface and timber resources on ANCSA lands to be shared with the other regional corporations, and Section 7(j) requires regional corporations that receive Section 7(i) payments to disburse 50 percent to the Alaska Native village corporations in their regions. To that end, ASRC has contributed more than \$1.5 billion to the other regional corporations.

MS. ANDERSON concluded her testimony stating support for HJR 23 on behalf of ASRC.

VICE CHAIR MICCICHE expressed appreciation for the testimony.

[3:53:05 PM](#)

SENATOR STEVENS highlighted the benefits that stem from ASRC sharing \$1.5 billion with the regional corporations in the area through provisions in ANCSA. He said it has carried all Alaska Native corporations forward.

[3:53:53 PM](#)

VICE CHAIR MICCICHE opened public testimony on HJR 34.

[3:54:18 PM](#)

KARA MORIARITY, President/CEO, Alaska Oil and Gas Association (AOGA), Anchorage, Alaska, stated unequivocal support for HJR 34 on behalf of AOGA. She stated that AOGA represents the majority of oil and gas companies that have state and federal interests both onshore and offshore. She said this industry accounts for about 25 percent of all jobs and wages in the state, making it the most important economic driver in the state. With the recent surge in oil prices, estimates for this coming year indicate that the industry will provide local and state governments with more than \$5 billion.

MS. MORIARITY highlighted that federal land in Alaska continues to offer the most promising opportunities for oil and gas leasing, particularly for North Slope communities. However, despite clear federal policy from Congress in 1980 the first NPR-A lease sale didn't occur until 1990, and the first oil development didn't start until 2015. She agreed with the sponsor when he said the benefit of energy independence today couldn't be more important.

MS. MORIARITY concluded her testimony stating that AOGA joins the committee in urging the federal government to maximize the area that is available for development in NPR-A

[3:56:42 PM](#)

VICE CHAIR MICCICHE closed public testimony on HJR 34.

VICE CHAIR MICCICHE stated support for Ms. Anderson's statement that the way the federal government was ignoring Alaskans in these important decisions was insulting. He added that it was also largely illegal based on the guarantees under ANCSA, ANILCA, and the Statehood Compact that have been consistently ignored and eroded since the start.

[3:57:41 PM](#)

SENATOR STEVENS moved to report HJR 34, work order 32-LS1578\B, from committee with individual recommendations and attached [fiscal note(s)].

VICE CHAIR MICCICHE found no objection and HJR 34 was reported from the Senate Resources Standing Committee.

**HB 304-CHUGACH STATE PARK/EAGLE RIVER LIONS CLUB**

[3:58:06 PM](#)

VICE CHAIR MICCICHE announced the consideration of HOUSE BILL NO. 304 "An Act modifying the boundary of Chugach State Park; directing the sale of land to the Eagle River Lions Club; and providing for an effective date."

[3:58:43 PM](#)

REPRESENTATIVE KELLY MERRICK, Alaska State Legislature, Juneau, Alaska, sponsor of HB 304, introduced the legislation. The sponsor statement read as follows:

In 1964, the Eagle River Lions Club was granted a special land use permit by the Department of Nature

Resources for lands within the future boundary of Chugach State Park. The original permit was for 20 years and has been renewed twice; the current permit expires January 2, 2024.

Lions Club Park is a very popular community park encompassing 40 acres, centrally located in Eagle River at the junction of Eagle River Road and Eagle River Loop Road. Since 1964 when this agreement was finalized, the Eagle River Lions Club has developed the park, building baseball fields, the clubhouse building, and other facilities. As the community has grown, Lions Park has become a recreational staple of the town. Many public events are held there, from sports like little league to community gatherings and holiday fireworks.

The Alaska Supreme Court's 2013 decision in SOP v. DNR requires that permits for use of legislatively designated state parks must be revocable at will. This decision means that DNR cannot issue a new permit to the Eagle River Lions Club, since the facilities cannot be readily removed.

Both the Lions Club and the Department of Natural Resources believe that the Eagle River community will be better served by this park if the Eagle River Lions Club is allowed to operate the park under their direct ownership. This requires a modification of the Chugach State Park boundary and removes this land from it.

A memorandum of understanding between the Lions Club and the Department of Natural Resources outlining the terms has been signed by both parties. Four parcels of approximately 10,304 acres of general state land will replace the 40-acre parcel being conveyed to the Lions Club. There is no cost to the State, as the Lions Club will cover the fees to the department and any appraisal costs associated with all five parcels.

HB 304 ensures this treasured part of the Eagle River community will be around for years to come.

REPRESENTATIVE MERRICK reported that HB 304 had a zero fiscal note.

[4:00:42 PM](#)

DAN BEUTEL, Natural Resources Specialist III, Division of Parks and Outdoor Recreation, Department of Natural Resources (DNR), Anchorage, Alaska, presented the PowerPoint, Lions Club Park Chugach State Park during the hearing on HB 304.

MR. BUETELL advanced to slide 3 Lions Club Park and Chugach State Park and paraphrased the following:

- The Eagle River Lions Club developed and operated Lions Club Park under a series of permits from DNR. The current 20-year permit expires January 2, 2024 and cannot be renewed as explained below.
- The organized sports fields, clubhouse with alcohol sales, and community park are very different from the rest of Chugach State Park. DNR believes that the Eagle River community will be better served by Lions Club Park if the Eagle River Lions Club are allowed to operate the park under their direct ownership. This requires modification of the Chugach State Park boundary.

MR. BUETELL advanced to slides 4 and 5 and reviewed the history of Lions Club Park and Chugach State Park:

- DNR acquired this 40-acre parcel in 1961 as a Mental Health grant
- DNR permit issued to the Eagle River Lions Club effective January 2, 1964, with a 20-year term.
- Eagle River Lions Club began developing the park in the 1960's and 70's, building baseball fields, the clubhouse building, and other facilities.
- Chugach State Park was designated by the legislature in 1970, including all state-owned land in this section, subject to valid existing rights. This section was presumably included because Eagle River flows through the southern portion (Section 13, Township 14 North, Range 2 West, Seward Meridian).
- Land and Water Conservation Fund (LWCF) grants from the federal government were first used in Chugach State Park in 1970, shortly after park designation. LWCF grants require the state to preserve the park for outdoor recreation in perpetuity. Any use other than outdoor recreation constitutes a "conversion" and requires

replacement land of equal value be added to the park.

- Division of Parks and Outdoor Recreation renews the Eagle River Lions Club's permit for 2 additional 20-year terms. The current permit expires January 2, 2024.
- Alaska Supreme Court's 2013 decision in SOP v. DNR requires that permits for use of legislatively designated state parks must be revocable at will. This decision means that DNR cannot issue a new permit to the Eagle River Lions Club, since the facilities cannot be readily removed.

[4:04:05 PM](#)

MR. BUETELL displayed slides 6-8 that show the following Lions Club Park activities and facilities: baseball and softball fields, areas for football, tennis, basketball, and horseshoes, and the picnic shelter, playground, and clubhouse.

MR. BEUTEL advanced to slide 9 to show the contrast in Chugach State Park. He reviewed the following highlights:

- Chugach State Park covers approximately 485,000 acres, mostly undeveloped mountains, stretching from Knik River Road to Turnagain Arm.
- Visitor activities include sightseeing, hiking, ATVing, snowmobiling, skiing, hunting, fishing, and more.
- Facilities are primarily trails, trailheads, campgrounds, and public use cabins.
- Chugach State Park has no other facilities like Lions Club Park for organized team sports. No Alaska State Park has a facility comparable to Lions Club Park. The Division of Parks and Outdoor Recreation lacks the experience, funding, or authority to operate facilities for these types of sports.

[4:05:43 PM](#)

MR. BEUTEL advanced to slide 10, LWCF Conversion Replacement Land. He reviewed the following highlights:

- The Land and Water Conservation Fund (LWCF) requires replacement land of equal value be added

to Chugach State Park to replace Lions Club Park. There are 4 parcels of general state land, 3 in Eagle River Valley, and one on Pioneer Peak, which are proposed replacement parcels.

- All 4 proposed replacement parcels are steep mountains adjacent to Chugach State Park. The primary current use is wildlife habitat, with occasional use by hikers or hunters. None of them has any active DNR authorizations or known development or mineral potential.
- The inclusion of these parcels to Chugach State Park will not change access for hunters, hikers, or others who currently use these parcels

MR. BEUTEL displayed the table on slide 11, LWCF Conversion Replacement land summary that shows that the 40 acres that Lions Club Park occupies in Chugach State Park has an estimated tax assessment value of \$1.4 million. The four parcels that would be added to Chugach State Park through the LWCF conversion occupy more than 10,000 acres and have an estimated tax assessment value of just under \$1.5 million. He noted that as part of the LWCF conversion process, the parcels would all need to be appraised.

MR. BEUTEL displayed slides 12-15 that describe the four parcels that would be added to Chugach State Park: He reviewed the following highlights:

**Eagle River Parcel 1**

- Parcel 1 covers 60 acres in the Meadow Creek Valley. Estimated value of \$150,000.
- Legal description T. 14 N., R. 1 W., S.M., Section 5, SE1/4 SW1/4, S1/2 SW1/4 SE1/4

**Eagle River Parcels 2 and 3**

- Parcel 2 covers 60 acres on steep slopes near Berryhill Rd. Estimated value of \$135,900.
- Legal description T. 14 N., R. 1 W., S.M., Section 24 NE1/4 SW1/4, E1/2 NW1/4 SW1/4
- Picture from parcel 2 shows a steep hillside and view across Eagle River
- Parcel 3 covers 24 acres on steep slopes above Eagle River Road. Estimated value of \$213,300.
- Legal description T. 14 N., R. 1 E., Section 30, Lot 3

- Picture depicting parcel 3 shows steep hillside and Eagle River Road

#### **Parcel 4 - Pioneer Peak**

- Parcel 4 covers 10,160 acres above Knik River Road. Estimated value at least \$1 million (no tax assessed value)
- Legal description T. 16 N., R. 3 E., S.M., Section 7, Section 8, excluding N1/2 NE1/4, Sections 17-21, Sections 27-35

[4:08:24 PM](#) FIX

MR. BEUTEL advanced to slide 16, Conclusion and highlighted the following points:

- The proposed bill directs DNR to:
  - Complete the LWCF conversion
  - Retain road and utility rights-of-way
  - Convey the Lions Club Park to the Eagle River Lions Club
- Upon completion of these steps
  - Lions Club Park is secure as a community park
  - Chugach State Park boundaries are updated
  - Access to the Chugach State Park additions for hunters, hikers, and other park visitors is unchanged

[4:09:11 PM](#)

SENATOR BISHOP asked for the timelines to complete the appraisal and finish the transaction.

MR. BEUTEL answered that appraisers have been contacted and will be hired once the bill passes. He estimated that the appraisals will take one field season, after which the paperwork for the conversion will be completed. The entire transaction will probably be finished in 12 months after the bill passes.

SENATOR BISHOP relayed his summary that in 12 months the transaction is estimated to be complete and everybody will be happy.

MR. BEUTEL replied that the real push is to complete the transaction before the current permit expire in January 2024.

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VICE CHAIR MICCICHE asked if he agreed that the Eagle River Lions Club would be required to pay \$50,000 to cover DNR's costs.

MR. BEUTEL responded that is correct.

VICE CHAIR MICCICHE observed that the reason for no fiscal note was that there would be no cost to the state.

MR. BEUTEL answered yes, DNR has a memorandum of understanding with the Eagle River Lions Club such that the club would pay for the third-party appraiser and DNR's administrative costs.

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VICE CHAIR MICCICHE said he assumes that the Eagle River Lions Club paid for the improvements over the last 50 years and that there would be no ongoing maintenance encumbrance to the state. Once the land is conveyed, the Eagle River Lions Club will be responsible for all ongoing costs.

MR. BEUTEL responded that is correct; the state would have no ongoing costs.

[4:12:23 PM](#)

VICE CHAIR MICCICHE turned to invited testimony on HB 304.

[4:12:33 PM](#)

RICHARD FAGG, President, Eagle River Lions Club, Eagle River, Alaska, testified by invitation on HB 304. He stated that this park is the only facility of its kind in the Chugiak area. The park is very important for summer and winter recreational activities and it would be hard to imagine the community without it. He relayed that the refurbished tennis courts will host both tennis and pickleball tournaments and play. The football fields are used by Pop Warner teams, the baseball fields are used by both boys' and girls' softball teams. In the summer the basketball courts are horseshoe pits are used constantly. The park offers tremendous opportunities for recreational activity.

MR. FAGG reported that organizations that use the park aren't charged anything, but are asked to help with some maintenance. He mentioned plans for this summer to create a new dog park and renovate the playground, including the addition of new equipment. He urged the committee to support HB 304.

[4:14:37 PM](#)

VICE CHAIR MICCICHE opened public testimony on HB 304.

[4:15:00 PM](#)

RYAN JOHNSTON, Building Manager and Second Vice President, Eagle River Lions Club, Eagle River, Alaska, Testified in support of HB 304. He spoke about his connection to the park relayed that the Eagle River Lions Club would be honored to continue to continue to manage and continue to develop it as the valuable resource it is to the community. He asked the committee to support the property transfer so the club could continue its stewardship of the park.

VICE CHAIR MICCICHE recognized former Senator Stoltze as the next testifier.

[4:16:02 PM](#)

BILL STOLTZE, former Senator representing self, Eagle River Lions Club, Chugiak, Alaska, testified in support of HB 304. He stated that he was a member of the Eagle River Lions Club and a half dedicated user of the park. He said this is good legislation that will allow his fellow Lions to continue their good work on behalf of the community, particularly youths.

[4:16:58 PM](#)

VICE CHAIR MICCICHE closed public testimony HB 304.

SENATOR STEVENS commented that he was still supportive of the bill.

[4:17:22 PM](#)

VICE CHAIR MICCICHE found no further questions or comments and solicited a motion.

[4:17:29 PM](#)

SENATOR STEVENS moved to report HB 304, work order 32-LS0928\I, from committee with attached [fiscal notes] and individual recommendations.

[4:17:41 PM](#)

VICE CHAIR MICCICHE found no objection and HB 304 was reported from the Senate Resources Standing Committee.

**SB 239-APPROVE PETRO STAR INC. ROYALTY OIL SALE**

[The hearing on SB 240 begins at 5:04:21 pm, after the DNR presentation that describes the requirements for royalty oil sales.]

[4:17:58 PM](#)

VICE CHAIR MICCICHE announced the consideration of SENATE BILL NO. 239 "An Act approving and ratifying the sale of royalty oil by the State of Alaska to Petro Star Inc.; and providing for an effective date."

He recognized John Crowther and Jhonny Meza and advised the committee that the presentation applied to both SB 239 and SB 240. SB 239 addresses legislative approval of the Petro Star royalty oil sale and SB 240 addresses legislative approval of the marathon Petro royalty oil sale.

[4:18:53 PM](#)

JOHN CROWTHER, Deputy Commissioner, Department of Natural Resources (DNR), Anchorage, Alaska\* introduced Jhonny Meza.

[4:18:53 PM](#)

JHONNY MEZA, Commercial Analyst, Commercial Section, Division of Oil and Gas, Department of Natural Resources (DNR), Anchorage, Alaska, introduced SB 239 with the presentation titled The Process for the Sale of ANS Royalty Oil In-kind and the Proposed Contracts with Marathon and Petro Star.

MR. MEZA explained that the forthcoming presentation describes two proposed contracts for the sale of royalty oil in-kind, both of which need legislative approval before the contracts can be executed.

MR. MEZA reviewed the agenda on slide 2:

#### 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

[4:19:41 PM](#)

MR. MEZA advanced to slide 4, What is Royalty In-Kind? Statutory Reference. He reviewed the statutory authority under AS 38.05.182:

**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.

MR. MEZA pointed to the letter from the DNR commissioner informing the legislature of the determination to take the state's oil and gas royalty in-value (RIV). He reviewed what royalty in-value (RIV) means as opposed to royalty in-kind (RIK):

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.

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MR. MEZA advanced to slide 5, What is Royalty In-Kind? Contractual Reference. He stated that given the statutory language, DNR enters into a contract with the lessees for the oil and gas lease, which provides a definition of the percentage of the royalty rate, and the ability of the commissioner to take the oil and gas royalty either in-value or in-kind. He pointed out that from the inception of the lease, the language in statute and the contract allows DNR to participate in the market as a resource owner by selling its royalty owner in-kind. He directed attention to the example of an oil and gas unit agreement that reflects such language when there's a unitized collection of oil and gas leases:

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.

[4:22:17 PM](#)

MR. MEZA advanced to slide 6, What is ROYALTY IN-KIND? STATE OWNERSHIP IN THE NORTH SLOPE (AS OF JANUARY 2022). He pointed to the map of the North Slope that details the oil and gas units where the state has a resource ownership interest. In this context, royalty oil in-kind refers to the sale of royalty oil from the fields that the state is the resource owner. Prudhoe Bay and Kuparuk are examples.

The state doesn't have any resource ownership on the Greater Moose's Tooth and thus would not be able to take royalty in kind from that field.

[4:23:02 PM](#)

MR. MEZA advanced to slide 7, History of Royalty In-Kind and slide 8, History of Royalty In-Kind Alaska North Slope Oil. He directed attention to the graph on slide 8 that shows the history of the royalty oil from the North Slope colored light blue and the black line that represents the share of the royalty oil that the state took in-kind. The state started taking royalty in-kind in November 1979 and consistently continued to do so until recently.

He highlighted the following:

- 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.

[4:24:41 PM](#)

MR. MEZA advanced to slide 9, History of Royalty In-Kind Types of Contracts and Buyers. He reviewed the following:

- 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)

MR. MEZA stated that the table shows the duration of the royalty in-kind contracts. It shows that the state has participated in these sales since nearly the beginning of production on the North Slope.

[4:26:35 PM](#)

MR. MEZA advanced to slide 10, Statutory and Regulatory Mandate for Royalty In-Kind and slide 11, Statutory and Regulatory Mandate for Royalty In-Kind Legislative Approval. He highlighted AS 38.06.055 that states that legislative approval is required

before the DNR commissioner can execute these contracts. He reviewed the following:

- 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.
- There 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

[4:27:23 PM](#)

MR. MEZA advanced to slide 12, Statutory and Regulatory Mandate for Royalty In-Kind Recent History of Approval. He explained that the chart reflects the most recent contracts for the sale of royalty oil in-kind. Tesoro (2016) was a five year contract, Petro Star (2016) was also multi-year. The last two columns reflect that these multi-year contracts were reviewed by both the royalty board and the legislature. By contrast, the one-year contracts in 2021 with Marathon and Petro Star only required one review and in these cases it was by the legislature. Currently multi-year contracts with Marathon and Petro Star have been reviewed by the board and DNR is submitting that written recommendation as part of the packets seeking legislative approval for both sales.

[4:28:46 PM](#)

MR. MEZA advanced to slide 13, to review the Statutory and Regulatory Mandate for Royalty In-Kind Royalty Board Review.

#### **Royalty Board Review Statutory 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 44.55.014(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.

[4:29:42 PM](#)

MR. MEZA advanced to slide 14 and stated that this slide provides samples of the reports that the Royalty Review Board wrote and submitted to the legislature on March 15, 2022.

MR. MEZA advanced to slide 15, Statutory and Regulatory Mandate for Royalty In-Kind Competitive vs. Non-Competitive Sale. He reviewed the following:

- 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.

MR. MEZA highlighted the statutory requirements for the sale of royalty:

**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.**

[4:30:59 PM](#)

MR. MEZA advanced to slide 16, Statutory and Regulatory Mandate for Royalty In-Kind Sale Within the State or for Export? He related that the state map identifies the locations of the different refineries. In the Interior and Southcentral regions are the Petro Star refineries in North Pole and Valdez and the Nikiski refinery operated currently by Marathon and formerly by Tesoro. He highlighted the presumption in 38.05.183(d) in that the sale of royalty oil and gas must meet local demand before a decision can be made to sell the royalty oil for export.

(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.**

MR. MEZA advanced to slide 17, Statutory and Regulatory Mandate for Royalty In-Kind Information on In-State Refineries. He directed attention to the chart that provides information about Petro Star's North Pole and Valdez refineries and Marathon's Nikiski refinery, addressed respectively in SB 239 and SB 240.

The Nikiski refinery operated by Marathon currently produces 55,000 barrels per day (bpd), including a mix of jet fuel, gasoline and other refined products. Most are consumed in Alaska, although some heavy oils are shipped to other Marathon refineries outside of Alaska.

The Petro Star refinery at North Pole produces a maximum of 22,000 bpd and its refinery at Valdez produces a maximum of 60,000 bpd. Production is a mix of jet fuel; ultra-low sulfur diesel, asphalt, and heating oil; but no gasoline. The refined products are primarily sold in Alaska, although refined products are occasionally sold in Canada and the Pacific Northwest.

For Marathon, the typical sources of crude oil come from the North Slope and Cook Inlet for the Nikiski refinery, with 20 percent coming from other refineries in the US and foreign countries. The source of crude oil for the Petro Star refineries is entirely from the Alaska North Slope.

Employment numbers are also considered in the best interest findings for these contracts. The chart shows that the Marathon and Petro Star refineries each employ between 200 and 300 people.

[4:33:30 PM](#)

MR. MEZA advanced to slide 18, Statutory and Regulatory Mandate for Royalty In-Kind Pricing Requirement for RIK. He related that the graph on the left shows yet another element for why these proposed contracts meet the regulatory requirement regarding revenue to the state. In particular, it shows that the value the state receives from selling royalty oil in-kind yields more for the state than if the state had chosen to take the royalty in-value.

The gray on the graph shows the volumes of oil sold since 2008. The blue dots represent the instances where the price of royalty oil in-kind generated a premium over what the state received when it took a portion of the royalty in-value from the producers. The red squares reflect the 21 cases in 168 months

when the royalty value in-kind was lower than the royalty in-value.

MR. MEZA highlighted the following:

- 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.

[4:35:12 PM](#)

MR. MEZA advanced to the next slides to describe the process DNR followed for the sale of royalty oil in-kind. He restated that the process is transparent as mandated by both statute and regulations. He directed attention to the 11 step process starting with the approach of expiration of existing royalty in-kind contracts and ending with legislative approval and execution of the royalty in-kind contract. He described the steps in more detail, the basics of which are:

**Step 1.** Decide whether or not to offer RIK ANS oil for sale and inform the royalty board. Considerations are whether the sale will be competitive or non-competitive; whether the royalty oil should be dedicated to in-state or for export; and the duration of the contracts.

**Step 2.** DNR publishes a Solicitation of Interest letter, continuing to inform the royalty board. This leads to

**Step 3.** DNR evaluates the responses from the marketplace.

**Step 4.** In this example, the decision was to have non-competitive sales. The royalty board was informed.

**Step 5.** DNR conducted bilateral negotiations with the RIK buyers and agreed on tentative terms.

**Step 6.** DNR published the preliminary best interest finding (BIF) for the proposed RIK contracts.

**Step 7.** The preliminary BIF was subject to royalty board review and it underwent a 30-day public comment period. He noted that there were no comments from the public for the proposed Marathon and Petro Star contracts.

**Step 8.** The royalty board recommended the legislature approve the contracts for both Marathon and Petro Star.

**Step 9.** DNR published the final best interest finding.

**Step 10.** SB 239 and SB 240 were submitted to the legislature. These are the bills the committee is considering today.

**Step 11.** The DNR commissioner may not execute these RIK contracts without the approval of the legislature.

[4:37:12 PM](#)

VICE CHAIR MICCICHE returned attention to the chart on slide 18 and related that he calculated that on average from 2008 to 2021, the royalty in-value proceeds were about 1.5 percent more than the royalty in-value valuation. He asked Mr. Meza if he agreed.

MR. MEZA answered that he believed that was correct.

VICE CHAIR MICCICHE asked if an appropriate way to view the difference was that the RIK was closer to 14 percent compared to 12.5 percent for RIV.

MR. MEZA answered that could be one interpretation, but in this case the extra percentage comes from the refiners, not the producers.

VICE CHAIR MICCICHE responded that he was looking at the bottom line, not the source of the premium.

[4:38:32 PM](#)

MR. MEZA advanced to slide 21 and described the chart of the timeline for the proposed sale of RIK oil for Marathon and Petro Star, all of which was described previously. The legislature is doing its review, which is required prior to execution of the contracts.

MR. MEZA moved on to discuss the contract terms for Marathon and Petro Star. He directed attention to the chart on slide 23 that provides information about recent contracts for the sale of royalty oil in-kind. It's the same chart depicted on slide 12, but the last two columns provide information about Netback pricing and the RIK differential. He pointed out that since 2016 the royalty barrels for sale has dropped and now the production of refined products is 10-20 percent less.

MR. MEZA stated that what these contracts have in common is that the value of royalty oil in-kind is calculated using the netback methodology for pricing. Because DNR sells the royalty oil at the field, they netback all the costs associated with transportation and the adjustments for quality of the different

sources of oil. The calculation also includes an RIK differential that is tied to the royalty price at the field. The last column shows how the RIK differential has gone up since 2016 when it was \$1.95/bbl. The proposed contracts under review have an RIK differential value of \$2.23/barrel for Marathon and \$2.25/barrel for Petro Star.

[4:41:39 PM](#)

MR. MEZA advanced to slide 24, Contract Terms for Marathon and Petro Star RIK Differential is the Source of the Premium of RIK over RIV. It provides a graphical representation of the netback methodology to calculate the price of royalty in-kind at the field. The graphic on the left is a representation of what the royalty oil price would be if the state were to select its royalty in-value. When the state selects RIV, the producers typically sell the oil into the Lower 48 and the state receives a share of the proceeds from the lessees. To calculate the price of RIV oil at the field, transportation costs, including the allowance for marine transportation, are calculated. He clarified that the costs shown were for illustrative purposes and to show how the RIK compares to RIV.

The graphic on the right illustrates the royalty in-kind oil sale. The primary difference is that the oil is sold inside the state. There is no marine transportation allowance but there is the RIK differential. This shows where the premium comes from that Senator Micciche referenced. It's the difference between the per barrel cost of the marine transportation allowance and the RIK differential. In this illustration the difference is \$1.25 per barrel.

[4:43:46 PM](#)

MR. MEZA advanced to slide 25 Contract Terms for Marathon and Petro Star RIK Differential is the Source of the Premium of RIK over RIV. The graph provides historical information of the difference between the marine transportation allowance and the value of the RIK differential. The gray line reflects the weighted-average RIK differential; the blue line the weighted-average marine transportation allowance, and the green dashes reflect the DOR location differential. The distance between the blue line and the gray line gives evidence of the source of the premium that DNR has gotten through its sales of RIK oil. The green dashes shows the increase in the location differential for the proposed contracts. [Further explanation from slide 25 is provided below:]

- 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.

[4:44:35 PM](#)

MR. MEZA advanced to slide 26 Contract Terms for Marathon and Petro Star Flexibility for Buyer and Seller. He said this chart provides a description of all the provisions in the contracts. It highlights that both the refineries as buyer and the state as seller have flexibility. He reviewed the following:

**Flexibility for the RIK buyer (refineries)**

RIK buyer may...

1. nominate **0 barrels** for up to 2 consecutive months or for 3 months under "turnaround" clause.
  2. request, subject to DNR approval, a **permanent reduction** of nominations below what was agreed.
  3. temporarily reduce royalty oil purchase under force majeure event.
  4. request, subject to DNR approval, **additional** royalty oil for purchase.
- RIK buyer may **temporarily** nominate below the agreed range but must meet a minimum annual amount.

**Flexibility for the RIK seller (DNR)**

1. **Proration:** 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. **No guarantee** in the quantity, quality, or source of royalty oil
3. **Excess royalty:** DNR can sell additional ANS royalty oil if all nominations are below the 95% threshold and RIK buyers wish to buy more royalty oil.

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MR. MEZA advanced to slide 27 Contract Terms for Marathon and Petro Star Other Provisions. It shows the details in the contract such as financial assurance in the event the buyer is unable to pay the invoices for the sale of the royalty oil. The grantor of the RIK buyer has the option of providing the state:

1. Letter of credit
2. Surety bond or
3. Opinion letter by an independent financial analyst that the current and projected credit rating of guarantor is at investment grade

MR. MEZA stated that the value of the assurance is valued at 90 days' worth of royalty oil in the Marathon contract and 50 days' worth of royalty oil in the Petro Star contract. The contracts also have the following retroactivity provisions:

- 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).

MR. MEZA reviewed the provisions in the contracts to encourage the buyers to process the royalty oil in the state and to hire Alaska residents:

- **In-state processing:** RIK buyer agrees to use commercially reasonable efforts to manufacture refined products from the royalty oil in Alaska.
- **Employment of Alaska residents:** 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

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MR. MEZA advanced slide 28 Contract Terms for Marathon and Petro Star Contracts are in the Best Interest of the State. He said this slide highlights the cash benefits of the proposed sales. It is the revenue in addition to what the state would have

received had it elected to take 100 percent of its royalty oil in-value. He described the following:

**Additional** revenue to the State

Tesoro 2016	\$31 million
Petro Star 2016 multiyear contract	\$23 million
Marathon (2021)	\$3 million
Petro Star 2021	\$0.7 million
Marathon (2022) estimate	\$3-14 million
Petro Star (2022) estimate	\$17-19 million

[4:48:15 PM](#)

SENATOR BISHOP asked if the provision on slide 27 about employment of Alaska residents was in statute or regulation.

MR. MEZA answered that it it's a provision in the contract.

JOHN CROWTHER, Deputy Commissioner, Department of Natural Resources (DNR), Anchorage, Alaska, added that the department's statutory basis for that provision is the general authority to negotiate terms in a contract.  
Because he's "an Alaska hire guy."

[4:49:40 PM](#)

SENATOR KIEHL noted that a lot more royalty barrels than were being sold in-kind. He asked what factors go into the decision to sell oil from a particular field.

MR. MEZA answered that there are two considerations:

1. When the department expects the royalty in-value to be the lowest value it substitutes the lowest value of royalty oil with the comparatively higher value of royalty oil in-kind.
2. DNR also selects royalty oil in-kind from fields that generate the largest amount of royalty oil, such as Prudhoe Bay and Kuparuk.

[4:50:50 PM](#)

SENATOR KIEHL asked about the chart on slide 25 that compared the marine transportation allowance to the royalty in-kind differential. The chart looks like \$2/barrel but it has to be \$0.80-0.90/barrel to get ahead. He asked Mr. Meza to describe the difference.

MR. MEZA answered that the main source of the premium for the royalty in-kind contracts does come from the difference between the marine transportation costs and the RIK differential, but

other elements in the netback methodology could create differences in the initial premium. The graph that shows the \$0.93/barrel premium is the combined effect of the differences between these elements of the netback methodology.

[4:52:27 PM](#)

SENATOR KIEHL asked if he would provide a few examples of the factors that ultimately reduce the premium.

MR. MEZA referred to slide 24. The only difference in the values on the right of the two graphics comes from the difference between the marine transportation allowance and the RIK differential. The other transportation costs and adjustments in Step 3 of both graphics reflect -\$6/bbl, but there are slight variations. For the purposes of valuing RIV, this valuation is determined by a set of agreements that the state entered with producers in the early '90s. These settlement agreements have unique ways of determining things such as how the price of ANS oil should be calculated on the US West Coast. That alone creates a difference between RIV and RIK. By design it's impossible for the valuations to be identical because the settlement agreements differed between producers on the North Slope where the state receives its royalty in-value.

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SENATOR KIEHL asked for help squaring what he read in the discussion in the best interest finding about not being able to retroactively adjust transportation charges unless they were required by FERC with the retroactivity provision on slide 27 that provides eight years to adjust invoices.

MR. MEZA said he'd like to follow up after the presentation because the contracts are sometimes changed by FERC or RCA directives regarding tariffs in some pipelines and he didn't precisely recall the cases DNR did not retroactively adjust.

SENATOR KIEHL said that was acceptable.

[4:56:19 PM](#)

VICE CHAIR MICCICHE referred to the chart on slide 28 to highlight the reason the state sells its oil RIK. He said the first four boxes on the far right are actuals although the Petro Star 2021 contract probably isn't up to date, but the \$56 million in actuals are based on the contract price. He said the question he has is the estimate between \$3 and \$14 million for Marathon 2022 and the \$17-19 million in Petro Star is the likely

potential differential of marine transportation costs in relation to oil price. He asked if that was correct.

MR. MEZA answered yes but other elements in the pricing methodology could expand or reduce that estimate. How much the buyer/refiner decides to buy from the state also affects the estimate, and both refiners have a range. As the table shows, the royalty barrels Marathon has ranges from 10,000 - 15,000 barrels per day and for Petro Star the range is 10,000 - 12,500 barrels per day. Additionally, the contract allows the buyer to nominate zero barrels.

VICE CHAIR MICCICHE asked whether there was a possibility that the state could go into deficit in an RIK contract.

MR. MEZA answered it's theoretically possible if oil prices dropped into the negative range like happened for a day or so in 2020, but the price of RIK oil is determined as an average for the month.

VICE CHAIR MICCICHE asked if he agreed that the probability was essentially nonexistent.

MR. MEZA answered yes.

[5:00:03 PM](#)

VICE CHAIR MICCICHE opened public testimony on SB 239.

[5:00:27 PM](#)

DOUG CHAPADOS, President/CEO, Petro Star, Anchorage, Alaska, stated support for SB 239 to approve Petro Star's five-year royalty oil contract. He related that Petro Star is a wholly owned subsidiary of Arctic Slope Regional Corporation. It is the state's only Alaska-owned refiner with fuel terminals in Anchorage, Valdez, Kodiak, Unalaska Island, and the Interior. Petro Star owns commercial refineries in North Pole and Valdez, and the Trans Alaska Pipeline System (TAPS) is its only source of crude oil. Thus the proposed contract is essential for the company to continue operation.

MR. CHAPADOS recounted the variety of products that Petro Star produces. These include jet fuel for commercial airlines and over 90 percent of the jet fuel consumed at the Department of Defense and U.S. Coast Guard installations in the state. The refiner also produces heating oil for residential and commercial customers, ultra-low-sulfur diesel, fuel for on and off road

uses, asphalt, and specialty low sulfur turbine fuel exclusively for the Golden Valley and Copper Valley electric associations.

MR. CHAPADOS highlighted that the best interest finding explained that this contract is good for the state in terms of maximizing revenues generated from Alaska's royalty oil share and by helping maintain the in-state petroleum refining industry, which preserves competition within the state's fuel market. He encouraged the committee to pass SB 239 and approve the RIK contract.

[5:03:08 PM](#)

VICE CHAIR MICCICHE closed public testimony on SB 239. Finding no questions or comments, he solicited a motion.

[5:03:20 PM](#)

SENATOR STEVENS moved to report SB 239, work order 32-GS 2121\A, from committee with individual recommendations and attached [fiscal note(s)].

VICE CHAIR MICCICHE found no objection and SB 239 was reported from committee.

[5:03:48 PM](#)

At ease

^#sb240

**SB 240-APPROVE MARATHON PETRO ROYALTY OIL SALE**

[5:04:20 PM](#)

VICE CHAIR MICCICHE reconvened the meeting and announced the consideration of SENATE BILL NO. 240 "An Act approving and ratifying the sale of royalty oil by the State of Alaska to Marathon Petroleum Supply and Trading Company LLC; and providing for an effective date."

VICE CHAIR MICCICHE noted that SB 239 and SB 240 were moving in tandem and that the committee understood the concept that was described in the presentation that was delivered during the hearing on SB 239. He asked the DNR representatives Mr. Meza and Mr. Crowther if they had any comments.

JOHN CROWTHER, Deputy Commissioner, Department of Natural Resources (DNR), conveyed that they did not have any additional comments or statements.

VICE CHAIR MICCICHE clarified for the public that the concept for SB 240 and SB 239 was the same but the royalty contracts were for different refiners.

[5:04:54 PM](#)

VICE CHAIR MICCICHE opened public testimony on SB 240.

[5:05:17 PM](#)

CASEY SULLIVAN, Government and Public Affairs Manager, Marathon Petroleum, Anchorage, Alaska, noted that he submitted a letter as part of the record. He stated that it was Marathon's pleasure to share its support for Senate Bill 240. He stressed that the flexibility, and stability that the contract offers will have a positive impact on Marathon's ability to optimize the ongoing operations at the Kenai refinery.

MR. SULLIVAN reminded the committee that the Kenai refinery was the first refinery in the state and had been operating for more than 50 years. It provides the state with core supplies of jet fuel, diesel, gasoline, propane, and asphalt from Nikiski to North Pole.

He described the legislation as the result of constructive dialog and productive negotiations between DNR and Marathon. He expressed appreciation for the professional work by the division and confidence that the contract provides positive shared value for all Alaskans.

MR. SULLIVAN concluded his testimony stating that Marathon believes in Alaska's future and is committed to continue its legacy of safely and reliably producing quality fuel produces day in and day out for Alaskans. He thanked the committee for considering SB 240 and urged its passage.

[5:07:20 PM](#)

VICE CHAIR MICCICHE closed public testimony on SB 240.

[5:07:28 PM](#)

SENATOR STEVENS moved SB 240, 32-GS 2122\A, from committee with individual recommendations and attached [fiscal notes].

VICE CHAIR MICCICHE found no objection and SB 240 was reported from the Senate Resources Standing Committee.

[5:08:15 PM](#)

There being no further business to come before the committee, Vice Chair Micciche adjourned the Senate Resources Standing Committee meeting at 5:08 p.m.