

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 16, 2025

1:37 p.m.

**MEMBERS PRESENT**

Representative Robyn Niayuq Burke, Co-Chair  
Representative Maxine Dibert, Co-Chair  
Representative Carolyn Hall  
Representative Donna Mears  
Representative Zack Fields  
Representative Dan Saddler  
Representative George Rauscher  
Representative Julie Coulombe  
Representative Bill Elam

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 194

"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 HB 194 OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 18

Supporting the continued development of the Alaska Liquefied Natural Gas Project; recognizing the importance of the Alaska Liquefied Natural Gas Project to the economy of the state, energy independence, and national security; and urging the United States Congress, President Donald J. Trump, Secretary of the Interior Douglas Burgum, and relevant federal agencies to take all necessary actions to expedite the success of the Alaska Liquefied Natural Gas Project.

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 194

SHORT TITLE: APPROVE MARATHON PETRO ROYALTY OIL SALE

SPONSOR(s) : RULES BY REQUEST OF THE GOVERNOR

04/15/25 (H) READ THE FIRST TIME - REFERRALS  
04/15/25 (H) RES, FIN  
04/16/25 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

JOHN CROWTHER, Deputy Commissioner  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint regarding HB 194 and provided a brief summary of the bill.

RYAN FITZPATRICK, Commercial Manager  
Division of Oil & Gas  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Co-presented a PowerPoint regarding HB 194.

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

**POSITION STATEMENT:** Testified in support of HB 194.

**ACTION NARRATIVE**

[1:37:02 PM](#)

CO-CHAIR BURKE called the House Resources Standing Committee meeting to order at 1:37 p.m. Representatives Coulombe, Rauscher, Hall, Mears, Elam, and Burke were present at the call to order. Representatives Fields, Saddler, and Dibert arrived as the meeting was in progress.

**HB 194-APPROVE MARATHON PETRO ROYALTY OIL SALE**

[1:37:45 PM](#)

CO-CHAIR BURKE announced that the only order of business would be HOUSE BILL NO. 194, "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."

[1:38:02 PM](#)

JOHN CROWTHER, Deputy Commissioner, Department of Natural Resources (DNR), co-presented a PowerPoint titled "House Bill - pending introduction Approve Marathon Royalty Oil Sale House Resources Committee" [hard copy included in the committee packet] and provided a brief summary regarding the purpose of HB 194. He explained that it was an authorization to enter into a contract which was a continuation of a long-standing process the state of Alaska has had to dispose of its royalty in-kind oil (RIK). This agreement supports in-state refining and leads to revenue for the state.

[1:38:42 PM](#)

RYAN FITZPATRICK, Commercial Manager, Division of Oil & Gas, Department of Natural Resources, co-presented a PowerPoint, titled "House Bill -pending introduction Approve Marathon Royalty Oil Sale House Resources Committee." He showed slide 2, titled "What is 'Royalty In-Kind'?" which read as follows [original punctuation provided]:

Oil and gas leases issued by the State reserve a "royalty share" to the State - a portion of production that the State receives as owner of the resource.

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 production; the State receives the proceeds from the sale of its royalty oil, subject to fair market value

- RIK: Lessees provide royalty oil or gas of sales quality to the State; the State is responsible for marketing its royalty oil or gas

Department of Natural Resources (DNR) has statutory processes for receiving royalty:

- Alaska Statute (AS) 38.05.182 requires DNR to make best interest findings for RIV and RIK determinations, and requires the commissioner report annually to the Legislature about these elections

- AS 38.05.183 guides DNR in the sales of RIK and requires that contracts meet a number of statutory

criteria and, in certain cases, receive legislative approval before being entered into

- AS 38.06 establishes the Alaska Royalty Oil and Gas Development Advisory Board, which reviews royalty-in-kind actions by DNR

[1:40:02 PM](#)

MR. FITZPATRICK moved to slide 3, titled "Royalty - A Core Lease Term," which showed an example of the type of lease addressed by HB 194. The lease dated 2002 served as an example of the state reserving royalty shares to the state, where the royalty shares serve as compensation for the lease of state oil and gas lands. He proceeded to slide 4 which showed a map of North Slope oil and gas leases, including leases which are in production and leases which are under exploration and not producing yet. The oil being taken as royalty-in-kind (RIK) has been predominately from the North Slope.

[1:41:16 PM](#)

MR. FITZPATRICK moved to slide 5, titled "Royalty In-Kind Contract History," which read as follows [original punctuation provided]:

- The State has historically selected to receive royalty oil both in-kind and in-value
- About 97 percent of the State's royalty oil in-kind selections have been for North Slope oil
- The amount of RIK oil that the State sells varies and depends many factors:
  - Alaska North Slope (ANS) oil production from state-owned lands
  - Royalty rates for State oil and gas leases
  - State's selection of the fields from which to choose RIK oil
  - Quantity of crude oil sought by in-state refineries or other potential buyers
  - Competitiveness of ANS royalty oil versus other sources of crude oil for instate refineries or other potential buyers

Slide 5 also showed a graph, titled "Historical North Slope royalty oil January 1980 - November 2024," which compared the RIK oil and the royalty in-value (RIV) oil. He discussed the volumes of oil and how and why the percentages varied.

[1:42:08 PM](#)

MR. FITZPATRICK proceeded to slide 6, titled "Royalty In-Kind Contract History," which read as follows [original punctuation provided]:

- Almost all the nearly one billion barrels sold to date have been sold via non-competitive sales
- Less than 5 percent has been sold via competitive sales
- The large majority of RIK oil sold to date has been to in-state entities, with a few historical cases where RIK oil was sold for export outside of Alaska

A graph on slide 6 showed RIK sales from 1979 through 2024. It detailed purchasers, types of contracts, and volumes of oil, pointing out contracts with Petro Star and Tesoro/Marathon which supported the Nikiski refinery. The Tesoro/Marathon contract was set to expire in 2025, and HB 194 would replace the expiring contract.

[1:43:06 PM](#)

MR. CROWTHER explained that the legislature had laid out a process for DNR to follow when entering into this type of contract. He showed slide 7, titled "Processes and Legislative Approval," which read as follows [original punctuation provided]:

RIK contract development and execution involves several significant steps:

- DNR commissioner follows a statutory process to negotiate a proposed sale; then DNR publishes a proposed finding describing the terms and reasons for the sale
- DNR must brief the Alaska Royalty Oil and Gas Development Advisory Board (AS 38.06) on the proposed sale and receive the Board's review and approval
- After receiving public comment on the proposed findings, DNR publishes a final best interest finding
- AS 38.06.055 requires authorization by the Legislature before a contract can be executed

There are limited exceptions to this process, such contracts to relieve storage or market conditions with a duration of one year or less, and contracts for sales of 400 barrels per day or less. These exceptions do not apply to the Marathon contract now under consideration.

He explained that the advisory board recommended adopting the contract. The recommendation, resolution in support of the contract, and a best interest finding were included in the committee packet.

[1:44:08 PM](#)

MR. CROWTHER proceeded to slide 8, titled "Royalty Board Review," which read as follows [original punctuation provided]:

AS 38.06.050 requires the Alaska Royalty Oil and Gas Development Advisory Board:

- To provide a written recommendation of the board on the proposed sale, submitted to the Legislature at the time a bill approving the proposed sale is introduced, and
- To provide a report on the criteria used to evaluate the proposed sale

The slide included screenshots of the resolution provided by the board. The information on slide 8 regarding the royalty board review was further supported by the statutory criteria detailed on slide 9, titled "Royalty Board Review Criteria," which read as follows [original punctuation provided]:

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.

(b) When it is economically feasible and in the public interest, the board may recommend to the commissioner of natural resources, as a condition of the sale of oil or gas obtained by the state as royalty, that

(1) the oil or gas be refined or processed in the state;

(2) the purchaser be a refiner who supplies products to the Alaska market with price or supply benefits to state citizens; or

(3) the purchaser construct a processing or refining facility in the state.

The 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.

[1:44:52 PM](#)

MR. FITZPATRICK turned to slide 10, titled "Recent RIK Contracts." The graph provided contract details including who the contract is with, the time period, the royalty barrels for sale, the royalty board review, and the status of legislative approval. He referred to the lower section of the chart which included information regarding the contract proposed in HB 194. He explained that the last two contracts with Marathon and Petro Star were renegotiated in 2022. The Marathon contract was a three-year contract, which explained the need for renegotiation. He pointed out the specification of a three-year primary term

which could extend to ten years if all parties were in agreement, a difference from previous contracts.

[1:47:12 PM](#)

MR. FITZPATRICK moved to slide 10, titled "Competitive vs. Non-Competitive Sales," which detailed statutory directives and read as follows [original punctuation provided]:

- AS 38.05.183 requires the sale of royalty oil be by competitive bid, unless determined that the best interest of the State does not require it or no competition exists
  
- A non-competitive sale requires a written finding by DNR; for the Marathon contract, a Final Best Interest Finding was published on April 14, 2025
  
- 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

When awarding a royalty sale the commissioner shall consider:

- The cash value offered;
- The projected effects of the sale, exchange, or other disposal on the economy of the state;
- The projected benefits of refining or processing the oil or gas in the state;
- 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
- The criteria listed in AS 38.06.070(a)

There have been very limited competitive sales in the past:

- Competitive sales of RIK oil only occurred in 1981, 1985, and 1986
- Less than 5 percent of RIK oil (46 million barrels of approximately one billion overall barrels) sold to date has been via competitive sales

[1:48:26 PM](#)

MR. FITZPATRICK showed slide 12, titled "RIK's In-State Priority," which read as follows [original punctuation provided]:

DNR is statutorily directed to give a priority to in-state RIK sales

Sec. 38.05.183. Sale of royalty.

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.

He pointed out that the statute directed DNR to give a priority to in-state refining. The only RIK contracts at the time of the presentation were with Marathon and Petro Star.

[1:49:15 PM](#)

MR. FITZPATRICK proceeded to slide 13, titled "The Historical Premium for RIK Sales." A chart labeled "Premium of RIK Price over RIV Price for ANS Royalty Oil January 2008 - November 2024" showed that the state has consistently received a premium above the average of the (RIV). He stated that the higher average was, in part, due to the sales within the state. The slide summarized information regarding RIK sales and read as follows [original punctuation provided]:

- 11 Alaska Administrative Code 03.026(b) states that the RIK price should be at least equal to the RIV price
- From 2008 - 2023 the average RIK price was \$1.25/bbl higher than that RIV price
- The State sold over 173 million barrels of royalty oil during this period

- RIK sales proceeds were \$12.99 billion
- The State made over \$188 million in revenue compared to taking the royalty barrels in-value

Continuing with slide 14, titled "RIK Process Overview," he touched briefly on the steps of the RIK contract process and moved to slide 15, titled "Recent RIK Contract Key Terms," which reviewed key contract terms. He highlighted the pricing term in the most recent contract, the RIK differential. He described it as a contractual item negotiated between the parties, explaining that in the past the state negotiated a fixed value for the RIK differential and providing details regarding how the costs were calculated. Recently, the Department of Revenue (DOR) received all the contracts for in-state sales of oil and published a volume-weighted average of the location differential for all the contracts in the state. This year, instead of negotiating a fixed dollar value for the RIK differential, the RIK differential was pegged to the volume-weighted average published by the DOR. He described the premium negotiated for the state and how that effected the value received for the state's RIK oil.

[1:52:42 PM](#)

MR. FITZPATRICK moved to slide 16, titled "Why RIK?" which showed value calculations of the producers selling oil outside Alaska compared to when producers sell oil in the state. He proceeded to slide 17, titled "RIK Pricing Formula," which summarized the calculations for determining the RIK price. He showed slide 18, titled "Contract Terms for Marathon Using DOR Location Differential," which read as follows [original punctuation provided]:

Proposed RIK differential = DOR Location Differential minus 24 cents/bbl

- Difference between marine deduction and RIK differential largely drives RIK premium over RIV
- New methodology allows for dynamic RIK differential deduction over contract term
- DNR estimates \$1.08/bbl RIK premium
- This would result in approximately \$4.9 million incremental revenue per year of the contract over RIV if Marathon purchases an average of 12.5 thousand barrels of oil per day (mbopd)

He explained that the graph illustrated costs of marine transportation. He discussed how the location differential was

analogous to marine transportation, pointing out the RIK differential and the DOR location differential.

[1:55:09 PM](#)

MR. FITZPATRICK presented slide 19, titled "Maximum Benefit to Alaskans," which read as follows [original punctuation provided]:

As required by AS 38.05.183(e), the Marathon RIK contract maximizes the benefits to the State:

- The sale results in royalty premiums to the State compared to the average RIV values
  - Incremental increase in State revenue by \$4 to \$6 million per year
- In-state refining supports Alaskan jobs
  - Marathon provides 220 full-time positions at its Nikiski refinery, over 60 contracted positions and 40 positions at Anchorage and North Pole terminals
- Producing refined products in Alaska reduces the costs to Alaskans
- Fuel security is economic security
  - Marathon's Kenai refinery produces 55,000 barrels of refined product per day
    - 30 percent is jet fuel supplied to Ted Stevens Anchorage International Airport - nearly half the airport's demand
    - 27 percent is gasoline, which is consumed in state
    - 43 percent is a combination of liquid petroleum gas, fuel oil, asphalt and other products

He said the Marathon RIK contract would generate 4-6 million dollars per year in additional state revenue as well as supporting refinery activities and the maximum benefit of the resources for Alaska.

[1:56:29 PM](#)

MR. FITZPATRICK responded to a question from Representative Saddler by explaining that the RIK contracts were renegotiated on a periodic basis and were subject to commercial negotiations between the state and counter parties. The new pricing mechanism would likely be proposed in future negotiations.

[1:57:35 PM](#)

Mr. CROWTHER responded to Representative Saddler's suggestion that the pricing mechanism could be one of the terms of the contract negotiations, saying that could be a possibility if it was beneficial to the state.

[1:58:00 PM](#)

REPRESENTATIVE RAUSCHER said that on slide 13, what happens when the dot is below zero.

MR. FITZPATRICK, in response to a question from Representative Rauscher, explained that the dots on slide 13 represented the premiums received for RIK. When they were above zero, it meant a premium for RFK sales, but when they dropped below zero, those contracts resulted in sales that were less than the equivalent of RIV. He noted that sales consistently stayed above zero and that the lower sales were rare.

[1:59:13 PM](#)

MR. CROWTHER, in response to questions from Representative Rauscher and Representative Coulombe, pointed out that the RIK process for the Marathon sale was on slide 11. He explained that an approval of the contract would include extensions, so DNR wouldn't have to return to the legislature each year. The department would assess whether that extension year to year was in the state's interest.

[2:00:02 PM](#)

MR. FITZPATRICK addressed a question posed by Representative Elam, noting that slide 10 showed the volumes of oil produced under Petro Star and Marathon contracts and referring to in-state demand for refined fuels. He also described situations in which the companies purchased oil from other sources.

[2:02:43 PM](#)

CO-CHAIR BURKE opened public testimony on HB 194.

[2:02:00 PM](#)

CASEY SULLIVAN, Government and Public Affairs Manager, Marathon Petroleum, spoke in support of HB 194 and referred to the letter of support in the committee packets. He explained that the contract provided availability, flexibility, and stability and would have a positive impact on the company's ability to

optimize operations at the Marathon Kenai refinery. He talked about the refinery's production numbers, emphasizing how Marathon supported Alaskans and the Alaska economy. He pointed out that the oil purchased under the contract would remain in state, creating a win-win for Alaska. At the same time, Marathon would get a stable supply of Alaska North Slope crude while giving flexibility to accommodate for seasonal fluctuations in demand.

[2:04:57 PM](#)

CO-CHAIR BURKE closed public testimony on HB 194.

[2:05:06 PM](#)

CO-CHAIR DIBERT moved to report HB 194, work order 34-GH1086\A out of committee with individual recommendations and the accompanying zero fiscal notes. There being no objections, HB 194 moved out of committee.

[2:06:02 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:06 p.m.