

SENATE FINANCE COMMITTEE
April 28, 2025
1:33 p.m.

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CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Mike Cronk
Senator James Kaufman
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

None

ALSO PRESENT

Lacey Sanders, Director, Office of Management and Budget;
John Crowther, Deputy Commissioner, Department of Natural Resources;
Ryan Fitzpatrick, Commercial Manager, Division of Oil and Gas, Department of Natural Resources; Senator Cathy Giessel.

PRESENT VIA TELECONFERENCE

Cori Mills, Deputy Attorney General, Department of Law, Juneau;
Matt Gill, Government Affairs Manager, Marathon Petro, Anacortes, Washington.

SUMMARY

SB 176 APPROVE MARATHON PETRO ROYALTY OIL SALE

SB 176 was HEARD and HELD in committee for further consideration.

OFFICE OF MANAGEMENT and BUDGET: BUDGET AMENDMENTS

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LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, (OMB) discussed the presentation, "State of Alaska; Office of Management and Budget; FY2026 Governor Amended Budget; Senate Finance Committee" (copy on file). She began with slide 2, "FY2026 Updated Fiscal Summary."

Co-Chair Stedman wondered whether there had been a consideration to balance the budget in 2026 with the amendments.

Ms. Sanders replied that there were no significant reductions from the governor's proposed budget.

Senator Merrick wondered whether the governor was willing to work with the legislature to meet the three-quarter vote threshold to use the CBR.

Ms. Sanders replied that the governor was willing to work with and have conversations with the legislature to determine the outcome of the budget and the revenue sources needed.

Co-Chair Hoffman wondered whether Ms. Sanders was the point of communication to address the issue.

Ms. Sanders replied in the affirmative.

Co-Chair Hoffman wondered whether the conversations with the House of Representatives minority caucus.

Ms. Sanders replied that there were frequent conversations.

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Co-Chair Hoffman stressed that addressing the deficit was important to not have a government shutdown, and asked about efforts to address the budget needs.

Ms. Sanders replied that there were several appropriation bills.

Co-Chair Hoffman remarked that most items in the supplemental budget were the governor's items. He wanted to know the latest dialogues with the House minority to address FY 25's budget.

Ms. Sanders agreed to follow up.

Co-Chair Hoffman stressed that the FY 25 budget should have been finalized by the current point in the session. He stressed that he had not received any update from the governor.

Ms. Sanders apologized, and agreed to make a better effort.

Co-Chair Stedman wanted to know the action plan if the budget did not move forward.

Ms. Sanders replied that there was evaluation of each item and how to address the needs of the state.

Co-Chair Hoffman stressed that the issue was about working together in a timely manner to find a solution.

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Ms. Sanders pointed to slide 3, "Operating Governor Amend Requests."

Co-Chair Stedman wanted to know whether the amendments addressed the FY 25 budget or the FY 26 budget.

Ms. Sanders replied that the amendments on slide 3 addressed FY 26.

Co-Chair Stedman wondered whether the money used for the cash flow for the environmental requests required a backfill of cash.

Ms. Sanders replied that there was borrowing from the capital appropriations.

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Co-Chair Hoffman remarked that all contracts had been received for the FY 26 budget.

Ms. Sanders addressed slide 4, "Operating Supplemental Requests."

Ms. Sanders looked at slide 5, "Capital Supplemental Requests."

Co-Chair Stedman asked whether the judgments and settlements had been addressed in the presentation.

Ms. Sanders replied in the affirmative.

Co-Chair Stedman wanted to hear more detail of the judgments and settlements related to foster care.

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CORI MILLS, DEPUTY ATTORNEY GENERAL, DEPARTMENT OF LAW, JUNEAU (via teleconference), stated that the case was resolved mostly in the state's favor, so the payments would remain the same. There was an additional notice requirement.

Co-Chair Stedman requested a summary of the comments.

Ms. Mills agreed to provide that information.

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AT EASE

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RECONVENED

#sb176

SENATE BILL NO. 176

"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."

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JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, (DNR) introduced himself. He introduced the legislation.

RYAN FITZPATRICK, COMMERCIAL MANAGER, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, discussed the presentation, "Senate Bill 176: Approve Marathon, Petro Royalty Oil Sale, Senate Finance Committee" (copy on file). He began with slide 2, "What is "Royalty In-Kind?"

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

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Co-Chair Stedman wondered whether the department would look at the royalty-in-value and royalty-in-kind and provide a recommendation.

Mr. Crowther replied that there had been many discussions about the frameworks for those different royalty contexts.

Co-Chair Stedman asked when those discussions would occur, and whether there was a plan to educate the legislature.

Mr. Crowther replied that the Department of Natural Resources (DNR) should be engaged at every point in the project. He stated that at the point of agreement it would

be the time DNR would undertake decisions about the royalty disposition. He felt that the analyses were already underway.

Co-Chair Stedman stressed that he had not seen any modeling from DNR on the issue.

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Mr. Fitzpatrick pointed to slide 3, "Royalty - A Core Lease Term."

Mr. Fitzpatrick addressed slide 4, "Sources of North Slope Royalty."

Mr. Fitzpatrick looked at slide 5, "Royalty In-Kind Contract History":

- 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 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

Mr. Fitzpatrick highlighted slide 6, "Royalty In-Kind Contract History":

- 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

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Mr. Fitzpatrick displayed slide 7, "Processes and Legislative Approval":

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 comments 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 as 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.

Co-Chair Stedman wondered whether the proposal was accepted or rejected; or merely reviewed as a courtesy.

Mr. Crowther replied that the contract was submitted to the legislature for approval.

Co-Chair Stedman surmised that there would be a similar bill attached to a potential major gas line.

Mr. Crowther replied that DNR would follow all provisions within current law.

Co-Chair Stedman requested a process.

Mr. Crowther agreed to provide that information.

Mr. Fitzpatrick looked at slide 8, "Royalty Board Review":

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

Mr. Fitzpatrick discussed slide 9, "Royalty Board Review Criteria":

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

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

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

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

(4) the projected social impacts of the transaction;

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

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

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

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

(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.

Mr. Fitzpatrick displayed slide 10, "Recent RIK Contracts."

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Senator Kiehl wondered whether there were ten-year royalty-in-kind contracts in the past.

Mr. Fitzpatrick replied that he did not believe that there were previous similar agreements.

Senator Kiehl asked whether the board examined the issue.

Mr. Fitzpatrick replied that the board reviewed the initial contract, but there was not a statutory requirement to appear before the board for each renewal.

Mr. Fitzpatrick pointed to slide 11, "Competitive vs. Non-Competitive Sales":

- 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

Mr. Fitzpatrick looked at slide 12, "Royalty-In-Kind In-State Priority":

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.

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Mr. Fitzpatrick discussed slide 13, "Historical Premium for RIK Sales":

- 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

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Co-Chair Stedman asked whether the reason was because there was savings to transportation costs on the waterways.

Mr. Fitzpatrick replied in the affirmative.

Co-Chair Stedman wondered whether there was an expectation of a lower tariff bringing gas closer north.

Mr. Crowther replied that one element of the deduction was the transportation cost.

Co-Chair Stedman recalled that there had been discussion on the tariff and whether it could be the same whether the gas was shipped to Fairbanks or Anchorage.

Mr. Crowther replied that the destination was meaningful to the tariff.

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Co-Chair Stedman remarked that the question was whether there could be a different way to set the tariff.

Mr. Crowther replied that there could be a different structure, should those processes occur.

Mr. Fitzpatrick pointed to slide 14, "RIK Process Overview."

Mr. Fitzpatrick looked at slide 15, "Recent RIK Contract Key Terms."

Mr. Fitzpatrick displayed slide 16, "Why RIK?"

Mr. Fitzpatrick pointed to slide 17, "RIK Pricing Formula":

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Mr. Fitzpatrick discussed slide 18, "Contract Terms for Marathon Using DOR Location Differential":

- 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)

Mr. Fitzpatrick pointed to slide 19, "Maximum Benefit to Alaskans":

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

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Co-Chair Stedman wondered what would happen if the legislature did not approve the contract.

Mr. Fitzpatrick replied that the contract would not be executed by DNR, and there would likely be new contract negotiation.

Co-Chair Stedman wondered about the timeframe for a reevaluation.

Mr. Fitzpatrick responded that the contract negotiation extension could be up to one year.

Senator Kiehl asked about who else was interested in the public index.

Mr. Fitzpatrick replied that all of the departments and agencies within the executive branch would examine the index.

Senator Kiehl asked whether any entity in the industry would examine the index.

Mr. Fitzpatrick replied in the affirmative.

Senator Kiehl wondered whether there were implications if someone drove the number artificially high.

Mr. Fitzpatrick responded that everyone involved in the contracts had an interest in ensuring the numbers within the index were correct.

Mr. Crowther thanked the committee.

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Co-Chair Hoffman OPENED public testimony.

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MATT GILL, GOVERNMENT AFFAIRS MANAGER, MARATHON PETRO, ANACORTES, WASHINGTON (via teleconference), spoke in support of the bill.

Co-Chair Hoffman CLOSED public testimony.

Co-Chair Stedman addressed the fiscal note.

SB 176 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

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The meeting was adjourned at 2:50 p.m.