

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

April 23, 2025

3:45 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Bill Wielechowski, Vice Chair
Senator Matt Claman
Senator Forrest Dunbar
Senator Scott Kawasaki
Senator Shelley Hughes
Senator Robert Myers

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE JOINT RESOLUTION NO. 8
Relating to strengthening international relations with Taiwan.

- MOVED SJR 8 OUT OF COMMITTEE

SENATE JOINT RESOLUTION NO. 19
Urging the United States Congress to honor the terms of the Mineral Leasing Act and the Alaska Statehood Act and provide the state with a 90 percent share of all bonuses, royalties, and rentals received by the federal government from the Arctic National Wildlife Refuge and the National Petroleum Reserve in Alaska.

- MOVED CSSJR 19(RES) OUT OF COMMITTEE

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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SJR 8

SHORT TITLE: INTERNATIONAL RELATIONS WITH TAIWAN
SPONSOR(s): SENATOR(s) GRAY-JACKSON

02/14/25 (S) READ THE FIRST TIME - REFERRALS
02/14/25 (S) RES
03/19/25 (S) RES AT 3:30 PM BUTROVICH 205
03/19/25 (S) Heard & Held
03/19/25 (S) MINUTE (RES)
04/23/25 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SJR 19

SHORT TITLE: ANWR & NAT'L PETRO RESERVE: STATE SHARE
SPONSOR(s): SENATOR(s) BJORKMAN

04/10/25 (S) READ THE FIRST TIME - REFERRALS
04/10/25 (S) RES
04/11/25 (S) RES AT 3:30 PM BUTROVICH 205
04/11/25 (S) Heard & Held
04/11/25 (S) MINUTE (RES)
04/14/25 (S) RES AT 3:30 PM BUTROVICH 205
04/14/25 (S) Heard & Held
04/14/25 (S) MINUTE (RES)
04/23/25 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 176

SHORT TITLE: APPROVE MARATHON PETRO ROYALTY OIL SALE
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

04/15/25 (S) READ THE FIRST TIME - REFERRALS
04/15/25 (S) RES, FIN
04/23/25 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

SENATOR ELVI GRAY-JACKSON, District G
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Sponsor of SJR 18.

LAURA ACHEE, Staff
Senator Jesse Bjorkman
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Presented SJR 19 on behalf of the sponsor.

INTIMAYO HARBISON, Staff
Senator Cathy Giessel

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Explained the committee substitute for SJR 19 on behalf of the Senate Resources Committee, Senator Giessel, Chair.

DEREK NOTTINGHAM, Director
Division of Oil and Gas
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Introduced SB 176 on behalf of the Senate Rules Standing Committee, by request of the Governor.

RYAN FITZPATRICK, Commercial Manager
Division of Oil and Gas
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Presented SB 176 on behalf of the Senate Rules Standing Committee, by request of the Governor.

ACTION NARRATIVE

[3:45:43 PM](#)

CHAIR GIESSEL called the Senate Resources Standing Committee meeting to order at 3:45 p.m. Present at the call to order were Senators Dunbar, Myers, Hughes, Wielechowski, Kawasaki and Chair Giessel. Senator Claman arrived thereafter.

SJR 8-INTERNATIONAL RELATIONS WITH TAIWAN

[3:46:31 PM](#)

CHAIR GIESSEL announced the consideration of SJR 8-INTERNATIONAL RELATIONS WITH TAIWAN.

[3:46:55 PM](#)

SENATOR ELVI GRAY-JACKSON, District G, Alaska State Legislature, Juneau, Alaska, explained that SJR 8 would reaffirm Alaska's commitment to strengthening its relationship with Taiwan. It recognizes the deep economic, cultural, and educational ties between Alaska and Taiwan and would foster a mutually beneficial relationship.

[3:47:27 PM](#)

CHAIR GIESSEL opened public testimony on SJR 8; finding none, she closed public testimony.

[3:47:49 PM](#)

CHAIR GIESSEL solicited the will of the committee.

[3:47:52 PM](#)

SENATOR WIELECHOWSKI moved to report SJR 8, work order 34-LS0442\A, from committee with individual recommendations and attached fiscal note(s). He gave authorization for Legislative Legal Services to make technical and conforming changes.

[3:48:03 PM](#)

SENATOR CLAMAN joined the meeting.

[3:48:09 PM](#)

CHAIR GIESSEL found no objection and SJR 8 was reported from the Senate Resources Standing Committee.

SJR 19-ANWR & NAT'L PETRO RESERVE: STATE SHARE

[3:48:19 PM](#)

CHAIR GIESSEL announced the consideration of SENATE JOINT RESOLUTION NO. 19 Urging the United States Congress to honor the terms of the Mineral Leasing Act and the Alaska Statehood Act and provide the state with a 90 percent share of all bonuses, royalties, and rentals received by the federal government from the Arctic National Wildlife Refuge and the National Petroleum Reserve in Alaska.

[3:48:53 PM](#)

LAURA ACHEE, Staff, Senator Jesse Bjorkman, Alaska State Legislature, Juneau, Alaska, said SJR 19 urges Congress to reverse its decision to limit Alaska's share of revenues from oil and gas resource development in the Alaska National Wildlife Refuge (ANWR) to 50 percent. She noted that ANWR is federal land. She said that, at statehood, Alaska was promised a 90 percent share (in both the Alaska Statehood Act and the Mineral Leasing Act). In addition, SHR 19 includes a request for Alaska to receive 90 percent of revenues from production in the National Petroleum Reserve in Alaska (NPRA). The latter was not included in the Alaska Statehood Act or the Mineral Leasing Act. She explained that the 50 percent revenue share that Alaska receives from NPRA production is given to specific regions and programs. The state takes on the work of supporting production in NPRA (through permitting, etc.) but there is no return for the general fund. She shared that, for this reason, the sponsor of SJR 19 felt it was appropriate to include the NPRA production request.

[3:50:48 PM](#)

CHAIR GIESSEL solicited a motion.

[3:50:52 PM](#)

SENATOR WIELECHOWSKI moved to adopt the committee substitute (CS) for [SJR 19], work order 34-LS0840\H, as the working document.

[3:51:03 PM](#)

CHAIR GIESSEL objected for the purpose of discussion.

[3:51:15 PM](#)

INTIMAYO HARBISON, Staff, Senator Cathy Giessel, Alaska State Legislature, Juneau, Alaska, explained that SJR 19, version H changes page 1, lines 6-7, removing any reference to the federal administration. In addition, version H reiterates that the Alaska State Legislature is grateful for the approval and development of the Willow Project along with other projects in the NPRA.

[3:51:52 PM](#)

CHAIR GIESSEL removed her objection.

[3:51:55 PM](#)

CHAIR GIESSEL found no further objection and CSSJR 19 was adopted as the working document.

[3:51:59 PM](#)

CHAIR GIESSEL [opened public testimony on SJR 19]; finding none, she closed public testimony.

[3:52:21 PM](#)

CHAIR GIESSEL solicited the will of the committee.

[3:52:24 PM](#)

SENATOR WIELECHOWSKI moved to report CSSJR 19, work order 34-LS0840\H, from committee with individual recommendations and attached fiscal note(s). He gave authorization for Legislative Legal Services to make technical and conforming changes.

[3:52:39 PM](#)

CHAIR GIESSEL found no objection and CSSJR 19(RES) was reported from the Senate Resources Standing Committee.

SB 176-APPROVE MARATHON PETRO ROYALTY OIL SALE

[3:52:55 PM](#)

CHAIR GIESSEL announced the consideration of SB 176-APPROVE MARATHON PETRO ROYALTY OIL SALE

[3:53:24 PM](#)

DEREK NOTTINGHAM, Director, Division of Oil and Gas, Department of Natural Resources (DNR), Anchorage, Alaska, said that SB 176 would allow the State of Alaska to execute a contract for the sale of royalty oil to Marathon Petroleum (Marathon). He explained that the State of Alaska and Marathon are nearing the end of a 3-year contract for royalty in-kind sales. The current contract expires at the end of July 2025. The new contract would be a 3-year primary term with options for 1-year extensions. The contract would sell 10-15 thousand barrels per day of royalty in-kind oil to Marathon. He said the State of Alaska has a long-standing practice of selling its portion of royalty as oil in-kind, when this maximizes the benefits to Alaskans.

MR. NOTTINGHAM said that the proposed contract facilitates this by capturing a price premium for royalty in-kind oil that is sold in-state. He contrasted royalty in-kind (RIK) (sold in-state) with royalty in-value (RIV) (sold out-of-state). The contract premium would generate additional revenue of approximately \$4 million to \$18 million over the life of the contract. He stated that royalty oil provides a secure source of feedstock oil. In this case, the feedstock oil would be for Marathon's Kenai Refinery, which produces gasoline, jet fuel, and other products used in Alaska. He stated that the commissioner of the Department of Natural Resources (DNR) has completed the determination and best interest finding required by Alaska Statute. The State Royalty Board have likewise completed both the required resolution and report to show that the contract meets all statutory requirements. All of these are included in the supporting documents for SB 176. He said that the final step is legislative approval.

[3:56:03 PM](#)

At ease.

[4:00:26 PM](#)

CHAIR GIESSEL reconvened the meeting.

[4:00:36 PM](#)

RYAN FITZPATRICK, Commercial Manager, Division of Oil and Gas, Department of Natural Resources (DNR), Anchorage, Alaska, advanced to slide 2. He explained that under the proposed contract, the State of Alaska would take a portion of North

Slope production and market that oil in-kind to Marathon's Nikiski Refinery:

[Original punctuation provided.]

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 royalty-in-kind actions by DNR.

[4:02:15 PM](#)

SENATOR CLAMAN asked what percentage of royalty oil belongs to the State of Alaska.

[4:02:46 PM](#)

MR. FITZPATRICK replied that the exact percentage varies by oil field. He said that the North Slope leases that are predominant in terms of production have a 12.5 percent royalty share. Some leases under production have a 16 and two-thirds percent royalty share. The exact total percentage of royalty shares varies over time. He said that the approximate amount of Alaska's royalty oil is somewhere between 12.5 and 16 and two-thirds percent at any given time. He noted that the amount is usually closer to 12.5 or 13.5 percent, considering the vintage of the leases and where the majority of production originates. Currently, the State of Alaska's royalty production is approximately 50 thousand barrels of oil per day.

[4:04:02 PM](#)

SENATOR CLAMAN stated that oil and gas taxes apply to the percentage of oil that does not belong to the State of Alaska. Other revenue that comes to the state results from the sale of the state-owned royalty oil.

[4:04:30 PM](#)

MR. FITZPATRICK agreed. He added that the oil and gas fiscal system includes the royalty percentage (i.e. the percentage the State of Alaska receives as its share of production), and the oil and gas production tax is separately levied on the producer's share of that production. He noted that this tax is administered by the Alaska Department of Revenue (DOR). In addition, there is an oil and gas property tax. Most of the property tax is received by local jurisdictions, although the State of Alaska receives a portion of that tax.

[4:05:07 PM](#)

SENATOR CLAMAN commented on the sale of royalty oil in-kind to Marathon. He shared his understanding that Marathon would purchase that oil directly from the state.

[4:05:19 PM](#)

MR. FITZPATRICK confirmed this understanding. He explained that the State of Alaska sells royalty oil in-kind via a forward sale to Marathon Refining. He reiterated that the State of Alaska receives the payment from Marathon for royalty oil in-kind sales.

[4:05:43 PM](#)

MR. FITZPATRICK advanced to slide 3 and discussed how royalty is a core lease term. Slide 3 contains examples of Alaska lease language and Alaska Oil and Gas Unit Agreement. He noted that these examples reflect the royalty percentage and added that the

royalty percentage is one of the core lease terms for the State of Alaska.

[4:06:10 PM](#)

MR. FITZPATRICK advanced to slide 4 and discussed sources of North Slope royalty. Slide 4 contains a map showing North Slope lease ownership by notification lessee. He explained that this shows the areas where the State of Alaska is predominantly taking its oil as royalty in-kind. He noted Cook Inlet production and explained that the State of Alaska's share of that oil production is not sufficient to meet the volumes that Marathon has requested (as part of the contract under consideration). He explained that the State of Alaska primarily takes royalty oil in-kind (to satisfy its contracts) from its leases on the North Slope. The specific unit varies from month to month.

[4:07:06 PM](#)

MR. FITZPATRICK advanced to slide 5, containing a graph of historical North Slope royalty oil from January 1980-November 2024:

[Original punctuation provided.]

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 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

MR. FITZPATRICK said that the State of Alaska has sold a percentage of its royalty oil as royalty in-kind (RIK) since oil development began in Prudhoe Bay. He directed attention to the chart on slide 5 and explained that this shows the total royalty volume. The green bars reflect the percentage of the total royalty production that the State of Alaska is selling in-kind. While it was historically around 97 percent, the amount of royalty oil sold in-kind has evened out to the 40-50 percent range. He discussed reasons for the monthly percentage variations and noted that in-state refinery maintenance periods can impact the amount of RIK the refineries take for one or two months. He said that generally, one-third to one-half of the State of Alaska's royalty oil production is sold in-kind.

[4:08:41 PM](#)

MR. FITZPATRICK advanced to slide 6, containing a bar graph illustrating North Slope royalty in-kind (RIK) to in-state purchasers since 1979:

[Original punctuation provided.]

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

MR. FITZPATRICK directed attention to the two lines toward the righthand side of the chart, which reflect the State of Alaska's current RIK contracts. One of these is with Marathon's Nikiski Refinery (this is the contract that SB 176 would extend). The other contract is with Petro Star. He briefly discussed Petro Star's oil refineries. He explained that Petro Star renewed its contract in 2022; the new contract included a 5-year renewal term. He noted that Marathon's contract expires in 2025.

[4:10:10 PM](#)

SENATOR KAWASAKI asked about non-competitive sales versus competitive sales. He asked whether many companies request [RIK] contracts. He asked how a non-competitive contract works. He wondered if RIK is generally recognized as the best option.

[4:10:46 PM](#)

MR. FITZPATRICK replied that before entering into contracts for RIK sales with Marathon or Petro Star, the State of Alaska goes through a public solicitation of interest process, which includes a public notice requesting any expressions of interest for purchases of the royalty oil. He said that, historically (for the past decade or more), the only companies to express concrete interest have been Marathon and Petro Star. He briefly described unsuccessful discussions with other potentially interested buyers. He explained that the public solicitation process helps to determine whether there is a market for competitive sale. He said that when concrete interest is limited to the two in-state refiners, there is not sufficient demand to take the entirety of the State of Alaska's royalty oil. In this case, the contracts are negotiated.

MR. FITZPATRICK said that the pricing term is addressed in a future slide. He stated the State of Alaska negotiates contracts that ensure a premium for the state (i.e. the sale amount is higher than the amount that would be obtained if the royalty oil was sold in-value).

[4:12:35 PM](#)

MR. FITZPATRICK advanced to slide 7:

[Original punctuation provided.]

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 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.

MR. FITZPATRICK said that the Alaska Royalty Oil and Gas Development Advisory Board's report is included in the supporting documents for SB 176.

[4:13:28 PM](#)

MR. FITZPATRICK advanced to slide 8, which contains an excerpt from a resolution by the Alaska Royalty Oil and Gas Development Advisory Board (Royalty Board) and an excerpt from a report by the Royalty Board to the Alaska State Legislature. He noted that the full version is included in the supporting documents for SB 176:

[Original punctuation provided.]

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

[4:13:49 PM](#)

MR. FITZPATRICK advanced to slide 9. He stated that the Royalty Board considers each of the following factors when performing the review and compiling its report to the legislature. He emphasized the in-depth nature of the review:

[Original punctuation provided.]

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.

[4:14:43 PM](#)

SENATOR KAWASAKI wondered about the accuracy of the Royalty Board's assessment. He asked whether the report findings are

verified at a later date to determine if those findings align with future data.

4:14:59 PM

MR. FITZPATRICK shared his understanding that the employment status of jobs supported by Marathon's refining complex is typically a part of the Royalty Board's review process. The Department of Natural Resources (DNR) independently verifies that information as part of the best interest finding. The employment numbers at the Nikiski Refinery are a part of that evaluation. He shared his understanding that this same process applies to the Petro Star refinery. DNR considers employment as a primary benefit for utilizing in-state refineries. He noted statutory guidance that the RIK program is also intended to support the in-state refining sector.

4:16:03 PM

MR. FITZPATRICK advanced to slide 10 and discussed recent royalty in-kind (RIK) contracts. Slide 10 contains a table displaying RIK contract information for Tesoro Corporation, Petro Star Inc., and Marathon Oil Corporation from 2016 through 2025. He noted that the final row on the chart shows the contract under consideration by SB 176. He pointed out that the contract under consideration has a 3-year primary term followed by 7 one-year option terms. He contrasted this with the previous contract with Marathon, which had a 3-year primary term. He stated that the one-year option terms were of interest to both Marathon and DNR. He explained that the option years allow the contract term to extend up to a total of 10 years. He added that, in order to extend the contract for one year, both parties must be happy with the contract's performance upon conclusion of the 3-year primary term. If either party is unhappy at that time, both parties have the option of ending the contract. He said this simplifies the administrative process for both the State of Alaska and Marathon. In addition, it provides Marathon with longer term certainty.

4:18:07 PM

SENATOR CLAMAN asked whether each extension would require legislative approval.

4:18:26 PM

MR. FITZPATRICK replied no. He explained that, because the one-year option terms are before the legislature for approval (as part of SB 176), the extensions options could be exercised by DNR.

[4:18:40 PM](#)

SENATOR CLAMAN asked whether the one-year option terms would allow Marathon and DNR to modify contract terms or whether a modification of contract terms would require legislative approval.

[4:19:04 PM](#)

MR. FITZPATRICK replied that Alaska Statute requires that any modification of contract terms be approved by the legislature.

[4:19:28 PM](#)

MR. FITZPATRICK returned to slide 10 and stated that the nomination volume of the contract is 10-15 thousand barrels per day. This is the same as the current contract.

[4:19:49 PM](#)

MR. FITZPATRICK advanced to slide 11:

[Original punctuation provided.]

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 reiterated that the solicitation of interest has not resulted in concrete sales offers; therefore, DNR continues to negotiate directly with the in-state refining sector for direct sales.

[4:20:28 PM](#)

MR. FITZPATRICK advanced to slide 12:

[Original punctuation provided.]

RIK's 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

MR. FITZPATRICK said that the Marathon and Petro Star refinery complexes are the two sources of in-state demand. DNR must satisfy in-state demand before looking at potential out-of-state competitive sales. He reiterated that out-of-state sales have not materialized in recent years.

[4:21:33 PM](#)

MR. FITZPATRICK advanced to slide 13, which contains a scatter graph displaying the premium of RIK price over RIV price for Alaska North Slope (ANS) royalty oil from January 2008 through November 2024:

[Original punctuation provided.]

The Historic Premium of 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

MR. FITZPATRICK directed attention to the graph and noted that any dot appearing above the zero-dollar line reflects a month in which the RIK sales obtained a premium over equivalent RIV barrels. He pointed out that the State of Alaska obtained a premium most months during the time displayed. He noted some months (e.g. in 2020) when the State of Alaska did not obtain the premium; he explained that this is most often due to changes in the oil market. RIK sales provide for a premium in addition to the RIV barrels, resulting in additional revenue for the state. He noted that this additional revenue also flows into the Alaska Permanent Fund.

[4:23:20 PM](#)

MR. FITZPATRICK advanced to slide 14, containing a flow chart illustrating the RIK process. He briefly explained the process,

highlighting RIK contract negotiations. He noted that, once the solicitation of interest is complete, the contracts receive a best interest finding. DNR then opens the best interest finding for public comment. He noted that DNR did not receive public comment on the best interest finding for the contract under consideration. Once the public comment period has concluded, DNR publishes a final best interest finding. DNR presents its findings to the Royalty Review Board. Following this, the Royalty Review Board provides a report. Once these steps are completed, DNR presents the contract to the legislature for approval. If the legislature grants approval, DNR can execute the contract. He pointed out that, if the legislature approves the proposed contract, DNR can begin selling the barrels of oil to Marathon when the current contract expires in July 2025.

[4:24:50 PM](#)

MR. FITZPATRICK advanced to slide 15, containing a table of recent RIK contract key terms. He directed attention to the final row and said that this includes the RIK differential. He stated that this is part of the key pricing term for how DNR prices oil for sales contracts. He briefly described the process, which begins with a west coast price index. He noted that these data are used by the State of Alaska as well as in private contracts for sales of Alaska North Slope (ANS) crude oil throughout the commercial environment. He explained the process used to generate an in-state sales price. When oil is sold on the west coast, the price includes a marine transportation component (i.e. the cost for transporting the oil from the Valdez terminal to the west coast market). In-state sales have a differential that approximates the marine transportation cost to create an artificial price for the sale of oil in Alaska. This is a small deduction from the value of a barrel of oil on the west coast. He noted that the RIK differential does not always equal the marine transportation cost, which tends to be slightly larger. He said that this is part of the premium that comes from selling the oil in-state.

[4:27:02 PM](#)

MR. FITZPATRICK directed attention to the previous contracts shown on the table and said that DNR previously negotiated the RIK differential on a fixed-value basis. The proposed contract does not include a fixed RIK differential. He explained that DOR publishes a volume-weighted average of statewide location differentials for in-state sales. The proposed contract refers to the DOR price - using the market index price for the location differential. \$0.24 is subtracted from that price. This reduces the deduction amount, thereby earning an additional premium for

the State of Alaska. He said that moving to the DOR index price creates price advantage certainty (relative to the market location differential). In addition, this allows the pricing terms to adjust to the market if the contract is extended. He said that discussions of this market index pricing mechanism led to discussions about extending the contract term.

[4:29:49 PM](#)

SENATOR WIELECHOWSKI asked if DNR sought legal advice to determine whether the contract term changes comply with the Constitution of the State of Alaska. In particular, he wondered whether the changes conflict with the restriction against binding future legislatures.

[4:30:09 PM](#)

MR. FITZPATRICK replied that he is unsure whether DNR consulted with the Department of Law (DOL) regarding that issue. He noted that DOL was extensively involved in developing the contract under consideration. He commented that the legislature has considered multiple RIK contracts. He added that Alaska Statute allows DNR to set contract terms for RIK sales of greater than one-year duration. He said that for short-term contracts, DNR has a more limited authority. He stated that the contract terms are contractual obligations, rather than enactments of the legislature. He reiterated that he is unsure whether DNR received guidance from Department of Law on this issue; however, he surmised that, because this is a commercial contract, the statutory provision related to binding future legislatures would not apply.

[4:31:23 PM](#)

MR. FITZPATRICK advanced to slide 16 and discussed why RIK is preferable to royalty in-value (RIV). Slide 16 contains two flow charts to illustrate the route for RIK versus RIV sales. He noted the premium for RIK sales. He briefly described the process for determining RIK versus RIV sales, noting the difference between the RIK differential (for RIK sales) and the marine transportation cost (for RIV sales). He said that additional transportation costs include tariffs regulated by Regulatory Commission of Alaska (RCA). He briefly discussed the tariffs. He noted that the published tariff schedules are subject to specific rate regulation. Depending on the tariff schedule, this may be the same for both in-state and out-of-state sales. He pointed out that the actual value received by the state (in the example provided on slide 16) reflects a higher value for RIK oil (in-state sales) versus RIV oil (out-of-state sales).

[4:33:08 PM](#)

MR. FITZPATRICK advanced to slide 17:

[Original punctuation provided.]

RIK Pricing formula

ANS West Coast price

- Monthly average of ANC USWC daily reported prices for Platts and Reuters

Minus (-)

RIK differential (DOR location differential minus \$0.24)

- Publicly available number published by DOR
- Average location differential from arm's length transactions within the state

Minus (-)

Tariff allowance

- Actual TAPS and other pipeline tariffs from point of sale

Plus or Minus (+/-)

Quality bank adjustment

- Reflects the value of the field specific oil stream in TAPS

Minus (-)

Line loss

- Small variance in the metered volumes at Pump Station 1 and the Valdez Terminal

Equals (=)

Royalty In-Kind price

Pipeline tariffs and quality bank adjustments are public and regulated by the Federal Energy Regulatory Commission

DOR: Department of Revenue

USWC: U.S. West Coast
TAPS: Trans-Alaska Pipeline System

MR. FITZPATRICK briefly explained that the actual transportation costs in the tariff are a part of the regulated tariff structure that both the Federal Energy Regulatory Commission (FERC) and RCA oversee. Quality bank adjustment is another tariff component. This is an adjustment for the different qualities of crude oil coming into a regulated pipeline. He briefly explained this. He said that this method adjusts for different values of crude oil components, as the end result (what flows from the pipeline) is a blended crude oil. With respect to line loss, he emphasized that this is not line loss due to pipeline leaks; rather, it is related to the blending of multiple crude oils with different chemical compositions. He noted that any pipeline spills are reported to DNR and the Department of Environmental Conservation (DEC).

[4:35:17 PM](#)

SENATOR CLAMAN shared his understanding that line loss in this case means that the percentage of the different oils entering the pipeline may have changed slightly by the time that oil reaches the end of the pipeline.

[4:35:39 PM](#)

MR. FITZPATRICK replied that this interpretation is more closely aligned with the quality bank, although these two concepts are similar. He clarified that the line loss has to do with the various characteristics of the different crude streams that are being combined. He stated that line loss refers to the actual physical shrinkage of the barrels of oil that are going into the pipeline together. He explained that two barrels may go into the pipeline and 1.9998 barrels may come from the end of the pipeline. He reiterated that this is due to the chemical characteristics of the oil. He shared an anecdote to further illustrate this concept.

[4:36:37 PM](#)

MR. FITZPATRICK advanced to slide 18, containing a line graph depicting the marine deduction and RIK differential:

[Original punctuation provided.]

**Contract Terms for Marathon Using DOR Location
Differential**

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)

MR. FITZPATRICK said that slide 18 reflects a history of several different price components. He directed attention to the graph, which compares the volume weighted average marine deduction, the volume weighted average RIK differential (this negotiated fixed price is what DNR has historically received for its RIK differential), and the DOR location differential minus 24 cents (this is the differential proposed by the new contract). He noted that this price changes more than the negotiated fixed price (which is an average of multiple fixed prices). He said that DNR generally expects the location differential to perform better for the state (compared to the fixed RIK differential). More importantly, the pricing term would be robust over time; this would avoid market risk over the term of the contract. He emphasized the importance of risk management alongside any additional premium the State of Alaska would receive.

[4:38:26 PM](#)

SENATOR MYERS pointed out that in-state oil sales do incur some marine transportation costs. He asked how those costs are factored into the contract.

[4:38:42 PM](#)

MR. FITZPATRICK replied that when the State of Alaska sells RIK barrels, it does not undertake physical transportation or holding of that oil. He explained that the State of Alaska sells the oil at the point of production (i.e. at the unit boundary). The cost of transportation is a deduction that the State of Alaska sees against the value of its oil. He explained that Marathon must pay for the transportation of the oil from the North Slope to Valdez. Marathon also incurs any tariff costs. He opined that it makes sense for Marathon to undertake that responsibility, as the company has other contracts for purchasing oil on the North Slope and has the infrastructure in place to move oil to the refinery. He briefly discussed why

Marathon may at times purchase additional (out-of-state) oil for its Nikiski Refinery. He reiterated that Marathon incurs the cost of transportation.

[4:40:06 PM](#)

MR. FITZPATRICK advanced to slide 19:

[Original punctuation provided.]

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

MR. FITZPATRICK said that the annual value of the contract is hundreds of millions of dollars; however, the notable premium increase is related to the amount received for RIK versus RIV. The initial 3-year contract term would be \$12 million to \$18 million in additional value to the State of Alaska. He stated that DNR considers both the additional revenue - from the economic impact and fuel security - to be a significant benefit to the State of Alaska.

[4:42:15 PM](#)

SENATOR KAWASAKI noted the lack of competition for in-state oil refiners. He posed a hypothetical scenario in which a refinery wanted to sell gas at a discounted price - or in such a way that would benefit Alaskans but would not necessarily be of financial benefit to the State of Alaska. He asked about the potential for RIK sales in that scenario.

[4:43:11 PM](#)

MR. FITZPATRICK replied that Alaska Statute directs DNR to attempt to receive a premium versus sales of RIV oil; therefore, DNR would not be able to sell oil for in-state purposes (i.e. RIK) at a discount. He noted that statutory changes are the purview of the legislature.

[4:43:56 PM](#)

SENATOR MYERS asked how oil producers factor into the process of determining whether the State of Alaska will take its royalty oil in-kind or in-value.

[4:44:15 PM](#)

MR. FITZPATRICK replied that oil and gas contracts have a built-in nomination period. He explained that DNR must inform producers that the State of Alaska plans to take the royalty oil in-kind. This advance notice gives producers the opportunity to adjust their sales contracts as needed. He indicated that DNR considers producers' preference for in-kind versus in-value oil nominations when possible. He stated that DNR attempts to work with purchasers when considering nominations from certain oil fields and briefly discussed this process.

[4:45:53 PM](#)

SENATOR WIELECHOWSKI directed attention to SB 176, Section 1, line 9, which states that the legislature approves and ratifies the agreement for the sale of royalty oil between the State of Alaska and Marathon. He noted that the committee does not have copies of the signed agreement; however, the draft agreement is available on DNR's website. He asked if that draft agreement is the one the legislature is ratifying.

[4:46:24 PM](#)

MR. FITZPATRICK replied yes. He explained that DNR does not execute that agreement until the legislature gives authorization to do so. The agreement that is a part of DNR's best interest finding is before the legislature. He added that any amendments must also come before the legislature.

[4:46:51 PM](#)

SENATOR WIELECHOWSKI directed attention to section 6.1 of the agreement, which is related to credit ratings. He asked for information on Marathon's current credit rating.

[4:47:23 PM](#)

MR. FITZPATRICK replied that he does not recall Marathon's current credit rating. He explained that the references to credit rating in the agreements reflect the contract security that DNR negotiates as part of RIK sales. He briefly discussed payment terms, the financial assurance that the State of Alaska receives from purchasers, and how these relate to the purchaser's credit rating. He said that DNR typically requires some form of financial assurance that is sufficient to cover a minimum of one month of payment cycles.

[4:48:59 PM](#)

SENATOR WIELECHOWSKI directed attention to section 21.1 of the agreement, which relates to assignments and other transfers, and asked whether Marathon could sell its assets to any buyer. He indicated concern that those assets could be sold to adversarial countries. He asked for further clarification of whether the State of Alaska would remain obligated to sell the oil to the new buyer.

[4:49:48 PM](#)

MR. FITZPATRICK replied that the contract allows for the assignment of the contract to a new purchaser of the Marathon refinery; however, he pointed out that international purchases are reviewed at both the state and federal levels.

[4:50:25 PM](#)

SENATOR WIELECHOWSKI noted concerns previously raised by the committee related to adversarial countries and asked whether it would be appropriate to add a provision to the contract to limit potential sales. He shared his understanding that, as currently written, the contract would allow for sales to adversarial countries.

[4:50:58 PM](#)

MR. FITZPATRICK answered that this could be explored in future contracts. He reiterated that this contract has already been through the notice and comment period as well as royalty review, and would therefore need to be renegotiated in order to add that provision. He reiterated that both the state and federal governments review any sale of energy assets to foreign buyers - particularly if the buyer is from a potentially adversarial jurisdiction.

[4:52:22 PM](#)

SENATOR HUGHES questioned whether the federal government has jurisdiction to stop negotiations between private companies and foreign countries. She shared her understanding that the federal government could review these transactions but would not be able to stop them.

[4:52:54 PM](#)

SENATOR KAWASAKI asked whether this contract was negotiated before or after the merger between ConocoPhillips and Marathon Oil.

[4:53:16 PM](#)

MR. FITZPATRICK explained that Marathon Oil previously split into two companies: Marathon Oil Corporation, which focused on exploration and production activities (this company later merged with ConocoPhillips) and Marathon Petroleum, which is focused on refining activities. He clarified that the company operating the Nikiski Refinery is Marathon Petroleum.

[4:54:18 PM](#)

SENATOR CLAMAN asked for confirmation of his understanding that, at this time, the legislature can either approve or disapprove the contract; any changes to the contract must be renegotiated.

[4:54:47 PM](#)

MR. FITZPATRICK confirmed this understanding. He explained that modifying the terms of the contract would mean returning to the public negotiations process, beginning with the best interest finding and ending with the Royalty Board review.

[4:55:28 PM](#)

CHAIR GIESSEL held SB 176 in committee.

[4:55:55 PM](#)

There being no further business to come before the committee, Chair Giessel adjourned the Senate Resources Standing Committee meeting at 4:55 p.m.