THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Natural Resources

DIVISION OF OIL & GAS

550 W 7th Avenue, Suite 1100
Anchorage, Alaska 99501-3560
Main: 907.269.8800
Fax: 907.269.8939

Public Notice
Non-binding Solicitation of Interest
North Slope Royalty In-Kind Oil Supply

The Department of Natural Resources (DNR) is inquiring whether there is interest among commercial refiners or other parties to acquire some or all the State's North Slope royalty in-kind (RIK) oil that may become available for sale when some the current RIK supply contract obligations terminate in the third quarter of 2025 or any additional North Slope royalty volumes that the State chooses to take as RIK oil. If there is substantiated interest expressed by more than one potential buyer for RIK oil, DNR may issue an Invitation to Bid and conduct a sealed-bid auction for the RIK oil.

Under AS 38.05.183, the sale of the state's royalty oil must be by competitive bid except when the Commissioner determines that the best interest of the state does not require competitive bidding or that no competition exists.

We would like to know if your company might be interested in purchasing RIK oil and participating in an auction via a competitive sealed bid mechanism for a contract. We would also like to know the volumetric range, in barrels per day per year (bpd/year), you would require, and the preferred length of the contract term (preferably, not less than three years). **This is an informal, non-binding inquiry and your response will not create any kind of commitment from you or your company.** Your response, and those of other potentially interested parties, will be used only to gauge whether sufficient competition exists for RIK oil, and to determine whether the state will engage in a competitive disposition in the sale of RIK oil.

Below we have described some of the bidding and contractual terms that might apply to such a sale. Of course, they are subject to change depending on circumstances at the time DNR issues an Invitation to Bid, and we invite you to comment on proposed bidding and contractual term.

Proposed Bidding Terms (subject to change):

- **Priority Bidders.** The Department proposes to create a class of priority RIK bidders who will have preference over the general class of RIK bidders. This priority class of RIK bidders will consist of in-state commercial petroleum processors, as defined under 11 AAC 03.190, that will (1) provide financial guarantees in the form of a stand-by letter of credit, a surety bond, or a parent guarantee from a parent with an investment grade credit rating from one or more recognized credit rating companies (presuming that the Buyer is not the parent), combined with an Opinion Letter provided by a Financial Analyst that is independent from the Buyer, the parent, and the credit rating company, *and* (2) propose effective, viable Special Commitments that, if implemented, would have an impact on lowering in-state energy costs for consumers and addressing the need for a greater supply of crude oil for use in the state. The requirement for proposing Special

Commitments is discussed further below.

- **Sealed Bid Auction of RIK Oil Lots.** RIK oil may be auctioned under fixed or variable lots of no less than 3,000 bpd/year, with an estimated total available amount for sale of 40,000 bpd/year, and potentially varying year by year. Each of these lots would be offered independently for each year, with deliveries likely beginning in the third quarter of 2025 through the life of the desired contract. As such, a bidder may be able to tailor their RIK oil bids in a manner that comports with its forward-looking expectations concerning demand for RIK oil. The winner of each lot will be the highest responsible bidder, and such a winner may be determined by a procedure that considers, among other potential factors, the lowest "RIK Differential" offered (possibly subject to a reservation price). The RIK Differential is a reducing element in the netback pricing method described below. You are invited to comment on this broad auction framework and bidding approach presented and define your volumetric range requirements for RIK oil.

- **Reservation Fee.** During the term of the contract, and within certain timing and volumetric limits, a buyer may change their monthly nomination to a quantity less than the maximum volume defined in a lot. This provides operational flexibility for a buyer to match its monthly RIK oil supply to its refinery's requirements. Such flexibility, however, comes at a cost to the State by preventing the sale of the remainder of the lot as RIK. To compensate for this cost, the State proposes to institute a per-barrel reservation fee assessed on those barrels below the RIK lot maximum not nominated by the buyer. You are invited to comment on your preferred mechanism for implementing such a reservation fee.

- **Bid Process.** Upon evaluating responses to this Non-Binding Solicitation of Interest, the Department may distribute a public notice and a formal Invitation to Bid to all potential buyers and the public outlining the auction process in more detail, if a competitive disposition is selected. Bidders will have at least 30 days after the Invitation to Bid is published to submit bids and documentation.

Proposed Contractual Terms for RIK Disposition (subject to change):

- **Sale Oil Quantity.** The contract will specify the volume, or "Sale Oil Quantity," awarded as a result of the nomination or auction. For example, if RIK oil is auctioned in different lots, and a buyer successfully bids on several of them, a single RIK Contract would include the total Sale Oil Quantity from all the lots. The State expects each nomination or bid to be for at least 3,000 bpd/year. Proposals are sought for nomination ranges from potential buyers.

- **State's RIK Nomination.** Because the State must nominate with at least 90 days in advance to take its royalty oil in-kind, all contracts will provide that DNR will make commercially reasonable efforts to nominate, in accordance with applicable Unit Agreements, percentages of the State's estimated royalty oil from one or more Units that will equal the Sale Oil Quantity nominated by the buyer. The nomination procedures are basically unchanged from every RIK contract offered by the Department since the first production of oil at the Prudhoe Bay Unit. Any former or current buyer of RIK oil should be familiar with these procedures.

- **Volumetric Limits and Proration.** The actual Sale Oil Quantity delivered to all RIK oil buyers may be lower than their total initial nominations. DNR reserves the right to limit total Sale Oil Quantity delivered to all RIK oil buyers to a maximum of 95% of the State's estimated royalty oil. Whenever total initial nominations by all buyers exceed 95% of the State's estimated royalty oil, proration takes effect and affects RIK buyers' initial nominations. DNR is considering several proration mechanisms. You are invited to provide thoughts concerning an appropriate proration mechanism.

- **Price.** The price for the Sale Oil is calculated as a simple netback price. The formula starts with a destination value for the State's royalty oil on the US West Coast minus the RIK Differential. The RIK Differential is a numeric variable that may be used as the bid variable in the case of a competitive disposition. The ownership-weighted average interstate tariff for TAPS and tariffs for pipelines upstream of TAPS Pump Station No. 1 are also subtracted depending on the source of the RIK that will be supplied to the buyer. The price formula also includes a Quality Bank Adjustment and an allowance for line loss. The price provision in the contract will stipulate that the value of RIK is bounded below by zero. DNR is open to suggestions for a constant or variable RIK Differential value and process. Your thoughts concerning the appropriate pricing indexes to value ANS on the US West Coast are also welcome.

- **Contract term.** The contract will supply RIK oil for at least three years, based on disposition preferences and terms.

- **Security Arrangements.** The security arrangements protect the State from the risk of default by requiring a stand-by letter of credit, a surety bond, or a parent guarantee, if the buyer is not the parent, combined with an Opinion Letter provided by a Financial Analyst that is independent from the Buyer, the parent, and the credit-rating company.

- **Special Commitments.** Bidders may be required to propose Special Commitments that will be incorporated into the RIK contract. The Special Commitments should propose means to mitigate the high cost of consumer petroleum products in Alaska and address the need for a greater supply of crude oil for use in the state. Examples of a Special Commitments might be a commitment to make a substantial capital investment to support in-state processing, a commitment to lowering the cost of petroleum products to the consumer and others, etc. You are invited to comment on how Special Commitments might affect your interest in RIK oil and offer alternatives.

I will appreciate a written response to this informal solicitation by **September 5, 2024**. In the meantime, I invite you to contact Ryan Fitzpatrick at ryan.fitzpatrick@alaska.gov to discuss this letter. As stated above, this is an informal, non-binding inquiry and your response will not create any commitment by you or your company.

Sincerely,

DocuSigned by:

Derek W. Nottingham

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Derek Nottingham,
Director, Division of Oil and Gas

Published August 2, 2024