Preliminary Best Interest Finding and Determination

for the

Sale of Alaska North Slope Royalty Oil

to

Marathon Petroleum Supply and Trading Company LLC

Division of Oil and Gas

Alaska Department of Natural Resources

March 4, 2025

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I. Introduction

The Commissioner of the Department of Natural Resources (DNR), on behalf of the State of Alaska, has negotiated a contract with an initial term for crude oil deliveries of three years, to sell a portion of the State's North Slope royalty oil to Marathon Petroleum Supply and Trading LLC (Marathon). After three years, crude oil deliveries may be extended under the contract on an annual basis for seven additional years, unless either party withdraws by November 1 of the year prior to the annual extension.

The sale of royalty oil under the proposed contract will help meet the in-state need for crude and help facilitate continued operations of Marathon's Kenai refinery, which has been operating since 1969, with the attendant benefits to Alaskans. These two objectives are paramount in the State's decision to sell royalty in-kind to Marathon through this contract. A third concern in drafting the contract was to avoid interruptions to the delivery of royalty in-kind oil to the in-state refineries. As such, and as dictated by Alaska Statute (AS) 38.06.050 and AS 38.06.055, the DNR Commissioner will seek legislative approval and the review of the Royalty Oil and Gas Development Board for this proposed contract.

The negotiations resulting in the attached proposed contract have been carried out under the procedures for a non-competitive disposition of royalty oil set out in Alaska Administrative Code (AAC) 11 AAC 03.030–070. Consistent with its obligation under 11 AAC 03.026(b) and 11 AAC 03.024, under the terms of this contract, the State expects to receive a price for its royalty oil that will be no less than the amount the State would have received, on average, if it elected to keep its royalty in-value.

This "Preliminary Best Interest Finding and Determination for the Sale of North Slope Royalty Oil to Marathon Petroleum Supply and Trading LLC" (Preliminary Best Interest Finding and Determination) provides an analysis to show that the proposed royalty in-kind contract with Marathon is in the best interest of the State. After an in-depth consideration of the potential economic, environmental, and social impacts, and the various requirements for sale of the State's royalty oil, with a focus on the criteria specified under the terms of AS 38.05.183(e) and AS 38.06.070(a), the Commissioner finds that a negotiated three-year contract, with possible annual continuation for seven additional years, for the sale of the State's royalty oil to Marathon will maximize the State's revenue from its royalty oil and that it is in the State's best interest.

II. Royalty in-kind background

The State of Alaska owns the mineral estate, including oil and gas, under State-owned lands. To monetize the value of this estate, the State has entered into lease agreements with third parties who explore for, develop, and produce oil and gas from these lands. The State receives a royalty share of ⅛ to as much as ⅓ of the oil and gas produced from these leased lands on the North Slope[1]. Under the terms of the leases, the State may elect to receive its royalty either "in-kind" (RIK) or "in-value" (RIV). When the State takes its royalty as RIV, the lessees market the State's share along with their own production and pay the State the value of its royalty share. When the State takes its royalty share as RIK, it assumes ownership of the oil, and the Commissioner disposes of it through sale procedures, either "competitive" or "non-competitive," under AS 38.05.183.

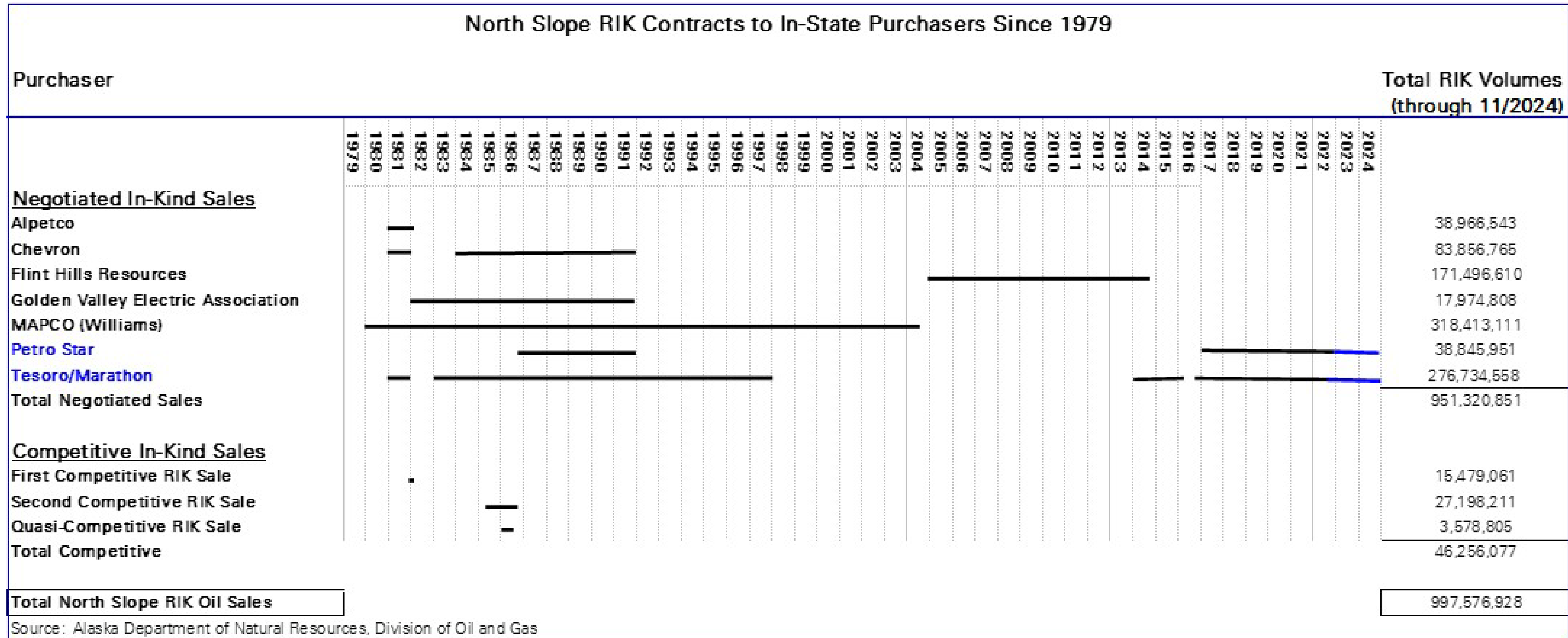
Figure 1 shows that from November 1979 through November 2024 the State disposed of 998 million

[1] In a few instances the royalty rate may be lower, pursuant to AS 38.05.180(j).

barrels through in-kind sales, approximately 45% of its North Slope royalty oil[2]. Through the combination of both competitive and non-competitive RIK sales, the State has sold its royalty oil to in-state refineries, and occasionally has auctioned its royalty oil to customers in the Lower 48. Figure 1 summarizes the many North Slope RIK contracts since 1979. Figure 2 illustrates the monthly volumes of royalty oil committed to these contracts during this period. It should be noted that since 1986 the State has disposed of its RIK oil through negotiated non-competitive sales. Note that Marathon Petroleum Corp. acquired the Kenai refinery from Andeavor, formerly known as Tesoro, in 2018.

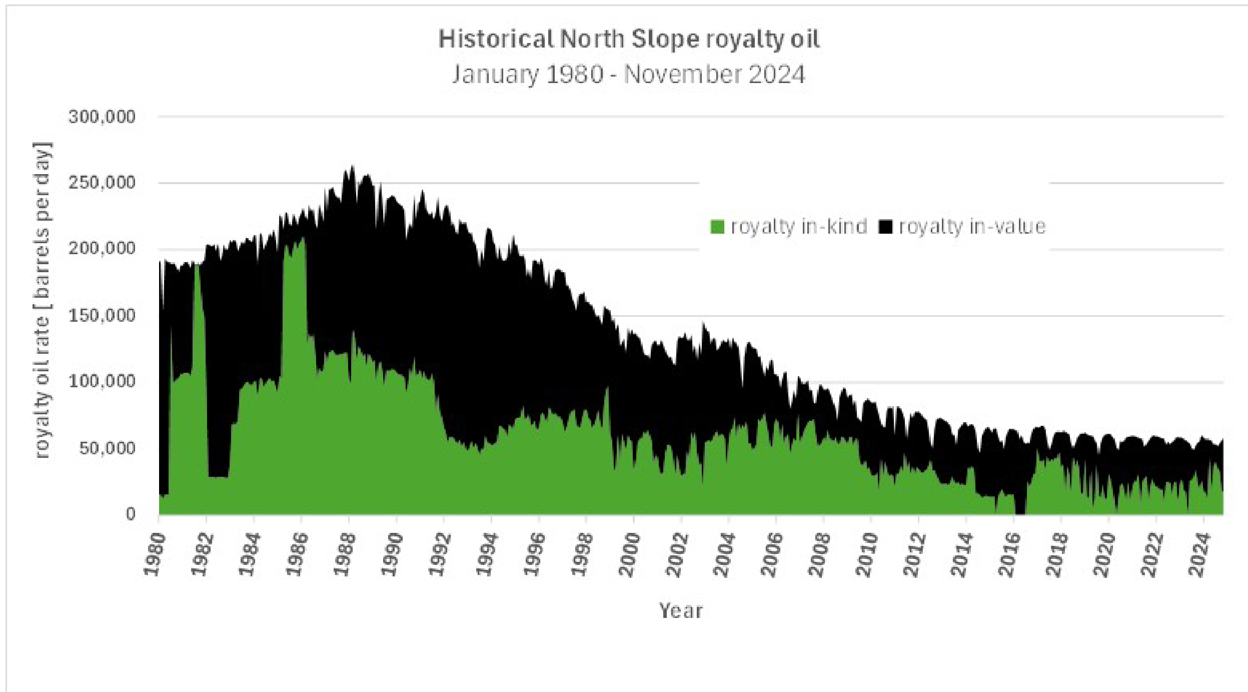
[2] For that period, total North Slope royalty oil was 2.2 billion barrels.

Figure 1. Royalty in-kind sales history[3]



[3] Highlighted in blue are the current contracts in-place: Marathon 3-year contract (8/2022 – 7/2025); Petro Star 5-year contract (1/2023 – 12/2027).

Figure 2. Historical ANS royalty oil[4] volumes



Source: Alaska Department of Natural Resources, Division of Oil and Gas

A. Royalty oil available for taking in-kind

The volume of royalty oil the State receives depends on the volume of oil produced from State lands. The proposed contract obligates the State to deliver between a minimum of 10,000 barrels per day (bpd) and a maximum of 15,000 bpd to Marathon between August 1, 2025, and July 31, 2028. Based on average forecast volumes[5], the State is expected to have between 41,000 bpd and 82,000 bpd of total Alaska North Slope (ANS) royalty oil available for taking in-kind during the initial three-year period contemplated in the proposed RIK contract. Put differently, based on yearly average forecasts, Marathon's nominations under the proposed contract could represent between 12% and 36% of the State's North Slope royalty oil. Marathon currently has an effective RIK contract in-place with the State which obligates the State to deliver between a minimum of 10,000 bpd and a maximum of 15,000 bpd to Marathon, between August 1, 2022, and July 31, 2025.

Petro Star currently has an effective RIK contract in-place with the State which obligates the State to deliver between 10,000 to 12,500 bpd from January 2025 through December 2027. Therefore, the range of the total RIK nomination volume, during the initial three years of the Marathon contract, is between 20,000 and 27,500 bpd. This represents between 24 and 67 percent of the State's expected North Slope royalty oil during the initial three-year term of the Marathon contract.

[4] The types of hydrocarbons considered as "ANS oil" are oil, condensates, load diesel, and NGLs.

[5] The forecasted royalty volumes consider future production from currently producing, under development, and under evaluation fields based on the 2024 Fall DNR Production Forecast.

When considering the volume of royalty oil that will be available to the State for taking in-kind, there are three key considerations. First, the State wants to keep a small percentage of dispositions in-value due to higher royalty values for certain leases, and to obtain pricing and other information from in-value dispositions for comparison purposes. For this reason, total nominations declared by Marathon and any other future RIK purchaser will contractually be limited to 95% of the total North Slope royalty oil available. In other words, up to 95% of the State's royalty oil will be available to be nominated under RIK sales contracts, with the remainder kept in-value.

Second, expected royalty oil production is based on a forecast. Even the best forecasts will most probably be incorrect. Historically, the State has experienced periods where production forecasts from which the royalty forecast is derived have been optimistic, with realized production often falling below forecasted levels. The State's royalty forecast, however, would need to be seriously deficient during the term of the contract for the State to struggle to meet its volume obligation.

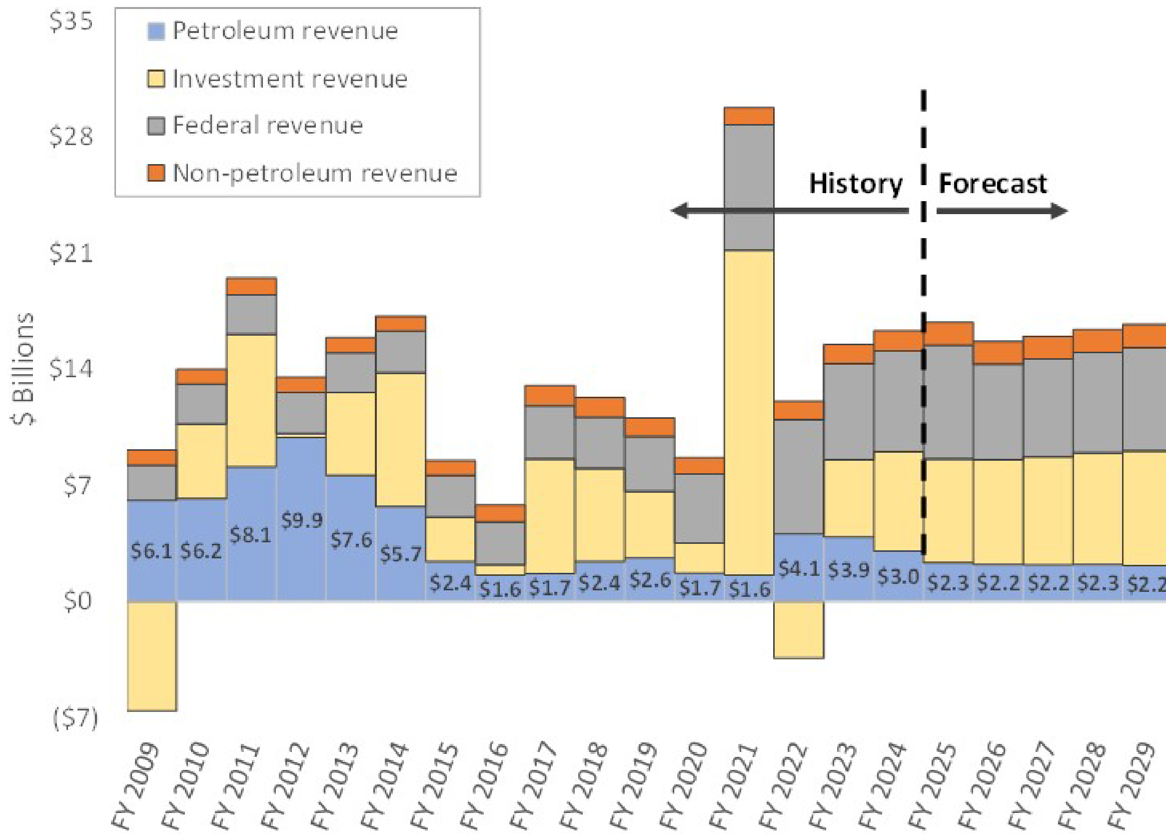
Third, there is substantial seasonality in the observed level of production from the North Slope, with daily production peaking during winter months and declining to its lowest levels during summer months. This seasonality is part of the consideration when negotiating nomination ranges with refiners.

B. Historically the State has received more revenue from RIK sales than RIV

The State attempts to maximize the benefits of oil production to the citizens of Alaska when it decides to sell its oil in-kind. One important benefit of the sale of royalty oil in-kind is that it provides the State with incremental revenue that otherwise would not have been realized had the State decided to take its royalty oil in-value. Pursuant to AS 38.05.183(e)(1), the Commissioner shall "consider the cash value offered" for RIK oil when evaluating a purchase proposal. Moreover, AS 38.06.070(a)(1) states that the Royalty Board shall consider "the revenue needs and projected fiscal condition of the State" as a criterion in determining that a proposed contract for the sale of RIK oil is in the best interests of the State. Figure 3 below shows that in the past, petroleum revenue represented a major source of revenue for the State, especially between fiscal years 2009 and 2014, accounting for roughly half of the revenues. Petroleum revenue primarily includes revenue from royalty in-kind, royalty in-value, oil and gas production tax, and oil and gas property tax. Beginning in fiscal year 2015 until fiscal year 2024, the contribution of petroleum revenue declined to an average of 23 percent of total revenues.

The projections for the investment and federal sources of revenue still represent the most significant sources of funds for the State, accounting for approximately 70 percent during fiscal years 2025 to 2029. The Alaska Department of Revenue ("DOR") estimates that petroleum revenue based on forecasted production will range between $2 to 2.5 billion representing about 14 percent of revenues during the forecast period. While the criteria to evaluate the best interests of the State include many elements besides revenue, such as encouraging in-State refining, the State has a duty to all its citizens to generate as much revenue as it can from its royalty oil.

Figure 3. Total State Revenue by Source for Fiscal Years 2009 - 2029



Source: Revenue Sources Book Fall 2018, 2019, 2020, 2021, 2022, 2023 and 2024

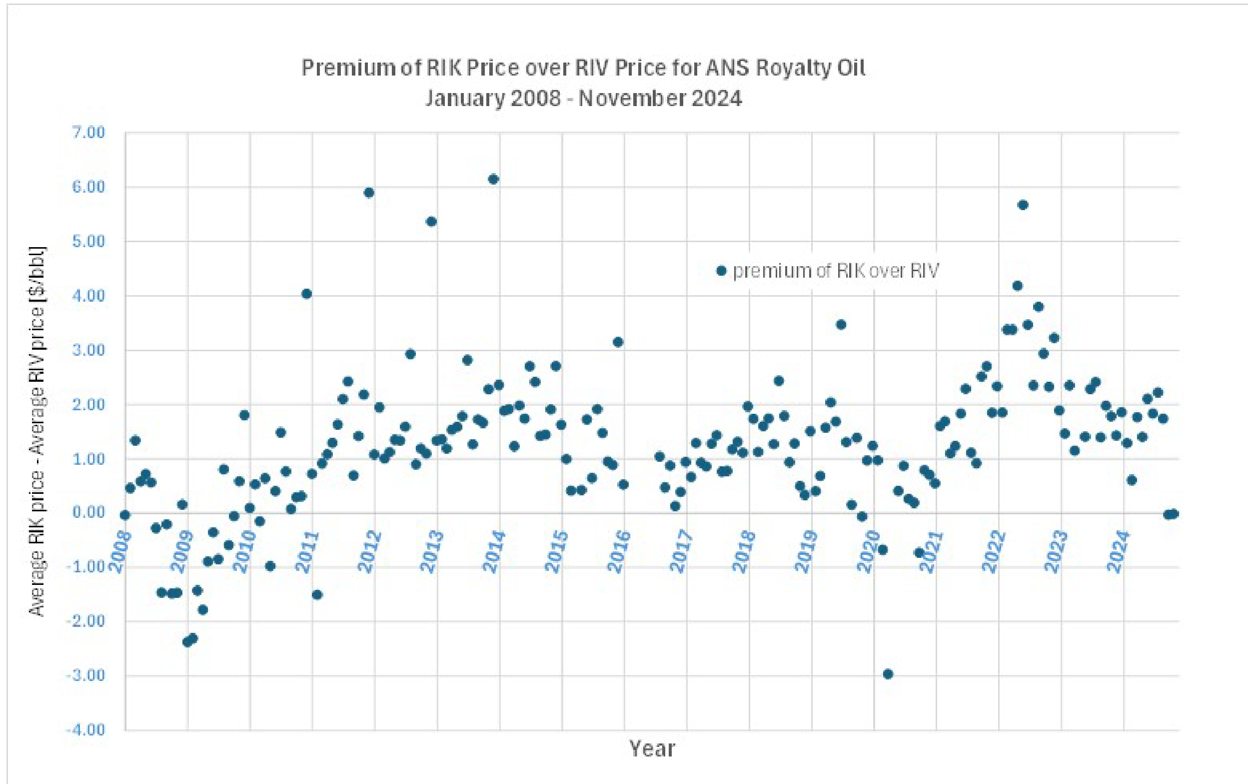
Figure 1 presents the history of RIK contracts with the State. Figure 4 below shows the performance of the RIK contracts that were in place during the period from January 2008 through November 2024. Overall, Figure 4 shows that the State has received more revenue from the sale of each RIK barrel compared to its alternative, a RIV barrel. During this period, the State sold 173.4 million barrels of royalty oil in-kind, generating an incremental revenue of $188.3 million over what would have been realized if those volumes were sold as royalty in-value. In other words, had the State not decided to sell 173.4 million barrels as royalty oil in-kind, but rather receive royalty payments in-value, then the State would have not received the incremental revenue of $188.3 million. Figure 4 shows that over this period, the price for each barrel of RIK oil[6] was typically greater than the price of a RIV barrel of oil[7]. Within that period, the price of an RIK barrel of oil was sometimes lower than that of a RIV barrel of oil. This BIF will provide a more detailed explanation of the factors, some of which are outside the control of DNR, explaining the price difference between a barrel of RIK oil and a barrel of RIV oil. Despite those

[6] RIK price was calculated as a volume weighted-average "netback" price. Specifically, the price is weighted using the RIK volumes from all RIK contracts in-place each month. The price is "netted back" using corresponding netback pricing elements for RIK.

[7] Similar to the RIK price, the RIV price is also a volume weighted-average "netback" price. RIV pricing shown here is dependent on lease and applicable Royalty Settlement Agreement terms.

months when the average weighted RIV price exceeded the RIK price, the overall performance of these RIK contracts is consistent with the regulatory language in 11 AAC 03.026(b), which specifies that the price obtained in contract for royalty oil in-kind shall be at least equal to the volume-weighted average of the current reported netback prices filed by the oil and gas lessees for royalty in-value purposes.

Figure 4. Price premium of a RIK barrel versus a RIV barrel and delivered barrels of RIK (January 2008 – November 2024)



Source: Alaska Department of Natural Resources, Division of Oil and Gas

Because the price of ANS oil is determined in the destination market, the United States West Coast (USWC), DNR applies a netback pricing methodology to arrive at a price at the field level. Although ANS oil is sold also within the State of Alaska, the market is not as sizeable, liquid, and transparent as in the USWC. To find the royalty value, which is equivalent to finding the price of ANS oil at the field, DNR subtracts the transportation costs and other adjustments to the price of ANS oil at the USWC (i.e., the "destination value"). The RIK contracts utilize the following pricing structure for a RIK barrel of oil:

Equation (1):

$$\begin{matrix} RIK \\ netback\ price \end{matrix} = \begin{bmatrix} Destination \\ value \end{bmatrix} - \begin{bmatrix} RIK \\ differential \end{bmatrix} - \begin{bmatrix} Tariff \\ allowance \end{bmatrix} \pm \begin{bmatrix} Quality\ bank \\ adjustment \end{bmatrix} - \begin{bmatrix} Line \\ loss \end{bmatrix}$$

Most of the production of ANS oil is typically sold in the USWC. As a result, the value of a barrel of RIV

oil follows the same structure[8].

Equation (2):

$$\begin{matrix} RIV\ netback \\ price \\ (out\ of\ state) \end{matrix} = \begin{bmatrix} Destination \\ value \end{bmatrix} - \begin{bmatrix} Marine \\ transportation \\ allowance \end{bmatrix} - \begin{bmatrix} Tariff \\ allowance \end{bmatrix} \pm \begin{bmatrix} Quality\ bank \\ adjustment \end{bmatrix} - \begin{bmatrix} Line \\ loss \end{bmatrix}$$

Therefore, the main difference between equations (1) and (2) comes from the comparison between the RIK differential and the marine transportation allowance.

While the USWC is the predominant destination market for ANS oil, not all producers in the North Slope sell their ANS oil directly to refineries in the Lower 48. Some producers sell ANS oil to refineries in Alaska or to other North Slope producers for further marketing of that oil outside of Alaska. The netback price calculation of a barrel of RIV oil in this scenario does not include an allowance for the marine transportation cost given that such oil, at that point of sale, is not being transported by any tankers outside of Alaska, but rather contains a "location differential." Given that the pricing of ANS oil begins at the destination market at the Lower 48, the location differential is another element in the netback pricing methodology needed to calculate the price of a barrel of RIV oil at the field. The location differential can be smaller or greater than the marine transportation allowance.

Equation (3):

$$\begin{matrix} RIV\ netback \\ price \\ (in-state) \end{matrix} = \begin{bmatrix} Destination \\ value \end{bmatrix} - \begin{bmatrix} Location \\ differential \end{bmatrix} - \begin{bmatrix} Tariff \\ allowance \end{bmatrix} \pm \begin{bmatrix} Quality\ bank \\ adjustment \end{bmatrix} - \begin{bmatrix} Line \\ loss \end{bmatrix}$$

More than 90 percent of RIK oil taken by DNR comes from the Prudhoe Bay and Kuparuk River units. If DNR were to select its royalty oil from these fields as RIV, the price of a barrel of RIV oil would then be subject to a deduction for the marine transportation allowance. When taking its royalty oil as RIK (instead of RIV) from these same fields, DNR is essentially substituting the marine transportation allowance for the RIK differential, following equations (1) and (2) above. Therefore, the main driver of the price premium observed in Figure 4 above comes from the difference between the marine transportation allowance and the RIK differential precisely because DNR is selecting RIK oil from fields whose production would otherwise be sold out of state and, thus, be subject to a deduction reflecting the marine transportation allowance. Because DNR does not select RIK oil from fields where the ANS oil is initially sold within the State of Alaska, equation (3) is irrelevant for the analysis of the performance of the RIK price over the RIV price. In other words, the relevant comparison is between equations (1) and (2). The other elements in the netback pricing methodology, such as destination value, tariff allowance, quality bank adjustment, and line losses in equations (1) and (2), can also vary. Sections III and IV below will discuss these elements in more detail.

As shown in Figure 2, the amount of royalty oil that DNR selects as RIK varies, depending on the demand from the RIK buyers and the total royalty oil available. While DNR maintains a ceiling of 95 percent for taking royalty oil in-kind, DNR typically takes more than 5 percent of the total royalty oil from a given field in-value. Thus, knowing how the royalty oil in-value would be priced is important when comparing the price of a barrel of RIK to that of RIV. In addition to selecting its royalty oil in-kind

[8] When comparing the RIK price versus the RIV price, the appropriate RIV netback pricing computation in this analysis does not consider the field cost deductions that some DL-1 leases receive when calculating the wellhead value.

from fields where producers would typically sell ANS oil in the USWC, the value of a barrel of RIV oil is determined by the various royalty settlement agreements (RSAs) between the State and some North Slope producers[9]. The RSAs define how a barrel of RIV oil will be priced by assuming that such production will be sold outside of Alaska, which is consistent with the specification in equation (1).

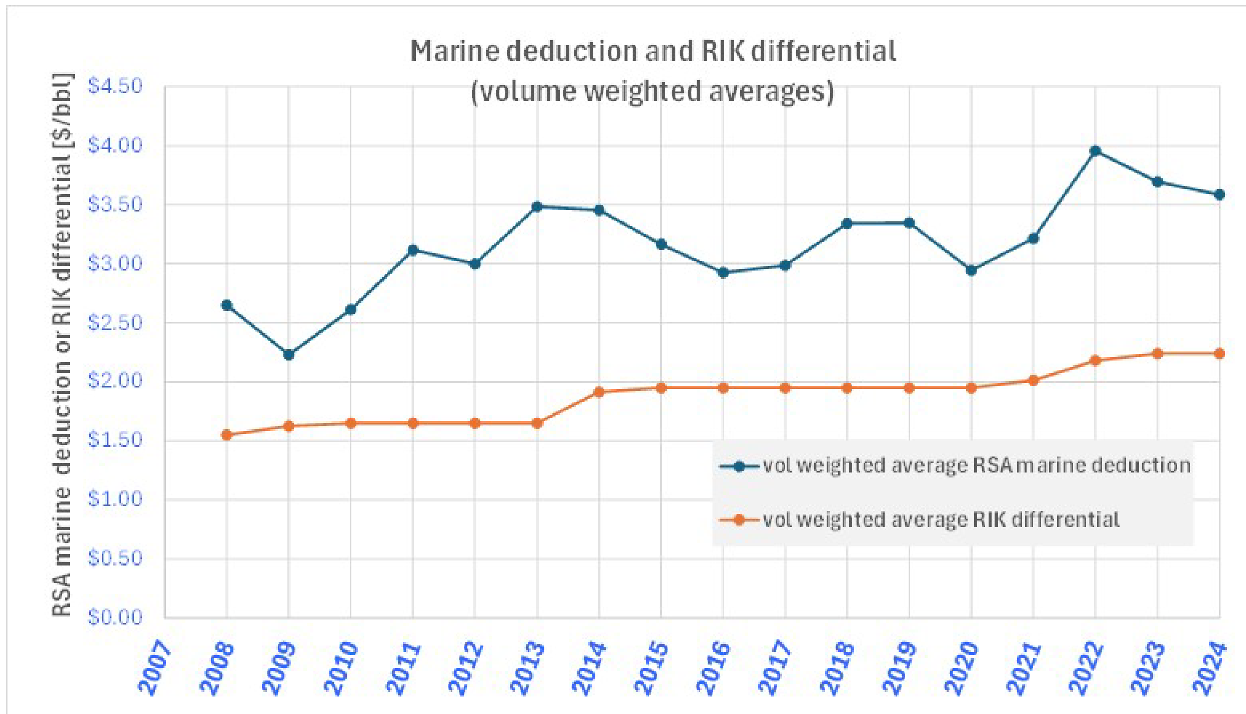
For the period January 2008 to December 2024, over 90 percent of the ANS royalty oil that the State selected as in-kind came from leases subject to terms of the various RSAs. In other words, the total royalty taken in-kind came primarily from leases where, had that royalty been taken in-value, those barrels would have been transported outside of Alaska, and the valuation of those royalty barrels would have used the marine transportation allowance prescribed by the applicable RSAs. Second, about 75 percent of the total ANS royalty oil comes from leases where the royalty in-value is determined by the RSAs. As a result of these two characteristics, for most cases, the observed differences in the netback pricing of RIK and RIV observed in Figure 4 came from the different values of the netback-pricing formulas (i.e., equations (1) and (2)) between the RIK contracts in place and those of the RSAs.

As shown later in this finding, from the netback pricing formulas, the element that contributed the most to the superiority of the RIK price over the RIV price, observed in Figure 4, was the RIK differential, a variable approximating the values of the location differential for in-state sales of crude oil. For oil that is sold within the state, as is also the case of ANS royalty oil sold in-kind in the proposed RIK contracts, the seller and the buyer agree on a location-based deduction that is used to determine the price difference for the oil sold on the USWC versus the oil sold in Alaska, which is later used to calculate the price at the point of production. In contrast, the marine transportation allowance is intended to represent the actual and reasonable cost incurred by lessees in physically carrying the ANS crude from Valdez to an out-of-state location via a tanker. Although in some cases, previous out-of-state sales of ANS oil took place in Asia and Hawaii, most of it was delivered in the USWC. Therefore, the observed price difference in Figure 4 originated mostly from the fact that, as Figure 5 below shows, during the period of analysis, the marine transportation allowance from the RSAs was consistently greater than the deductions coming from the RIK differentials from the RIK contracts in place.

As expressed before, the elements making up the netback pricing methodology for both RIK and RIV usually differ in value. However, the observed difference between the RIK differential and the marine transportation allowance was the major contributor to the pricing superiority of RIK over RIV from January 2008 through December 2024, despite the variation in the other elements of the netback pricing formulas such as destination value, tariffs, quality bank, and line loss.

[9] These are BP Exploration (Alaska) Inc. (BPXA), ConocoPhillips Alaska Inc. (CPAI), ExxonMobil Alaska Production Inc. (Exxon), and Chevron U.S.A. Inc. (Chevron). In 2020, Hilcorp Energy I, L.P. acquired BPXA's interests in Alaska. Additionally, in late 2014, BP assigned a portion of its interest in Milne Point, Duck Island, and Northstar to Hilcorp Alaska, LLC (Hilcorp). Part of the royalty from that assignment is still valued in terms of the royalty settlement agreement with BPXA.

Figure 5. Average marine transportation allowance and average RIK differential history



Source: Alaska Department of Natural Resources, Division of Oil and Gas

Fulfilling the regulatory requirement of the RIK price being at least as much as the RIV price represents a necessary condition for disposing of royalty oil in-kind rather than in-value. However, besides meeting this necessary condition, DNR also seeks to maximize the benefits of oil production when selling its royalty oil in-kind. As expressed before, the RIK differential can approximate the market value of the location differential used for sales of ANS oil within the state. Since the currently proposed RIK contract will sell volumes of royalty oil to an in-state refinery, the value of the RIK differential should be closer to the market value of the Alaska location differential instead of resembling the average cost of transportation from Valdez to the USWC.

C. Commercial refining in Alaska

Alaska currently has five active in-state refineries, operated by four organizations: Hilcorp, ConocoPhillips, Petro Star, and Marathon. Of these five refineries, three produce refined petroleum products for the consumer market[10] (Marathon's Kenai refinery, Petro Star's North Pole refinery and Petro Star's Valdez refinery). All three of these refine Alaskan crude and supply the Alaska retail market with refined petroleum products.

Petro Star's North Pole and Valdez refineries both exclusively refine ANS drawn from TAPS. As was discussed in the previous 2022 Petro Star RIK BIF, Petro Star's North Pole refinery has a maximum throughput capacity of 22,000 barrels per day, while the Valdez refinery has a maximum throughput of 60,000 barrels per day.

[10] Hilcorp and ConocoPhillips operate small topping plants on the North Slope that primarily support oil industry operations and are mostly geographically limited to the North Slope.

Currently, approximately 65% of the refined product produced by Petro Star is jet fuel and the remaining output is ultra-low sulfur diesel, asphalt, and heating oil. Most of the refined product produced by Petro Star will typically remain in Alaska. Petro Star operates ten retail fuel stations under its Sourdough Fuel and North Pacific Fuel divisions. Of those stations, three are located on the Aleutian Islands and the balance are in the Fairbanks/North Pole area.

Unlike the other two commercial refineries in Alaska, Marathon's Kenai refinery is not tied into the TAPS. Being located off TAPS impacts operations in two central ways. First, rather than drawing all its feedstock directly from TAPS, some feedstock at the Kenai refinery arrives over water. The ability to accept waterborne cargos means that, unlike the other two commercial refineries in the state, the Kenai refinery can source crude from the world market, the Valdez Marine Terminal (VMT), or the Cook Inlet. While importation of non-Alaskan crude is possible at the Kenai refinery, it is a relatively infrequent event. In recent years, approximately 90% of the crude refined in the Kenai facility has been Alaskan crude, either from the Alaska North Slope or Cook Inlet.

The second key impact being located away from TAPS has on operations at the Kenai refinery is the inability to re-inject unprocessed portions of a barrel of crude back into the pipeline. The Kenai refinery, like all commercial refineries in Alaska, does not possess the technological capability to transform every portion of a barrel into refined product. The portion of a barrel not refined into saleable product, the so-called "heavy ends," must be loaded onto a ship and transported to another Marathon facility (or sold to a third party) for further processing. Furthermore, unlike the Petro Star North Pole and Valdez refiners, which fuel the refineries with the crude extracted from TAPS, Marathon fuels its refinery with natural gas from Cook Inlet[11].

Most of the end-use products refined at the Kenai facility will be consumed by the Alaska market. Nearly all the jet fuel produced at the Kenai refinery will be transported via pipeline to Anchorage, with the majority of Anchorage-bound jet fuel consumed at Ted Stevens Anchorage International Airport. Stemming from its access to waterborne transportation, although infrequent in occurrence, Marathon also retains the ability to ship refined product out of Alaska.

D. RIK's role in Alaskan commercial refining

The State of Alaska's RIK has played a critical role in the development and continued operation of the Alaskan refining sector. All three currently-operating refineries have had an RIK contract at various points in time.

The State has a long history selling its North Slope RIK to the refinery in Kenai. The State supplied the Kenai refinery with ANS crude between July 1980 and January 1982, between January 1983 and December 1998[12], and again since February 2014. In total, as of December 2024, the Kenai refinery has purchased 276 million barrels of Alaska North Slope royalty oil under nine separate RIK contracts. Under the terms of the existing and past contracts, the people of Alaska enjoy the economic, social, and labor market benefits of petroleum products refined from Alaskan crude by Alaskans in Alaska.

The historical relationship between the sale of RIK and Petro Star's North Pole refinery is like the role played by royalty oil in Marathon's Kenai refinery. As presented in the previous Petro Star 2022 BIF, the

[11] "*The State of Alaska's Refining Industry. Report prepared for the Alaska Department of Natural Resources*", Econ One Research, Inc. March 2015, page 43.

[12] The State also supplied the Kenai refinery with 22.1 million barrels of Cook Inlet royalty crude between January 1979 and September 1985.

State sold North Slope royalty oil to Petro Star's North Pole refinery from December 1986 through December 1991. In total, the State supplied Petro Star's North Pole refinery with just over 3 million barrels of North Slope royalty oil under that 5-year contract. Since 1985 and through December 2024, the State has supplied Petro Star's North Pole and Valdez refineries with approximately 39 million barrels of North Slope RIK oil.

Perhaps the most interesting role played by a royalty oil contract was the 1992 contract with Petro Star Valdez Joint Venture. In mid-1991, Petro Star and its joint venture partners contacted DNR to secure a royalty oil contract for a proposed refinery in Valdez. DNR ultimately negotiated a ten-year contract with Petro Star and its joint venture partners to supply the proposed Valdez refinery with up to 30,000 barrels per day of royalty oil. With this contract in hand, the joint venture secured the needed financing and constructed the Valdez refinery. The royalty contract helped the joint venture secure financing by demonstrating guaranteed access to an on-going supply of feedstock. Ultimately, Petro Star Valdez Joint Ventures never took possession of a single barrel of royalty crude under the ten-year contract, preferring, rather, to secure its feedstock from the private market.

DNR believes the proposed RIK contract with Marathon is important to meeting in-state demand for crude and to facilitating the continued operation of the Kenai Refinery, with the attendant positive implications on the economy of the state. If ANS production declines over the term of this contract, ANS producers capable of transporting such crude to destinations outside Alaska will have greater unused tanker capacity. In this scenario, they may prefer to keep their equity crude and compete more fiercely for more ANS crude from the small producers. Therefore, the in-state refineries could find that securing the needed volumes of crude oil for the next years becomes less certain, with shorter-lived contracts. Additionally, in-state refiners could face a relatively costlier price for that crude. The U.S. West Coast refineries, tailored to run ANS, and facing diminishing ANS supplies, likely will keep ANS as a premium crude in the USWC. The proposed RIK contract with Marathon for a firm term of three years and potential annual extensions for seven additional years, will allow Marathon a stable ANS supply through July 2028, at a price that could help to maintain the economic viability of its refineries while maximizing the State revenues from the sale of its royalty.

E. Alaska's fiscal condition is wedded to oil and gas

Both the economic and the fiscal health of Alaska are wedded to oil and gas. In 2023, the total market value of all goods and services produced in Alaska totaled $68.1 billion[13]. In 2023 approximately one out of every ten of those dollars was generated by oil and gas. Table 1 shows that the total unrestricted revenues from the oil and gas sector are projected to represent approximately 25–30% of the Unrestricted General Fund Revenue. Notably, we can see in Table 1 the oil and gas royalty's contribution to the Unrestricted General Fund Revenue remains important, with projected shares of approximately 14–15% for the next ten fiscal years.

[13] U.S. BEA: http://www.bea.gov/regional/index.htm

Table 1: Oil and gas and General Fund Unrestricted Revenues by fiscal year (in millions of dollars)

Millions of Dollars

		History					Forecast									
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Unrestricted General Fund	Total Unrestricted Petroleum Revenue	1,083.1	1,217.6	3,480.9	3,119.4	2,469.8	1,849.1	1,724.8	1,731.5	1,742.3	1,676.4	1,673.1	1,803.7	1,885.9	1,965.3	2,111.2
	General Fund Unrestricted Non-Petroleum Revenue	3,446.0	3,565.2	3,458.3	3,946.6	4,161.4	4,379.5	4,474.0	4,663.6	4,718.8	4,849.4	4,989.9	5,136.5	5,282.5	5,439.6	5,598.6
	Total General Fund Unrestricted Revenue	**4,529.1**	**4,782.8**	**6,939.2**	**7,066.0**	**6,631.2**	**6,228.6**	**6,198.8**	**6,395.1**	**6,461.1**	**6,525.8**	**6,663.1**	**6,940.2**	**7,168.5**	**7,404.9**	**7,709.8**
	% Petroleum Revenue of Total General Fund Unrestricted Revenue	24%	25%	50%	44%	37%	30%	28%	27%	27%	26%	25%	26%	26%	27%	27%

		History					Forecast									
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Unrestricted Petroleum Revenue	Petroleum Property Tax	122.9	119.2	122.4	128.8	130.8	133.7	135.6	137.2	138.4	139.4	140.1	140.7	141.3	141.8	142.3
	Petroleum Corporate Income Tax	-0.2	-19.4	297.5	312.4	210.6	210.0	250.0	260.0	270.0	275.0	285.0	295.0	315.0	325.0	335.0
	Production Tax	277.4	381.1	1,801.6	1,490.9	974.6	563.1	441.1	418.8	397.8	356.6	328.2	391.7	404.3	428.7	541.7
	Oil and Gas Hazardous Release	7.7	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Oil and Gas Royalties	660.4	709.2	1257.2	1175.1	1145.6	932.2	888.1	905.5	926.1	895.4	909.9	966.3	1015.3	1059.8	1082.2
	Bonuses, Rents, and Interest	14.9	19.6	2.1	12.3	8.3	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
	Total Unrestricted Petroleum Revenue	**1083.1**	**1217.6**	**3480.9**	**3119.4**	**2469.8**	**1849.1**	**1724.8**	**1731.5**	**1742.3**	**1676.4**	**1673.1**	**1803.7**	**1885.9**	**1965.3**	**2111.2**
	% Oil and Gas Royalties of Total General Fund Unrestricted Revenue	15%	15%	18%	17%	17%	15%	14%	14%	14%	14%	14%	14%	14%	14%	14%

Source: Alaska Department of Revenue, Revenue Sources Book Fall 2024.

F. RIK oil sale procedure

Before executing a contract for the disposition of RIK, the Commissioner must find the disposition is in the best interests of the State (11 AAC 03.010 (b)). The Commissioner establishes the terms, conditions, and methods of disposition of the State's RIK oil (11 AAC 03.010 (a)). There exists a statutory presumption that taking royalty oil in-kind, with sale to in-state customers, by competitive bid is in the State's best interest.[14] That being said, the State has many competing interests and the State's best interest may be served through a non-competitive disposition of the State's royalty in-kind, as provided in AS 38.05.183(a).

Given the statutory presumption that the State's best interest is served through a competitive disposition of royalty oil to in-state customers, DNR first sought to determine the level of interest on the part of in-state producers and refiners in the purchase of the State's RIK oil. To gauge the level of interest in the market, DNR publicly published and distributed an informal solicitation of interest letter for RIK oil in August 2024 (Exhibit 2). Beyond simply gauging the market's interest in RIK oil, this solicitation outlined the State's desire to obtain "special commitments" that would meaningfully address the high cost of energy in Alaska or the need for a greater supply of crude oil for use in the state. DNR published the solicitation of interest letter in the Alaska Public Notice website[15]. This informal solicitation of interest was directly transmitted to various organizations, including ConocoPhillips, ExxonMobil, Hilcorp, Marathon, and Petro Star.

The informal solicitation generated two responses, regarding the purchase of the State's RIK oil, from ConocoPhillips and Marathon (Exhibit 3). Only Marathon expressed interest in purchasing RIK volumes. Since no other parties wished to participate, the Commissioner determined that seeking a non-

[14] See AS 38.05.182(a), AS 38.05.183(d), AS 38.05.183(a).

[15] See https://aws.state.ak.us/OnlinePublicNotices/Notices/View.aspx?id=216266

competitive, negotiated agreement was in the State's best interest, and therefore, waived competitive bidding. DNR ultimately pursued bilateral negotiations with Marathon in 2024.

The proposed contract having an initial term of three years, and with a focus on the criteria specified under the terms of AS 38.05.183(e) and AS 38.06.070(a), is entered into because the obligations under 11 AAC 03.026(b) and 11 AAC 03.024 are satisfied, and it is anticipated that the State expects to receive a price for its royalty oil that will be no less than the amount the State would have received, on average, if it elected to keep its royalty in-value, as discussed in Section B of this finding. This is because the marine transportation allowance is expected to exceed the RIK differential (see below in Section IV), thus the RIK price is expected to exceed RIV price during the contract term, resulting in additional revenue to the State of Alaska.

DNR believes the State has a duty beyond meeting a minimum necessary threshold when pricing an RIK barrel to at least as much as an RIV barrel. This duty is to maximize the benefits of oil production to the citizens of Alaska. As such, DNR believes the RIK differential should not be overly economically burdensome for the refiner and should be competitive enough as to support continued and stable in-state refinery operations, and allow the refiner to provide a stable source of refined products within the state.

Consistent with the obligations under 11 AAC 03.040 and 11 AAC 03.020, this Preliminary Best Interest Finding serves as the Commissioner's formal notification to the public and to the Alaska Royalty Oil and Gas Development Advisory Board of DNR's intent to dispose royalty oil in-kind to maximize revenue and to waive competitive bidding.

The Commissioner also considered the criteria listed in AS 38.05.183(e) and AS 38.06.070(a). The Commissioner's analysis of these criteria is discussed in detail in the following sections. As outlined in 11 AAC 03.060(a), the RIK contract must be awarded to the prospective buyer whose proposal offers maximum benefit to the citizens of the State.

Consistent with the obligations under AS 38.06.050(a), the Commissioner will submits the Preliminary Best Interest Finding to the Alaska Royalty Oil and Gas Development Advisory Board for its review. A copy of the Preliminary Best Interest Finding and the proposed RIK contractare made available from the State by contacting:

Division of Oil and Gas
Attn: Commercial Section Manager
550 W. 7th Ave, Suite 1100
Anchorage, Alaska 99501

and it will also be published on the Division of Oil and Gas website at:

http://dog.dnr.alaska.gov/

A copy of the proposed RIK oil sale contract and the State's informal letter of solicitation of interest are attached as exhibits to this report.

III. Discussion of contract terms

A. Price

The pricing strategy in the proposed sale is meant to arrive at a value for the State's royalty oil resembling the market value of a barrel of oil sold in the state, at the point where ownership is transferred to Marathon. To determine the monetary consideration, that the State receives for its royalty oil, the

proposed sale uses a netback valuation methodology. The RIK netback value in the proposed sale is meant to represent the market value of ANS sold in the state as it enters the Trans-Alaskan Pipeline System (TAPS) or the regulated pipelines upstream of TAPS Pump Station 1.

Each element of the RIK netback value is discussed in greater detail below, but succinctly, there are five key elements to the netback value. The netback value begins by determining the value of royalty oil where the overwhelming majority of ANS is sold—the USWC. To account for the difference in value associated with transactions on the USWC versus Valdez, a location differential is subtracted (netted) out. We call this the RIK differential. Next, to account for the pipeline tariffs to ship royalty oil between the point of delivery on the North Slope and the Valdez Marine Terminal, pipeline tariffs are deducted. Fourth, an adjustment is made for the difference in quality between the royalty oil from the field in which the oil originated and the quality of the TAPS common stream received by the buyer. Finally, an adjustment is made to account for the value impact caused by the relatively small difference in the metered volume of oil put into the pipeline at TAPS Pump Station 1 and the metered volume of oil delivered to Valdez Marine Terminal. The per-barrel monetary consideration received by the State is represented formulaically as:

$$\begin{matrix} RIK \\ Netback\ Price \end{matrix} = \begin{matrix} ANS \\ Spot\ Price \end{matrix} - \begin{matrix} RIK \\ Differential \end{matrix} - \begin{matrix} Tariff \\ Allowance \end{matrix} \pm \begin{matrix} Quality\ Bank \\ Adjustment \end{matrix} - \begin{matrix} Line \\ Loss \end{matrix}$$

1. ANS spot price

Similar to past RIK contracts with the State, the proposed RIK contract defines “ANS Spot Price” as the monthly average of the daily high and low assessments for the month for ANS traded at the USWC as reported by Platts Oilgram Price Report and Reuters online data reporting service. The average of Platts and Reuters also forms the basis for the prevailing value calculation used by Alaska’s Department of Revenue (15 AAC 55.171 (m)).

If DNR or Marathon determines the true market value of ANS at the USWC is no longer accurately reflected by the monthly average of the Platts and Reuters daily mid-point assessment, then a good faith effort will be made to arrive at a mutually agreeable alternative source to establish the ANS Spot Price. If such a mutually agreeable alternative source cannot be identified, “the State will select the alternative source that most reliably represents the price for ANS.” The ANS Spot Price calculation does not include days in which either of the two reporting services does not assess the value of ANS on the USWC.

2. “RIK differential is DOR location differential minus 24 cents”

As discussed above in Section II.B, the commissioner has a mandate to obtain a price for RIK oil that is at least as great as the volume-weighted average netback price of RIV oil. While simple in statement, achieving this standard is challenging due to the way lessees report the RIV price. The RIV valuation methodology, i.e., the final value of the State’s RIV, is defined by the lease contract provisions and the many RSAs further refining these provisions. In some cases, the price received by the State for RIV is not known until the lessees’ royalty filings are audited several years after the initial filing, and when the lessees refile their royalty reports.

DNR expects that approximately 75 percent of royalty oil nominated for RIK will come from leases to which the terms of the different RSAs are applied. In other words, if DNR decided to take all its expected royalty in-value, the valuation of three out of every four barrels will use the marine transportation allowance, as prescribed by the applicable RSA, as a component of the netback pricing formula. In calculating their royalty obligation, the producers are allowed to deduct either their actual and reasonable

costs, or a formula-calculated proxy of their costs of transporting the State's RIV from the port of Valdez to the USWC.

In attempting to achieve the RIK price superiority over RIV as required by statute, for any projected royalty barrel to be taken in-kind from those leases subject to the RSAs terms, and holding the other elements of the netback pricing formula constant, DNR compares the proposed value of the RIK differential to the expected weighted average marine transportation allowance as shown in Figure 5. This comparison gives insight into as to whether the corresponding RIK netback oil price will be greater than the RIV price.

For the proposed contract, the parties agree that the RIK differential should be tied to the publicly published[16], Alaska Department of Revenue's ANS location differential. Under the proposed contract, the RIK differential would be the Alaska location differential minus $0.24 (24 cents). Per the proposed contract, anytime the DOR updates the location differential in the future, the RIK differential would also be subsequently updated but will still be 24 cents less the DOR location differential. The latest published DOR location differential is $2.136. Therefore, under the proposed contract, the current RIK differential would be $1.896.

The fundamental basis for the DOR location differential is the actual and most recent ANS crude sales and associated contracts and invoices for commercial refining in the state. The location differential reflects the average location differential applied in the arm's length transactions between ANS crude sellers and the refineries. The DOR publishes this average location differential for taxpayer purposes, typically on an annual basis.

Since oil sold to in-state refineries in Alaska is not transported to the USWC, the location differential need not equal the average cost of physically transporting oil to the USWC. For a refinery having access to non-Alaskan crude, its alternative to ANS oil would be the cost of the non-Alaskan crude spot price plus the cost to transport it to Alaska. Thus, in demanding ANS oil, this type of in-state refinery would demand a price equal to or less than its non-Alaskan-crude alternative. In turn, for an ANS producer capable of transporting that crude to the USWC, the maximum discount to the UWSC price this producer would offer is the marine transportation cost to the USWC. Therefore, the actual location differential values from these negotiated contracts, in which the State is not a party, are limited by the cost of marine transportation for the seller and the price to procure oil from out-of-state for the buyer. The location differentials in the negotiated contracts, referenced by the DOR, will differ considerably, and depend mainly on the flexibility of the volumes sold, the length of the contract, and the market power exercised by each party.

By applying the proposed RIK deferential and the other proposed terms of the contract, DNR estimates it will receive a price for its RIK oil that will be greater than the price it would have received if it elected to keep its royalty oil in-value. This is due mainly to the difference between the proposed value of the RIK differential and the expected value of the marine transportation allowance to be used in the valuation of the vast majority of the forecasted ANS royalty volume. DNR believes this difference is attained when the value of the RIK differential approximates or is less than the expected market value of the location differential, used for in-state sales of ANS oil. Additional analysis and discussion related to the ultimate cash value expected for RIK oil, is found in Section IV.4. below.

[16] The Department of Revenue Location Differential can be found here: https://tax.alaska.gov/programs/oil/prevailing/marineold.aspx

3. Tariff allowance

The Tariff Allowance provides an additional deduction from the ANS Spot Price equal to sum of the ownership-weighted average minimum interstate TAPS tariff filed with the FERC, plus any tariffs paid by Marathon for shipment of royalty oil on pipelines from fields (units) on the North Slope upstream of Pump Station 1. Under the proposed contract, DNR has the option of providing royalty oil from any ANS unit[17], and the additional allowance for tariffs paid on pipelines upstream of TAPS Pump Station 1 is intended to match a similar deduction taken by the lessees on RIV from those units. Because Marathon is allowed a deduction that would reimburse them for the cost incurred to ship oil from the units upstream of TAPS Pump Station 1, DNR has the freedom to maximize value by judiciously nominating royalty oil from different combinations of North Slope units.[18]

The Tariff Allowance is one of the elements of the price term in the proposed contract subject to retroactive adjustments, limited to 8 years. The Tariff Allowance may be adjusted if the tariff used in the calculation of the Tariff Allowance is changed (or subject to a refund order) by FERC later.

4. Quality bank adjustment

The Quality Bank Adjustment is a positive or negative number reflecting the value of different streams of crude oil shipped in TAPS. The Quality Bank is administered by the owners of TAPS and regulated by the FERC. Oil tendered for shipment at TAPS Pump Station 1 is produced from several different production units and the shippers of oil of lesser value must reimburse the shippers of oil of greater value for the degradation of value of the comingled stream—the value the shippers receive when they sell the oil. Similarly, the refineries in North Pole and Valdez also take oil out of TAPS, extract the valuable components of the oil in manufacturing petroleum products, and re-inject into the pipeline a mixture of lower valued components. The return streams from the refineries bear a quality bank payment to each of the owners of the passing TAPS stream.

The Quality Bank Adjustment in the proposed contract is calculated as the difference of the value of royalty oil where it is tendered at the point of sale—either at TAPS Pump Station 1 or at the entry into a pipeline upstream of TAPS Pump Station 1—and the value of the oil in TAPS downstream of the Petro Star Valdez refinery. The proposed contract provides an example for how the Quality Bank Allowance is calculated for RIK oil produced at Lisburne. The Quality Bank Allowance is another element of the price term in the proposed contract that is subject to retroactive adjustments, limited to 8 years. DNR may readjust the Quality Bank Allowance if the Quality Bank administrator recalculates any of the values used in the calculation of the Quality Bank Allowance.

5. Line loss

Line loss is a per barrel amount calculated as:

$$(0.0009) \times (ANS\ Spot\ Price - RIK\ diff - Tariff\ Allowance \pm Quality\ Bank\ Adjustment)$$

[17] Unit is a term defined in regulation (11 AAC 83.395) as “a group of leases covering all or part of one or more potential hydrocarbon accumulations, or all or part of one or more adjacent or vertically separate oil or gas reservoirs, which are subject to a unit agreement.” In common use, the term “unit” may sometimes be equated to the term “field.”

[18] This capability provides further assurance that DNR will achieve its statutory and regulatory obligation to secure a price for RIK that is at least equal to the volume weighted average of RIV. See also Section III.C. below.

The line loss provision accommodates the impact on value caused by the small difference between the metered volume delivered into TAPS at Pump Station 1 and the metered volume delivered to the Valdez Marine Terminal.

B. Quantity

DNR seeks to sell from a minimum of 10,000 bpd to a maximum of 15,000 bpd of royalty oil in-kind through the proposed sale for an initial term of three years, with possible annual extensions of one year each for seven additional years, unless either party withdraws by November 1 of each year. As discussed above, the maximum volume of oil sold under the proposed sale is set such that it is highly likely the State will be able to fulfill its quantity obligations. However, DNR reserves the right, at the Commissioner's discretion, to limit the quantity of oil sold in the proposed sale such that the total royalty oil committed under all RIK contracts is not more than 95% of the total monthly North Slope royalty oil.

In the proposed contract, the buyer (1) possesses a provision to reduce their nominations to zero barrels for up to two consecutive months, and (2) another provision to reduce the nominations below the established range only under a force majeure event. If Marathon fails to nominate or nominates zero barrels for three consecutive months, then the contract terminates. Thus, Marathon can use this mechanism to terminate the contract and pursue alternative crude supply agreements.

The proposed contract also allows Marathon to nominate a volume of oil that falls inside of an agreed upon nomination range, initially set at a minimum of 10,000 bpd and a maximum of 15,000 bpd. This allows Marathon to adjust its monthly royalty purchases consistent with its expectations about alternative crude oil supplies from private sellers and future demand for its refined products. Additionally, a provision of the contract allows Marathon to temporarily nominate a volume of oil that is under 10,000 bpd, in any month in the contract term. But if the sum of the nominations in any twelve month period of the contract from August 1 to July 31 is less than 1.2 million barrels, then the RIK differential for the next twelve-month period of the contract shall be the DOR location differential minus $0.26 (26 cents). If the sum of the nominations in the final twelve-month period of the contract is less than 1.2 million barrels, then Marathon shall pay the State an amount equal to the difference between 1.2 million barrels and the total volume nominated during the final twelve-month period multiplied by $1 per barrel. The purpose of this provision is to provide Marathon additional flexibility that was requested regarding monthly nominations, while still protecting the State's interest in maintaining a minimum annual volume of RIK sales under the contract.

C. General discussion of price and quantity terms

Overall, the price and quantity terms in the proposed contract offer attractive terms for Marathon while also fulfilling the State's objectives. As discussed above, DNR has a statutory and regulatory duty to ensure RIK generates revenue at least as great as what would have been realized for the average barrel of RIV. As explained previously, DNR's analysis indicates the proposed contract will meet this standard. Additionally, DNR has a statutory duty to maximize the benefits from oil production for the citizens of Alaska. As discussed in detail in Section IV. A., DNR believes the expected RIK price obtained through the proposed RIK differential will be greater than the weighted average RIV price over the period of the contract.

The proposed contract also allows the realization of additional revenues by preserving DNR's ability to arbitrage its royalty take. While for the purposes of exposition this document has treated all RIV barrels as fully substitutable, this is not entirely correct. Stemming from variation in the calculation of royalty value across producers, the RIV price that would have been realized from a barrel of royalty oil varies across producers. The per-barrel pricing structure outlined in this Section aims to generate a price that is,

in expectation, at least equal to the volume-weighted average RIV price. However, under the proposed contract, DNR may choose to nominate RIK barrels from areas that would have yielded the lowest RIV price, which will necessarily be less than the volume-weighted average value. The difference between the RIK and RIV amount is additional revenue to the State that is preserved under the proposed contract.

Finally, it is also worth noting that while it is the State's expectation that each barrel of RIK oil will be sold for more than its RIV amount, the price may not necessarily match its market value. As has been discussed, under the terms of the proposed contract the State offers flexible quantity terms, as well as supply and price certainty. Marathon's continued nomination of RIK under the existing contract, and its willingness to enter into the proposed contract modeled after the existing contract in place, is prima facie evidence that the terms offered by the State are no more onerous than those the buyer could have negotiated in the marketplace.

D. Other contract terms of interest

1. Contract length

The initial term of the proposed contract is three years, with possible annual extensions of one year each for seven additional years, unless either party withdraws by November 1 of each year. This proposed term was a result of the contract negotiations conducted between DNR and Marathon starting in the 4th quarter of 2024. Contract extensions that allow a term beyond three years, with the ability for annual withdrawal, drive significant administrative efficiency benefits for the State and Marathon, while preserving the State's ability to meet statutory mandates for RIK.

2. Force Majeure

DNR will, to the best of its abilities under its agreements with its lessees, accommodate a temporary reduction in the volume of RIK oil delivered to Marathon if the reduction is necessitated by a Force Majeure event. The volume of royalty oil will be reduced by an amount equal to the reduction in Marathon's requirements that is a direct result of the Force Majeure event. Marathon will, however, accept delivery of all royalty oil nominated by the State under the proposed contract. Importantly, changes in commercial or financial markets impacting the price of crude or refined petroleum do not constitute Force Majeure events. Thus, volumes cannot be altered, and performance of other contract provisions cannot be suspended, due to changes in market conditions. In fact, Marathon has an absolute obligation to pay the State any amounts due, per the contract.

3. Retroactivity

The key terms in the proposed contract subject to retroactive adjustments are the terms addressing the pipeline tariff allowance and the quality bank adjustment. If a tariff which has been used in the calculation of a Tariff Allowance is changed or subject to a refund order by the FERC, the Tariff Allowance will be recalculated using the changed FERC-ordered tariff, and the royalty oil price will be retroactively readjusted accordingly, but any such retroactive change will be limited to a period of 8 years. Similarly, if the stream values used in the calculation of the Quality Bank Adjustment is recalculated by the Quality Bank administrator, the Quality Bank Adjustment will be recalculated, and royalty oil price will be retroactively readjusted accordingly, also limited to a period of 8 years. DNR was able to retain these two retroactive adjustments to help ensure RIK-RIV price parity was achieved.

4. Security

When the State enters into a sale of RIK oil, the State is exposed to the risk that the buyer will default on its obligations to pay for the royalty oil delivered to, and nominated on the behalf of, Marathon. There are two key elements of the "default risk" to which the State is exposed in an RIK sale. The first element is the total loss from royalty oil already delivered to Marathon; the second is the so-called "denomination" risk. Under the proposed contract, DNR would be unaware of the buyer's inability, or unwillingness, to pay for oil already delivered for up to 26 calendar days after the final delivery of the month. An immediate move on DNR's part to declare the contract in default would likely require up to another seven calendar days. Thus, the State could deliver up to 65 calendar days of royalty oil before it could declare the buyer in default (31 days of delivery, 20 calendar days to bill, six calendar days for payment, and seven calendar days to declare default). The revenue from these 65 days of royalty oil would, in the absence of security or litigation, be a total loss.

In addition to this total loss, the State is also exposed to the losses that would likely stem from a distressed sale of previously nominated royalty oil – the "denomination risk." To fulfill its obligations under the proposed contract, DNR must alert upstream producers of its intent to take RIK at least ninety days ahead of the date of delivery (i.e., it must nominate oil at least ninety days in advance). Thus, should the buyer default, DNR will have nominated an additional 90 days of RIK oil consistent with its obligations under the sale contract. This additional 90 days of royalty oil must be disposed of by the State, likely at distressed prices.

To help insulate the State from the default risk an RIK disposition generates, the State requires that either a letter of opinion from a financial analyst, whom is approved by the State, be submitted to the State each year, or that Marathon provide an annually renewed, continuously maintained stand-by letter of credit or surety bond equal in value to ninety days of royalty oil. To waive the requirement for a letter of credit, the buyer, or guarantor, must submit to a full review of the financial health of the buyer, or guarantor. If the financial analyst finds the buyer's, or guarantor's, long term (and short term, if available) credit rating is likely to fall below, both Standard and Poor's BBB- and Moody's Baa3 at any time during the next twelve months, then the State will immediately require a one-year irrevocable stand-by letter of credit.

5. In-State processing

Under the proposed contract, Marathon is compelled to use "commercially reasonable efforts" to manufacture refined petroleum products from the State's RIK oil in Alaska. While the spirit of this provision is attractive from the State's perspective, it is unlikely to materially impact the behavior of Marathon. Marathon currently sources crude oil from other Alaska suppliers, and the royalty oil sold under this contract is likely to complement or even possibly displace some of these volumes. That being said, Marathon does possess the means to source crude from outside Alaska. If Marathon elects to displace non-Alaskan crude with royalty oil, the proposed contract could increase the volume of Alaskan crude refined in Alaska. However, this decision will be driven by commercial and operational considerations. If processing the State's RIK oil in Alaska is the most economic approach, then Marathon likely will process the State's RIK oil in Alaska independent of any in-state processing provision. On the other hand, if processing the State's RIK oil in Alaska is not the most economical alternative, Marathon can make a "commercially reasonable" decision to process the oil outside of Alaska.

6. Employment of Alaskans and use of Alaska companies

Marathon agrees to employ Alaska residents and Alaska companies to the extent they are available, willing, and at least as qualified as other candidates for work performed in Alaska in connection with the proposed sale.

7. Dispute resolution

If a dispute arises, both parties may avail themselves of the dispute resolution mechanism contained in the proposed contract. The dispute resolution mechanism can be triggered by either the State or Marathon by giving notice of the dispute to the other party. Within 60 days of providing notice of the dispute, both parties shall submit their arguments and evidence to the Commissioner. After having received the arguments and evidence concerning the dispute from the parties, the Commissioner shall adjudicate the dispute. Both the State and Marathon agree to abide by the findings of the Commissioner provided the decision is "supported by substantial evidence in light of the whole record."

8. Proration

Under the terms of the proposed contract, the State reserves the right to prorate royalty oil nominated for taking in-kind. If DNR is unable to supply the total volume of oil nominated by Marathon and all other future RIK purchasers, DNR has reserved the right to prorate the nominated volumes of such future RIK purchasers equally, in proportion to their nominations. As indicated before, DNR reserves the right to limit the total quantity of oil sold under all RIK contracts to 95% of the total monthly North Slope royalty oil.

IV. Analysis of State benefits

A. Cash value offered – AS 38.05.183(e)(1)

As described in Section III.A.2, under the terms of the proposed RIK contract, the State estimates it will receive a price for its RIK oil that will be greater than the price it would have received if it elected to keep its royalty oil in-value. This is due mainly to the difference between the proposed value of the RIK differential and the expected value of the marine transportation allowance to be used in the valuation of the vast majority of the forecasted ANS royalty volume. DNR believes this difference is attained when the value of the RIK differential approximates or is less than the expected market value of the location differential used for in-state sales of ANS oil.

However, the RIK differential deduction and the marine transportation allowance represent only one component in the netback pricing formulas of RIK and RIV, respectively. The remaining components of those formulas (namely, the destination value, pipeline tariff deductions, line loss deductions and quality bank adjustments) also play a role in pricing RIK and RIV, especially since the valuation methodologies used in RIV are not necessarily equal to those used in RIK. In that sense, it is theoretically possible the values of those remaining components may reduce some, if not all, of the initial price superiority of RIK over RIV, which is mainly obtained through the difference between the proposed RIK differential and the expected marine transportation allowance.

Since DNR expects to achieve netback price superiority of RIK over RIV through the proposed RIK differential during the proposed contract term, it can ensure the highest possible revenue through the sale of the State's royalty oil in-kind instead of choosing the RIV option. Maximizing cash value is consistent with the State's obligations as mandated in 11 AAC 03.026 and 11 AAC 03.024. Under the proposed contract, the State would supply the Kenai refinery with 10,000 to 15,000 bpd of crude oil. If this full volume of RIK oil is nominated and delivered over the term of the contract, then the total volume of RIK oil under the contract would range from 11 to 16.4 million barrels. However, since under the terms of the contract Marathon can submit up to eight "zero nominations" per year without terminating the contract, the minimum total annual volume of nominations could be as low as 1.2 million barrels per year and 3.6 million barrels over the term of the contract, under such a scenario.

The RSA-based, volume weighted, marine transportation allowance has typically ranged from $3.00 to $4.00 per barrel during the years 2011 through 2024. The RIK differential under the proposed terms of the contract would have been 24 cents less than the DOR location differential, resulting in a range from $1.30 per barrel to $2.34 per barrel. As such, if the trend of the marine allowance and the DOR location differential continue to lie in the same range during the term of the proposed contract, then the difference between the RIK differential and marine allowance during the term of the contract can be estimated to be approximately $0.70 to $1.70 per barrel. Assuming a total RIK nomination volume of 11 million barrels during the first three years of the contract, and assuming a $1.20 per barrel premium due to the RIK differential, and a 10% erosion factor due to other netback pricing elements, the expected incremental revenue to the State from the proposed contract can be estimated to be $12 million. Applying the same assumptions to RIK nomination volumes of 16.4 million barrels during the term of the contract, the estimated incremental revenue to the State is $18 million. Applying the same assumptions to RIK nomination volumes of 3.6 million barrels during the term of the contract (which is the minimum in the eight "zero nominations" per year scenario), the estimated incremental revenue to the State is $4 million.

B. Projected effect of the Sale on the economy of the State – AS 38.05.183(e)(2)

Assuming at least 11 million barrels are nominated and delivered over the initial three year term of the contract, the proposed RIK sale will provide the State, an estimated $12 million of revenue additional to what would have been obtained through the selection of these ANS royalty volumes in-value. The sale may also help facilitate the continued operation of the Kenai refinery with the economic benefits that accompany such operations. The Kenai refinery produces roughly 1.9 to 2.5 million gallons of refined petroleum products per day, most of which will be consumed in Alaska.[19] Approximately 12,000–15,000 bpd (500,000–650,00 gallons per day) of heavy oils (C6 naphtha, vacuum gas oil and fuel oils) are produced and shipped from the Kenai refinery, primarily to other Marathon refineries as blend stocks and feedstocks. Approximately 4,000–6,000 bpd of this 12,000–15,000 bpd volume may be marketed as finished light sulfur fuel oil product in the Pacific Northwest.

Marathon's Kenai refinery currently employs approximately 220 Alaskans in full-time positions. The Kenai refinery also retains 60 contracted service providers in Alaska. Marathon also owns and operates three terminals located at the Port of Alaska and North Pole that employ approximately 40 Alaskan employees[20]. As was noted above, by entering into the proposed contract, Marathon has signaled that the total value derived from the proposed contract is at least equal to that which could be secured from the private market. Insofar as the incremental value in the proposed contract helps facilitate continued operations at the Kenai refinery, the proposed contract benefits the Alaskan economy.

C. Projected benefits of refining or processing the Oil in Alaska – AS 38.05.183(e)(3)

The proposed sale of royalty oil will help ensure continued in-state processing with its potential price and labor market benefits. As discussed in Section II.D, products from in-state refiners supply a substantial proportion of the state's needs for refined petroleum products. However, given the ability of Marathon's Kenai refinery to source crude from the Cook Inlet and from out-of-state, the absence of the ANS royalty oil would not necessarily affect the production and/or pricing of refined products in the state. In the event that the absence of the sale of ANS royalty oil to Marathon generated a decline of the in-state refining capacity, it would have direct, indirect, and induced labor market impacts in Alaska. Marathon currently employs 320 Alaskans in well paying, full-time positions, many of which would not exist without the

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[20] The details about current Kenai operations, processing capacities, employed personnel, and Marathon operations, were provided by Marathon, per DNR request.

presence of the refinery.

D. Ability of Prospective buyer to provide refined products for distribution and sale in the State with price or supply benefits to the citizens of Alaska – AS 38.05.183(e)(4)

Marathon's Kenai refinery began producing refined petroleum products in 1969. The Kenai refinery typically produces approximately 55,000 bpd of refined product. This amounts to approximately 20.1 million barrels per year. Of the 55,000 bpd of refined products, approximately 30% is typically jet fuel. Under typical refinery operations, nearly all of this jet fuel will be transported to Anchorage via a Marathon-owned common-carrier pipeline to support operations at Ted Stevens Anchorage International Airport, one of the top 5 busiest cargo airports in the world and the economic engine that supports one out of every ten jobs in Anchorage. This refinery also produces 15,000 bpd of gasoline, approximately 27% of the refinery's total production.

Under typical refinery operations, the remaining refinery output is primarily a combination of LPG (propane), distillate, vacuum gas oil, fuel oil, and seasonal asphalt. Approximately 12,000-15,000 bpd of heavy oils (C6 naphtha, vacuum gas oil and fuel oils) are produced and shipped from the Kenai refinery, primarily to other Marathon refineries as blend stocks and feedstocks. Approximately 4,000–6,000 bpd of this 12,000–15,000 bpd volume may be marketed as finished light sulfur fuel oil product in the Pacific Northwest. In terms of a decomposition of the sources of crude oil procured for the Kenai refinery from Cook Inlet oil, North Slope oil, etc., over the past five years, the Kenai refinery has processed about 60% ANS crude oil, 20% Cook Inlet crude oil, and the balance a mix of other US/foreign crude oil grades.

E. Existence and extent of present and projected local and regional needs for oil and gas products – AS 38.06.070(a)(2)

In 2022, on a per capita basis, Alaskans paid the second highest prices for energy compared to residents of any other state[21]. This high expenditure rate was driven in large part by the very high per unit cost paid by Alaskans for energy. Most pertinent for current purposes, Alaskans paid the second highest rates in the country for gasoline[22], and some of the highest rates in the nation for distillate fuels, including diesel and home heating fuel. The fact that Marathon is willing to enter into this RIK contract reveals the commercial appeal of the proposed terms. However, any potential benefit obtained by Marathon through this contract will not necessarily materialize into lower product prices for Alaska consumers, especially considering the market structure for refined products in Alaska. Thus, it is not likely that the proposed sale will materially reduce the price paid by Alaskan consumers for refined petroleum products.

F. Revenue needs and projected fiscal condition of the State – AS 38.06.070(a)(1)

The current and projected fiscal condition of the State has been discussed above in Section II.E. To summarize, in 2023, approximately one out of every ten dollars of value in total goods and services produced in Alaska was generated by oil and gas. Revenues from the oil and gas sector are projected to represent approximately 30% of the Unrestricted General Fund Revenue for FY 2025, with oil and gas royalty's contribution to the Unrestricted General Fund Revenue remaining steady at between 14% to 15% for the next six fiscal years.[23]

[21] See https://www.eia.gov/state/rankings/#/series/225

[22] See https://www.eia.gov/state/seds/data.php?incfile=/state/seds/sep_sum/html/rank_pr_mg.html&sid=US

[23] See RSB Fall 2024, Chapter 2, section 2, http://www.tax.alaska.gov/programs/sourcebook/index.aspx

The sale of royalty oil under the proposed contract, and assuming a total nomination volume of 11 million barrels, is projected to generate an estimated $12 million in revenue, additional to what would have been obtained through the selection of these ANS royalty volumes in-value. The proposed sale may further improve the State's fiscal picture by generating increased revenue if the State selects RIK volumes from the leases with below-average RIV price. The proposed sale will improve the State's revenue picture.

G. Desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale – AS 38.06.070(a)(3)

The proposed sale of RIK will, in and of itself, require no additional capital investment, induce no change in payroll, yield no secondary development and have few other consequences. During negotiations, Marathon indicated the North Slope royalty oil transacted under the proposed sale will be used in a status-quo fashion. Royalty oil sold under the proposed contract will not cause significant changes to the current overall feedstock sourcing for Marathon's refinery operations. Marathon also believes the royalty oil sold under this contract is unlikely to materially impact refinery operations. As such, no long-run population redistribution or change in the utilization of social services is expected. The proposed contract is unlikely to induce new hiring.

By charging a price within the market range, DNR will avoid undercutting local, small producers' market positions in Alaska. By taking royalty oil in-kind rather than in-value, large producers will have less oil to transport to the West Coast. This might prompt them to purchase crude on more favorable terms from smaller producers. In addition to in-state refiners, smaller producers also benefit the State through their investment, production, and its attendant economic benefits.

H. Projected positive and negative environmental effects – AS 38.06.070(a)(7)

The sale of RIK oil will, in and of itself, have no negative environmental effects and will not affect the volume of oil shipped in Alaska. If RIK oil simply replaces oil that would have been purchased from small producers, then there is no environmental impact. If the RIK oil replaces crude that would have been imported from outside of Alaska, and there is a non-zero risk of adverse environmental effect per barrel per mile, then the proposed sale may have a small positive environmental effect. Taken as a whole, the proposed contract is expected to have very little incremental environmental impact.

It should also be noted that the State transfers title and risk for RIK crude to the buyer at the point of delivery.[24] Title and risk for the RIK crude is always transferred upstream of Pump Station 1. This legal construction does not change the volume of oil flowing through TAPS on a given day and does not impact environmental risk. However, it does insulate the State from the financial risk associated with an adverse environmental outcome.

I. Projected social impacts – AS 38.06.070(a)(4)

Beyond the direct revenue impact, the proposed sale is unlikely to have any incremental social impact. The royalty oil sold under this contract is unlikely to materially impact refinery operations. As such, no long-run population redistribution or change in the utilization of social services is expected.

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[24] Put differently, the state instantaneously passes the title and risk of royalty oil from the producer to the buyer at the point of delivery.

J. The projected additional costs and responsibilities which could be imposed upon the State and affected political subdivisions by development related to the transaction – AS 38.06.070(a)(5)

The proposed sale of RIK, in and of itself, is expected to generate negligible additional costs or responsibilities for the State or the Kenai Peninsula Borough. The State's royalty oil is expected to simply displace crude secured from the private market. The proposed contract is unlikely to materially impact the operations of the Kenai refinery. However, as was discussed above, when the State sells its RIK it faces counterparty risk. The State had a long and successful history selling its royalty oil to Tesoro, which previously operated the Kenai refinery. There exists a non-zero probability that Marathon could, for a host of reasons, fail to fulfill its obligations under the proposed contract. Such a failure could expose the State to financial loss. The proposed contract recognizes this risk and mitigates it through a security arrangement that requires Marathon to provide an opinion by an independent financial analyst on the credit rating of Marathon's guarantor or post a stand-by letter of credit or a surety bond equal to the expected value of ninety days of royalty oil. See Section III.D.4 above.

K. The existence of specific local or regional labor or consumption markets or both which should be met by the transaction – AS 38.06.070(a)(6)

The proposed contract is unlikely to induce substantial new hiring. However, refinery operations support multiple local labor and consumption markets. Marathon's Kenai refinery currently employs approximately 220 Alaskans in full-time positions. The Kenai refinery also retains 60 contracted service providers in Alaska. Marathon also owns and operates three terminals located at the Port of Alaska and North Pole that employ approximately 40 Alaskan employees. Marathon provides branded fuel to 48 independently-owned and operated Tesoro branded sites in Alaska.

It should be recognized that demand for refined product is quite seasonal. As was discussed above, the proposed contract contains a valuable volumetric option. By exercising this option, Marathon may align their crude inventory with seasonal fluctuations in demand for refined product. Such an alignment may be of use in meeting seasonal fluctuations in demand in an efficient fashion.

L. The projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investment – AS 38.06.070(a)(8)

The proposed contract is unlikely to demonstrably impact the operations at the Kenai refinery. As has been mentioned before, the crude supplied under the proposed contract will likely simply displace crude from the private market. As such, the proposed contract is expected to have very little impact on existing private commercial enterprise and patterns of investment. However, the continued operation of the Kenai refinery will allow Marathon to continue to supply its customers, including Ted Stevens International Airport and regional wholesale and retail markets. The continued operation of the Kenai refinery will sustain the demand that Marathon generates among its vendors and servicers.

V. Preliminary Finding and Determination

A. Disposal of royalty oil in-kind is in the State's best interest

In accordance with AS 38.05.182(a), 11 AAC 03.010(b) and (d), 11 AAC 03.020(c), and 11 AAC 03.060, DNR has published this Preliminary Best Interest Finding and Determination. The Commissioner has determined that it is in the best interest of the State to take its RIK to supply the Marathon refinery at Kenai with feedstock.

B. Competitive bidding is waived

Consistent with the results of the solicitation described in Section II. F. above and DNR's assessment of

the potential benefits of negotiated RIK contracts, the Commissioner has determined, in accordance with AS 38.05.183(a) and 11 AAC 03.030, that the best interests of the State will be served through the sale of its RIK to Marathon under non-competitive procedures.

The proposed contract will protect the State's interest and is estimated to generate a sale price throughout the term of the contract that is expected to be higher than the volume-weighted average of the reported netback prices the lessees file for royalty purposes. The Commissioner further considered that DNR has negotiated a contract that will permit a transparent and equitable allocation of the State's royalty oil across all RIK buyers should the State's volumetric expectations be incorrect.

A copy of this Preliminary Best Interest Finding and Determination is being delivered to the Royalty Board as notification under AS 38.05.183(a), 11 AAC 03.010(g), and 11 AAC 03.040.

C. The proposed RIK oil sale offers maximum benefits to the State

When RIK is sold through a process other than competitive bid, the Commissioner shall award the disposal to the prospective buyer whose proposal offers the maximum benefits to the citizens of the State of Alaska. In making the award the Commissioner must consider the criteria set out in AS 38.05.183(e) and in AS 38.06.070(a). The Commissioner's in-depth review and consideration of all the required statutory criteria is set out above in Section IV of this Preliminary Best Interest Finding and Determination. Subject to public review and comment, the Commissioner finds that the proposed sale of North Slope royalty oil to Marathon, under the terms and conditions of the attached proposed contract, offers the maximum benefit to the State.

D. Alaska Royalty Oil and Gas Development Board

This Preliminary Best Interest Finding and Determination and a copy of the proposed contract is being submitted to the Alaska Royalty Oil and Gas Development Board in compliance with AS 38.05.183(c), and 11 AAC 03.040, which require the Commissioner to give written notice to the board of intent to waive competitive bidding in an RIK sale.

E. Legislative approval

Legislative approval is required for a RIK oil sale with a term of more than one year pursuant to AS 38.06.055(a), since "In addition to the recommendation by the board required under AS 38.06.050, the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature. The legislature may approve a sale, exchange, or other disposition of oil or gas or of the rights or of a waiver of the rights to receive future production of royalty oil or gas only by enacting legislation." As such, the Commissioner will be seeking legislative approval subsequent to the written recommendation by the Alaska Royalty Oil and Gas Development Advisory Royalty Board.

F. Applicable criteria and weights

For the purposes of the proposed contract, as was outlined in Section IV, the Commissioner considered all criteria outlined in AS 38.05.183(e) and in AS 38.06.070(a). Subject to public review and comment, the Commissioner finds the proposed sale will positively impact, or affect no harm on, all the criteria in AS 38.05.183(e). In the analysis of the proposed sale, the Commissioner most heavily weighted the cash value offered, the projected effect of the sale on the economy of the state, and the ability of Marathon to supply refined product to Alaskans. While all criteria in AS 38.05.183(e) received non-zero weight, the other criteria discussed in Section IV received less weight.

VI. Conclusion

The Commissioner is presenting this Preliminary Best Interest Finding and Determination to the public. Only after careful consideration of the circumstances of the proposed sale, material information, and legal requirements will the Commissioner determine, in accordance with AS 38.05.183, the best interest of the State does not require this RIK sale be made by competitive bid, and the proposed contract with Marathon offers maximum benefits to its citizens.

John C. Boyle III
Commissioner

4 March 25
Date

Cc:

David Duffy, Assistant Attorney General, Oil and Gas Section, Department of Law
Ryan Fitzpatrick, Commercial Manager, Division of Oil and Gas
Mary Gramling, Chief Assistant Attorney General and Oil and Gas Section Supervisor, Department of Law
Derek Nottingham, Director, Division of Oil and Gas
Haley Paine, Deputy Director, Division of Oil and Gas

VII. Exhibits

Exhibit 1 – Draft "Agreement for the Sale of Royalty Oil between and among the State of Alaska, Marathon Petroleum Supply and Trading LLC, a Delaware Limited Liability Company and Marathon Petroleum Corporation, a Delaware Corporation"

Exhibit 2 – "Non-binding Solicitation of Interest"

AGREEMENT FOR THE SALE OF

ROYALTY OIL

BETWEEN AND AMONG

THE STATE OF ALASKA,

AND

MARATHON PETROLEUM SUPPLY AND TRADING LLC, A DELAWARE LIMITED LIABILITY COMPANY

AND

MARATHON PETROLEUM CORPORATION, A DELAWARE CORPORATION

Effective April ____, 2025

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AGREEMENT FOR THE SALE AND PURCHASE OF ROYALTY OIL

This Agreement is between the State of Alaska ("State"), Marathon Petroleum Supply and Trading Company LLC, a Delaware Limited Liability Company ("Buyer") and Marathon Petroleum Corporation, a Delaware Corporation ("Guarantor").

ARTICLE I - DEFINITIONS

As used in this Agreement, the terms listed below shall have the following meanings:

1.1 "Additional Sale Oil" is defined in Section 2.1.2.

1.2 "Affiliate" is defined in Section 21.1.

1.3 "ANS" means the Alaska North Slope.

1.4 "ANS Spot Price" is defined in Section 2.3.

1.5 "Assignee" is defined in Section 21.1.

1.6 "Business Day" means any day, or part of a day, during which federally chartered banks are open for business in the place designated in this Agreement for payment.

1.7 Commissioner" means the Commissioner of the Alaska Department of Natural Resources or the Commissioner's designee.

1.8 "Day" means a period of twenty-four consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

1.9 "Day of First Delivery" is defined in Section 2.4.

1.10 "DOR Location Differential" shall mean the most recently dated Alaska Location Differential value posted by the Alaska Department of Revenue, Tax Division (currently *https://tax.alaska.gov/programs/oil/prevailing/*).

1.11 “Excess Royalty Oil” is defined in Section 2.1.2.

1.12 “Extended Term” is defined in Section 8.3

1.13 “Financial Analyst” is defined in Section 5.3.

1.14 “FERC” means Federal Energy Regulatory Commission.

1.15 “Force Majeure” is defined in Section 14.2.

1.16 “Leases” means the oil and gas leases issued by the State on the Alaska North Slope from which the State takes or may take Royalty Oil in-kind.

1.17 “Lessee” means a person owning a working interest in any of the Leases.

1.18 “Letter of Credit” is defined in Section 6.1.

1.19 “Letter Effective Date” is defined in Section 6.2.

1.20 “Line Loss” is defined in Section 2.3.

1.21 “Minimum Interstate TAPS Tariff” is defined in Section 2.3.

1.22 “Month” means a period beginning at 12:01 a.m., Alaska Standard Time, on the first Day of the calendar Month and ending at 12:01 a.m., Alaska Standard Time, on the first Day of the following calendar Month.

1.23 “Moody’s” means Moody’s Investor's Services, Inc., a subsidiary of Moody’s Corporation, and its successors.

1.24 “Notice” means written notice in accordance with Article XV.

1.25 “Notice Effective Date” is defined in Section 15.2**.**

1.26 “Opinion Letter” is defined in Section 5.3.

1.27 “Parties” means, collectively, Buyer, Guarantor and State.

1.28 “Party” means Buyer, Guarantor or State, individually.

1.29 “Person” is defined in AS 01.10.060.

1.30 “Point of Delivery” means the transfer point at which the State receives Royalty Oil in-kind from the Lessees.

1.31 “Price” is defined in Section 2.3.

1.32 “Process” is defined in Section 4.1.

1.33 “PSVR Reference Stream” is the blended TAPS stream immediately downstream from the Petro Star Valdez Refinery.

1.34 “Quality Bank” means a system of calculations administered under the authority of the FERC that accounts for the differences in value between the individual tendered streams and the delivered co-mingled stream of TAPS.

1.35 “Quality Bank Adjustment” is defined in Section 2.3.

1.36 “RIK Differential” means per barrel location differential used to determine the price of the Sale Oil under paragraph 2.3, and set at -the then-current DOR Location Differential minus 24 cents for the Term of this Agreement, unless adjusted pursuant to Section 2.14. The DOR Location Differential is defined in Section 1.10.

1.37 “Royalty Oil” means the total volume of crude petroleum oil and other hydrocarbons and associated substances from the Leases, including such substances as crude oil, condensate, natural gas liquids, or return oil from crude oil topping plants, that may be blended with crude oil before the Point of Delivery and tendered as a common stream to the State as Royalty Oil that the State may take in-kind, regardless of whether the State takes the Royalty Oil in-kind.

1.38 “Royalty Settlement Agreement” means any written royalty settlement agreement.

1.39 “Sale Oil" means the oil the State has agreed to sell to the Buyer, and the Buyer has agreed to purchase from the State under this Agreement.

1.40 "Standard and Poor's" means Standard and Poor's, a division of McGraw-Hill Companies, Inc. and its successors.

1.41 "Surety Bond" is defined in Section 6.4.

1.42 "TAPS" means the Trans-Alaska Pipeline System

1.43 "Tariff Allowance" is defined in Section 2.3.

1.44 "Term" is defined in Section 8.2.

1.45 "Unit" has the meaning defined in 11 AAC 83.395(7).

1.46 "Unit Agreement" means any unit agreement for a Unit from which the State takes or may take Royalty Oil.

ARTICLE II - SALE AND PURCHASE OF ROYALTY OIL

2.1 Quantity.

2.1.1 Sale Oil Quantity. The State agrees to sell to the Buyer, and the Buyer agrees to purchase from the State, a Sale Oil quantity of a maximum of 15,000 barrels per Day and a minimum of 10,000 barrels per Day averaged for the Month of Sale Oil delivery, as nominated by Buyer in accordance with Section 2.1.2 through 2.1.7.

2.1.2 Monthly Sale Oil Nomination. In accordance with 2.1.1, the Buyer shall nominate the quantity of Sale Oil for each Month of Sale Oil delivery by giving Notice of the Buyer's Sale Oil nomination. Except when the additional notice provisions of Section 2.1.7 are invoked by Lessees, the Buyer's nomination shall be effective on the first Day of the Month following expiration of a minimum of one hundred Days after the Notice of the Buyer's nomination. The State will make commercially reasonable efforts to nominate, in accordance with applicable Unit Agreements or Leases, percentages of the State's estimated Royalty Oil volume from one or more Units or non-unitized Leases, at the State's discretion, that will equal the Sale Oil quantity nominated by the Buyer each Month of Sale Oil delivery. Notwithstanding the Buyer's

Monthly nominations, any time the total commitments for Royalty Oil under all of the State's royalty-in-kind contracts exceed 95 percent of Royalty Oil in a Month, the Buyer agrees that the State may limit its total nomination of Royalty Oil to an amount that does not exceed 95 percent of Royalty Oil in that Month of Sale Oil delivery and may employ the proration provisions as per 2.1.3. The Buyer agrees to accept the volume of Royalty Oil delivered in accordance with the State's nomination. See Appendix 1 for an illustration of the State's nomination procedure for Sale Oil nominated from the Prudhoe Bay Unit for July 2014.

The Buyer may choose to nominate in the Notice additional quantities of Royalty Oil defined as Additional Sale Oil. Except when the additional notice provisions of Section 2.1.7 are invoked by Lessees, the Buyer's nomination shall be effective on the first Day of the Month following expiration of a minimum of one hundred Days after the Notice of the Buyer's nomination. If the total commitments for Sale Oil under all of the State's royalty-in-kind contracts fall below 95 percent of estimated Royalty Oil in a Month, with this difference between 95 percent of estimated Royalty Oil in a Month and total commitments for Sale Oil under all of the State's royalty-in-kind contracts defined as Excess Royalty Oil, the State may in its sole discretion nominate fully or partially to satisfy Additional Sale Oil nominations up to the amount of Excess Royalty Oil. If total nominations for Additional Sale Oil under all of the State's royalty-in-kind contracts exceed Excess Royalty Oil, the State will allocate Excess Royalty Oil. The State may nominate for each buyer up to the actual nominated volume of Additional Sale Oil. If any buyer's actual nominated volume of Additional Sale Oil is not more than equal volumes of Excess Royalty Oil available to each buyer nominating Additional Sale Oil for that period determined by dividing Excess Royalty Oil by the number of nominations for Additional Sale Oil, that the buyer will receive its full nomination. Those buyers, whose Additional Sale Oil nominations are not fully met with the calculated equal volumes of Excess Royalty Oil, will equally split the remaining available

volumes up to the amount of actual nominated volume of Additional Sale Oil for each buyer. If there are remaining available volumes of Excess Royalty Oil, they will be allocated to the buyers whose actual nominated volume of Additional Sale Oil has not been satisfied.

The Buyer agrees to accept full or partial volumes of nominated Additional Sale Oil as determined by the State. Notwithstanding the nominations for Additional Sale Oil and acceptance of such by the State, the Buyer acknowledges and agrees that the State may satisfy nominations for Additional Sale Oil only after it satisfies Sale Oil nominations under all of the State's royalty-in-kind contracts. See Appendix 5 for an illustration of the nomination for the Additional Sale Oil.

Any reference to Sale Oil in the remainder of this Agreement that is in the context of the total amount of Royalty Oil purchased by Buyer hereunder in a given month shall be deemed to include Additional Sale Oil unless otherwise stated.

2.1.3 Sale Oil Proration. Notwithstanding Section 2.1.1, the Buyer agrees that for any Month of Sale Oil delivery in which the Buyer and all other buyers of Royalty Oil under all of the State's royalty-in-kind contracts nominate more than 95 percent of the State's Royalty, the State may prorate the Buyer's Sale Oil nomination as well as Sale Oil nomination of the State's other purchasers.

If total Sale Oil nominations under all of the State's royalty in kind contracts exceed 95 percent of the Royalty Oil, then the Buyer's nomination will be reduced to a volume of Sale Oil equal to the product of available Royalty Oil multiplied by 0.95 multiplied by the ratio of the Buyer's nomination divided by the sum of all buyer's nominations, including the Buyer's nomination. See Appendix 4 for an illustration of the proration process.

2.1.4 Buyer's Election to Reduce Sale Oil Quantity. The Buyer may choose to nominate in the Notice a quantity of Royalty Oil that is less than the Sale Oil minimum quantity of 10,000 barrels per Day specified in Section 2.1.1.

(a) If the sum of the Buyer's Sale Oil and Additional Sale Oil nominations during any 12 month period beginning August 1st and ending July 31st of this Agreement's Term, except the final twelve months of this Agreement's Term beginning August 1st and ending July 31st, is less than 1.2 million barrels, or in the event of Force Majeure, less than the quantity as reduced per Section 2.1.6, the RIK Differential for the next 12 month period beginning August 1st and ending July 31st of this Agreement's Term shall be the DOR Location Differential minus 26 cents.

If the sum of the Buyer's Sale Oil and Additional Sale Oil nominations during any 12 month period beginning August 1st and ending July 31st of this Agreement's Term, is greater than or equal to 1.2 million barrels, the RIK Differential for the next 12 month period beginning August 1st and ending July 31st of this Agreement's Term shall be the DOR Location Differential minus 24 cents.

However, if the sum of the Buyer's Sale Oil and Additional Sale Oil nominations during the final twelve Months of this Agreement's Term, is less than 1.2 million, then the Buyer shall pay an amount to the State that is equal to $1.00 per barrel times the difference between 1.2 million barrels or in the event of Force Majeure, the quantity as reduced per Section 2.1.6, and the sum of the Buyer's Sale Oil and Additional Sale Oil nominations during the final 12 Months of this Agreement's Term. That payment amount shall be paid to the State within 30 days of the last day of this Agreement's Term. Appendix 6 provides an example calculation of such a payment, as described in section 2.1.4 (a).

(b) Buyer may elect to reduce the initial Sale Oil quantity in Section 2.1.1 applicable to all future Months of this Agreement's Term, by giving Notice. The initial Sale Oil quantity in Section 2.1.1 shall remain as stated in Section 2.1.1 for 12 Months after the Day of First Delivery. Notice of a reduction applicable to all future Months shall be delivered to the State at least six Months before the effective date of the reduction. The Commissioner may approve or deny a request for a reduction applicable to all future Months of this Agreement's Term in Sale Oil quantity. The reduced maximum quantity shall be 137.5 percent of the reduced minimum quantity. For example, if the reduced minimum quantity applicable to all future Months of this Agreement's Term is 4,000 barrels per Day, the reduced maximum quantity shall be 5,500 barrels per Day (4,000 times 1.375 = 5,500).

Buyer may elect additional reductions applicable to all future Months of this Agreement's Term to the Sale Oil quantity following a reduction to the initial Sale Oil quantity applicable to all future Months of this Agreement's Term. A reduction applicable to all future Months of this Agreement's Term cannot be effective until at least 12 Months after the effective date of the most recent reduction in quantity applicable to all future Months of this Agreement's Term. Notice of an additional reduction applicable to all future Months of this Agreement's Term under this paragraph (a) shall be delivered to the State at least six Months before the effective date of the additional reduction applicable to all future Months of this Agreement's Term. The reduced maximum quantity applicable to all future Months of this Agreement's Term shall be 137.5 percent of the reduced minimum quantity.

(c) Buyer may elect to reduce the Sale Oil quantity to zero barrels of Sale Oil per day for the Month of Delivery by giving Notice. If Buyer nominates zero barrels of Sale Oil for three consecutive Months, this Agreement shall terminate automatically, without Notice or further action by the State or the Buyer, on the last day of the Month of Sale Oil delivery

corresponding to the most recent nomination of Sale Oil Quantity by Buyer that was greater than zero. However, Buyer shall not reduce the Sale Oil quantity to zero barrels for the last Month of contract Term if the two immediately preceding monthly nominations were also reduced to zero barrels.

(d) Buyer's elections to reduce Sale Oil quantities under this Section 2.1.4 are subject to the provisions of Section 2.1.7.

2.1.5 Increase in Quantity Following Elective Reduction. Following a reduction of Sale Oil quantity under Section 2.1.4 (b), Buyer may request an increase in the Sale Oil quantity to an amount that does not exceed the maximum Sale Oil quantity in Section 2.1.1. The increased maximum quantity must be 137.5 percent of the increased minimum quantity. An increase is not effective until at least 12 Months after the effective date of the most recent change in quantity (i.e., a decrease under Section 2.1.4 or an increase under Section 2.1.5). The Commissioner may approve or deny a request for an increase in Sale Oil quantity.

2.1.6 Temporary Sale Oil Quantity Reduction in Event of Force Majeure. In the event of a Force Majeure under Article XIV, Buyer may temporarily reduce the Sale Oil quantity by an amount equal to the reduction in Buyer's requirements that is a direct result of the Force Majeure event. To temporarily reduce the Sale Oil quantity in the event of Force Majeure, Buyer shall include a Notice of temporary reduction in Sale Oil quantity due to Force Majeure under this Section with Notice of Buyer's monthly Sale Oil nominations of Sale Oil. Each notice of temporary reduction due to Force Majeure shall include documentation of the nature of the Force Majeure event and quantification of the direct impact of the Force Majeure on Buyer's Sale Oil requirements for the Month of nomination. Temporary reductions in Sale Oil quantity under this Section shall be effective only to the extent that the State is able, through the State's nomination process set out in Section 2.1.2, to reduce the volume of Royalty Oil that the State receives for the Month of Sale

Oil delivery. Buyer shall accept delivery of the total volume of Royalty Oil delivered to the State in accordance with the State's nominations of Royalty Oil. A temporary reduction in Sale Oil quantity in the event of Force Majeure will not be counted against the 1.2 million barrel minimum per 12 Months that triggers a change in the RIK differential or final year deficiency payment. To achieve this, for each Day of a temporary reduction in Sale Oil quantity due to Force Majeure, the minimum 12-month Sale Oil quantity of 1.2 million barrels shall be reduced by 3,000 barrels. The resulting sum shall be the new Sale Oil minimum quantity for the purpose of calculating the RIK Differential or final year deficiency payment in Section 2.1.4.

2.1.7 Additional Notice Provisions. Buyer acknowledges that the Leases from which the State must nominate Royalty Oil require 90 Days' notice to the Lessee prior to decreasing the State's nomination of Royalty Oil to be taken in-kind in any Month. Buyer acknowledges that if a Lessee invokes the Force Majeure provisions of its Royalty Settlement Agreement or the Leases, the State may be required to give up to 180 Days' (*i.e.*, an additional 90 Days) notice to the Lessee prior to decreasing the State's nomination of Royalty Oil to be taken in-kind in any Month. If a Lessee invokes the Force Majeure terms of its Royalty Settlement Agreement as a result of a reduction in Buyer's nomination in the event of Buyer's Force Majeure, or for any other reason, Buyer's reduced nomination shall not become effective until the end of the additional 90 Day notice period. If a Lessee invokes the Force Majeure terms of its Royalty Settlement Agreement and extends the notice period an additional 90 Days, the State agrees to make commercially reasonable efforts to reduce the volume of its Royalty Oil nominations.

2.1.8 No Guarantee of Sale Oil Quantity. The State shall exercise its rights under the Leases and Royalty Settlement Agreements to request that Royalty Oil be delivered as Sale Oil. The State can deliver Sale Oil only to the extent it receives Royalty Oil from the Lessees. The quantity of Royalty Oil available to the State may vary and may be interrupted from time to time

depending on a variety of factors, including the rate of production from the Leases. The State disclaims, and Buyer waives, any guarantee, representation, or warranty, either express or implied, that a specific quantity of the total, daily, monthly, average, or aggregate Royalty Oil will be delivered as Sale Oil.

2.1.9 No Guarantee of Source of Sale Oil. The State will deliver, as Sale Oil, Royalty Oil produced from the Leases and delivered to the State as Royalty Oil in-kind. The availability to the State of Royalty Oil in-kind in any Month may vary depending on a variety of factors, including the rate of production from the Leases. The State disclaims, and Buyer waives, any guarantee, representation, or warranty, either express or implied, that Sale Oil delivered and sold by the State in any Month is from a certain Lease, Unit, or other area.

2.1.10 State's Warranty of Title. The State warrants that it has good and marketable title to the Royalty Oil delivered and sold as Sale Oil.

2.2 Quality.

2.2.1 No Guarantee of Quality of Sale Oil. The Royalty Oil the State delivers to Buyer as Sale Oil shall be of the same quality as the Royalty Oil delivered to the State at the Point of Delivery. The quality of the Royalty Oil delivered to the State may vary from time to time. The State disclaims, and Buyer waives, any guarantee, representation, or warranty, either expressed or implied, of merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, and of any specific, average, or overall quality or characteristic of Sale Oil. Buyer specifically waives any claim that any liquid hydrocarbons, including such substances as crude oil, condensate, natural gas liquids, or return oil from the crude oil topping plant, delivered with the Sale Oil, are not Sale Oil for purposes of this Agreement.

2.3 Price of the Sale Oil. The price per barrel of Sale Oil delivered from each Unit or Lease by the State to the Buyer each Month shall be equal to:

ANS Spot Price – RIK Differential – Tariff Allowance + Quality Bank Adjustment – Line Loss.

"ANS Spot Price" means the monthly average of the daily high and low assessments for the Month of Sale Oil delivery for ANS oil traded at the United States West Coast as reported by the Platts Oilgram Price report and Reuters online data reporting service. The ANS Spot Price calculation will not include days on which prices are not reported for both reporting services, such as weekends or holidays. If either of these publications ceases to report daily assessments for ANS oil traded at the United States West Coast, the Parties agree to calculate the ANS Spot Price using the data from the remaining reporting service. If either Buyer or State makes a good faith determination that the ANS Spot Price no longer accurately represents the price for ANS oil traded at the United States West Coast, Buyer and State will attempt in good faith to arrive at a mutually agreeable alternative source to establish, or substitute for, the ANS Spot Price. If Buyer and the State arrive at a mutually agreeable alternative source, that source shall be used to determine the ANS Spot Price beginning the Month following the Month in which any of these publications ceased to report daily assessments for ANS oil traded at the United States West Coast. If Buyer and the State are unable to agree on an alternative source, the State will select the alternative source that most reliably represents the price for ANS oil traded at the United States West Coast based on the best information reasonably available to the State, and that source shall be used to determine the ANS Spot Price beginning the Month following the Month in which any of these publications ceased to report daily assessments for ANS oil traded at the United States West Coast. Any dispute between the Buyer and State concerning the ANS Spot Price under this section shall be administered in accordance with Section 12.1.

"Tariff Allowance" means the sum of (1) the average, weighted by ownership, of the Minimum Interstate TAPS Tariff (Pump Station No. 1 to Valdez Marine Terminal) on file with

the Federal Energy Regulatory Commission ("FERC") for each owner in effect on the Day the Sale Oil is tendered by the State to Buyer; and (2) tariffs on file with FERC for shipment of Sale Oil upstream of Pump Station No. 1. "Minimum Interstate TAPS Tariff" means the effective TAPS tariff on file with the FERC for each carrier on a given Day, excluding incentive tariffs. If the Minimum Interstate TAPS Tariff or tariffs on file with FERC for shipment of Sale Oil upstream of Pump Station No. 1 that have been used in the calculation of a Tariff Allowance are changed or subject to a refund order by the FERC, the Tariff Allowance will be recalculated using changed FERC-ordered Minimum Interstate TAPS Tariff or changed FERC-ordered tariffs for shipment of Sale Oil upstream of Pump Station No.1, the Sale Oil Price will be adjusted accordingly, and the resulting refund to the State (or credit to Buyer) will be made in accordance with Article III. If a FERC-ordered tariff is suspended or enjoined from implementation, the Tariff Allowance shall not be recalculated until the suspension or injunction is lifted and the FERC order is implemented and goes into effect. Buyer shall, at the request of the Commissioner, provide the necessary documentation in the form of invoices, etc. from the TAPS and upstream pipeline carriers of tariff payments made by Buyer and any revised tariff payments including interest paid or received by Buyer as a consequence of those revised tariff payments.

The "Quality Bank Adjustment" is a per-barrel amount, positive or negative, that accounts for the difference in quality between the oil produced from the units on the North Slope and the co-mingled ANS TAPS stream value at the PSVR connection. The Quality Bank Adjustment for a Unit's stream will be calculated each Month as the difference between the stream value for the PSVR Reference Stream and the stream value at the Point of Delivery. The stream value and PSVR Reference Stream are reported by the TAPS quality bank administrator. If the stream value or the PSVR Reference Stream is recalculated by the Quality Bank administrator, the Quality Bank

Adjustment shall be recalculated and the Price shall be adjusted in accordance with Article III to apply to Sale Oil that has been delivered to Buyer beginning on the effective date of the adjustment.

"Line Loss" is a per barrel amount equal to (0.0009) x (ANS Spot Price – $RIK Differential – Tariff Allowance + Quality Bank Adjustment).

Appendix 2 is an illustrative example of the calculation of the Price of Sale Oil. If there is a conflict between Appendix 2 and Section 2.3, Section 2.3 shall control.

2.4 Delivery of Sale Oil.

2.4.1 Day of First Delivery. The State will make first delivery of the Sale Oil to Buyer at the Point of Delivery on or after August 1, 2025.

2.4.2 Subsequent Deliveries. After the first delivery, the State shall tender the Sale Oil to Buyer at the Point of Delivery immediately upon the receipt of the Royalty Oil from the Lessees at the Point of Delivery.

2.5 Passage of Title and Risk of Loss. Title to, and risk of loss of, the Sale Oil shall pass from the State to Buyer for all purposes when the State tenders delivery of the Sale Oil to Buyer at the Point of Delivery. Buyer shall bear all risk and responsibility for the Sale Oil after passage of title.

2.6 Indemnification After Passage of Title. Buyer shall indemnify and hold the State harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses, or causes of action arising from or related to any transaction or event in any way related to the Sale Oil after title has passed to Buyer. If Buyer suffers damages or losses caused by third parties and related to the Sale Oil, the State agrees to cooperate with the Buyer to permit Buyer to attempt to recover such damages of losses. The State will, on request, assign the State's claims to Buyer and cooperate in Buyer's pursuit of State assigned claims.

2.7 Transportation Arrangements. Buyer shall make all arrangements for transportation of the Sale Oil from the Point of Delivery, to, through and away from the TAPS, and all pipelines upstream from Pump Station No. 1, and shall be responsible for meeting any linefill and storage tank bottom requirements related to transportation of the Sale Oil after passage of title. On the State's request, Buyer shall provide the State with evidence of the arrangements for transportation of the Sale Oil from the Point of Delivery, through and away from TAPS, and all pipelines upstream from Pump Station No. 1, and evidence of arrangements for resale, exchange, or other disposal of the Sale Oil. Buyer's failure to provide information, evidence, or assurances requested by the State shall, at the State's election and after Notice to Buyer, constitute a material default under this Agreement.

ARTICLE III - INVOICING AND PAYMENT

3.1 Monthly Invoices. On or before the twentieth calendar Day of each Month after the first Month of delivery of Sale Oil, the State shall send to Buyer, via facsimile transmission or electronic mail, a statement of account with an invoice for the total amount due for the estimated quantity of Sale Oil delivered to Buyer during the immediately preceding Month of Sale Oil delivery and the estimated Price applicable to those deliveries, and the amount of any adjustments for the previous Month. The State will base its estimates on the best information reasonably available to the State. The State shall adjust invoices as provided in Section 3.3.

3.2 Payment of Invoices. Buyer shall pay the total amount of each invoice, including adjustments for previous Months of Sale Oil delivery, in full, on or before the later of (1) the third Business Day after the date of the statement of account in which the invoice is included; or (2) the twentieth calendar Day of the Month. If the third Business Day after the date of the statement of account or if the twentieth calendar Day of the Month does not fall on a Business Day then the invoiced amount is due on the immediately following Business Day. Any amount that Buyer does

not pay in full on or before the payment due date calculated in accordance with this section shall accrue interest as provided in Section 3.6, and become subject to the late payment provisions of Section 3.7, and any other remedies available to the State under this Agreement and at law.

3.3 Adjustments. Buyer acknowledges that any time within eight years after an invoice is sent for a Month of Sale Oil delivery, the State or Buyer may receive more accurate information concerning the ANS Spot Price, actual quantity of Sale Oil delivered to Buyer, line fill, the proper calculation of Tariff Allowance, and Quality Bank Adjustments that affect the Price of the Sale Oil. The State and Buyer agree that any time within eight years that such information becomes available to the State or Buyer, the State shall make adjustments and invoice or credit Buyer the amount of the adjustments in accordance with the process and retroactivity limits described in Section 2.3. The interest that will bear on changes to the Tariff Allowance will equal the interest paid by the carriers to the shippers under the FERC's regulations.

3.4 Payment of Adjustments. The Buyer shall pay the total amount of each adjustment in full, on or before the later of (1) the third Business Day after the date of the statement of account that includes the adjustment invoice; or (2) the twentieth calendar Day of the Month. If an adjustment is due to Buyer for an overpayment, the State shall credit to Buyer the amount of the overpayment on the following Month's invoice or, if no following Month invoice is provided, the State shall refund to Buyer the amount of the overpayment by the twentieth calendar Day of the following Month. Any amount the Buyer does not pay in full when due shall bear interest at the rate provided in Section 3.6 and become subject to the late payment provisions of Section 3.7, and any other remedies available to the State under this agreement and at law.

3.5 Adjustments After Termination. Buyer and State agree that the State shall continue to make adjustments, in compliance with and subject to the limitations set forth in the provisions of Section 3.3 above, after termination of this Agreement, and agree that the provisions of

Articles III shall survive termination of this Agreement for any reason. If following termination of this Agreement an adjustment is determined to be due to Buyer for overpayment in an amount that exceeds the amount of all sums remaining due from Buyer to the State, the State shall credit the overpayment against any sums due from Buyer to the State, and shall refund to Buyer the remaining amount of the adjustment. Any adjustments made after termination must be paid within 30 Days after the date of the invoice.

3.6 Interest. All amounts under this Agreement that Buyer does not pay in full when due, or that the State does not credit Buyer or pay in full when due, shall bear interest from the date payment is due, calculated in accordance with Section 3.4, at the rate provided by Alaska Statute 38.05.135(d) or as that statutory provision may later be amended.

3.7 Late Payment Penalty. In addition to all other remedies available to the State, if Buyer fails to make timely payment in full of any amount due, including adjustments, Buyer shall pay the State as a late payment penalty an amount equal to five percent of the total amount not timely paid, in addition to the amount not timely paid, and interest on the late payment penalty amount and the amount not timely paid as provided in Section 3.4. The Commissioner may waive imposition of the late payment penalty upon a finding that the Buyer has provided substantial evidence that the failure to make timely payment was not willful and was not due to a mistake in a chronic pattern of mistakes.

3.8 Disputed Payments. If a dispute arises concerning the amount of an invoice, Buyer agrees to pay in full all amounts when due, pending final resolution of the dispute according to the Dispute Resolution procedures in Article XII.

3.9 Confidential Information. The State and Buyer agree that pursuant to Section 3.3, the State may invoice Buyer for, and Buyer agrees to pay, amounts that are based upon confidential information held or received by the State. If confidential information is used as the basis for an

invoice, upon receipt of a written request from Buyer, the State shall furnish to Buyer a certified statement of the Commissioner to the effect that, based upon the best information available to the State, the invoiced amounts are correct. At the request and expense of Buyer, the Commissioner's certified statement will be based on an audit by an independent third party.

3.10 Manner of Payment. Buyer shall pay all invoices in full within the times specified and without any deduction, set off, or withholding. Buyer shall pay all invoices by either Automated Clearinghouse or by Federal Reserve Wire Transfer (immediate funds available) according to the instructions provided to the Buyer by the Division of Oil and Gas's Royalty Accounting Manager.

Buyer may pay an invoice in such other manner or to such other address the State has specified in an invoice or by Notice. All other payments due shall be paid in the same manner and according to the same time schedule provided in this Article. If payment falls due on a Saturday, Sunday, or federal bank holiday, payment shall be made on the next Business Day.

ARTICLE IV - IN-STATE PROCESSING

4.1 In-State Processing. Buyer agrees to use commercially reasonable efforts to process the Sale Oil at its refinery in Nikiski, Alaska. "Process" means the manufacture of refined petroleum products.

4.2 Exchange of Crude Oil. Buyer may exchange Sale Oil for other crude oil only as provided in this Article. An exchange of Sale Oil for other crude oil shall not reduce the price Buyer has agreed to pay the State for the Sale Oil. "Exchange" means: (1) a direct trade of Sale Oil for and equal volume of other crude oil; (2) a direct trade of Sale Oil for other crude oil that involves either cash or volume adjustment, or both, based solely on the differences in quality or location of the crude oils exchanged; (3) sequential transactions in which the Buyer trades Sale Oil

to one party and, in exchange receives crude oil for a party other than the party to whom the Buyer traded the Sale Oil; or (4) matching purchases and sales of Sale Oil for other crude oil.

ARTICLE V - BUYER'S AND GUARANTOR'S REPRESENTATIONS AND OBLIGATIONS

5.1 Good Standing and Due Authorization of Buyer. Buyer warrants that it is, and shall remain at all times during the term of this Agreement: (1) qualified to do business in Alaska; and (2) in good standing with the State. Buyer warrants that it has all company power and authority necessary, and has performed all company action required, to enter into and fulfill its obligations under this Agreement.

5.2 Good Standing and Due Authorization of Guarantor. Guarantor warrants that it has all company power and authority necessary, and has performed all company action required, to enter into and fulfill its obligations under this Agreement.

5.3 Financial Information. As soon as practicable after the execution of this Agreement and before the State's first Monthly Sale Oil Nomination under Section 2.1.2, and annually as soon as practicable after March 31 but no later than June 30, Guarantor shall cause a financial analyst (the "Financial Analyst") to submit an opinion to the Commissioner in the form of a letter (the "Opinion Letter") about Guarantor's current and expected future credit rating by Standard and Poor's and Moody's. The Financial Analyst shall be an independent contractor qualified to render an opinion as to the creditworthiness of the Guarantor and shall be in the business of understanding complex financial matters and financial statements to the extent required to render such opinion. Buyer shall have the right to designate the Financial Analyst, subject to approval by the State. The Financial Analyst shall be a contractor to Guarantor, and Guarantor shall be responsible for entering into any necessary contractual arrangements with the Financial Analyst and paying the fees and expenses of the Financial Analyst.

The contract between Guarantor and the Financial Analyst and each Opinion Letter must recite that the Financial Analyst (1) has been provided a copy of this Agreement, (2) understands the significance of the Opinion Letter in the administration of this Agreement, (3) understands that the State will rely on the Opinion Letter, and (4) understands that the Opinion Letter is for the benefit of the State. The contract between Guarantor and the Financial Analyst shall be subject to approval by the State, and the State shall be given a copy of the contract and all amendments to it.

The Opinion Letter shall (i) identify all documents reviewed in forming the opinion, (ii) identify people interviewed in forming the opinion and discuss the nature of the interview, (iii) state the current long term (and short term, if available) credit ratings of Guarantor by Standard and Poor's and Moody's and (iv) express an opinion whether those ratings are reasonably likely to fall below BBB- (Standard and Poor's) and Baa3 (Moody's) at any time during the following twelve Months. Guarantor shall cause the Financial Analyst to review evidence of the most current ratings by Standard and Poor's and Moody's of Guarantor's long and short term debt, all bank presentations provided to Guarantor's lenders, all reports on Guarantor prepared by Standard and Poor's or Moody's, all documents filed by Guarantor with the Securities and Exchange Commission, if any, any other documents reasonably necessary to deliver the Opinion Letter, and a complete set of year-to-year comparative, independently audited financial statements, including footnotes, prepared in accordance with generally accepted accounting principles.

Guarantor's contract with the Financial Analyst may require the Financial Analyst to protect the confidentiality of the information supplied to it under Section 5.3. The State may review the information supplied to the Financial Analyst under Section 5.3.

As an alternative to the foregoing, Guarantor may elect to provide a Letter of Credit or Surety Bond instead of engaging a Financial Analyst to provide an Opinion Letter. If Guarantor so elects then Guarantor shall have no additional obligations pursuant to this Section 5.3, and such

Letter of Credit or Surety Bond shall be provided in accordance with Sections 6.2 or 6.4, as applicable.

5.4 Financial Condition. Guarantor warrants that (1) all financial information submitted to the Financial Analyst or reviewed by the State under Section 5.3 is complete and accurate at the time of preparation, and fairly represents in all material respects Guarantor's financial condition at the time of submission; and (2) there has been no material change in Guarantor's financial condition, business operations, or properties since the financial information was prepared that would be reasonably likely to materially impact its ability to perform its obligations under this Agreement. Guarantor warrants that the financial statements were prepared in accordance with generally accepted accounting principles. Guarantor and Buyer shall immediately inform the State of any material change in Guarantor's ownership or ownership of Buyer, ownership of parent companies, or financial condition, business operations, agreements, or property that is likely to affect their ability to perform their obligations under this Agreement.

5.5 Absolute Obligations. Buyer's and Guarantor's obligations to pay amounts due, provide assurances of performance in accordance with Article VI, accept, and dispose of and pay for Sale Oil, are absolute. These obligations shall not be excused or discharged by the operation of any disability of Buyer or Guarantor, event of Force Majeure, impracticability of performance, change in conditions, termination of this Agreement, or other reason or cause.

5.6 Guaranty. Buyer is an indirect, wholly owned subsidiary of Guarantor. Buyer does not have public financial statements and does not have debt rated by Moody's or Standard and Poor's. The State is not willing to make this Agreement based solely on the credit worthiness of Buyer. Guarantor therefore agrees that it guarantees performance of all of Buyer's obligations under this Agreement (the "Guaranteed Obligations" and such guarantee the "Guaranty") as if Guarantor were the Buyer and legally indistinguishable from Buyer. Guarantor hereby

acknowledges that it will derive substantial and indirect benefit from the transactions contemplated by this Agreement. The State may require Guarantor at any time to satisfy any unsatisfied obligation of Buyer.

5.6.1. Guarantor hereby consents and agrees that, without notice to or further assent from Guarantor, but subject at all times to the terms of this Agreement: (i) the time, manner, place or terms of any payment under this Agreement may be extended or changed; (ii) the time for Buyer's performance of or compliance with any term, covenant or agreement on its part to be performed or observed under this Agreement may be extended, or such performance or compliance waived, or failure in or departure from such performance or compliance consented to, all in such manner and upon such terms as the State may deem proper; (iii) the State may discharge or release, in whole or in part, any other guarantor or any other person liable for the payment and performance of all or any part of the Guaranteed Obligations, and may permit or consent to any such action or any result of such action; (iv) the State may take and hold security of any kind, at any time, as collateral for the Guaranteed Obligations, and may, from time to time, in whole or in part, exchange, sell, surrender, release, subordinate, modify, waive, rescind, compromise or extend such security and may permit or consent to any such action or the result of any such action, and may apply such security and direct the order or manner of sale thereof; (v) the State may request and accept other guaranties of the Guaranteed Obligations and may, from time to time, in whole or in part, surrender, release, subordinate, modify, waive, rescind, compromise or extend any such guaranty and may permit or consent to any such action or the result of any such action; and (vi) the State may exercise, or waive or otherwise refrain from exercising, any other right, remedy, power or privilege available to the State, with respect to the Guaranteed Obligations and any collateral therefor, even if the exercise of such right, remedy, power or privilege affects or

eliminates any right of subrogation or any other right of Guarantor against Buyer; all as the State may deem advisable, and all without impairing, abridging, releasing or affecting the Guaranty.

5.6.2. Guarantor waives and agrees not to assert: (i) any right to require the State to proceed against Buyer, any other guarantor or any other person, to proceed against or exhaust any collateral or other security held for the Guaranteed Obligations (except to the extent required by applicable law), or to pursue any other right, remedy, power or privilege of the State whatsoever; (ii) the defense of the statute of limitations, but only to the limited extent necessary to permit an action by the State to seek enforcement of the State's right to receive payment pursuant to Section 3.3; (iii) any defense arising by reason of any lack of corporate or other authority or any other defense of Buyer other than those, if any, available to Buyer under this Agreement; (iv) any rights to set-offs and counterclaims other than those, if any, available to Buyer under this Agreement; and (v) without limiting the generality of the foregoing, to the fullest extent permitted by law, any other defenses or benefits that may be derived from or afforded by applicable law limiting the liability of or exonerating guarantors or sureties, or which may conflict with the terms of the Guaranty.

5.6.3. Guarantor waives any and all notice of the acceptance of the Guaranty, and any and all notice of the creation, renewal, modification, extension or accrual of the Guaranteed Obligations, or the reliance by the State upon the Guaranty, or the exercise of any right, power or privilege hereunder. The Guaranteed Obligations shall conclusively be deemed to have been created, contracted, incurred and permitted to exist in reliance upon the Guaranty. Guarantor waives promptness, diligence, presentment, protest, demand for payment, notice of default, dishonor or nonpayment and all other notices to or upon Buyer, Guarantor or any other person with respect to the Guaranteed Obligations.

5.6.4. The obligations of Guarantor hereunder are independent of and separate

from the obligations of Buyer and any other guarantor and upon the occurrence and during the continuance of any default, a separate action or actions may be brought against Guarantor, whether or not Buyer or any such other guarantor is joined therein or a separate action or actions are brought against Buyer or any such other guarantor.

5.6.5. Until the Guaranteed Obligations shall be satisfied in full, Guarantor shall not have, and shall not directly or indirectly exercise, (i) any rights that it may acquire by way of subrogation under the Guaranty, by any payment hereunder or otherwise, (ii) any rights of contribution, indemnification, reimbursement or similar suretyship claims arising out of the Guaranty, or (iii) any other right which it might otherwise have or acquire (in any way whatsoever) which could entitle it at any time to share or participate in any right, remedy or security of the State as against Buyer or other guarantors in connection with the Guaranty. If any amount shall be paid to Guarantor on account of the foregoing rights at any time when any Obligations are outstanding, such amount shall be held in trust for the benefit of the State and shall forthwith be paid to the State to be credited and applied to the Guaranteed Obligations.

5.6.6. Notwithstanding anything to the contrary in this Agreement, (i), Guarantor shall not be liable hereunder for any indirect, consequential, exemplary, punitive or special damages or any damages calculated on the basis of lost profits or lost opportunity; and (ii) Guarantor's liability under this Agreement is limited to the aggregate amount of liabilities and other obligations owed by the Buyer to the State under this Agreement and in any event is expressly limited to the performance assurance amount under Article VI in the aggregate**.**

5.7 Due Authorization of State. The State warrants that is has all power and authority necessary, and has performed all action required, to enter into and fulfill its obligations under this Agreement.

ARTICLE VI - ASSURANCE OF PERFORMANCE

6.1 Credit Review. If Guarantor fails to timely submit its financial statements and other documents and information required under Article VI such that the Financial Analyst is unable to timely submit the Opinion Letter; or if, in the opinion of the Financial Analyst, Guarantor's credit ratings have fallen below, or are reasonably likely in the twelve Months following the Opinion Letter, to fall below both (a) "BBB-" (Standard and Poor's "Long term issuer"), and (b) "Baa3" (Moody's Investor Services "Issuer Ratings/Long Term Obligation Ratings"); or if Guarantor elects to not engage a Financial Analyst to deliver an Opinion Letter to the State, and a Surety Bond is not provided; or Guarantor is not rated by Standard and Poor's and Moody's, Guarantor shall immediately deliver to the State a one year irrevocable stand-by Letter of Credit meeting the requirements of Sections 6.2 through 6.5.

Guarantor shall annually renew and continuously maintain the Letter of Credit in effect until such time as, in the opinion of the Financial Analyst, Guarantor's credit rating is no longer reasonably likely to remain below either (a) "BBB-" (Standard and Poor's "Long term issuer"); or (b) "Baa3" (Moody's Investor Services "Issuer Ratings/Long Term Obligation Ratings") at any time during the twelve Months following the Opinion Letter.

Notwithstanding the above, if, in the opinion of the Financial Analyst, Guarantor's credit ratings have remained below, fallen below, or are reasonably likely in the twelve Months following the Opinion Letter, to fall below (a) "BB+" (Standard and Poor's "Long term issuer"), or (b) "Ba1" (Moody's Investor Services "Issuer Ratings/Long Term Obligation Ratings"), Guarantor shall immediately deliver to the State or renew and continuously maintain a one year irrevocable stand-by Letter of Credit meeting the requirements of Sections 6.2 through 6.5.

6.2 Letter of Credit. In the event that Guarantor is required to deliver a letter of credit to the State in accordance with Section 6.1, the Letter of Credit shall be in a form satisfactory to

the Commissioner and shall be in effect on delivery. The Letter of Credit shall be issued for the benefit of the State by a state or national banking institution of the United States that is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus amount of not less than One Hundred Million Dollars ($100,000,000) ("Issuer"), or other banking institution approved by the Commissioner, such approval not to be unreasonably withheld. The principal face amount of the Letter of Credit shall be an amount reasonably estimated by the Commissioner to be equal to the Price of all Sale Oil to be delivered by the State to Buyer during the 90 Days immediately following delivery of the Letter of Credit to the Commissioner. The Letter of Credit shall not require the State to submit any documentation in support of drafts drawn against it other than a certified statement by the Commissioner and the State's Attorney General that Guarantor is liable to the State for an amount of money equal to the amount of the draft, that the amount of money is due and payable in full, and it has not been timely paid.

6.3 Performance Assurance After Termination. If a Letter of Credit is in effect immediately prior to Termination of the Agreement, the Commissioner may require that, after Termination, the Letter of Credit be maintained in an amount estimated by the Commissioner to be equal to the value of all adjustments which may be made under Article III. As an alternative to maintaining a Letter of Credit after Termination, and on commercial terms acceptable to the Commissioner, the Guarantor may require that Buyer establish and maintain an interest-bearing escrow account equal to the value of all adjustments that may be made under Article III and with the same payment terms as the Letter of Credit.

6.4 Other Performance Assurance. The Commissioner may allow Guarantor to provide security other than the Letter of Credit if the Commissioner determines other security is adequate to protect the State's interest. The Commissioner may accept the Letter of Credit to be issued by a foreign banking institution that: (1) is rated at or higher than both "A+" (Standard and Poor's

"Long term issuer") and "Al" (Moody's Investor Services "Issuer Ratings/Long Term Obligation Ratings"); (2) has an aggregate capital and surplus amount of not less than Five Hundred Million Dollars ($500,000,000); (3) uses its US branch, determined to constitute substantial operations by the Commissioner, to issue the Letter of Credit or alternatively arranges that the Letter of Credit is confirmed by a US banking institution; (4) is domiciled in France, the United Kingdom, Spain, Japan, the Netherlands, Italy or other jurisdictions acceptable to the Commissioner; and (5) agrees to issue the Letter of Credit that is subject to Alaska courts or other jurisdiction acceptable to the Commissioner.

The Commissioner may accept a Surety Bond, whether as an alternative to the Opinion Letter provided by a Financial Analyst or as other performance assurance, to be issued by a surety company that is listed in the US Department of the Treasury's Listing of Approved Sureties (Department Circular 570) as certified to do business in Alaska and whose surety bond amount falls within the specified underwriting limitation listed in the Department Circular 570; that is rated at least A in terms of financial strength and XII for financial size by A.M. Best Company or its successors. The principal face amount of the Surety Bond shall be an amount reasonably estimated by the Commissioner to be equal to the Price of all Sale Oil to be delivered by the State to Buyer during the 90 Days immediately following delivery of the Surety Bond to the Commissioner.

6.5 Correction of Defects in Letter. Guarantor shall have five Business Days to correct any defect in the Letter of Credit beginning on the Business Day Guarantor first learns of the defect whether through Notice from the State or otherwise. A defect is any failure to comply with the terms and conditions of Article VI.

ARTICLE VII - MEASUREMENTS

7.1 Measurements. The quantity and quality of Sale Oil the State delivers under this Agreement shall be determined by measurement at the Point of Delivery. Procedures used for metering and measuring the Sale Oil shall be in accordance with the procedures in effect at the Point of Delivery.

ARTICLE VIII - EFFECTIVE DATE AND TERM

8.1 Effective Date. This Agreement shall become effective and enforceable on the date upon which it is signed by all parties ("Effective Date").

8.2 Initial Term. The Initial Term of this Agreement shall begin on the Day of First Delivery defined in Section 2.4.1. and terminate on the third anniversary of the Day of First Delivery except that the Initial Term of this Agreement may be changed as provided in Section 2.1.4 and Article X.

8.3 Extended Term. This Agreement shall be automatically extended beyond the Initial Term for an additional 12 months unless either party provides notice to the other party of withdrawal by November 1, 2027. Said notice shall adhere to the provisions of Article XV, Section 15.1. Thereafter, this Agreement may continue from year to year, and in twelve month periods, for a maximum of ten (10) years from the effective date of this Agreement, unless notice of withdrawal is furnished by either party to the other party by November 1 of any year during the Extended Term.

8.4 Effect of Withdrawal. If either party withdraws from this Agreement, this Agreement and final crude deliveries to Buyer shall end by July 31 of the year following withdrawal.

8.4 Continuation of Obligations. The provisions of Article III, Section 6.5, Section 6.3, and Section 8.3, Article IX and Article X shall survive termination of this Agreement for any

reason or cause. Termination of this Agreement shall not relieve either Party from any expense, liability, or other obligation or any remedy that has accrued or attached prior to the date of termination, provided that Buyer shall not be liable for any payment obligation under Section 2.1.4(a) following the automatic termination of this Agreement pursuant to Section 2.1.4(c). For Sale Oil delivered under this Agreement, termination of this Agreement shall not relieve State or Buyer of their respective obligations hereunder, including the obligation to pay all production Month invoices, initial adjustments, subsequent adjustments, and interest, and, where applicable, penalties, costs, attorney fees, and any other charges related to the Sale Oil actually delivered.

ARTICLE IX - DEFAULT OR TERMINATION

9.1 Default.

9.1.1 Events of Default. The Commissioner may suspend or terminate the State's obligations to tender, deliver and sell Sale Oil to Buyer, and may exercise any one or more of the rights and remedies provided in this Agreement, or at law, if any one or more of the following events of default occur:

(a) Buyer or Guarantor fails to pay in full any sum of money owed under this Agreement within five Business Days after the State gives Buyer Notice that payment is past due;

(b) Within five Business Days after Notice from the State, Buyer or Guarantor fails to provide written assurances satisfactory to the State of Buyer's or Guarantor's intention to perform its obligations under this Agreement and evidence or assurances of transportation arrangements under Section 2.7;

(c) There is a material change in Buyer's or Guarantor's financial condition, business operations, agreements, or property or ownership that is likely to affect Buyer's or Guarantor's ability to perform its obligations under this Agreement, and within five Business

Days after Notice from the State, Buyer or Guarantor is unable or unwilling to provide a Letter meeting the requirements of Article VI;

(d) Buyer or Guarantor fails to perform any of its obligations under this Agreement, and cannot cure the non-performance or the non-performance continues for more than 30 Days after the State has given Notice to Buyer or Guarantor of its non-performance;

(e) Any representation or warranty made by Buyer or Guarantor in this Agreement is found to have been materially false or incorrect when made; or

(f) Guarantor fails, or is unable for any reason (including reasons beyond Guarantor's control), to maintain the Letter required under Article VI, regardless of Guarantor's willingness or ability to perform any other obligations under this Agreement.

9.1.2 Default by Failure or Inability to Pay. Buyer or Guarantor shall immediately provide the State with Notice if Buyer or Guarantor is unable to pay any of its debts when due, makes an arrangement for the benefit of creditors, files a bankruptcy petition, or is otherwise insolvent. Upon Notice from Buyer or Guarantor, or if the State independently determines that Buyer or Guarantor is unable to pay any of its debts when due or is otherwise insolvent, the State's obligations to deliver and sell Sale Oil to Buyer shall automatically and immediately terminate without any requirement of Notice to Buyer or Guarantor or other action by the State. Upon termination of the State's obligations under this Section 9.1.2, Buyer and Guarantor shall be liable for payment and performance of all of their obligations for Sale Oil the State delivered to Buyer before termination and for a minimum of one hundred Days after termination, plus an additional 90 Days if a Lessee invokes the Force Majeure term of its Royalty Settlement Agreement. Within 30 Days after termination under this Article 9.1.2, the State shall have the right, upon consent of Buyer or Guarantor, to reinstate all of the State's, Buyer's and Guarantor's obligations under this Agreement retroactive to the date of termination.

9.2 State's Remedies. If Buyer or Guarantor defaults under this Agreement, in addition to all other remedies available to the State under this Agreement or at law, the following remedies shall be available to the State:

9.2.1 Buyer's and Guarantor's Obligations Become Due. All monetary obligations Buyer or Guarantor has accrued under this Agreement, even if not yet due and payable, shall immediately be due and payable in full.

9.2.2 State May Dispose of Sale Oil. The State may dispose of some or all of the Sale Oil to third parties. If the State exercises this remedy, regardless of whether this Agreement is terminated, Buyer and Guarantor shall be and shall remain liable to the State for the amount of the difference between the Price for the Sale Oil under Article II and the actual price the State receives from disposition of the Sale Oil to third parties.

9.2.3 Indemnification for Loss. Buyer and Guarantor shall hold the State harmless and indemnify it against all its liability, damages, expenses, attorney's fees and costs, and losses directly arising out of Buyer's or Guarantor's default, termination of the State's obligations, and disposal of the Sale Oil to third parties. Additionally, if Buyer or Guarantor defaults in the payment of any monetary amounts due to the State for Sale Oil tendered or delivered under this Agreement, Buyer or Guarantor shall pay the State 100 percent of reasonable actual costs and attorney fees incurred by the State in pursuing payment of the monetary amounts due, regardless of whether litigation is commenced and regardless of whether legal services are provided by the Attorney General's office or private counsel.

9.2.4 Other Rights and Remedies. The State shall have the right cumulatively to exercise all rights and remedies provided in this Agreement and by law, and obtain all other relief available under law or at equity, including mandatory injunction and specific performance.

9.3 Limitation of Buyer's and Guarantor's Remedies. If Buyer or Guarantor breaches or defaults in any of its obligations under this Agreement, Buyer or Guarantor shall not obtain a temporary restraining order or preliminary injunction preventing the State from disposing of the Sale Oil in accordance with Section 9.2.2.

9.4 Article Survives Termination. This Article survives termination of the Agreement.

ARTICLE X - DISPOSITION OF OIL UPON DEFAULT OR TERMINATION

10.1 Disposition of Oil Upon Default or Termination. Buyer and Guarantor acknowledge that the State may be required to provide six Months' notice to the Lessees before the State may decrease its in-kind nomination of Royalty Oil in any Month. If this Agreement terminates for default or any other reason after Buyer has nominated or is deemed to have nominated Sale Oil, Buyer shall continue to accept and pay for Sale Oil through the first Day of the Month following expiration of a minimum of 100 Days after the date of termination, if the Commissioner so requires. If, however, the additional notice provisions of Article 2.1.7 are invoked, Buyer shall continue to accept and pay for Sale Oil until the expiration of six Months and ten Days after the date of default or notice of termination.

10.2 Security for Disposal of Sale Oil. To secure the Buyer's obligations to purchase and dispose of Sale Oil, upon the Commissioner's request, if Buyer refuses to accept or receive Sale Oil under this Agreement, Buyer shall assign or otherwise transfer to the State, or its designee, all or part of Buyer's right to transport the Sale Oil through and away from the TAPS, and all pipelines upstream from Pump Station No. 1, whether such rights are under nominations, leases, contracts, tariffs, charter parties, or other agreements. The State will incur liability or obligations under such assignment or transfer only to the extent the State actually exercises its rights to succeed to Buyer's interests under and obtain the benefits of the assignments.

ARTICLE XI - NONWAIVER

11.1 Nonwaiver. The failure of a Party to insist upon specific performance, or acceptance by a Party of a certain performance or course of performance under this Agreement shall not: (1) constitute a waiver or estoppel of the right to require certain performance or claim breach by similar performance in the future; (2) affect the right of another Party to enforce any provision; or (3) affect the validity of any part of this Agreement.

ARTICLE XII - DISPUTE RESOLUTION

12.1 Dispute Resolution. Any disagreement or dispute arising out of or related to this Agreement shall be decided according to the dispute resolution procedure set forth in this Article. The procedure set for in this Article shall be initiated by a Party by providing written Notice of the disagreement or dispute to the other Parties. No later than sixty Days after a Party provides written Notice, the Parties shall each present any arguments and evidence supporting its view of the disputed term, condition, right or obligation in writing to the Commissioner for consideration. Prior to consideration by the Commissioner, the State, Buyer, and Guarantor shall not have the right to civil litigation-type discovery or a civil litigation-type trial with the right to call or cross-examine witnesses unless granted by the Commissioner, after request. Within 30 Days after the Parties submit their final arguments and evidence, the Commissioner shall issue a finding set for the basis for the conclusion. Any Commissioner finding issued under the foregoing procedure shall be considered a final administrative order and decision appealable to the Alaska Superior Court pursuant to AS 22.10.020 and applicable Alaska Rules of Court.

ARTICLE XIII - SEVERABILITY

13.1 Severability. If a court decrees any provision of this Agreement to be invalid, all other provisions of this Agreement shall remain valid. If, however, invalidation of a provision

impairs a material right or remedy under this Agreement, the Parties will negotiate in good faith to maintain the original intent and benefits of this Agreement. If the Parties cannot restore the original intent and benefits of this Agreement, then either Party may terminate this Agreement by giving Notice.

ARTICLE XIV- FORCE MAJEURE

14.1 Effect of Force Majeure. Except for Buyer's and Guarantor's obligations to pay amounts due, provide assurance of performance in accordance with Article VI, accept, dispose of, and pay for Sale Oil, no Party shall be liable for failure to perform if performance is substantially prevented by Force Majeure after commercially reasonable efforts to perform. Except, however, if Buyer or Guarantor is prevented by Force Majeure from performing any material obligation for 180 successive Days or more, the State shall have the right to terminate this Agreement on 60 Days' Notice. If the State is prevented by Force Majeure from performing any material obligation for 180 successive Days or more, Buyer may terminate this Agreement on 60 Days' Notice. Before a Party exercises the right to terminate this Agreement, the Party may request the other Parties to negotiate in good faith to restore performance.

14.2 Force Majeure. In this Agreement the term "Force Majeure" means an event or condition not within the reasonable control of the Party claiming "Force Majeure."

14.2.1 Force Majeure Events include, but are not limited to, the following events:

(a). Act of God, fire, lightning, landslide, earthquake, storm, hurricane, hurricane warning, flood, high water, washout, explosion, well blowout, failure of plant, pipe or equipment, or;

(b). Strike, lockout, or other industrial disturbance, act of the public enemy, war, military operation, blockade, insurrection, riot, epidemic, arrest or restraint by government of people, terrorist act, civil disturbance, or national emergency; or

(c). Act, order, or requisition of any governmental agency or acting governmental authority or any governmental proration, regulation, or priority.

14.2.2 Force Majeure events do not include changes in commercial or financial markets affecting the price of crude oil or processed petroleum products.

14.3 Notice and Remedy of Force Majeure. If a Party believes that Force Majeure has occurred, the Party shall immediately provide Notice to the other Parties of its claim of Force Majeure. The Party claiming Force Majeure shall use commercially reasonable diligence to remedy the Force Majeure. Except for Buyer's and Guarantor's absolute obligations to pay amounts due, provide assurances of performance in accordance with Article VI, and accept, dispose of and pay for Sale Oil, the disabled Party's obligations to perform that are affected by the Force Majeure shall be suspended from the time of Notice to the other Parties until the disability caused by the Force Majeure should have been remedied with reasonable diligence.

ARTICLE XV - NOTICE

15.1 Method of Notice. All notices, consents, requests, demands instructions, approvals, and other communications permitted or required shall be made in writing and delivered by any two of the following methods: (a) personally delivered, (b) delivered and confirmed by facsimile transmission, (c) delivered by overnight courier delivery service, (d) delivered and confirmed by electronic mail, or (e) deposited in the United States mail, first class, postage prepaid, certified or registered, return receipt requested, addressed as follows:

Commissioner of Natural Resources
550 West 7th Avenue, Suite 1400
Anchorage, Alaska 99501-3650
Facsimile Number: (907) 269-8918

and

Director, Division of Oil and Gas
550 West 7th Street, Suite 1100
Anchorage, Alaska 99501-3510
Facsimile Number: (907) 269-8938

the Buyer:

Marathon Petroleum Supply and Trading LLC
539 South Main Street
Findlay, Ohio 45840
Attention: General Counsel

the Guarantor:

Marathon Petroleum Corporation
539 South Main Street
Findlay, Ohio 45840
Attention: General Counsel

or to any other place within the United States of America designated in writing by the State, Buyer or Guarantor.

15.2 Notice Effective Date. Notice given by personal delivery, or other reputable overnight courier delivery service, or United States mail, first class, postage prepaid, certified or registered, return receipt requested, shall be effective on the date of actual receipt at the appropriate address. Notice given delivered and confirmed by facsimile or electronic mail shall be effective on the date of actual receipt if received during recipient's normal business hours, or at the beginning of the next Business Day after receipt if received after recipient's normal business hours. The Notice Effective Date is the effective date of the first of the two Notices received.

15.3 Change of Address. A Party may notify the other Parties of changes in its address by giving Notice.

ARTICLE XVI - RULES AND REGULATIONS

16.1 Rules and Regulations. This Agreement is subject to the laws of the State of Alaska, and orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency of the State of Alaska.

ARTICLE XVII - SOVEREIGN POWER OF THE STATE

17.1 Sovereign Power of the State. This Agreement shall not be interpreted to limit in any way the State's ability to exercise any sovereign or regulatory powers, whether conferred by constitution, statute or regulation. The State's exercise of any sovereign or regulatory power shall not be deemed to enlarge any of Buyer's or Guarantor's rights, or limit any of Buyer's or Guarantor's obligations or liabilities under this Agreement.

ARTICLE XVIII - APPLICABLE LAW

18.1 Governing Law. This Agreement, and all matters arising from or related to this Agreement, shall be governed, construed and determined by the laws of the State of Alaska.

18.2 Jurisdiction. Any legal action or proceeding arising out of or related to this Agreement shall be brought in a state court of general jurisdiction sitting in the State of Alaska, and the Parties irrevocably submit to the jurisdiction of that court in any action or proceeding.

18.3 Venue. The Parties agree that the venue for any legal action or proceeding arising out of or related to this Agreement shall be in the Alaska Superior Court sitting in Anchorage, Alaska.

ARTICLE XIX - WARRANTIES

19.1 Warranties. The purchase and sale of Royalty Oil under this Agreement are subject only to the warranties the State has expressly set forth in this Agreement. The State disclaims and Buyer and Guarantor waive all other warranties, express or implied in law.

ARTICLE XX – AMENDMENT

20.1 Amendment. This Agreement may be supplemented, amended, or modified only by written instrument duly executed by the Parties, and, where required, only on approval under Alaska Statute 38.06.055.

20.2 Legislative Approval. Any material amendment to this Agreement that appreciably reduces the consideration received by the State requires prior approval of the legislature

ARTICLE XXI - SUCCESSORS AND ASSIGNS

21.1 Assignments and Other Transfers. Buyer may freely assign its rights and obligations to an Affiliate formed under the laws of a state in the United States of America. An "Affiliate" shall mean an entity that is directly or indirectly controlled by Guarantor or Guarantor's permitted assigns, or is directly or indirectly controlled by an entity that directly or indirectly controls Guarantor or Guarantor's permitted assigns, where control means the right to vote more than fifty percent of the voting interest in the entity.

Buyer and Guarantor may, without consent of the State, collectively assign their rights and obligations under this Agreement to a Person that acquires all or substantially all of the Alaska refining assets of Buyer and Guarantor (the "Assignee"), provided that at least 45 Days before the effective date of the assignment the Assignee provides to the State (a) all of the financial information and warranties Guarantor is required to provide under Article V and (b) a copy of the form of the assignment, including Assignee's obligation to assume and discharge all of Buyer's and Guarantor's obligations under this Agreement. If, based on the financial information supplied under Article V, Assignee is required to supply a Letter of Credit under Article VI, the Letter of Credit in the form and amount required by Article VI must be provided to the State at least 30 Days before the effective date of the assignment. No assignment can be made to an Assignee with long term credit ratings of less than BBB (Standard and Poor's) or Baa3 (Moody's). From and after the effective date of the Assignment, Buyer and Guarantor shall be relieved of their rights and obligations under this Agreement except as to any surviving obligations expressed in the Agreement. No assignment shall be effective until after 45 Days' Notice to the State.

Buyer and Guarantor may not otherwise assign their rights or obligations under this Agreement without first obtaining the written consent of the Commissioner, which may not be unreasonably withheld.

21.2 Binding on Successors. This Agreement shall be binding upon and inure to the benefit of the legal representative, Parties and their successors, and assigns of the Parties.

ARTICLE XXII - RECORDS

22.1 Inspection of Records. The Parties shall each accord to the other and the other's authorized agents, attorneys, and auditors access during reasonable business hours to any and all property, records, books, documents, or indices related to Buyer's, Guarantor's or the State's performance under this Agreement, and which are under possession or control of the Party from which access is sought, so the other Party may inspect, photograph, and make copies of the property, records, books, documents, or indices except: (1) the State shall not be required to disclose any information, data, or records that it is required by state or federal law or regulation, or by agreement with the Person supplying the record, to be held confidential; (2) the State's access to and treatment of Guarantor's financial records shall be limited by Section 5.3; and (3) no party shall be required to produce documents that are protected by the attorney-client privilege or in the case of the State executive or deliberative process privilege. If information the State obtains from Buyer or Guarantor may be held confidential under state or federal law or regulation, Buyer may request in writing that the State hold the information confidential, and the State shall keep the information confidential to the extent and for the term provided by law.

ARTICLE XXIII - EMPLOYMENT OF ALASKA RESIDENTS

23.1 Employment of Alaska Residents. Buyer shall comply with all valid federal, state, and local laws in hiring Alaska residents and companies, and shall not discriminate against Alaska

residents and companies. Within the constraints of law, Buyer voluntarily agrees to employ Alaska residents and Alaska companies to the extent they are available, willing, and at least as qualified as other candidates for work performed in Alaska in connection with this Agreement. "Alaska resident" means an individual who is physically present in Alaska with the intent to remain in the state indefinitely. An individual may demonstrate an intent to remain in the state by maintaining a residence in the state, possessing a resident fishing, trapping or hunting license, or receiving a permanent fund dividend. "Alaska companies" means companies incorporated in Alaska or whose principal place of business is in Alaska. If a court invalidates any portion of this provision, Buyer agrees to employ Alaska residents and Alaska companies to the extent permitted by law.

ARTICLE XIV - COUNTERPARTS

24.1 Counterparts. This Agreement may be executed in multiple counterparts. It is not necessary for the Parties to sign the same counterpart. Each duly executed counterpart shall be deemed to be an original and all executed counterparts taken together shall be considered to be one and the same instrument. This Agreement may also be executed by electronic means.

ARTICLE XXV – MISCELLANEOUS

25.1 Agreement Not to Be Construed Against Any Party as Drafter. The Parties recognize that this Agreement is the product of the joint efforts of the Parties and agree that it shall not be construed against any Party as drafter.

25.2 Entire Agreement. This Agreement constitutes the entire agreement and understanding between the Parties about the subject matter of this transaction and all prior agreements, understandings, and representations, whether oral or written, about this subject matter are merged into and superseded by this written Agreement.

25.3 Headings. The headings throughout this Agreement are for reference purposes only and shall not be construed or considered in interpreting the terms and provisions of this Agreement.

25.4 Authority to Sign. Each Person signing this Agreement warrants that he or she has authority to sign the Agreement.

25.5 Further Assurances. The Parties agree to do such further acts or execute such further documents as may reasonably be required to implement this Agreement.

25.6 Currency. All dollar amounts are U.S. dollars.

SIGNATURES:

THE STATE OF ALASKA

____
Commissioner
Department of Natural Resources

Date:

MARATHON PETROLEUM SUPPLY AND TRADING LLC

____
Name: ______________________________
Its: _________________________________
Date: _______________________________

MARATHON PETROLEUM CORPORATION

____
Name: ______________________________
Its: _________________________________
Date: _______________________________

APPENDIX 1:
SALE OIL NOMINATION PROCEDURE

Example Nomination Procedure for July 2014 Deliveries

	Prudhoe Bay & Satellites	Greater Pt McIntyre Area	MPU Total	DIU Total	KRU Total	Northstar Total	CRU Total	Badami Total	Oooguruk Total	Nikaitchuq Total	Total
March 15, 2014											
State receives preliminary barrel per day (bpd) production forecasts from the unit operator 105 days prior to the start of the production month	149,600	14,000	14,000	5,800	73,700	9,200	47,500	1,000	6,700	8,000	329,500
Not later than											
March 21, 2014											
RIK purchaser notifies state of monthly bpd nomination (a)											30,000
Not later than											
March 30, 2014											
State computes RIK %											
Estimated royalty rates	12.50%	13.34%	13.77%	14.42%	12.50%	27.50%	14.74%	14.80%	5.00%	12.50%	
State Ownership	100.00%	100.00%	100.00%	100.00%	100.00%	82.16%	67.82%	100.00%	100.00%	100.00%	
Total state estimated royalty bpd (bpd * royalty rate)	18,700	1,868	1,928	836	9,213	2,079	4,748	148	335	1,000	40,854
State's Total RIK nomination percentage											73.43%
(Purchaser RIK bpd/estimated royalty bpd)											
March 30, 2014											
State notifies unit operator of state's RIK nomination percentage	94.64%	94.64%	95.00%	95.00%	85.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
May 26, 2014											
Unit operator notifies state and working interest owners of updated production forecast											
Production forecast (bpd) for July production month	188,938	30,009	10,900	8,560	72,080	7,300	45,064	1,291	6,900	7,800	378,842
State calculates RIK bpd											
Royalty rates based on updated estimates (b)	12.50%	13.391158%	12.50%	12.50%	12.50%	27.50%	14.74%	14.80%	5.00%	12.50%	
State's RIK nomination percentage	94.64%	94.64%	95.00%	95.00%	85.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
RIK bpd (bpd production forecast * Royalty rate * nomination %)	22,351	3,803	1,294	1,017	7,659	0	0	0	0	0	36,124
State's Tendering percentage	11.83000000%	12.67339193%	11.87500000%	11.87500000%	10.62500000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	
(RIK bpd/Production Forcast volumes)											
May 31, 2014											
State notifies RIK purchaser of bpd volume available for July production month	22,351	3,803	1,294	1,017	7,659	0	0	0	0	0	36,124
August 2, 2014											
State invoices RIK purchaser for May production											
Metered volume for July 1-31, 2014	7,279,221	561,360	375,992	260,120	2,712,974	256,569	1,406,636	42,261	207,194	248,903	13,351,230
State's RIK Tendering percentage	11.83000000%	12.67339193%	11.87500000%	11.87500000%	10.62500000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	
Total RIK bbls	861,131.84	71,143.35	44,649.05	30,889.25	288,253.49	-	-	-	-	-	1,296,067
bpd volume (Total RIK/31) (varies from forecast)	27,778	2,295	1,440	996	9,298	0	0	0	0	0	41,809
bpd volume varies from forecast	9,078	427	(488)	160	86						9,264

Table notes:

(a) The state determines from which units to nominate RIK volumes (section 2.1.2 of the Agreement)

(b) The estimated royalty percentage for Greater Pt McIntyre is a composite royalty rate from several fields and will vary with production

APPENDIX 2
EXAMPLE OF CALCULATION OF PRICE OF SALE OIL

The Price of the Sale Oil delivered by the State to the Buyer each Month for each Unit from which the Sale Oil is nominated is:

Price = (ANS Spot Price) – (RIK Differential) – (Tariff Allowance) + (Quality Bank Adjustment) – (Line Loss)

ANS Spot Price

Table 2-1 illustrates the calculation of the ANS Spot Price for July 2014.

Table 2-1: Calculation of ANS Spot Price

	Platt's Oilgram Price Report			Reuters On-line Data Reporting Service		
Effective Date	ANS Daily Low	ANS Daily High	ANS Daily Midpoint Average	ANS Daily Low	ANS Daily High	ANS Daily Midpoint Average
07/01/14	$111.28	$111.32	$111.30000	$110.49	$110.59	$110.54000
07/02/14	$113.01	$113.05	$113.03000	$112.44	$112.54	$112.49000
07/03/14	$112.64	$112.68	$112.66000	$112.20	$112.30	$112.25000
07/07/14	$114.66	$114.70	$114.68000	$114.22	$114.32	$114.27000
07/08/14	$112.28	$112.32	$112.30000	$111.74	$111.85	$111.79500
07/09/14	$111.20	$111.24	$111.22000	$110.79	$112.13	$111.45954
07/10/14	$113.36	$113.40	$113.38000	$114.60	$114.70	$114.65000
07/11/14	$113.84	$113.88	$113.86000	$114.84	$114.94	$114.89000
07/14/14	$113.47	$113.51	$113.49100	$113.60	$113.70	$113.65050
07/15/14	$114.90	$114.94	$114.92000	$115.19	$115.29	$115.24000
07/16/14	$113.55	$113.59	$113.57000	$114.08	$114.18	$114.13000
07/17/14	$115.16	$115.19	$115.17500	$115.45	$115.55	$115.50000
07/18/14	$115.30	$115.34	$115.32000	$115.39	$115.49	$115.44000
07/21/14	$116.40	$116.50	$116.45000	$116.18	$116.28	$116.23000
07/22/14	$116.20	$116.23	$116.21500	$116.81	$116.94	$116.87500
07/23/14	$116.50	$116.55	$116.52500	$116.15	$116.25	$116.20000
07/24/14	$116.65	$116.70	$116.67500	$116.54	$116.64	$116.59000
07/25/14	$115.71	$115.75	$115.73000	$115.35	$115.45	$115.40000
07/28/14	$114.75	$114.79	$114.77000	$114.39	$114.50	$114.44500
07/29/14	$113.93	$113.98	$113.95500	$114.64	$114.75	$114.69500
07/30/14	$113.55	$113.60	$113.57500	$113.18	$113.28	$113.23000
07/31/14	$114.16	$114.20	$114.18000	$114.46	$114.54	$114.50000
	Platt's Montly Avg. =		$114.22641	Reuters Monthly Avg. =		$114.29409

ANS Spot Price$_{\text{July 2014}}$ = $114.260250

Tariff Allowance

The Tariff Allowance (TA) is the sum of (1) the average, weighted by ownership, of the Minimum Interstate TAPS Tariff for each owner in effect on the Day the Sale Oil is tendered by the State to the Buyer; and (2) tariffs on file with FERC for shipment of Sale Oil upstream of Pump Station No. 1. Table 2-2, 2-3, and 2-4 illustrates how the state will calculate the TA for each of the Units from which Sale Oil may be offered.

Table 2-2: Calculation of TAPS Portion of Tariff Allowance

Ownership-Weighted Average Minimum Interstate TAPS Tariff – July 2014				
Pipeline Company	FERC No.	Percent Pipeline Company Ownership	Minimum Interstate TAPS Tariff (Pump Station No.1 to Valdez Marine Terminal) by Pipeline Company	TAPS Tariff times Company Ownership Percentage
ConocoPhillips Transportation Alaska, Inc.		29.61017%	$5.04	$1.49235
ExxonMobil Pipeline Company		21.28289%	$5.06	$1.07691
BP Pipelines (Alaska) Inc.		49.10694%	$5.04	$2.47499
		100.0000%		

Ownership-Weighted Average Minimum Interstate TAPS Tariff = $5.04426

Table 2-3: Calculation of Portion of Tariff Allowance Upstream of Pump Station No. 1

Minimum Tariff on Pipelines Upstream of Pump Station No. 1 – July 2014			
Pipeline Company	FERC No.	Pipeline	Tariff
Kuparuk Transportation Company		Kuparuk River Unit to TAPS Pump Station No. 1	$0.26400
Endicott Pipeline Company		Endicott Main Production Island to TAPS Pump Station No. 1	$2.01000
Kuparuk Transportation Company		Milne Point Pipeline Connection to TAPS Pump Station No. 1	$0.19300
Milne Point Pipeline Company		Milne Point Central Facilities to Kuparuk Transportation Company Tie-in	$0.96000
		Total MPU Upstream Tariff Allowance:	$1.15300
Kuparuk Transportation Company		Kuparuk River Unit to TAPS Pump Station No. 1	$0.26400
Alpine Transportation Company		Colville, Alaska Alpine Field to Kuparuk River Unit	$0.69000
		Total CRU Upstream Tariff Allowance:	$0.95400
BP Transportation (Alaska) Inc.		Northstar Unit Seal Island to TAPS Pump Station No. 1	$2.14000

Table 2-4: Calculation of Tariff Allowance for Each Unit

Calculation of TA for Prudhoe Bay Unit	
Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Upstream Tariff	$0.00000
TA_{PBU}	$5.04426
Calculation of TA for Kuparuk River Unit	
Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04497
Kuparuk Transportation Co. Tariff	$0.26400
TA_{KRU}	$5.30826
Calculation of TA for Duck Island Unit	
Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Endicott Pipeline Co. Tariff:	$2.01000
TA_{DIU}	$7.05426
Calculation of TA for Milne Point Unit	
Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Kuparuk Transportation Co. Tariff	$0.19300*
Milne Point Pipeline Co. Tariff	$0.96000
TA_{MPU}	$6.19726
Calculation of TA for Colville River Unit	
Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Kuparuk Transportation Co. Tariff:	$0.26400
Alpine Transportation Company Tariff:	$0.69000
TA_{MPU}	$5.99826
Calculation of TA for Northstar Unit	
Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
BP Transportation (Alaska) Inc. Tariff:	$2.14000
TA_{DIU}	$7.18426

*From Kuparuk Pipeline/Milne Point Pipeline connection to TAPS Pump Station No. 1.

Quality Bank Adjustment (QBA)

The TAPS Quality Bank compensates shippers of a high-value crude oil stream when a lower-value crude oil stream is blended in the common stream.[1] To calculate the Price of the Sale Oil at the Point of Delivery an adjustment must be made for the impact that the sale oil will have on the value of the commingled crude oil stream when it enters the TAPS Valdez terminal.

The QBA is a per-barrel value, either positive or negative, and will be calculated each Month by the State for Sale Oil from each Unit. The State will estimate a QBA for each applicable Unit for

[1] Mitchell & Mitchell, 8300 Douglas Avenue, #800, Dallas, TX 75225, administers the TAPS Quality Bank. Anyone who ships oil on TAPS must make prior arrangements with Mitchell & Mitchell to participate in the TAPS Quality Bank.

the initial billing. Typically, the State receives the data to calculate the actual QBA for the Month about two Months after the Month the Sale Oil is delivered. For this reason, the QBA will be subject to a routine true-up in a subsequent adjustment.

Table 2-5: Hypothetical TAPS Quality Bank Data
(as provided by the Quality Bank Administrator)

TAPS Quality Bank
Stream Values and Total Stream Volume Shipped
July 2014

Sample Location	Stream	Volume (BBL)	Stream Value ($/BBL)	Total Stream Value ($)
PBU IPA	PBU IPA	6,339,237	$110.4164400000	$699,955,981.86
LISBURNE	LISBURNE	271,173	$112.2028800000	$30,426,391.58
ENDICOTT	ENDICOTT	202,497	$109.5248100000	$22,178,445.45
KUPARUK	KUPARUK	7,008,864	$109.1719600000	$765,171,420.25
NORTHSTAR	NORTHSTAR	396,155	$115.0336100000	$45,571,139.77
PS #1	PS #1 REFERENCE	14,217,926	**$109.9529832205**	$1,563,303,378.91
GVEA OFFTAKE	GVEA PASSING	10,748,066	$109.9891900000	$1,182,171,073.41
GVEA RETURN	GVEA RETURN	2,601,950	$107.3460500000	$279,309,054.80
GVEA	GVEA REFERENCE	13,350,016	**$109.4740357018**	$1,461,480,128.20
PSVR OFFTAKE	PSVR PASSING	11,912,350	$109.4969400000	$1,304,379,691.54
PSVR RETURN	PSVR RETURN	1,051,990	$105.4520200000	$110,934,470.52
PSVR	PSVR REFERENCE	12,978,304	**$109.1697812657**	$1,415,314,162.05

KTC Quality Bank
Stream Values and Total Stream Volume Shipped
July 2014

Sample Location	Stream	Volume (BBL)	Stream Value ($/BBL)	Total Stream Value ($)
ALPINE	ALPINE	2,241,772	$110.7967700000	$248,381,096.68
MILNE POINT	MILNE POINT	638,565	$108.6292500000	$69,366,837.03
KUPARUK REFERENCE	KUPARUK REFERENCE	7,010,971	$109.1719600000	$765,401,445.57
NIKAITCHUQ	NIKAITCHUQ	210,697	$107.4115200000	$22,631,285.03
KUPARUK RIVER UNIT	KUPARUK RIVER UNIT	3,919,937	**$108.4257800166**	$425,022,226.84

Table 2-5 shows the kind of information supplied by the TAPS quality bank administrator that will be used to calculate the quality bank differential for Sale Oil produced from each Unit. The TAPS quality bank administrator provides this information to the State, pipeline owners, and shippers. As a shipper on TAPS, the Buyer will also receive this information. In the column titled "Stream Value ($/BBL)" are the different per-barrel values of each stream produced from the Units from which Sale Oil may be delivered. The PSVR Reference Stream value is labeled "PSVR Reference" and is the stream value of the blended TAPS stream immediately downstream of the Petro Star Valdez Refinery return stream. The Quality Bank Adjustment is calculated as the difference between the stream value of each Unit and the PSVR Reference Stream.

For example, assume that the Month is July 2014 and the Sale Oil is produced from Lisburne. The QBA for Sale Oil from Lisburne (QBA_{LIS}) is calculated as the per-barrel difference between the Stream value for Lisburne, indicated as "Lisburne" in Table 2.5, and the PSVR Reference

Stream Value. In this example Sale Oil from Lisburne increases the value of the stream of oil measured at Valdez. Therefore, \$3.0330987343 per barrel is the QBA incorporated in the calculation of Price for Sale Oil from Lisburne.

Quality Bank Adjustment for Lisburne = the stream value for Lisburne minus the stream value of PSVR Reference (from Table 2-5)

QBA_{LIS}= 112.2028800000 - 109.1697812657

QBA_{LIS}= \$3.03310

Note: The Price of Sale Oil from the PBU IPA and Lisburne are invoiced separately.

Using the results of the example calculations above, Line Loss for Sale Oil delivered from Lisburne in July 2014 equals

$$\text{Line Loss}_{LIS}$$
$$(.0009) \text{ X } (\$114.26025 – (\text{RIK Differential}) – \$5.04426 + \$3.03310)$$

Calculating the Price of Sale Oil

The Price of Sale Oil delivered from Lisburne in July 2014 is

$$\text{Price}_{LIS} = \$114.26025 – (\text{RIK Differential}) – \$5.04426 + \$3.03310 – \$0.09907$$

Note that each number in the equation is rounded to five decimal places. If a number’s sixth decimal is 0, 1, 2, 3, or 4, the number shall be truncated to the fifth decimal. If a number’s sixth decimal is 5, 6, 7, 8, or 9, the number shall be truncated to the fifth decimal and the fifth decimal shall be increased by 1.

APPENDIX 3

EXAMPLE OF CALCULATION OF INTEREST AND LATE PAYMENT PENALTIES

Sample Calculation of an Invoice for July 2014 Deliveries

Assumptions:

1. Month is August 2014.
2. Sale Oil delivered to the Buyer from Lisburne in July 2014 = 31,000 barrels (1,000 bpd).
3. July 2014 Price of the Sale Oil for Lisburne as initially estimated by the State = $110.00000 per barrel.
4. Statement of account, with July 2014 invoice, sent to the Buyer on August 2, 2014.
5. July 2014 invoice payment due to the State = August 22, 2014.
6. Buyer pays State only $1,000,000 on the due date, August 22, and pays the outstanding balance on August 25, 2014.
7. Annual interest rate provided by Alaska Statute 38.05.135(d) for August 2014 is 11 percent.

Method for calculating Buyer's invoice payment for July 2014 deliveries:

Invoice Amount = Quantity of Sale Oil x Buyer's Price of Sale Oil
= 31,000 x $110.00000 = $3,410,000.00

Because payment in full was not received by the State on or before August 22, 2014, interest will accrue on the unpaid balance from August 22, 2014, through the date the payment is received, and a late payment penalty will be assessed.

Below is a sample calculation of late payment penalty fee (assuming that it is not waived under Section 3.7) and interest. This sample calculation shows what will happen if the Buyer makes a partial payment on August 22 and the balance on August 25.

Late Payment Penalty Fee:		
Statement of Account amount	=	$3,410,000.00
Amount paid on August 22	=	$1,000,000.00
Outstanding balance (8/22/11)	=	$2,410,000.00
Late Payment Penalty Fee ($2,410,000 x 5%) =	=	$120,500.00
Interest:		
$2,410,000 x (11%/365) x 3 Days	=	$2,178.90
Amount Buyer owes on August 25, 2014	=	$2,532,678.90

Note: As more accurate data is received by the State, the State may adjust the Price and/or the actual quantity of Sale Oil and invoice the Buyer in the initial adjustment invoice submitted with the following Month's (August 2014) statement of account.

Sample Calculation of an Adjustment Invoice in September 2014

Assumptions:

1. Month is September 2014.
2. Sale Oil delivered in July 2014 has been revised to 30,000 barrels.
3. July 2014's price for Sale Oil is unchanged at $110.00000 per barrel.
4. Date of the statement of account that contains the adjustment invoice is September 1, 2014.
5. Date the adjustment invoice payment is due to the State = September 20, 2014.

Method for calculating the Buyer's adjustment invoice amount for July 2014:

Invoice Amount = Quantity of Sale Oil x Buyer's Price of Sale Oil
= 30,000 x $110.00000
= $3,300,000.00

Adjusted Invoice Amount for July 2014	=	$3,300,000.00
Amount previously paid by the Buyer for July 2014	=	$3,410,000.00
Overpayment for July 2014	=	($110,000.00)

Credit due the Buyer against statement of account amount dated September 1 due September 20, 2014.

Note: As more accurate data is received by the State, the State may adjust the Price and/or the actual quantity of Sale Oil and invoice the Buyer in the adjustment invoice submitted with the following Month's (October 2014) statement of account.

Sample Calculation of an Adjustment Invoice in October 2014

Assumptions:

1. Month is October 2014.
2. July 2014's price for Sale Oil is changed to $110.05000 per barrel due to a change in the quality bank.
3. The statement of account that contains the adjustment invoice is October 4, 2014.
4. The adjusted invoice payment is due to the State = October 20, 2014.

Method for calculating the Buyer's adjustment invoice amount for July 2014:

Production Month Invoice Amount = Quantity of Sale Oil x Buyer's Price of Sale Oil
= 30,000 x $110.05000
= $3,301,500.00

Adjusted Invoice Amount for July 2014	=	$3,301,500.00
Amount previously paid by the Buyer for July 2014	=	$3,300,000.00
Underpayment for July 2014	=	$1,500.00

The underpayment is due the State on October 20, 2014.

APPENDIX 4

ILLUSTRATION OF PRORATION

Assume that the monthly Royalty Oil is equal to 40,000 barrels per day (bpd). Thus, 95% of that monthly Royalty Oil is 38,000 bpd. Also, suppose that the State has three RIK contracts:
As defined previously, proration will take place whenever the sum of the initial sale oil quantity nominations for all three RIK buyers is greater than 95% of the monthly Royalty Oil.

Case 1: 95% of the monthly Royalty Oil is not enough to meet the initial sale oil quantity nominations from the RIK buyers. In such a case, buyers will be prorated so that each such buyers' Sale Oil quantity as a percentage of total Sale Oil quantities under all contracts after proration is equal to the percentage of its initial monthly sale oil quantity nomination to the total initial monthly sale oil quantity nominations for all the buyers.

	Initial monthly sale oil quantity nomination (in BPD)	Monthly Sale Oil quantity after proration (in BPD)	
Buyer 1	22,000	16,077	*prorated*
Buyer 2	18,000	13,154	*prorated*
Buyer 3	12,000	8,769	*prorated*
Total	52,000	38,000	

Keeping the assumption that the State has 3 RIK contracts, we could describe the proration provision symbolically.

Let X_i denote the initial monthly sale oil quantity from buyer *i*, where *i* = 1, 2, 3. Let *R* represent the monthly Royalty Oil. And let Y_i be the Sale Oil quantity determined after proration.

→ If $(X_1 + X_2 + X_3) \le 0.95 * R$, then $Y_i = X_i$

→ If $(X_1 + X_2 + X_3) > 0.95 * R$, then $Y_i = \left(\frac{X_i}{X_1 + X_2 + X_3} \right) * 0.95 * R$

APPENDIX 5

ILLUSTRATION OF ADDITIONAL SALE OIL NOMINATION

Assume that the monthly Royalty Oil is equal to 40,000 barrels per day (bpd). Thus, 95% of that monthly Royalty Oil is 38,000 bpd. Also, suppose that the State has three RIK contracts with the following Sale Oil nominations:

	Buyer 1	Buyer 2	Buyer 3
Sale Oil Nomination	10,000 bpd	8,000 bpd	10,000 bpd

Following from that, the State has Excess Royalty Oil of 10,000 bpd arrived at by subtracting total Sale Oil Nominations from 95% of Royalty Oil (38,000 bpd – (10,000 bpd + 8,000 bpd + 10,000 bpd).

Case 1: Excess Royalty Oil is enough to meet all Additional Sale Oil nominations.

	Additional Sale Oil quantity nomination (in BPD)	Monthly Sale Oil quantity after allocation (in BPD)	
Buyer 1	2,000	2,000	*Original nomination*
Buyer 2	5,000	5,000	*Original nomination*
Buyer 3	2,000	2,000	*Original nomination*
Total	9,000	9,000	< 10,000 bpd of Excess Royalty Oil

Case 2: Excess Royalty Oil is not enough to meet all Additional Sale Oil nominations.
If total nominations for Additional Sale Oil under all of the State's royalty-in-kind contracts exceed Excess Royalty Oil, the State will allocate Excess Royalty Oil. The State may nominate for each buyer up to the actual nominated volume of Additional Sale Oil. If any buyer's actual nominated volume of Additional Sale is not more than equal volumes of Excess Royalty Oil available to each buyer nominating Additional Sale Oil for that period determined by dividing Excess Royalty Oil by the number of nominations for Additional Sale Oil, that buyer will receive its full nomination. Those buyers, whose Additional Sale Oil nominations are not fully met with the calculated equal volumes of Excess Royalty Oil, will equally split the remaining available volumes up to the amount of actual nominated volume of Additional Sale Oil for each buyer. If there are remaining available volumes of Excess Royalty Oil, they will be allocated to the buyers whose actual nominated volume of Additional Sale Oil has not been satisfied.

Equal volumes of Excess Royalty Oil available to each buyer nominating Additional Sale Oil in this scenario is 3,333 bpd derived by dividing 10,000 bpd by 3.
Buyer 1's Additional Sale Oil nomination is fully met with the calculated equal volumes of Excess Royalty Oil, thus Buyer 2 and Buyer 3, whose Additional Sale Oil nominations are not satisfied, will equally split the remaining available volumes at 4,000 bpd each calculated as

(10,000 bpd -2,000 bpd)/2, up to the amount of each buyer’s actual nomination. This means that Buyer 3 will only receive 3,500 bpd based on its actual nomination and buyer 2 will receive remaining 4,500 bpd.

	Additional Sale Oil quantity nomination (in BPD)	Monthly Sale Oil quantity after allocation (in BPD)	
Buyer 1	2,000	2,000	*Original nomination*
Buyer 2	6,000	4,500	*Remaining volumes equally split between buyers whose nominations were not met with equal volumes of Excess Royalty Oil (3,333 bpd) available to each buyer nominating Additional Sale Oil up to each buyer’s actual nomination*
Buyer 3	3,500	3,500	
Total	11,500	10,000	=10,000 bpd of Excess Royalty Oil

APPENDIX 6

POSSIBLE RIK DIFFERENTIAL VALUES AND FINAL YEAR DEFICIENT NOMINATION PAYMENT RESULTING FROM BUYER'S ELECTION TO REDUCE SALE OIL QUANTITY

The Term of the Agreement may be divided into distinct 12-month periods:

Period 1 - August 2025 through July 2026.

Period 2 - August 2026 through July 2027.

Period 3 - August 2027 through July 2028.

Extended Period – each subsequent 12 month period beginning August 1st through July 31st

For each Period, a nomination sum may be calculated as:

Nomination Sum 1 is the sum of the 12 nominations during Period 1.

Nomination Sum 2 is the sum of the 12 nominations during Period 2.

Nomination Sum 3 is the sum of the 12 nominations during Period 3.

Nomination Sum 4 is the sum of the 12 nominations during each Extended Term 12-month Period

RIK Differential Values

During Period 1, the RIK Differential shall be the DOR Differential – $0.24 (24 cents).

After Period 1, the RIK Differential during any twelve month period from August 1 through July 31, shall be dependent on whether the prior Nomination Sum, from the prior twelve month period, is less or greater than or equal to 1.2 million barrels of oil (1.2 MMBO), as shown in the following table:

	If prior period's Nomination Sum is	
	< 1.2 MMBO	≥ 1.2 MMBO
RIK differential shall be	DOR Location Differential minus 26 cents per barrel	DOR Location Differential minus 24 cents per barrel

Example of payment for deficient nomination sum during final twelve month period of Agreement Term

For example, if the Nomination Sum during the final twelve month period of this Agreement's Term is 900,000 barrels of oil, then the Nomination Sum would be 300,000 barrels of oil less than 1.2 million barrels of oil. As a result of this difference, the Buyer would pay an amount equal to 300,000 barrels multiplied by $1.00 per barrel. The total payment amount to be paid, within 30 days of the last day of the Agreement's Term, would be $300,000.

THE STATE *of* ALASKA

GOVERNOR MIKE DUNLEAVY

Department of Natural Resources

DIVISION OF OIL & GAS

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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.

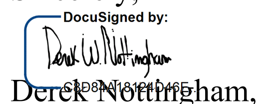
- **Contract term.** The contract will supply RIK oil for at least three years, based on disposition preferences and terms.

- **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,



Derek Nottingham,
Director, Division of Oil and Gas

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