



# Royalty Considerations

## Senate Energy Committee

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# Royalty Basics

- The state receives a royalty share of at least 12.5% of the oil and gas produced from state lands.
- **Royalty in-Value:** Lessees take the state's royalty share, market it along with their own share of production, and then pay cash for the state's royalty share.
- **Royalty in-Kind:** State takes possession of the royalty share and sells it.





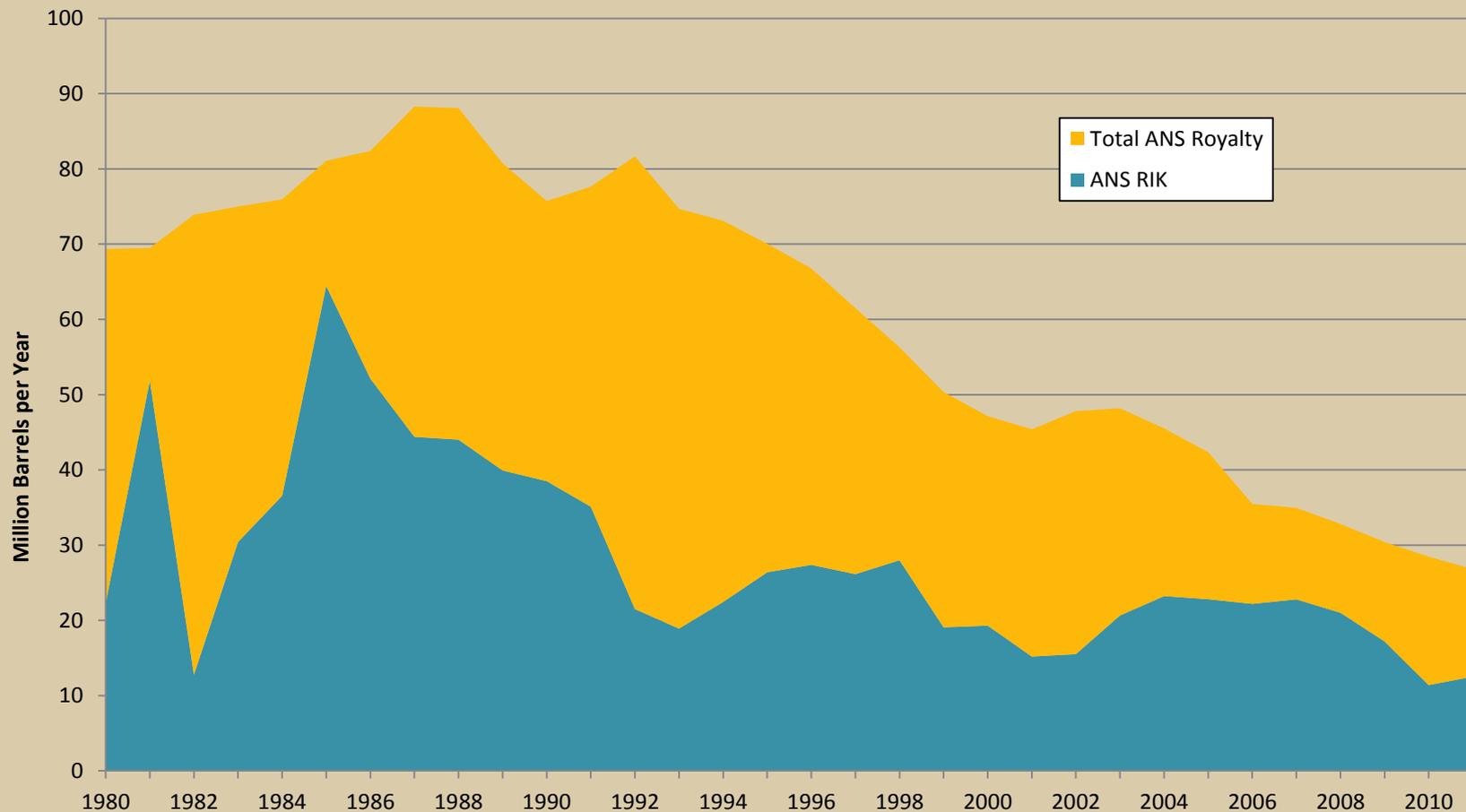
# History of RIK

- The State has sold RIK since 1969. Deliveries of North Slope RIK began in 1977 under a 25-year contract with Earth Resources.
- Total ANS RIK Oil to date = 892 million barrels
- Under the Flint Hills Resources RIK contract, the state sold 154 million barrels of royalty oil for a total value of \$10.3 billion.
- Total FY 2012 ANS royalty oil: RIK 48.6%; RIV 51.4%
- Total FY 2012 royalty oil revenue = \$2.767 billion
  - RIK ~ \$1.346B and RIV ~ \$1.421B





# Historic RIK vs RIV Volumes





# Royalty Statutes & Regulations

## RIK/RIV Considerations

- **Considering RIK sale under AS 38.05.182(a):** Allows Commissioner to take royalty in kind if it is determined that taking in kind would be in the best interest of the state
- **Under AS 38.05.182(b):** The commissioner shall submit a determination to take royalty in value to the legislature.
- **Competitive Bid: AS 38.05.183(a):** Requires the disposal of royalty to be by competitive bid, and the disposal made to the highest responsible bidder.





# Royalty Statutes & Regulations

## RIK $\geq$ RIV

### 11 AAC 03.024(3) Relieving Market Conditions

- Royalty oil, gas, or associated substances disposed of will be used to meet in-state needs for crude oil, gas, or associated substances or petroleum products and the sale price of that royalty oil, gas, or associated substances is *at least equal to the in-value amount which would have been received by the state during the same period.*

### 11 AAC 03.026(b) Royalty contracts

- In establishing or renegotiating the price of a royalty oil contract, the commissioner will obtain a price at least equal to the volume-weighted average of the current reported netback prices filed by the lessees...





# FHR RIK “Netback” Price 2011

- If the State kept its royalty in-value, it would have lost \$0.98 per barrel.

	RIK Sold At RIV Price	RIK Sold to FHR	Difference
<b>ANS Price at US West Coast</b>	\$111.01	\$110.48	-\$0.54
<b>Deduction for Marine Transportation Differential</b>	<u>-\$3.16</u>	<u>-\$1.65</u>	<u>\$1.51</u>
<b>Value at Valdez</b>	\$107.86	\$108.83	\$0.97
<b>TAPS Tariff</b>	<u>-\$4.75</u>	<u>-\$4.77</u>	<u>-\$0.02</u>
<b>Value at TAPS PS-1</b>	\$103.11	\$104.06	\$0.95
<b>Pipeline Losses</b>	-\$0.14	-\$0.09	\$0.04
<b>Quality Bank Adjustment for Prudhoe Bay Unit</b>	<u>\$0.93</u>	<u>\$0.93</u>	<u>-\$0.01</u>
<b>Royalty Value</b>	\$103.91	\$104.89	\$0.98





# Royalty Board & Public Process

- Public notice and review of the royalty oil sale and the commissioner's best interest findings.
- Under **AS 38.06**, the legislature created the Alaska Royalty Oil and Gas Development Advisory Board (“Royalty Board”) to oversee DNR’s RIK program as part of the public review process.
- Under **AS 38.06.055**, legislative approval is required for long-term royalty sales, i.e., dispositions in excess of one year.

