



TESORO

Tesoro Alaska Company
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April 18, 2014

Senator Kevin Meyer, Co-Chair Senate Finance Committee
Senator Pete Kelly, Co-Chair Senate Finance Committee
Members of the Senate Finance Committee
State Capitol Building Room 532
Juneau, Alaska 99801

Re: Support for House Bill 287

Dear Senators,

I am writing to you in support for House Bill 287 "An Act relating to the determination of the royalty received by the state on oil production refined or processed in the state; providing tax credits for qualified infrastructure expenditures for in-state refineries and hydrocarbon processing facilities; approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC; and providing for an effective date."

Tesoro Corporation is a Fortune 100 company and is an independent refiner and marketer of petroleum products. Tesoro's refining operations started Alaska with the purchase of the Kenai refinery back in 1969.

Our Kenai refinery has the operational capacity to produce up to 72,000 barrels per day and is primarily focused on Jet and Diesel production followed by gasoline and gasoline blendstocks, heating oil and heavy fuel oils, propane and asphalt. We operate a 68-mile, common-carrier products pipeline that transports jet fuel, gasoline and diesel fuel to the Port of Anchorage and the Anchorage International Airport. The wholesale delivery of our products occurs through our terminals in Kenai, Anchorage, our Nikiski dock and the Port of Anchorage.

In addition to being the largest taxpayer in the Kenai Peninsula Borough, Tesoro is also able to provide around 210 family wage jobs at the refinery, along with about 30 full-time contractors that are working in and around the refinery year round. Additionally, we are able to employ another 200 plus employees around the state at our 31 company-owned Tesoro 2-Go retail outlets as well as our operators who work at our terminals in the Port of Anchorage and in Nikiski.

We are a major supporter of the Cook Inlet Regional Citizens Advisory Council (CIRCAC) and the largest member of the Cook Inlet Spill Prevention & Response team (CISPRI).

We actively support a wide range of local events and programs – from employee fundraising for the United Way to youth sports programs. Each year we sponsor all of the 5th and 6th grade classes on the Kenai Peninsula to conduct a mission at the Kenai Challenger Learning Center and we are the Signature Sponsor of “Caring for the Kenai” program.

Tesoro strongly urges you to support House Bill 287, "An Act relating to the determination of the royalty received by the state on oil production refined or processed in the state; providing tax credits for qualified infrastructure expenditures for in-state refineries and hydrocarbon processing facilities; approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC; and providing for an effective date."

Section 6 of this legislation is the result of constructive dialog and productive negotiations between the Department of Natural Resources and the Tesoro Corporation. Tesoro originally entered into negotiations with the State of Alaska that resulted in a one year contract beginning in February 2014 and ending in January of 2015.

This original contract received a Best Interests Finding, was approved unanimously by the State’s Royalty Board and was signed by both parties in October of 2013 without the need for Legislative approval.

Upon further analysis of our future needs, Tesoro sought to amend the contract to add one additional year using identical terms that would deliver royalty oil until January of 2016. A new Final Best Interest Finding was produced by the DNR and the State’s Royalty Board again voted unanimously for approval. Since the combined duration of the contracts were beyond a one year time frame, the need for legislative approval is necessary.

By all accounts, our company was very impressed with the State’s ability to understand our issues and arrive at a mutually beneficial agreement that is truly a win-win for both parties.

For the State, the DNR estimates that it will continue to receive a price for its Royalty-in-Kind oil that exceeds the price it would have receive if it elected to keep its Royalty Oil in Value.

For Tesoro, this contract will provide us with a stable supply of ANS crude while also giving us the volumetric flexibility to help accommodate seasonal fluctuations in demand for refined products. The availability, flexibility and stability that this contract offers will have a positive impact on our ability to maintain our ongoing operations at our Kenai refinery.

Tesoro is appreciative of the incentives that the Governor has proposed and the legislature has chosen to include in this legislation. The change to the HOV calculation should encourage producers to prioritize sales of ANS crude to in-state refiners over other potential buyers and the qualified infrastructure tax credits will help us attract more capital dollars to our Kenai refinery.

Tesoro believes in Alaska's future and is committed to being an active corporate citizen. We look forward to continuing to provide Alaskans with clean burning fuels to keep your homes warm, your planes flying and your cars and boats traveling across this great state.

I urge you to support House Bill 287.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Gill". The signature is fluid and cursive, with the first name "Matt" being more prominent than the last name "Gill".

Matt Gill
External Affairs Senior Manager
Tesoro Alaska Company