



DATE: April 17, 2017
TO: Chair Cathy Giessel
FROM: Kate Blair, Government and Public Affairs Manager, Tesoro Alaska
RE: Copy of Public Testimony on House Bill 111 CS

Thank you for the opportunity to testify before you today on House Bill 111.

For the record, my name is Kate Blair and I am the Government and Public Affairs Manager for Tesoro in Alaska.

Tesoro Corporation, a Fortune 100 company, is an independent refiner and marketer of petroleum products. Tesoro operates seven refineries in the western United States with a combined capacity of over 895,000 barrels per day and ownership in a logistics business, which includes interest in Tesoro Logistics. Tesoro has a proud Alaska legacy, with our first refinery located in Nikiski which has a crude capacity of 72,000 barrel per day. Tesoro Alaska assets also include a 69-mile common-carrier pipeline from Nikiski to the Ted Stevens International Airport and the Port of Anchorage, where refined products such as jet fuel, ultra-low sulfur diesel, and gasoline, are stored and transported throughout the state. The existence of in-state refineries has helped underpin the growth of the international air cargo business, for which Anchorage boasts one of the top 5 cargo airports in the world.

The Kenai refinery is able to meet most of the state's demand for gasoline, and therefore a majority of the gasoline consumed throughout the state has been refined right here in Alaska. Even far from major markets, the reliability of our gasoline supply is excellent because of the refinery's ability to meet the needs of the Alaska market.

Additionally, Tesoro Alaska's refinery and logistics operations employ approximately 250 family wage jobs in Nikiski and Anchorage, and have greater than 97% Alaska hire rates.

Please allow us to first begin by stating that Tesoro, as an independent integrated refining, logistics, and marketing company, does not weigh in on what the oil and gas production taxes in Alaska should be, as we are not a production tax payer in Alaska. We would, however, like to take this opportunity to reiterate that in-state oil production matters. Any loss of production, either from Cook Inlet or North Slope, would affect the in-state refinery and potentially make our economics more challenging.

Tesoro relies on access to in-state crude through production in Cook Inlet and the North Slope. At its peak, the Cook Inlet basin produced more than 200,000 barrels per day, and in 2016, Cook Inlet produced just over 16,500 barrels per day. We refine every drop of oil that comes out of the Cook Inlet basin, and we purchase North Slope crude, shipping it from Valdez for refining in Nikiski or to our refineries along the west coast. On average, we purchase up to 160,000-170,000 barrels per day of ANS, accounting for approximately one-third of daily production flowing through



the Trans-Alaska Pipeline System. Earlier this year, Tesoro signed a royalty oil contract with the State that allows us to purchase 20,000- 25,000 barrels per day of the State's royalty share of oil, with a benefit to Alaska of \$45-56 million.

The increased investment and production since the passage of the Cook Inlet Recovery Act and Senate Bill 21 have resulted in a stable, local supply for the majority of our crude. Even with production from both basins, we must supplement our crude supply with light, sweet crude from foreign and other domestic sources.

Declining production in either region would result in our Kenai refinery importing more crude to meet the demands of the market. Coupled with extremely high natural gas costs for an energy- intensive process, importing a majority of our crude supply could make local refining a less economical option than shipping in refined products from other areas of the West Coast. This could ultimately affect the stable, local supply of transportation fuels from which Alaskans have relied for the past 48 years.

One particular concern Tesoro has with the current version of the bill is the added language around refinery tax credit transparency. We believe the information required in the current version is Confidential Business Information, disclosing publically what companies pay for a particular project through a description of expenditures potentially violates anti-trust laws, considering the few contractors in Alaska that provide particular services. Additionally, the current transparency language also requires the Department of Revenue to make public the potential monetary benefits to the state, or residents of the state, of the projects claimed under the refinery tax credit. There is no clear mechanism to calculate the potential benefits, so therefore the output will be subjective and open to political distortion.

As you assess oil and gas production changes, we ask that you consider how the modifications will affect production, and in turn, in state manufacturing. We are proud to partner with the people of Alaska as the providers of reliable transportation fuel, and hope to continue to do so for years to come.

Thank you for the opportunity to speak today, and I would be happy to answer any questions either now or after the hearing.