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DATE: April 28, 2017
TO: Chair MacKinnon, Senate Finance Committee
FROM: Kate Blair, Government and Public Affairs Manager, Tesoro Alaska
RE: Copy of Invited Testimony on CS for House Bill 111

Madam Chair and members of the committee- Thank you for the opportunity to testify before you today on the CS for House Bill 111.

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

Tesoro Corporation is an integrated refining, logistics, and marketing company with assets across the western United States. We operate 7 refineries in 6 states, including our first in Nikiski. We also own a series of pipelines, tank farms, marine, rail assets, and a network of retail fuel stations. We have a proud 48 year legacy in Alaska, supplying jet fuel, gasoline, and diesel to Alaskans.

Tesoro does not weigh in on oil and gas production taxes in Alaska, as we are not a production tax payer, however any loss of production in Alaska would affect the in-state refinery and potentially make our economics more challenging. We have therefore testified on previous versions of this bill to ask that your colleagues be mindful of any changes to the current production tax system and its potential effect on overall production.

Tesoro relies on access to in-state crude from the Cook Inlet and the North Slope. We refine every drop of oil that comes out of the Cook Inlet basin, and we purchase approximately one-third of TAPS throughput, 160,000-170,000 barrels of North Slope crude per day, shipping it from Valdez for refining in Nikiski or to our refineries along the west coast. Last 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 testimony of the producing companies will inform you on how the current CS will affect their investment decisions and ultimately, production. We would, however, like to comment on the changes made to the refinery infrastructure tax credits, which directly affects Tesoro.

Tesoro is not advocating for an extension or changes to the refinery tax credit itself. Our concern is with how the credit's value will be realized with the removal of the Tax Credit Fund.

The CS maintains the cashability of the credit, however it creates ambiguity in how credit refunds are paid through the appropriation process, which could create a system where the state is picking winners and losers. The CS directs the Department of Revenue to adopt regulations, standards, and procedures to allocate the money among claims. Without clearly defined regulations, such as those established for the tax credit fund, we are concerned that the department could consistently allocate funds in a way that favors one type of tax payer over another. We ask that you consider adding language in Section 6 that requires the appropriation of funds to reflect the same process and regulations as the current tax credit fund, with a statutory limit and a clear process to allocating available money.

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Additionally, because the credit is subject to appropriation by the legislature without a statutory lower limit, it is possible that no funds could be allocated to refund credits and those credits must be carried forward to future years, however, the current carry-forward limit is five years. Hypothetically, if there is no money appropriated over a five year period, those earned credits could expire before their value is realized by the company that has earned them.

We recommend that the committee alter the carry-forward period on the credit from the current five year limit to mirror production credits that do not have a carry-forward time limit and provide an uplift. This would provide consistency in the tax policy, and ensure that companies that make qualified investments, under the current refinery infrastructure tax credit program, can realize the value of the credits that they earn and the time value of their money. Further, because the bill is scheduled to sunset in 2019, this would be a relatively short commitment by the state and would provide the refiners assurance that the credits they earn will retain their value if money is not appropriated for their rebates.

Thank you for the opportunity to testify today and I would be happy to answer any questions from the committee.