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Governor Bill Walker
STATE OF ALASKA

March 21, 2016

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to approval and ratification of the sale of royalty oil by the State of Alaska to Tesoro Refining and Marketing Company LLC (Tesoro).

The Commissioner of Natural Resources has determined that it is in the best interest of the State to take royalty oil in-kind. The bill would approve and ratify the "Agreement for the Sale of Royalty Oil Between and Among the State of Alaska, and Tesoro Corporation, a Delaware Corporation and Tesoro Refining and Marketing Company LLC, a Delaware Limited Liability Corporation." The agreement provides for the sale of 20,000 to 25,000 barrels a day of the royalty oil, subject to certain nomination provisions, which the State would take in-kind from lessees on the North Slope. The deliveries of royalty oil under the agreement with Tesoro have an estimated start date of August 1, 2016, and continue until July 31, 2021. The royalty oil would be sold to Tesoro at a price in the agreement calculated to equal or exceed the value that the State would obtain for the royalty oil if it was taken in-value. The agreement includes provisions to support employment of state residents and in-state processing.

This bill is the culmination of diligent analysis and public process that are imperative for responsible resource stewardship. The Department of Natural Resources and the Alaska Royalty Oil and Gas Development Advisory Board (Board) considered the fiscal, economic, societal, and environmental impacts and benefits of the agreement. The Department of Natural Resources issued a Final Best Interest Finding and Determination on the agreement that included analysis of the factors for the sale of royalty oil in AS 38.05.183 and a detailed response to public comments received on the sale. Additionally, the Board held a public hearing on the sale. In accordance with AS 38.06.050, the Board voted to approve a written recommendation and report on March 15, 2016, recommending legislative approval of the agreement. A copy of the Final Best Interest Finding and Determination with the proposed agreement as Exhibit 1, the Board resolution recommending approval, and the report of the Board required by AS 38.06.070(c) are available from the Department of Natural Resources.

This bill would allow the State to obtain the maximum value for its royalty oil. I urge your prompt and favorable action on this measure.

Sincerely,

Bill Walker
Governor

Enclosure