

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

May 1, 2006

3:39 p.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Chair
Senator Ben Stevens
Senator Fred Dyson
Senator Bert Stedman
Senator Kim Elton
Senator Albert Kookesh

MEMBERS ABSENT

Senator Ralph Seekins, Vice Chair

COMMITTEE CALENDAR

CS FOR HOUSE BILL NO. 304(FIN) am
"An Act relating to the commercial fishing loan program; and
providing for an effective date."

MOVED CSHB 304(FIN) am OUT OF COMMITTEE

SENATE BILL NO. 314

"An Act limiting retroactive adjustments in the sale price of
state royalty oil sold by the state to a refiner."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 304

SHORT TITLE: COMMERCIAL FISHING LOAN PROGRAM

SPONSOR(s): REPRESENTATIVE(s) COGHILL

05/07/05	(H)	READ THE FIRST TIME - REFERRALS
05/07/05	(H)	FSH, RES, FIN
03/22/06	(H)	FSH AT 8:30 AM CAPITOL 124
03/22/06	(H)	Moved CSHB 304(FSH) Out of Committee
03/22/06	(H)	MINUTE(FSH)
03/24/06	(H)	FSH RPT CS(FSH) 2DP 3NR
03/24/06	(H)	DP: ELKINS, THOMAS;
03/24/06	(H)	NR: HARRIS, KAPSNER, WILSON
04/03/06	(H)	RES AT 2:00 PM CAPITOL 124
04/03/06	(H)	Heard & Held
04/03/06	(H)	MINUTE(RES)

04/10/06 (H) RES AT 1:00 PM CAPITOL 124
 04/10/06 (H) Moved CSHB 304(RES) Out of Committee
 04/10/06 (H) MINUTE(RES)
 04/12/06 (H) RES RPT CS(RES) 2DP 1DNP 3NR 1AM
 04/12/06 (H) DP: ELKINS, RAMRAS;
 04/12/06 (H) DNP: SEATON;
 04/12/06 (H) NR: OLSON, KAPSNER, CRAWFORD;
 04/12/06 (H) AM: GATTO
 04/18/06 (H) FIN AT 10:00 AM HOUSE FINANCE 519
 04/18/06 (H) <Bill Hearing Postponed>
 04/20/06 (H) FIN AT 8:30 AM HOUSE FINANCE 519
 04/20/06 (H) Moved CSHB 304(FIN) Out of Committee
 04/20/06 (H) MINUTE(FIN)
 04/21/06 (H) FIN RPT CS(FIN) 3DP 3NR 1AM
 04/21/06 (H) DP: FOSTER, KELLY, MEYER;
 04/21/06 (H) NR: HOLM, MOSES, CHENAULT;
 04/21/06 (H) AM: KERTTULA
 04/24/06 (H) TRANSMITTED TO (S)
 04/24/06 (H) VERSION: CSHB 304(FIN) AM
 04/25/06 (S) READ THE FIRST TIME - REFERRALS
 04/25/06 (S) RES, FIN
 05/01/06 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 314

SHORT TITLE: RETROACTIVE ADJUSTMENTS IN OIL PRICES
SPONSOR(s): JUDICIARY

04/12/06 (S) READ THE FIRST TIME - REFERRALS
 04/12/06 (S) RES, FIN
 04/21/06 (S) RES AT 3:30 PM BUTROVICH 205
 04/21/06 (S) Scheduled But Not Heard
 05/01/06 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

REPRESENTATIVE COGHILL,
 Alaska State Capitol
 Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HB 304

GREG WINEGAR, Director
 Division of Investments
 Department of Commerce, Community & Economic Development
 PO Box 110800
 Juneau, AK 99811-0800

POSITION STATEMENT: Testified on HB 304.

BRIAN HOVE, staff
Senator Ralph Seekins
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced SB 314 on behalf of the sponsor.

JEFF COOK, Director
External Affairs
Flint Hills Resources Alaska
North Pole, AK

POSITION STATEMENT: Supported SB 314.

ANTHONY SEMENTELLI, Chief Financial Officer
Flint Hills Resources
4111 E. 37th Street
North Wichita, KS 67220

POSITION STATEMENT: Supported SB 314

KEVIN BANKS, Petroleum Market Analyst
Division of Oil and Gas
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Testified on SB 314.

GOVERNOR BILL SHEFFIELD, Chair
Alaska Railroad Corporation
PO Box 107500
Anchorage, AK 99510-7500

POSITION STATEMENT: Presented the railroad perspective on SB 314.

MERRICK PIERCE
Fairbanks, AK

POSITION STATEMENT: Opposed SB 314.

LADD MCBRIDE
Fairbanks, AK

POSITION STATEMENT: Opposed SB 314.

ACTION NARRATIVE

CHAIR THOMAS WAGONER called the Senate Resources Standing Committee meeting to order at [3:39:40 PM](#). Present at the call to order were Senators Ben Stevens, Bert Stedman, Fred Dyson, Kim Elton and Chair Thomas Wagoner. Senator Albert Kookesh arrived soon thereafter.

CSHB 304(FIN) am-COMMERCIAL FISHING LOAN PROGRAM

CHAIR THOMAS WAGONER announced CSHB 304(FIN) am to be up for consideration.

REPRESENTATIVE COGHILL, sponsor, explained that HB 304 stems from his philosophical belief that a government loan program should be a source of last resort. The bill establishes that anyone who applies for a loan through the Commercial Fishing Revolving Loan Fund (CFRLF) must be ineligible for financing from a federally recognized lending institution or the Commercial Fishing and Agricultural Bank.

HB 304 reduces the upper limit for refinancing a debt from \$300,000 to \$200,000 and caps the interest rate at 10.5 percent. It reduces loan collateral from 90 percent to 80 percent and increases the total balance of federal tax loans from \$30,000 to \$35,000. Finally, the total aggregated loan amount for a single borrower may not exceed \$400,000, which is adjusted down from the current \$930,000 total.

[3:43:56 PM](#)

SENATOR BERT STEDMAN asked for the reasoning behind Section 4, which repeals small loans for repairing and refurbishing existing vessels.

REPRESENTATIVE COGHILL replied it allows the department to reallocate the money, but the funds could still be used for that purpose.

[3:44:50 PM](#)

GREG WINEGAR, Director, Division of Investments, Department of Commerce, Community & Economic Development (DCCED), said this fund has been around since the early 70s and about 6,000 people have received loans. The fund is self-sustaining and hasn't used general funds since the mid 80s. He cautioned the committee to carefully review any proposed changes because at this point the fund works so well that it provides money for other programs. He reported that DCCED supports the committee substitute (CS) that passed the House because neither the borrowers nor the fund appear to be adversely impacted.

[3:46:16 PM](#)

MR. WINEGAR explained that the repealer relates to the requirement that 10 percent of the funds are held to ensure the availability of funds for loans amounting to \$35,000 and under.

That has never been an issue with this fund so the unnecessary requirement is removed.

[3:46:53 PM](#)

CHAIR WAGONER asked how many loans have gone into arrears.

MR. WINEGAR said he didn't have that information, but the current delinquency rate is about 4.9 percent. He elaborated that fishing permits have been taken back, but because the division has some flexibility to accommodate individuals who are going through tough times, the number of repossessions has been minimal.

CHAIR WAGONER requested a report reflecting the history of the program.

[3:47:57 PM](#)

SENATOR STEDMAN asked how the bill would modify the CDQ program and how it might impact communities.

MR. WINEGAR clarified that HB 304 would not cap CDQ loans. Currently a person could combine different loans and borrow up to \$930,000. HB 304 would reduce that limit to \$400,000 so someone who wants to borrow up to \$300,000 to buy quota shares wouldn't be impacted, but someone who tries to combine loans and get above the \$400,000 limit would be impacted.

CHAIR WAGONER closed the public hearing and asked for a motion.

[3:49:40 PM](#)

SENATOR KIM ELTON moved to report CSHB 304(FIN) am from committee with individual recommendations and attached fiscal note. There was no objection and it was so ordered.

SB 314-RETROACTIVE ADJUSTMENTS IN OIL PRICES

CHAIR THOMAS WAGONER announced SB 314 to be up for consideration.

[3:51:15 PM](#)

SENATOR KOOKESH arrived.

BRIAN HOVE, staff to Senator Seekins, presented SB 314 on behalf of the sponsor. He read the following sponsor statement into the record. [Original punctuation is provided.]

This legislation corrects the unintended consequence resulting from the State's filing of a protest with the Federal Energy Regulatory Commission (FERC) regarding interstate tariff rates on the Trans Alaska Pipeline System (TAPS). SB 314 amends AS 38.05.183(f) so as to disallow retroactive adjustments in the sale price of royalty oil where a TAPS transportation rate change has occurred.

The effect of the State's filing (from January 1, 2005 forward) is to create a potential retroactive payment for any in-state refinery purchasing State royalty oil until the FERC case is settled. This could be as late as August of 2009. Though the State is a signer to both the ten year royalty oil contract with Flint Hills Resources Alaska (effective April 1, 2004) and the TAPS Settlement Methodology (TSM) which governs TAPS rates through 2009, the State chose to challenge TSM prior to 2009 thus creating retroactivity potential for Flint Hills Resources Alaska (Flint Hills).

The negative impact on Flint Hills and other entities has been real and immediate. FHR must reserve for this potential liability up to \$50 million per year. With up to five years to settle the case with FERC, accumulated retroactive liability could reach \$200 million or more. This has caused Flint Hills to cancel a \$175 million clean fuels project and a \$91 million naphtha stabilizer project.

In addition, low margin products such as naphtha have been discontinued in 2006 and Flint Hills is purchasing 10,000 barrels less per day of State royalty oil, for which a premium is paid. This has also resulted in the loss of approximately \$7 million in shipping revenue for the Alaska Railroad and \$1 million in fuel flowage fees for the Port of Anchorage. FHRA is also not able to provide long term contracts to fuel customers such as Golden Valley Electric Association because of the uncertainty caused by potential retroactivity.

Senate Bill 314 eliminates the uncertainty for buyers of State royalty oil and encourages investment and product production decisions to be based on genuine market factors rather than the prospect of tariff retroactivity. It also restores fairness in terms of avoiding retroactivity with respect to raw materials that have

long since been manufactured and sold into the marketplace.

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JEFF COOK, Director, External Affairs, Flint Hills Resources Alaska, "Flint Hills", outlined the company's business in Alaska. He said that Flint Hills has worked with the Department of Natural Resources (DNR) on this issue for over a year and has provided as much information as possible. However, due to proprietary issues and anti trust considerations, it has not been possible to provide the detailed pricing and contract information that DNR has requested.

Fortunately, Mr. Cook said, that information is not needed to understand that tariff retroactivity is mutually harmful to the Flint Hills refinery, to its customers, and to the State of Alaska. Tariff retroactivity was addressed in the royalty oil contract with the state and Flint Hills considered the issue in its purchase economics of the refinery. However, it did not expect the state to protest the agreement prior to its expiration at the end of 2009.

[3:57:10 PM](#)

MR. COOK said that beginning in March 2005 Flint Hills approached DNR to suggest possible options, but there was no agreement. As a result, Flint Hills has cancelled over \$260 million in projects for clean fuels and naphtha stabilizer. This has resulted in lost jobs, smaller purchases of crude oil from the state, lost revenue to the Alaska Railroad, and lost revenue to the Port of Anchorage. Furthermore, Golden Valley Electric Association would like a five-year contract for naphtha for its new turbines at North Pole, but that's not possible unless the long-term price for naphtha is known. Not only does this hurt Flint Hills, it also hurts GVEA and its customer base, he said. Also, asphalt prices for the 2006 construction season and beyond are uncertain and that impacts road construction and upgrades in Interior Alaska.

Historically the Flint Hills refinery has been profitable because of its cost advantage over the West Coast price for ANS crude, but that advantage would be eliminated with retroactivity. He offered the information that refineries that don't grow don't tend to survive.

MR. COOK stated that SB 314 puts the state at a crossroads. It can support and pass the legislation, which would be mutually advantageous to a host of beneficiaries, or it can continue on

the path of tariff retroactivity thereby perpetuating the negative results outlined above. He asserted that when the total impact of retroactivity is considered it is clear that the long-term losses are far greater than any windfall retroactive payment the state might receive in the future.

SB 314 provides equity, fairness and certainty for any purchaser of state royalty oil. It will encourage production decisions based on legitimate market factors, he concluded.

[4:02:24 PM](#)

SENATOR FRED DYSON asked for a summary of pipeline tariffs and questioned why the shipper would owe retroactively if FERC decided that a pipeline owner had over charged for shipping.

MR. COOK deferred to Mr. Sementelli.

TONY SEMENTELLI, Chief Financial Officer, Flint Hills Resources, explained that the tariff calculation starts with a published West Coast price for ANS crude. Deductions are applied for marine freight and the pipeline tariff to arrive at a Prudhoe Bay value. In the next step Flint Hills moves the barrels to the Flint Hills refinery at the intrastate rate. He said the lower the tariff, the more Flint Hills pays for crude at Prudhoe Bay.

SENATOR DYSON indicated that his question was not answered.

MR. SEMENTELLI used the following example. The published ANS price in California is \$60. To arrive at an Alaska price you would deduct marine transportation and the tariff. The agreement with the state is that the marine transportation deduction is \$1.55. For simple math consider the tariff to be \$4.00. Basically, the price Flint Hills pays the State of Alaska is \$60 less \$1.55 less \$4. If the tariff were reduced to \$2, the deduction from the West Coast is lower and therefore Flint Hills would owe the state more for the crude oil.

[4:05:43 PM](#)

SENATOR DYSON again asked why his company has to pay as opposed to pipeline owners who were overcharging.

MR. SEMENTELLI replied because Flint Hills has indexed its crude oil contract to the published tariffs so the pricing term is used as a proxy to get a value to pay the state.

SENATOR DYSON questioned why the pipeline company wouldn't be required to pay back the overcharge instead of Flint Hills.

MR. SEMENTELLI replied they would if they actually shipped barrels interstate, but they don't. The rate is just use for pricing terms.

SENATOR DYSON mused that the cost of shipping the barrels to the refinery at North Pole is not in contention here.

MR. SEMENTELLI replied that is correct.

[4:07:58 PM](#)

SENATOR KIM ELTON commented on the DNR fiscal note and said he would agree with the analysis. No one should have been caught by surprise because the RCA had already determined that the tariff valuation method was flawed. He asked Mr. Cook to respond.

MR. COOK said it may or may not be flawed, but the state was a signatory to TSM so Flint Hills did not expect the state to oppose the contract prior to the expiration at the end of 2009.

MR. SEMENTELLI said the point is that the RCA has no jurisdiction on interstate rates. The RCA decision is still on appeal so Flint Hills could get a decision in 06 or 07 saying that the RCA was not correct in that particular rule.

MR. SEMENTELLI added that running the refinery five years in arrears is not a good way to run a business and that policy has caused Flint Hills to seek ways to avoid retroactive payments. First they have worked proactively to address the concerns Mr. Cook expressed and second they have reduced production so that fewer barrels are at risk of retroactivity. He noted that refining is a very capital-intensive business that requires continuous reinvestment, but the current policy is for minimum investment until there is cost certainty. This could take years longer than 2009, he concluded.

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SENATOR ELTON followed up saying the fiscal note is based on the premise that the potential liability is up to \$50 million per year so if a potential decision is far into the future, the potential impact to the state could be well over \$100 million.

MR. SEMENTELLI agreed. It could go on for years such that the retroactivity bill could potentially be larger than the cost of the refinery. Clearly, he said, it is not possible to run a business with a potential liability that is larger than the actual physical cost of the asset.

SENATOR ELTON asked if other refineries are buying product on the open market rather than from the state and whether that is more competitive.

MR. SEMENTELLI replied Flint Hills is very competitive with the Kenai refinery, but if Flint Hills were put on parity with Valdez then it would be at a competitive disadvantage because it would have to pay the higher price and the railroad costs.

[4:15:09 PM](#)

KEVIN BANKS, Petroleum Market Analyst, Division of Oil and Gas, Department of Natural Resources (DNR), explained the department's perspective. When the state chose to sell oil to Flint Hills, the decision was to take oil that would normally be paid for by the lessees in-value. Those contracts include retroactive provisions. When the lessees ship oil to the Lower 48, they pay an interstate tariff. When the tariff is adjusted downward and the FERC rules that it should be paid retroactively, the companies do get a refund from the pipeline company and then the refund is passed on to the state.

That is where the basis for the decision to sell oil to Flint Hills begins, he said. When the state is negotiating contracts with potential RIK buyers, it may not sell the royalty for less than what it receives for it in-value. The state tried to make a contract with Flint Hills that has as few moving parts as possible, but the tariff allowance and the quality bank allowance were left with retroactive provisions.

[4:18:34 PM](#)

Although there may be discussion about what was said when the deal was struck, the state has always recognized that in insisting on a retroactive provision items were traded away. One such example is interest. Under normal circumstances interest begins to accrue once the payment is due. However, should a retroactive payment be required, Flint Hills will enjoy an interest break from today up to the point that the state issues an invoice.

To put it into context, he said the state last year received 56 percent or \$1.2 billion of its royalty revenue from Flint Hills, which makes it the largest royalty payer in the state. It is by far larger than the royalty-in-value lessee payers. Over time Flint Hill's percentage is expected to increase, so by the end of the contract it could take nearly 80 percent of state's royalty oil. Although Flint Hills says it anticipates buying

less oil from the state to avoid the potential retroactive liability, the current contract does allow it to take as much as 77,000 barrels a day so the state cannot sell that oil to anyone else.

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Historically the state has had retroactive provisions in its contracts and that has been an issue for other purchasers. If SB 314 were to pass a question of fairness would arise because the state would be offering new contracts to new purchasers, but it would only have a limited amount of oil to sell.

[4:21:28 PM](#)

SENATOR DYSON asked if he said that if SB 314 were to pass new companies would not be subject to retroactivity, but Flint Hills still would be.

MR. BANKS said no. He said that SB 314 would require that the state sell oil without a retroactive provision. That would be attractive to other potential purchasers, but there is not a large quantity of royalty oil available to sell. When the contract with Flint Hills was negotiated, a finding was that there was not competition for the crude oil. But now, because of the current contract, the state couldn't meet other refineries' needs.

[4:22:44 PM](#)

SENATOR DYSON asked if this legislation would make the current Flint Hills contract significantly more attractive than the original bargain.

MR. BANKS replied yes, because the company would no longer be subject to the potential \$50 million lump sum payment.

SENATOR DYSON asked if the original contract had a lump sum provision.

MR. BANKS said technically there was no bidding process. The contract was based on a negotiated price and there was no lump sum provision.

SENATOR ELTON restated his understanding of the previous answer. Passing SB 314 would negate the retroactive provision and compel the state to sell royalty-in-kind to others without retroactivity. However, because of the Flint Hills contract, there may not be much royalty -in-kind oil to sell to others.

MR. BANKS replied that is basically true.

4:25:57 PM

SENATOR ELTON said that would suggest that the sweeter deal is already locked in at 77,000 barrels. Companies buying on the open market may want to get back in if retroactivity is gone, but there may not be enough oil available.

MR. BANKS said there's another problem with the concept of the 77,000-barrel reservation. Nominations are made each month based on a range of 56,000-barrels to 77,000-barrel per day. Although current projections indicate that 44 percent of royalty oil is available to sell to someone else, that might not always be the situation during the summer when North Slope production falls and Flint Hills' demand for product rises.

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MR. BANKS noted that Article VIII, Section 2, says that the maximum benefit of the people rule would apply when disposing of royalties. He related that in 1980 Judge Compton ruled on the ANS Royalty Litigation and created a bright line when he indicated that in that particular case RIK could not be sold for less than RIV.

If attorneys were to argue on behalf of a less bright line, they would need to demonstrate that in return for selling RIK for less than RIV the state would receive a measurable benefit - such as jobs. Flint Hills would have to make a definite commitment to provide that measurable benefit such that it sufficiently balances what the state gives up and therefore is not found unconstitutional. The issue is whether or not Judge Compton's view of what RIK can be sold for in the state allows the state to sell it for less than RIV.

4:30:06 PM

SENATOR ELTON asked if he agrees with the previous speaker that the decision could be pushed well into the future in which case the fiscal note would be significantly understated.

MR. BANKS said given the past performance of the FERC it is reasonable to assume that the wait could be lengthy. He outlined that a hearing is scheduled for early 2007 and a decision is due by the end of April 2007. However, it will be subject to judicial appeal so the process could go on for some time.

SENATOR DYSON mused that a prudent company negotiating to buy royalty oil might figure this sort of perfect storm situation

into its business plan and set the money aside to address that potential.

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MR. BANKS replied a prudent company would make sure it had the money it needed if the FERC lowered the tariff and required retroactive adjustment. It's a reserve against owner equity and not available for spending anywhere.

There is more here than just retroactivity, he added. Flint Hills had to make adjustments to meet the Environmental Protection Agency (EPA) low-sulphur diesel requirements and to do that they elected to join with Tesoro, which was a less costly option than retooling the North Pole refinery. Furthermore, Flint Hills's ability to supply naphtha to the local and export markets has been affected by the treatment of naphtha as a cut in the quality bank. Previously naphtha was relatively less expensive and it was possible to remove it from the oil stream and export it to Asia. With the new quality bank naphtha will cost Flint Hills much more.

He concluded that retroactivity undoubtedly is important because \$50 million a year comes right out of Flint Hill's pocket. The issue that DNR struggles with is whether the \$50 million will be returned to the economy of the state or go to the Lower 48.

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SENATOR DYSON questioned whether it's fair to impose such a significant uncertainty factor on Foot Hills when it didn't have a watchman or any control on the process.

MR. BANKS disagreed with the portrayal of the issue and noted Flint Hills is a subsidiary of Koch Industries and that company owns a portion of the pipeline so they too are involved in the dispute with the FERC to keep the tariff high. Clearly, the intrastate tariff is lower so transportation between Pump Station 1 and North Pole is based on a lower tariff methodology that the RCA imposed. So a distance-adjusted tariff on the interstate would be a higher price. The reason royalty oil is sold to Foot Hills based on the interstate tariff is because that's where the oil goes if it doesn't stay in the state so the opportunity for the state is to either go to the West Coast and sell the oil in-value or sell it in state to someone else. Mr. Banks emphasized that the interstate deduction for tariff is an appropriate deduction. The difficulty is that the tariff is being adjudicated by the FERC.

[4:38:43 PM](#)

GOVERNOR BILL SHEFFIELD, Chair, Alaska Railroad Corporation (ARC), Director, Port of Anchorage, presented the railroad's perspective on the issue. He explained that hauling petroleum from the North Pole refinery accounts for \$45 million in revenue or 48 percent of the railroad's revenue freight business. Because Flint Hill's business is down about 15 percent this year, the railroad will make \$7 million less revenue, which is essentially the profit.

He related that the railroad must prepare this year for the anticipated further decline in Flint Hills business and to that end ARC management expects to lay off 200 to 208 people from the United Transportation Union. To emphasize what that means Governor Sheffield told the committee that a March 2005 study indicated that the Alaska Railroad supports nearly 1,900 Alaska jobs and about \$83 million in payroll. He calculated that with the expected drop in business about \$21.5 million in payroll would disappear.

Governor Sheffield continued to outline expected cuts to the \$108 million in capital operating programs and resulting payroll losses to further demonstrate the potential impact this issue has on the railroad and the ripple affect that it would have on the Port of Anchorage and other Alaskan businesses. He estimated that it would take five years to develop an industry that would create the kind of jobs that would be lost if this issue isn't resolved.

[4:46:58 PM](#)

MERRICK PIERCE, Fairbanks, described SB 314 as horrible legislation and corporate welfare. He related that Flint Hills Resources is a subsidiary of Koch Industries Inc., which is the largest privately held corporation in the U.S. with over \$80 billion in annual revenue. The principle owners of Koch Industries Inc. are among the 50 wealthiest people in the U.S. and although he doesn't disagree with their political leanings he does take issue with the apparent hypocrisy when it comes to self-interest. They support the elimination of social welfare programs claiming that they result in undue government control being exerted over individual lives. Perhaps they'd like to give a straight-faced explanation of why welfare for the poor is bad while corporate welfare for billionaires is okay, he said.

MR. PIERCE referenced page 9 of the 2004 contract between Flint Hills Resources and the State of Alaska and said it clearly states that the tariff allowance is subject to retroactive

adjustment so Flint Hills knew it should establish a contingency fund for when the tariff was revised. Furthermore, it's important to note Flint Hill's parent company is one of the owners of the Trans Alaska Pipeline and as such it is acutely aware of the tariff issue.

In closing he stated the belief that it would be better to get Alaska roads in decent shape before giving hundreds of millions of dollars to billionaires living in Minnesota.

[4:50:33 PM](#)

LADD McBRIDE, Fairbanks, reported that he is not sympathetic with Flint Hills Resources because the tariff adjustment was a known expense item when the contract was signed. He expressed the view that Alaskans should not "eat" the potential \$200 million. Flint Hills certainly has not given Alaska customers a break, he said. In fact, up until recently the locally refined gas came at a premium. Furthermore, Flint Hills has not met any of the obligations or contract requirements concerning manufacture of low sulphur fuel and that is costing everyone in Alaska money.

MR. McBRIDE urged the committee to look at the maximum benefit to Alaskans when considering how to handle SB 314.

CHAIR WAGONER held SB 314 in committee.

There being no further business to come before the committee, Chair Wagoner adjourned the meeting at [4:55:39 PM](#).