



AMENDMENT #2

GARA
Kito

OFFERED IN THE HOUSE
TO: CSHB 287(RLS)

1 Page 1, lines 1 - 3: *(Title amendment)*

2 Delete "relating to the determination of the royalty received by the state on oil
3 production refined or processed in the state; providing tax credits for qualified
4 infrastructure expenditures for in-state refineries"

5 Insert "creating a loan program for certain in-state oil refineries"

7 Page 1, line 8, through page 5, line 16:

8 Delete all material and insert:

9 **"* Section 1.** AS 44.88 is amended by adding a new section to read:

10 **Article 9A. In-State Refiner and Hydrocarbon Processor Loan Program.**

11 **Sec. 44.88.800. In-state refiner and hydrocarbon processor loan program.**

12 (a) The authority may make loans of up to \$20,000,000 to a person that owns an in-
13 state oil refinery or a hydrocarbon processing facility south of 68 degrees North
14 latitude if the primary function is the manufacturing and sale of refined petroleum
15 products or processed hydrocarbon products to third parties in arm's length
16 transactions. A loan under this section may be used for working capital, equipment,
17 construction, or other commercial purposes. A loan under this section may be made
18 only if the authority finds that

19 (1) the loan is required to

20 (A) maintain profitability of the in-state refiner or hydrocarbon
21 processing facility and the refinery or facility would otherwise be in financial
22 distress; or

23 (B) restart operations of an in-state refiner or hydrocarbon

1 processing facility; and

2 (2) the primary function of the in-state refiner or hydrocarbon
3 processing facility is to engage in the manufacture of refined petroleum products or
4 processed hydrocarbon products in the state, and the in-state refiner or hydrocarbon
5 processing facility is not affiliated with a subsequent purchaser of more than 10
6 percent of the in-state refiner's or hydrocarbon processing facility's product; the parties
7 to a contract or purchase are affiliated if, in the judgment of the authority, one of the
8 parties to the contract or purchase exercises substantial influence over the policies and
9 actions of the other as evidenced by a relationship based on common ownership or
10 family interest or by action taken in concert whether or not that influence is based on
11 stockholdings, stockholders, officers, or directors.

12 (b) A loan made under this section

13 (1) must comply with AS 44.88.159;
14 (2) may exceed a term of 10 years; and
15 (3) may not bear an interest rate less than the cost of funds to the
16 authority.

17 (c) The authority shall adopt regulations necessary for the following purposes
18 in connection with its programs for the financing of projects under this section:

19 (1) determination of borrower eligibility;
20 (2) loan guidelines and terms, including
21 (A) required loan-to-value ratios; and
22 (B) a method for determining loan interest rates; and
23 (3) the qualifications of loan originators and servicers and the method
24 of allocating amounts available for the purchase of loans.

25 (d) The application for a loan under this section must be received by the
26 authority before December 31, 2015.

27 (e) The legislature may appropriate the money required to make a loan issued
28 under this section prudent for the authority.

29 (f) The authority may allow a borrower to begin repayment of a loan issued
30 under this section up to five years after the loan is issued if the legislature appropriates
31 an amount of money determined by the authority to be sufficient to protect the assets

1 and bond rating of the authority.

2 (g) In this section, "cost of funds" means the true interest cost expressed as a
3 rate on tax-exempt bonds of the authority plus an additional percentage as determined
4 by the authority to represent the allocable expenses of operation, costs of issuance, and
5 loan servicing costs."

6

7 Renumber the following bill sections accordingly.

8

9 Page 5, line 28:

10 Delete all material.

11

12 Renumber the following bill section accordingly.

13

14 Page 5, line 29:

15 Delete "Except as provided in sec. 7 of this Act, this"

16 Insert "This"

Original
Bill

28-GH2862VA

to renew
Tesoro Royalty
contract

HOUSE BILL NO. 287

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/29/14

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro
2 Corporation and Tesoro Refining and Marketing Company LLC; and providing for an
3 effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
6 to read:

7 ROYALTY OIL SALE CONTRACT WITH TESORO CORPORATION AND
8 TESORO REFINING AND MARKETING COMPANY LLC APPROVED AND
9 RATIFIED. In accordance with AS 38.06.055, the legislature approves and ratifies the
10 proposed Amendment to Agreement for the Sale of Royalty Oil attached as Exhibit 1 to the
11 final best interest finding and determination executed January 9, 2014, by the Department of
12 Natural Resources regarding the amendment of the Agreement for the Sale Of Royalty Oil
13 Between and Among the State of Alaska and Tesoro Corporation, a Delaware Corporation
14 and Tesoro Refining and Marketing Company LLC, a Delaware Limited Liability Company,

- 1 October 25, 2013.
- 2 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).



TESORO

Tesoro Alaska Company
54741 Tesoro Road
P.O. Box 3369
Kenai, AK 99611
907 776 8191
776 3801 Fax

March 18, 2014

Representative Bill Stoltze, Co-Chair House Finance Committee

Representative Alan Austerman, Co-Chair House Finance Committee

Members of the House Finance Committee

State Capitol Building Room 519

Juneau, Alaska 99801

Re: Support for House Bill 287

Dear Legislators,

I am writing to you in support of House bill 287 "An Act approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC."

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 process up to 72,000 barrels per day and is primarily focused on jet and diesel production followed by gasoline and gasoline blend stocks, 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 the “Caring for the Kenai” program.

Tesoro strongly urges you to support House Bill 287, “An Act approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC.”

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 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 was 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.

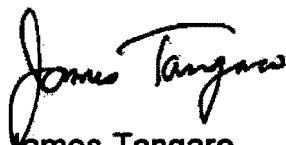
For the State, the DNR estimates that it will continue to receive a price for its Royalty-in-Kind oil that exceeds the price it would have receive if it elected to keep its Royalty Oil in Value.

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 believes in Alaska's future and is committed to being an active corporate citizen. We are proud to continue providing clean burning fuels to keep your homes warm, your planes flying and your cars and snow machines traveling across the Great State of Alaska.

I urge you to support House Bill 287.

Sincerely,

A handwritten signature in black ink that reads "James Tangaro". The signature is written in a cursive, flowing style.

James Tangaro
Vice President Kenai Refinery
Tesoro Alaska Company