

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 287(FIN)
Fiscal Note Number: 2
(H) Publish Date: 4/15/14

Identifier: HB287CS(FIN)-DNR-DOG-4-14-14
Title: APPROVE TESORO ROYALTY OIL SALE
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HFIN

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***		***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

Revised to reflect the committee substitute adopted by the House Finance Committee, which added provisions to allow lessees to apply the price of the oil they sell to in-state refineries to set the value of the royalty in-value volumes associated with sales upon request to and approval by the commissioner of the Department of Natural Resources (DNR).

Prepared By: Esther Tempel, Legislative Liaison
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Approved By: Joe Balash, Commissioner
Agency: Department of Natural Resources
Phone: (907)465-4730
Date: 04/14/2014 11:00 AM
Date: 04/14/14

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 287(FIN)

Analysis

Royalty Oil Sale Contract to Tesoro

This bill provides legislative approval of an amendment to a contract to sell North Slope royalty oil to Tesoro Refining & Marketing, LLC for use in the Tesoro refinery at Nikiski, Alaska. This amendment will extend deliveries of North Slope royalty oil to Tesoro for an additional year until January 31, 2016. The State of Alaska will deliver royalty oil under the contract, as amended, starting February 1, 2014 through January 31, 2016.

If approved, the sale of royalty in-kind oil through this amended contract will have no fiscal impact to operating expenditures and positive indeterminate change in revenues.

Royalty Oil for In-State Refiners and Processors

For contracts entered into on or after January 1, 2015, this bill will allow lessees, upon request to and approval of the Department of Natural Resources Commissioner, to apply the price of the oil they sell to in-state refineries to set the value of the royalty in-value volumes associated with these sales. This mechanism differs from the existing lease terms on royalty valuation that could otherwise raise the amount of the royalty payments owed to the state based on the "higher-of" rule.

There is some potential among some of the lessees, particularly those who have no access to the U.S. West Coast oil market, to pass on the savings from the new AS 38.05.180(hh) that would induce them to sell oil to in-state refineries at a lower price. With this provision, the lessees are assured that the state will not come back later in audit and claim a higher-of royalty value.

If enacted, this bill will have no fiscal impact to operating expenditures but an indeterminate negative impact on state royalty revenues.

For example, if one of these lessees were to supply all of the in-state refineries at a total of 100,000 barrels per day and priced these sales at \$0.25 per barrel less than the amount that the lease value terms would require, the savings to in-state refineries would be more than \$9 million per year. The royalty in-value share on these 100,000 barrels per day is approximately 12.5 percent. This means that the cost to the state in reduced royalty revenue in this hypothetical example is about \$1.1 million per year.