

SB

327

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SB 327

Revision Date: _____ Dept. Affected: Revenue
 Title: Tax on Residual Marine Fuel Oil BRU: Revenue Operations
 Component: Income and Excise Audit
 Sponsor: (S) FIN
 Requestor: (S) TRA COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						

REVENUE FUND SOURCE: General	***	**	***	**	***	***
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ ***

ANALYSIS: (Attach a separate page if necessary.)

*** Department of Revenue is unable to estimate revenue impacts from this bill because information on residual fuel data is not compiled separately. Under current statutes, marine fuel is taxed at 5 cents per gallon. New market sales would need to occur at the 1 cent per gallon rate under this bill to offset taxes which would have been collected at the 5 cents per gallon tax rate.

Prepared by: Larry E. Meyers Phone: 465-2320
 Division: Income and Excise Audit Division Date: March 9, 1994
 Approved by Commissioner: Darrel J. Rexwinkel Date: March 9, 1994
 Agency: Department of Revenue

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TESORO BUNKER FUEL SALES
FIVE YEARS (1989 - 1993)

◆ ◆ GALLONS ◆ ◆

YEAR	TESORO SHIPS	OTHER SALES	TOTAL
1989	2,909,928	0	2,909,928
1990	1,054,410	0	1,054,410
1991	7,167,048	0	7,167,048
1992	5,273,814	0	5,273,814
1993	8,566,782	4,219,404	12,786,186

FIVE YEAR AVERAGE:

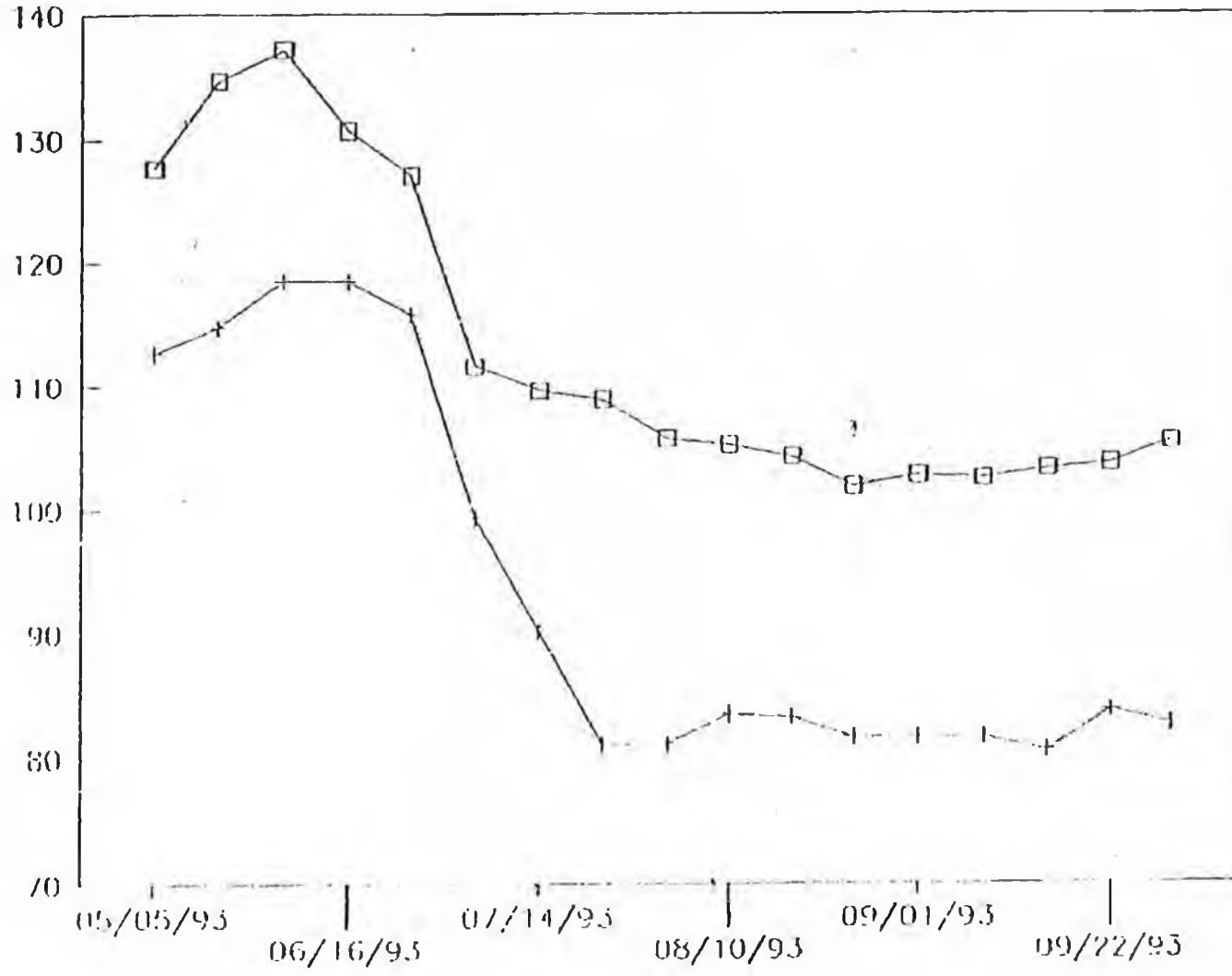
5,838,277 TOTAL GALLONS/YEAR (\$291,913 TAX YEAR)
84,388 GALLONS/YEAR TO NON-TESORO AFFILLIATED
CUSTOMERS

AVERAGE BUNKER FUEL CUSTOMERS
FIVE YEARS - TESORO ALASKA



BUNKER PRICES IFO 380

SUMMER 1993 SEWARD VS CANADA



□ SEWARD

× VANCOUVER

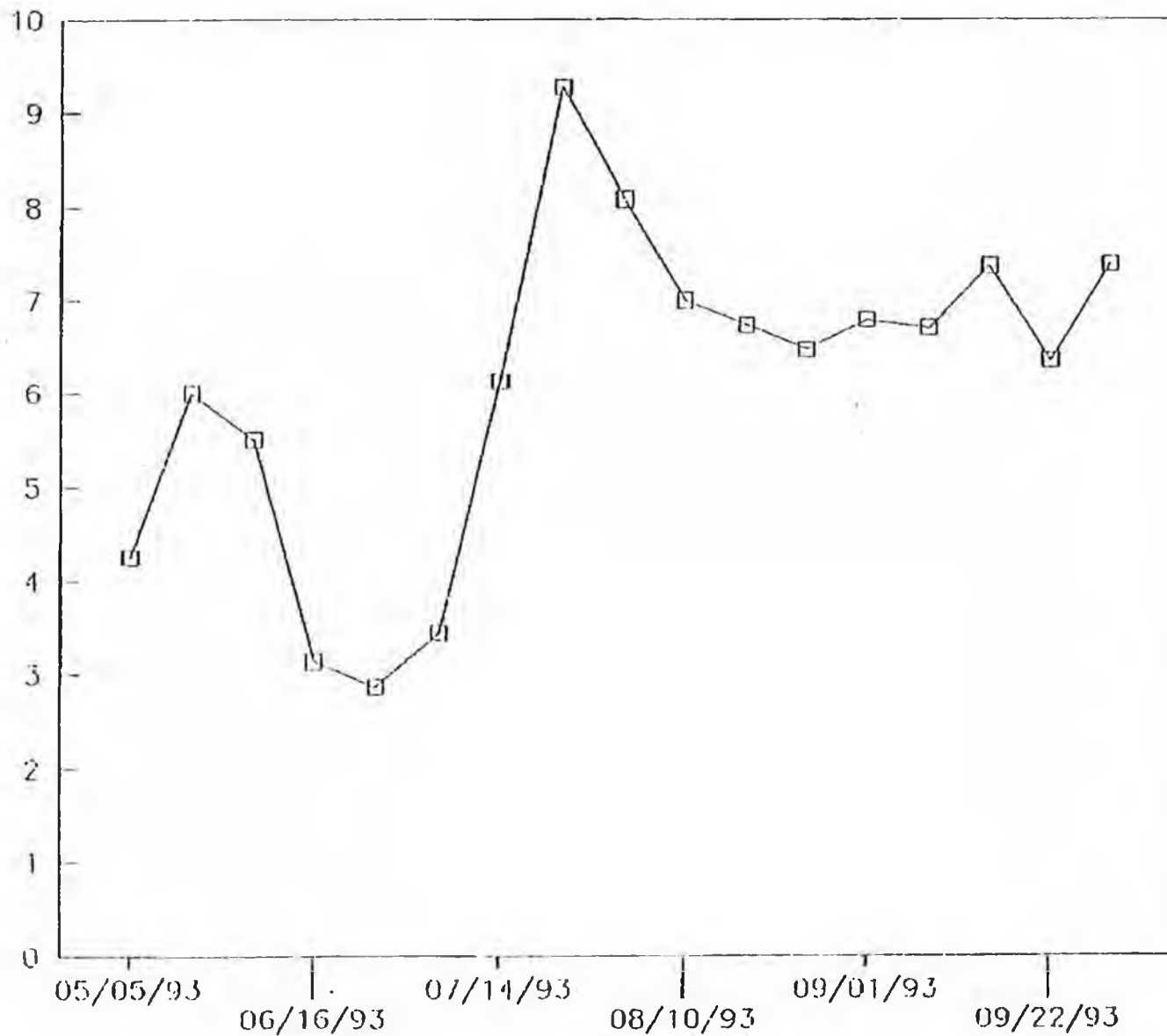
THE BUNKER MARKET

\$/MT

BUNKER PRICES

SEWARD OVER CANADA FOR 1993

CENTS PER GALLON





March 1, 1994

Mr. James S. Burns
PETRO MARINE SERVICES
3111 "C" Street
Suite 500
Anchorage, AK 99503

Dear Mr. Burns:

As I indicated during our meeting last month, Regency will deploy two vessels in Alaska during the summer of 94 and I am please to tell you we will add a third ship in 1995.

While at present, bunkering takes place in Vancouver every two weeks, we are very much interested in your proposal to bunker in Seward.

However we must tell you that in order to stay competitive with Vancouver's price, serious consideration must be given to reduce the current "motor fuel tax" to a more realistic figure.

To give you an indication of our bunkering needs, on an average the Regent Sea bunkers 450 M/T of IFO 180 and 150 M/T of MDO, the Regent Star 450 M/T of IFO 100 and 130 M/T of MDO every two weeks.

We look forward to doing business with you hopefully in the very near future.

Sincerely,
REGENCY CRUISES



Andrew K. Horton
Manager - Port Operations

AKH/GG

PRINCESS CRUISES 

fst

FINAL
cc Kaye Dawson
FBI

0000
Santa Barbara
Houliard
Los Angeles
California
00000 4140
California
510 551-1770
Telex
787 184372
Telefax
510-277-5125

February 28, 1994
Ref: SAN/cjt #1612

Mr. Jim Burns
Petro Marine
3111 C Suite 500
Anchorage, Alaska 99503

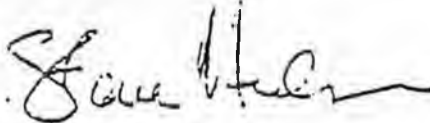
Dear Jim,

Princess Cruises operates 6 cruise vessels in the Alaska cruise trade from June through September each year. Five of these vessels are based in Vancouver and one in San Francisco. Of the 5 Vancouver based vessels, 3 operate 7 day cruises across the Gulf of Alaska between Vancouver and Seward and 2 operate 7 day cruises round trip from Vancouver through the inside passage of Alaska. That San Francisco based vessel operates 10 day round trip cruises to the inside passage of Alaska. Alaska ports of call include Ketchikan, Juneau, Skagway, Sitka and Seward.

We purchase the fuel oil for our ships based upon quality and price. Fuel oil purchased in Vancouver is essentially the same quality as that available in San Francisco, Seattle and Seward. The price differential, due to the Alaska state motor fuel tax is, however significant. The tax of \$0.05 per gallon, which is approximately equal to \$13.65 per ton, makes it prohibitive to purchase more than the minimum required in Seward to return to Vancouver. Our total requirements for the 1994 Alaska cruises season will be approximately 37,855 tons (15,680,000 gallons) for the 6 vessels. Of this amount we anticipate purchasing approximately 9,450 tons (2,561,000 gallons) in Seward.

We strongly support the proposal to reduce the Alaska state motor fuel tax to \$0.01 per gallon. This would make the cost of fuel oil in Alaska competitive with that in Vancouver. This would encourage greater purchase of fuel oil in Alaska.

Very truly yours,



Stephen A. Nielsen



Crown Cruise Line

February 18, 1994
L94057aa

VIA FAX: 907-561-6500

Petro Marine Services
Attn: James S. Burns
Anchorage, Alaska

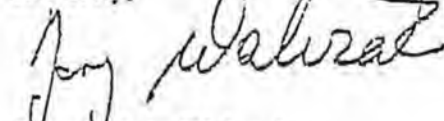
Dear Mr. Burns:

We operate the MS CROWN DYNASTY whose summer itinerary has her sailing from Vancouver throughout Alaska.

While researching available bunkering ports, we understand the Alaska Marine Tax of five-cents per gallon is currently in effect. We understand Petro Marine Services is leading the way to have the tax reduced from 5 cents to 1 cent; we would like to lend our support to this effort and advise that such a reduction would play a key role in our decision to bunker in Alaska rather than relying solely on Vancouver as the primary bunker station.

Thank you for including our formal letter of support in this reduction effort's dossier.

Sincerely,



Captain Jorg Walczak
Director, Marine Operations

JW:aa

cc: P. Grant, Sr. VP Operations



Holland America Line
Westours Inc.

Mr. James S. BURNS
Petro Marine Services
3111 'C' Street Suite 500
Anchorage AK. 99503

To fax : (907) 561-6300

Seattle February 16 1994

Dear Mr. Burns

It was a pleasure meeting you Wednesday for what turned out to be a very interesting discussion. You informed me that you are currently working with others in the Marine Industry to have legislation introduced that would reduce the current tax on marine fuel in Alaska from 5 cents per gallon to 1 cent. If successful, this would immediately reduce the price for Intermediate Bunker fuel with approximately \$ 10.00 per Metric Ton and this would allow Seward and other Alaskan ports to offer shipowners an additional or alternative bunker choice on the U.S. West Coast and British Columbia.

It is with this possibility in mind, that I express my appreciation and support for your continued efforts in this matter, which in my opinion will greatly benefit not only the Marine Industry but increasingly so, the people and the state of Alaska.

Very truly yours

Captain Willem A. KOOPMAN
Director Marine Operations WSC
HOLLAND-AMERICA LINE-WESTOURS Inc.

c.c. D. Grausz

KENT DAWSON COMPANY

P.O. Box 20790
Juneau, Alaska 99802
Phone: (907) 463-2533
FAX: (907) 463-3922

March 10, 1994

The Honorable Bert Sharp
Chair, Senate Transportation
State Capitol
Juneau, Alaska 99801-1182

Dear Mr. Chairman:

On behalf of Princess Cruises and Princess Tours I have been asked to convey the following--quoting from a February 28, 1994, letter to Mr. Jim Burns of Petro Marine, and signed by Stephen A. Nielsen of Princess Cruises, which I have attached:

"Princess Cruises operates 6 cruise vessels in the Alaska cruise trade from June through September each year. Five of these vessels are based in Vancouver and one in San Francisco. Of the 5 Vancouver based vessels, 3 operate 7 day cruises across the Gulf of Alaska between Vancouver and Seward and 2 operate 7 day cruises round trip from Vancouver through the inside passage of Alaska. Alaska ports of call include Ketchikan, Juneau, Skagway, Sitka and Seward.

"We purchase the fuel oil for our ships based upon quality and price. Fuel oil purchased in Vancouver is essentially the same quality as that available in San Francisco, Seattle and Seward. The price differential, due to the Alaska state motor fuel tax is, however significant. The tax of \$0.05 per gallon, which is approximately equal to \$13.65 per ton, makes it prohibitive to purchase more than the minimum required in Seward to return to Vancouver. Our total requirements for the 1994 Alaska cruises season will be approximately 57,855 tons (15,680,000 gallons) for the 6 vessels. Of this amount we anticipate purchasing approximately 9,450 tons (2,561,000 gallons) in Seward.

"We strongly support the proposal to reduce the Alaska state motor fuel tax to \$0.01 per gallon. This would make the cost of fuel oil in Alaska competitive with that in Vancouver. This would encourage greater purchase of fuel oil in Alaska."

In addition, I have been authorized to say that Princess will

The Honorable Bert Sharp

- 2 -

March 10, 1994

purchase at least one third (1/3) of our fuel requirements for the ships calling at Seward if the price and quality are competitive with Vancouver, B.C. We can only say this for the Seward ships as Seward is the only Alaska port with bunkering facilities.

Sincerely,



W. Kent Dawson

Attachment

PRINCESS CRUISES

2000
Santa Monica
Beverly Hills
Los Angeles
California
90401-4189
Corporate
Tel: 310-377-1771
Telex
310 388 472
Telefax
310 377-1771

February 28, 1994
Ref: SAN/cjt #1612

Mr. Jim Burns
Petro Marine
3111 C Suite 500
Anchorage, Alaska 99503


Dear Jim,

Princess Cruises operates 6 cruise vessels in the Alaska cruise trade from June through September each year. Five of these vessels are based in Vancouver and one in San Francisco. Of the 5 Vancouver based vessels, 3 operate 7 day cruises across the Gulf of Alaska between Vancouver and Seward and 2 operate 7 day cruises round trip from Vancouver through the inside passage of Alaska. That San Francisco based vessel operates 10 day round trip cruises to the inside passage of Alaska. Alaska ports of call include Ketchikan, Juneau, Skagway, Sitka and Seward.

We purchase the fuel oil for our ships based upon quality and price. Fuel oil purchased in Vancouver is essentially the same quality as that available in San Francisco, Seattle and Seward. The price differential, due to the Alaska state motor fuel tax is, however significant. The tax of \$0.05 per gallon, which is approximately equal to \$13.65 per ton, makes it prohibitive to purchase more than the minimum required in Seward to return to Vancouver. Our total requirements for the 1994 Alaska cruises season will be approximately 57,355 tons (15,680,000 gallons) for the 6 vessels. Of this amount we anticipate purchasing approximately 9,450 tons (2,561,000 gallons) in Seward.

We strongly support the proposal to reduce the Alaska state motor fuel tax to \$0.01 per gallon. This would make the cost of fuel oil in Alaska competitive with that in Vancouver. This would encourage greater purchase of fuel oil in Alaska.

Very truly yours,



Stephen A. Nielsen



City and Borough of Sitka

304 LAKE STREET . SITKA, ALASKA . 99835

March 9, 1994

The Honorable Bert M. Sharp, Chair
Senate Transportation Committee
Juneau, AK 99801-1182
FAX No. 465-2070

Re: SENATE BILL NO. 327

Dear Senator Sharp,

Senate Bill No. 327 is a very important issue to the City and Borough of Sitka. If it passes we have a commitment from Pacific Northern Oil to refuel cruise ships in Sitka. This will create important jobs for our community and in the long term will give us significant opportunities as a change port.

We strongly urge your support of this legislation.

Sincerely,

Gary L. Paxton
Administrator
City and Borough of Sitka

cc. Senator Robin Taylor
Representative Ben Grussendorf
Paul Fuhs - Alaska Dept. of Commerce
and Economic Development
Eric Lind - Pacific Northern Oil

Introduced by: Brown, Glick
Date: 03/15/94
Action: Adopted
Vote: Unanimous

KENAI PENINSULA BOROUGH
RESOLUTION 94-024

**A RESOLUTION SUPPORTING SB 327 AND HB 453, ESTABLISHING A
DIFFERENT TAX LEVY ON RESIDUAL FUEL OIL USED IN AND ON
WATERCRAFT**

WHEREAS, residual fuel oil currently produced by Tesoro Alaska north of Kenai is sold as an export product due to the excessive tax on heavy fuels; and

WHEREAS, there is the potential for a market of these fuels in Alaska, if the price of the fuel can be competitive with prices in Canada; and

WHEREAS, ninety cruise ships will visit the Port of Seward during the summer of 1994; and

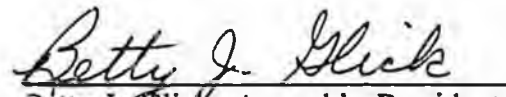
WHEREAS, these cruise ships are currently purchasing their fuel oil in Canada and have indicated a desire to purchase fuel in Alaska; and

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

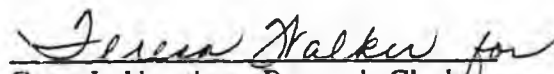
SECTION 1. That the Kenai Peninsula Borough Assembly strongly urges passage of SB 327 and HB 453, thereby reducing the tax on residual fuel oil used in and on watercraft of all descriptions to one cent a gallon.

SECTION 2. That copies of this resolution be sent to Governor Walter J. Hickel; Senators Suzanne Little, Judith Salo, Fred Zharoff, and Georgianna Lincoln; and Representatives Gail Phillips, Mike Navarre, Gary Davis, Cliff Davidson, and Irene Nicholia.

ADOPTED BY THE KENAI PENINSULA BOROUGH ASSEMBLY THIS 15TH DAY OF MARCH, 1993.


Betty J. Glick, Assembly President

ATTEST:


Gaye J. Vaughan, Borough Clerk

SUGGESTED BY: Mayor Williams

City of Kenai

RESOLUTION NO. 94-12

A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA, URGING PASSAGE OF HB453/SB327 RELATING TO BUNKER FUEL TAX.

WHEREAS, there is a substantial demand for bunker fuel by the numerous cruise ships that call on Alaska ports; and,

WHEREAS, the operators of these cruise ships purchase bunker fuel at the port where they purchase at the most favorable price; and,

WHEREAS, the State of Alaska Marine Fuels Tax of \$.05 per gallon prevents Alaska fuel suppliers from being competitive in the bunker fuel market with ports on the U.S. West Coast and British Columbia; and,


WHEREAS, this proposed legislation is not expected to reduce State revenues, but rather, appears likely to generate increased revenues to the State due to expected increase in volume of bunker fuel sales at Alaska ports; and,

WHEREAS, these increased sales of bunker fuel could potentially create as many as twelve (12) new seasonal jobs; generate a significant increase in business for the transportation support industries; generate additional local sales and property taxes; and further support the rapidly expanding tourism business on the Kenai Peninsula; and,


WHEREAS, at this time, tourism is the fastest growing industry in the State of Alaska.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, that we respectfully urge passage of HB453/SB327 by the Alaska State Legislature.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this 16th day of March, 1994.


John J. Williams, Mayor

ATTEST:


Carol L. Freas, City Clerk

GREATER KENAI CHAMBER OF COMMERCE

RESOLUTION 94-01

**A RESOLUTION OF THE GREATER KENAI CHAMBER OF COMMERCE
BOARD OF DIRECTORS URGING PASSAGE OF HB453/SB327 RELATING TO
BUNKER FUEL TAX**

WHEREAS, there is a substantial demand for bunker fuel by the numerous cruise ships that call on Alaska ports and,

WHEREAS, the operators of these cruise ships purchase bunker fuel at the port where they purchase at the most favorable price and,

WHEREAS, the State of Alaska Marine Fuels Tax of \$.05 per gallon prevents Alaska fuel suppliers from being competitive in the bunker fuel market with ports on the U.S. West Coast and British Columbia and,

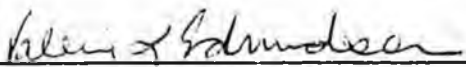
WHEREAS, this proposed legislation is not expected to reduce State revenues, but rather, appears likely to generate increased revenues to the State due to expected increase in volume of bunker fuel sales at Alaska ports and,

WHEREAS, these increased sales of bunker fuel could potentially create as many as twelve(12) new seasonal jobs; generate a significant increase in business for the transportation support industries; generate additional local sales and property taxes; and further support the rapidly expanding tourism business on the Kenai Peninsula and,


WHEREAS, at this time, tourism is the fastest growing industry in the State of Alaska.

**NOW, THEREFORE, BE IT RESOLVED BY THE GREATER KENAI
CHAMBER OF COMMERCE BOARD OF DIRECTORS THAT WE
RESPECTFULLY URGE PASSAGE OF HB453/SB327 BY THE ALASKA STATE
LEGISLATURE.**

PASSED BY THE GREATER KENAI CHAMBER OF COMMERCE BOARD OF DIRECTORS
THIS 4th DAY OF March, 1994.



Valerie Edmundson, President
Kenai Chamber of Commerce
Board of Directors

ATTEST: 

Laura R. Measles
Executive Director

GREATER SOLDOTNA CHAMBER OF COMMERCE
RESOLUTION NO. 94-3

A RESOLUTION SUPPORTING THE ADOPTION OF SENATE BILL NO. 327
"AN ACT AMENDING THE MOTOR FUEL TAX TO ESTABLISH A DIFFERENT TAX
LEVY ON RESIDUAL FUEL OIL USED IN AND ON WATERCRAFTS; AND
PROVIDING FOR AN EFFECTIVE DATE."

WHEREAS, in 1970-72 heavy bunker fuel was sold, to a small market, for use instate; and

WHEREAS, in 1972, the present tax was placed on this fuel and all sales then ceased, and have remained non-existent since that date; and

WHEREAS, due to the excessive tax on heavy fuels if used instate, heavy fuels have no instate sales/useage; and

WHEREAS, there is currently the potential for a market of these fuels in Alaska, if the price of the fuel can be competitive with prices in Canada; and

WHEREAS, Cruiselines have indicated a willingness to purchase Bunker fuel in Alaska if the marine fuel tax rate is lowered; and

WHEREAS, the purchase of Bunker fuel by Cruiselines would have a positive economic impact to the State of Alaska and the Kenai Peninsula Borough,

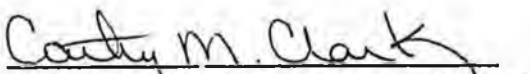
NOW THEREFORE BE IT RESOLVED THAT THE GREATER SOLDOTNA CHAMBER OF COMMERCE urges the Alaska Legislature to adopt Senate Bill No. 327.

ADOPTED this 8th day of March, 1994 at Soldotna, Alaska.



Kurt Eriksson, Vice President

ATTEST:



Cathy M. Clark, Executive Director

Sponsored by: Jones

CITY OF SEWARD, ALASKA
RESOLUTION NO. 94-030

A RESOLUTION OF THE CITY COUNCIL OF THE CITY
OF SEWARD, ALASKA, SUPPORTING SB 327, ESTABLISHING
A DIFFERENT TAX LEVY ON RESIDUAL FUEL OIL
USED IN AND ON WATERCRAFT

WHEREAS, residual fuel oil currently produced by Tesoro Alaska north of Kenai is sold as an export product due to the excessive tax on heavy fuels; and

WHEREAS, there is the potential for a market of these fuels in Alaska if the price of the fuel can be competitive with prices in Canada; and

WHEREAS, ninety cruise ships will visit the Port of Seward during the summer of 1994; and

WHEREAS, these cruise ships are currently purchasing their fuel oil in Canada and have indicated a desire to purchase fuel in Alaska; and

WHEREAS, the initial potential is for annual sales of \$7,000,000 and employment for seven to ten Alaskans;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEWARD, ALASKA, that:

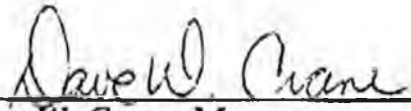
Section 1. The Seward City Council strongly urges the passage of SB 327, thereby reducing the tax on residual fuel oil used in and on watercraft of all descriptions to one cent per gallon.

Section 2. Copies of this resolution shall be sent to Governor Walter J. Hickel, Senator Suzanne Little and Representative Gary Davis.

Section 3. This resolution shall take effect immediately upon its adoption.

PASSED AND APPROVED by the City Council of the city of Seward, Alaska, this 14th day of March, 1994.

THE CITY OF SEWARD, ALASKA



Dave W. Crane, Mayor



City and Borough of Sitka

304 LAKE STREET, SITKA, ALASKA, 99835

March 21, 1994

The Honorable Bert M. Sharp, Chair
Senate Transportation Committee
Alaska State Senate
Room 514 State Capitol Building
Juneau, AK 99801-1182

RE: Senate Bill 327 C.S.

Dear Senator Sharp and Transportation Committee:

The City and Borough of Sitka strongly supports the passage of Senate Bill 327 to reduce the 5 cent per gallon State tax on marine bunker fuel. While the State receives very limited revenues from this tax, it has made bunker fuel uncompetitive for fueling of cruise ships, which are currently being fueled by vendors in Vancouver, British Columbia. If this tax were reduced to one cent per gallon, more bunker fuel could be sold, and Sitka and Seward would be able to provide cruise ship refueling services which would provide much-needed economic diversification for Sitka.

In response to concerns which have been expressed about Sitka asking for further capital funds to develop a fueling facility, this would not be the case. Alaska Pulp Corporation already has the necessary fuel storage tanks on site, and Pacific Northern Oil is interested in providing the services but is unwilling to proceed if the marine bunker fuel tax is not eliminated or substantially reduced.

If the Sitka fueling facility is developed, potable water and solid waste collection services would also be provided. In the long term, these services may result in longer cruise ship stays. The community may also become a change port with cruise ship passengers flying into Sitka for cruise ship connections, which would have major long-term economic impacts with increased airline service and passenger visits.

Your support for Senate Bill 327 is greatly needed to permit this project to proceed. Sitka can commit to not requesting any capital funding for the fueling facility if the legislation is approved. Please contact me at 747-3294 if you have any additional questions.

Sincerely,

Gary L. Paxton, Administrator

cc: Commissioner Paul Fuhs; Economic Development Director Chris Gates,
Alaska Dept. of Commerce and Economic Development

March 9, 1994

ALASKA TRUCKING ASSOCIATION POSITION PAPER

TO: Representative Gary Davis
and
Members of the Legislature

FROM: Frank J. Dillon, Executive Director Alaska Trucking
Association, Inc.

RE: SUPPORT OF H.B. 453 AND S.B. 327

On behalf of the 300-member companies of Alaska Trucking Association, Inc. I ask your support for the passage of House Bill 453 and corresponding Senate Bill 327.

H.B. 453 entitled "An Act Amending Motor Fuel Tax To Establish A Different Levee on the Residual Fuel Oil Used In and On Water Craft and Providing For An Effective Date." What this bill basically does is reduce the tax on heavy bunker fuel from 5-cents a gallon to 1-cent a gallon.

The reason this legislation is needed is to bring the bunker fuel price down so that we can compete in selling fuel to cruise ships which visit Alaska ports. Currently, virtually all the fuel burned in Alaska's waters is purchased in British Columbia. Refiners, who as part of the refining process are left with the heavy bunker fuel currently have little or no market in Alaska for that fuel.

ATA feels that this is exactly the sort of business risk and economic endeavor the state of Alaska should be involved in. We recognize there are risks involved in the worse case scenario the state could lose revenue if fuel sales do not increase to offset the reduction in the tax rate. We believe this is a legitimate and reasonable business risk for the state of Alaska to take in order to expand Alaska's job base and economic activity.

In the trucking area alone we believe that the increased sales activity will result in 15-25 new and good paying jobs in Alaska's trucking industry.

Please move this bill. Please support this bill. It's a good piece of legislation.



GREATER SOLDOTNA CHAMBER OF COMMERCE
RESOLUTION NO. 94-3

A RESOLUTION SUPPORTING THE ADOPTION OF SENATE BILL NO. 327
"AN ACT AMENDING THE MOTOR FUEL TAX TO ESTABLISH A DIFFERENT TAX
LEVY ON RESIDUAL FUEL OIL USED IN AND ON WATERCRAFTS; AND
PROVIDING FOR AN EFFECTIVE DATE."

WHEREAS, in 1970-72 heavy bunker fuel was sold, to a small market, for use instate; and

WHEREAS, in 1972, the present tax was placed on this fuel and all sales then ceased, and have remained non-existent since that date; and

WHEREAS, due to the excessive tax on heavy fuels if used instate, heavy fuels have no instate sales/useage; and

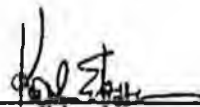
WHEREAS, there is currently the potential for a market of these fuels in Alaska, if the price of the fuel can be competitive with prices in Canada; and

WHEREAS, Cruiselines have indicated a willingness to purchase Bunker fuel in Alaska if the marine fuel tax rate is lowered; and

WHEREAS, the purchase of Bunker fuel by Cruiselines would have a positive economic impact to the State of Alaska and the Kenai Peninsula Borough,

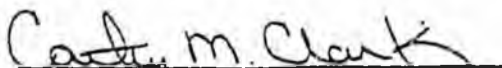
NOW THEREFORE BE IT RESOLVED THAT THE GREATER SOLDOTNA CHAMBER OF COMMERCE urges the Alaska Legislature to adopt Senate Bill No. 327.

ADOPTED this 8th day of March, 1994 at Soldotna, Alaska.



Kurt Eriksson, Vice President

ATTEST:



Cathy M. Clark, Executive Director

MAR 09 '94 09:23AM PETRO MARINE ANCH

A PROPOSAL
TO DEVELOP AN ALASKAN MARKET
FOR BUNKER FUEL

PREPARED MAY 1993

This is an economic development proposal which could result in the following benefits to the State of Alaska:

1. Creation of approximately eleven full-time jobs in Seward (eight seasonal drivers May through September, two dock watch operators, and one operations supervisor), plus three jobs in Kenai,
2. Increased commercial trucking activity at 60,000 metric tons or approximately 17,000,000 gallons equal 18 to 20 loads daily from May 15 until September 15,
3. Capital investment totalling \$1.2 million at Seward, \$50,000 at Kenai, plus \$800,000 Weaver Brothers tank truck and trailers,
4. Development of an in-state market for Tesoro residual bunker fuel from the Kenai refinery. This will improve the economics over Tesoro's current Japanese export sales, and will assist consumers by stabilizing Tesoro refined products' cost. (This results from Tesoro being able to market residual oil domestically in place of exporting to foreign customers at a price significantly less than crude cost),
5. Provide the incentive for the cruise industry to fuel in Alaska as opposed to foreign ports, primarily Vancouver, B.C.

I. BACKGROUND

Cruise ships visiting Alaska utilize a very low grade of fuel oil for propulsion. This fuel is referred to as "bunker fuel," which can be handled most efficiently in the Alaskan climate during the summer months.

Currently, the Kenai Tesoro refinery exports its residual bunker fuel overseas to markets in Japan. There is currently no in-state market or use for bunker fuels.

The cruise industry has historically met its demands for bunker fuel by purchasing in Vancouver, B.C., and Seattle. Their prices are established off Seattle postings regardless of where they take physical delivery.

With the increase in cruise traffic to Southeast and South Central Alaska, Petro marine Services has undertaken a determined effort to develop a market in Alaska with the cruise industry utilizing the Tesoro bunker fuel, which otherwise would be shipped overseas.

This effort has resulted in serious negotiations with Princess Cruise Lines and other carriers.

PETRO MARINE SERVICES

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II. ECONOMIC BENEFITS

If Princess or other cruise lines agree to purchase the bunker fuel in Alaska, this would result in capital development and construction investment amounting to about \$2.1 million. (In Seward, it would mean \$1.2 million and three jobs. In Kenai, it would mean \$500,000 in capital improvements.

The product would be loaded on tanker trucks in Kenai and transported to Seward.

The volume for all vessels calling in Seward is in excess of 60,000 metric tons or approximately 17,000,000 gallons annually. This volume is expected to increase in future years and the trend is toward larger vessels carrying more people.

III. PROBLEM

The current Alaska state motor fuel tax of \$0.05/gallon is a significant impediment to gaining the full potential of residual fuel oil volume available at Seward.

We feel that the bulk of the tour boat fuel business calling in Seward could be served from an Alaskan source if we can get our pricing within a competitive range versus Vancouver, B.C.

Current history is show in Exhibit 1. As you can see, on average, Seward is \$0.0897/gallon out of line with the Vancouver alternate. Five cents per gallon of that difference is the Alaska State tax. Discussions with potential buyers have indicated that if we can get close to the Vancouver pricing, we will get the fuel business. Exhibit 2 graphs the fluctuations in that price differential.

Relief of the tax could bring in more than five times the volume as the Seward price is made competitive with Vancouver.

The vastly increased volume will mean economics of scale in:

- o product cost
- o freight
- o amortization of investment

This means the supplier can look at sharing those economies with the customer and get very close to Vancouver economies. We can sell the remaining difference with superior service and product quality. (See attached Exhibits 1, 2 and 3.)

PETRO MARINE SERVICES

"BUNKER FUEL" IS DISTINCT IN CHARACTER AND USAGE FROM MOTOR FUEL.

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Bunker fuels are known in the refining industry as residual fuel oil. They are, just as the name implies, the residue of the refining process. When all of the desirable and profitable fuels, i.e., gasolines, jet fuel, diesel, and heating oil have been removed, that is what is left.

Crude oils vary in chemical make-up and the yield and quality of residual fuel may differ greatly from one to another. We have an excellent example right here in Alaska;

Cook Inlet crude, of which there is very limited supply, will yield approximately 28.5% residual fuel oil with a sulphur content of 0.3%. It is a very desirable crude for this reason, but there is simply not enough available supply.

North Slope crude, which is still available in great abundance, will yield 48% residual fuel oil with a sulphur content of 2.5%. Unfortunately, to have almost half of every barrel you refine ends up as a low quality fuel for which there traditionally has been no local market, is a tremendous economic detriment for any company to bear. Certainly Tesoro's earnings have reflected these economic realities since the mid 1980's when it switched to Alaska North Slope crude as its primary feed stock.

The question might be asked: Why is there no local market for this product? It is because the fuel is normally used in large scale applications which can afford to invest in the equipment to handle this viscous and "difficult to burn" material. Pumping and handling of bunker fuel will require the maintenance of tank and pipeline temperatures of at least 120 degrees F. Atomization for proper combustion will require approximately 200 degrees F.

Typically, the fuel is used in utilities for the production of steam to turn turbines and produce electricity. Other large applications are paper mills, steel mills, and chemical plants. We have little manufacturing base in the state and most of those that do exist are well served by convenient natural gas supplies.

THE ECONOMIC OPPORTUNITY

We have before us now a rare opportunity to develop a market for a product which is, currently, an economic liability to one of two major in-state refiners. While the volume is no quantum leap solution, it is a beginning to a market that clearly has the potential to expand.

If we are able to achieve price competitiveness, there is no reason that we cannot fuel the coal ships calling in Seward or the LNG and crude vessels at Kenai. This potential new business opportunity need not be limited to cruise vessels.

To summarize, bunker or residual fuel oil is not a motor fuel by industry definition. ASTM designation and "The Manual of Oil and Gas Terms" both define this product as heavy, high viscosity oil used primarily in industry, in large commercial buildings, and for the generation of electricity.

PETRO MARINE SERVICES

Petroleum Marketing to the Marine Industry



**THIS PACKET IS INFORMATION THAT SUPPORTS
HOUSE BILL 453
AND
SENATE BILL 327**

**THE NEW LEVY WILL REDUCE THE TAX RATE
ON BUNKER FUEL AND HELP MAKE THE PRICE OF
BUNKER FUEL IN SEWARD COMPETITIVE WITH CANADA**

PORT OF SEWARD MARKET

THE SEWARD PROGRAM: IN THE SPRING OF 1993 PETRO MARINE INVESTED \$509,300 IN A PUMPING/INLINE BLEND SYSTEM TO SELL SHIPS BUNKERS IN SEWARD. PETRO MARINE ESTABLISHED THIS FIRST OF ITS KIND FACILITY IN ALASKA AFTER PRINCESS CRUISE SIGNED A THREE YEAR CONTRACT TO BUY A SPECIFIED MINIMUM VOLUME. PRINCESS NEEDED BUNKERS FOR VESSEL STABILITY AND PETRO MARINE NEEDED A MINIMUM QUANTITY FOR ITS RETURN ON INVESTMENT. DURING THE 1993 SUMMER SEASON PETRO MARINE SOLD 4,106,876 GALLONS OF BUNKERS AND PAID \$205,343.80 MARINE TAX.

THE 1994 SEASON: THE FOUR MAJOR CRUISE LINES HAVE THE FOLLOWING REQUIREMNET EACH SUMMER SEASON. (ABOUT ONE HALF OF THE PRINCESS AND HOLLAND FLEET GO TO GLACIER BAY AND THEN RETURN SOUTH)

CRUISE LINE	SUMMER BUNKER CONSUMPTION TONS	GALLONS	
PRINCESS CRUISE	55,855	15,680,000	(PER LETTER)
HOLLAND AMERICA	55,000	15,070,000	(PER MEETING)
CROWN	6,030	1,680,000	(PER MEETING)
REGENCY	9,720	2,680,000	(PER LETTER)
	126,605	35,110,000	

SEWARD POTENTIAL VOLUME: OF THE 94 SAILINGS INTO SEWARD, 64 ARE BY THE ABOVE FOUR LINES. IF THE MOTOR FUEL TAX WAS REDUCED FROM 5 CENT PER GALLON TO 1.5 CENT PER GALLON, PETRO MARINE REALISTICALLY EXPECTS TO SELL IN EXCESS OF 12,000,000 GALLONS OF SHIPS BUNKER IN SEWARD DURING A SUMMER CRUISE SEASON. (NOTE: THE REDUCED TAX WOULD ONLY BE ON THE RESIDUAL PORTION (92%) OF THE BUNKER FUEL AND THE FULL 5 CENTS PER GALLON ON THE DIESEL. COMBINED TAX RATE WOULD BE 1.78 CENTS PER GALLON)

CRUISE LINE	IFO 380 TONS	GALLONS	
PRINCESS CRUISE	37,800	10,357,200	(CONTRACT MAXIMUM)
HOLLAND AMERICA	4,095	1,122,000	(ONE SHIP IN SEWARD)
CROWN	2,700	740,000	(ONE SHIP)
REGENCY	4,050	1,110,000	(TWO SHIPS)
	48,645	13,329,200	

PETRO MARINE WOULD PAY APPROXIMATELY \$ 237,000.00 MARINE TAX TO THE STATE OF ALASKA IN 1994. (\$31,657.20 OVER 1993)

SEWARD TOTAL VOLUME: WHEN THE SEWARD BUNKER PRICE IS ESTABLISHED AS A COMPETITIVE PRICE, YOU CAN BUILD A CASE THAT PETRO MARINE MAY BE ABLE TO ATTRACT ADDITIONAL VOLUME FROM THE FOUR MAJOR LINES AND OTHERS (IN OTHER WORDS BUNKER FOR THE ROUND TRIP). ONCE THE CRUISE INDUSTRY SEES SEWARD AS THEIR BUNKER PORT, THEN PETRO MARINE ALSO HAS AN OPPORTUNITY TO SELL STRAIGHT MARINE DIESEL AT THE FULL 5 CENT PER GALLON TAX (CURRENTLY PURCHASED IN CANADA). THE FULL POTENTIAL OF THE SEWARD SAILINGS (94) IS IN THE TABLE BELOW:

CRUISE LINE	IFO 380 TONS	MARINE DIESEL	GALLONS
PRINCESS CRUISE	37,800	NONE	10,357,200 (CONTRACT MAXIMUM)
HOLLAND AMERICA	16,380	1,260	4,875,000 (TWO SHIPS)
CROWN	5,400	630	1,673,000 (ONE SHIP)
REGENCY	8,100	1,620	2,717,000 (TWO SHIPS)
OTHER	7,000	3,520	3,000,000 (THREE SHIPS)
	74,600	7,030	22,622,200
	=====	=====	=====

PETRO MARINE WOULD PAY APPROXIMATELY \$472,600 MARINE TAX TO THE STATE OF ALASKA. (\$267,252.20 OVER 1993)

UPDATE TO MAY 1993 "PROPOSAL TO DEVELOP AN ALASKAN MARKET FOR BUNKER FUEL":

- TESORO INVESTED \$75,000 IN A TRUCK RACK LOADING SYSTEM FOR NO6 FUEL OIL
- PETRO MARINE INVESTED \$509,500 ON A NEW PUMPING/INLINE BLENDING SYSTEM TO THE ALASKA RAILROAD DOCK.
- PETRO MARINE EMPLOYED 2 DOCK WATCH OPERATORS.
- WEAVER BROTHERS TRUCKING PURCHASED TWO TRUCKS AND EMPLOYED 4 DRIVERS
- TOTAL SALES FOR 1993 WAS 4,106,876 GALLONS, 356 TRUCK LOADS
- THE AVERAGE PRICE DIFFERENCE BETWEEN SEWARD AND VANCOUVER FOR SHIP BUNKERS IN 1993 WAS 6.08 CENTS PER GALLON

IF PETRO MARINE SETS A 1994 SALES OBJECTIVE OF 13,000,000 GALLONS:

- PETRO MARINE WILL HIRE 4 DOCK WATCH OPERATORS AND A OPERATIONS SUPERVISOR
- TESORO WILL UPGRADE THE TRUCK LOADING RATE AT THE REFINERY RACK
- WEAVER WILL BUY 5 ADDITIONAL TRUCKS AND EMPLOYEE 10 ADDITIONAL DRIVERS

PETRO MARINE SERVICES

WHAT IS SHIPS BUNKERS?

BUNKER OIL: FUEL FOR TANKER, CARGO OR CRUISE SHIPS DERIVED FROM THE BLEND OF RESIDUAL FUEL OIL AND DISTILLATE OILS. THE RESULTING BLEND IS DESCRIBED BY ITS VISCOSITY. ON BOARD A SHIP, THE BLEND MUST BE PRE-HEATED AT THE BURNER TO REDUCE THE VISCOSITY FURTHER FOR PROPER ATOMIZATION.

RESIDUAL FUEL OIL: GENERALLY A BLACK, THICK, VISCOUS, SEMIFLUID MATERIAL. IT IS THE RESIDUE FROM CRUDE OIL AFTER THE LIGHT OILS, GASOLINE, NAPHTHA, KEROSENE, AND MID-DISTILLATES ARE EXTRACTED IN THE REFINING PROCESS. IT IS ALSO CALLED REDUCED CRUDE AND NO6 FUEL OIL. RESIDUAL FUEL OIL IS LIMITED TO HEAVY COMMERCIAL AND INDUSTRIAL USE WHERE SUFFICIENT HEAT IS AVAILABLE TO FLUIDIZE FOR PUMPING AND COMBUSTION.

VISCOSITY: THE VISCOUS CONDITION OF RESIDUAL FUEL OIL IS BROKEN DOWN BY USING MID-DISTILLATES (NO2 DIESEL) OR OTHER VISCOSITY BREAKERS. THE BLEND IS MEASURED BY A SPECIFIC STANDARD THAT THE REFINING AND SHIPPING INDUSTRY HAS FOUND TO BE THE OPTIMUM FOR EFFICIENT COMBUSTION AND OPERATION. THE COMMON MARINE BLENDS ARE INTERMEDIATE FUEL OIL (IFO) 180 AND IFO 380. THE NUMBERS REFER TO THE SECONDS IT TAKES THE BLEND TO PASS THROUGH A MEASURING DEVICE.

ALASKA: TESORO IS THE ONLY ALASKA REFINER THAT MUST MARKET RESIDUAL FUEL OIL SINCE ALL OTHERS RE-INJECT RESIDUE BACK INTO THE ALYESKA PIPELINE. THE ONLY APPLICATIONS FOR RESIDUAL FUEL OIL IN ALASKA ARE ASPHALT AND SHIPS BUNKERS. OUTSIDE ALASKA IT CAN BE USED FOR REFINERY FEED STOCK (COKING) BOILER FEED FOR ELECTRIC GENERATION AND INDUSTRIAL HEATING.

TAX ON BUNKER FUEL: THE SALE OF THIS TYPE OF MARINE FUEL CAN EASILY BE EFFECTED BY TAXATION. THE STATE OF CALIFORNIA WAS A MAJOR SUPPLIER OF SHIPS BUNKERS UNTIL THE STATE IMPOSED A 8.25% TAX. THE STATE HAS GONE FROM 3rd IN THE WORLD TO 22nd. BECAUSE OF THE CURRENT ALASKA TAX OF 5 CENTS PER GALLON, THIS FUEL IS ONLY SOLD IN ALASKA UNDER UNIQUE SITUATIONS. SEE THE ATTACHED ARTICLES

REASONS FOR BUYING BUNKERS IN ALASKA:

- VESSEL CHARTERED BY AN ALASKA COMPANY
- VESSEL REQUIRES BUNKER FOR RETURN VOYAGE (STABILITY)
- AN EMERGENCY
- ERROR AT DEPARTURE PORT

EXAMPLE OF TAX POLICY ON SHIPS BUNKER SALES

WESTCOAST: RESIDUAL FUEL OIL AND ANY BLENDED VARIETY SOLD AS SHIPS BUNKERS IS NOT SUBJECT TO ANY EXCISE TAX OUTSIDE OF ALASKA. CALIFORNIA IMPOSED A SALES TAX ON SHIPS BUNKERS AND THE MARKET "DRIED UP". THE STORY IS AN OUTSTANDING EXAMPLE OF HOW TAXING POLICY CAN IMPACT A MARKET.

SOURCE: OIL PRICE INFORMATION SERVICE (OPIS)

4 92-07-23 14:45:07 EDT

***MARINE FUEL BUSINESS 'DRYING UP' IN CALIFORNIA: JOC REPORTS

Today's Journal of Commerce, in a lead article, says that the marine fuel business in California is drying up.

In less than a year, sales of marine fuel in California have sunk from 4 million bbls monthly to 1 million bbls. The reason for the decline: the state sales tax on [bunker]-fuel purchases.

The 8.25 pct tax went into effect last July as a mechanism to help the state raise money to close a budget deficit. Instead, the tax has driven business away from California and is costing the state more than \$3 million in lost payroll taxes and other fees, according to a study commissioned by the Pacific Merchant Shipping Association.

Los Angeles once ranked with Rotterdam and Singapore as one of the world's biggest marine fuel ports, reports the JOC. It wouldn't make the top 20 today.

5 92-09-28 14:43:57 EDT

***CALIFORNIA REPEALS [BUNKER] FUEL TAX

California Gov. Pete Wilson approved the repeal of a marine fuel sales tax that nearly devastated Southern California's [bunker] market by driving away business, the Journal of Commerce reports in today's issue.

The tax "placed California businesses at a competitive disadvantage with businesses in other states," the governor said in a statement announcing the repeal.

The repeal will take effect January 1, 1993. The 8.25tax on [bunker] fuel was imposed a little more than a year ago, as part of an effort to raise money to close a huge state budget deficit.

This particular tax ended up costing California [bunker] fuel business, as ships bunkered in areas with no taxes. Los Angeles sunk from being one of the top three [bunker] markets in the country to not even being in the top 30, the Journal of Commerce reports.

THE CALIFORNIA 8.25% DROVE BUSINESS AWAY. WITH THE ALASKA RATE OF 13%, BUNKER SALES IN-STATE ARE SPECIAL CIRCUMSTANCES ONLY. (I.E WEATHER EMERGENCIES, BALLAST NEEDS, IN-HOUSE REQUIREMENT) THERE IS NO "MARKET" PRESENTLY BUT THERE COULD BE IF THE ALASKA MARINE TAX ON HEAVY SHIPS BUNKERS WERE REDUCE TO 1 CENT PER GALLON. IN FACT THERE IS A GOOD "CASE" FOR TAX REVENUE GOING UP IF THE TAX WERE REDUCED.



SENATOR SUZANNE LITTLE

ALASKA STATE LEGISLATURE

Memorandum

TO: Senator Bert Sharp, Chairman
Senate Transportation Committee

FROM: Senator Suzanne Little *SL*

DATE: March 9, 1994

RE: SB 327

SB 327 will amend the motor fuel tax to establish a different tax levy on residual fuel oil currently produced by Tesoro Alaska north of Kenai. Currently, the tax on this fuel, used mostly by cruise ships and other large vessels, is five cents per gallon. This bill will change the tax rate for residual fuel oil from the current rate of five cents per gallon to one cent per gallon. An economic incentive for cruise ships to purchase fuel in Seward would be created by this reduction. We anticipate that 10-20 jobs would be created on the peninsula by passage of this bill. Additionally, because of increased sales of bunker fuel, the state will break even or will have increased revenues to the treasury.

Residual fuel oil is the heavy refined hydrocarbon that is the residue from crude oil after refined petroleum products have been extracted by the refining process. Residual fuel may only be used when sufficient heat is provided to the oil to reduce its viscosity and to give it fluid properties sufficient for pumping and combustion. These residual fuels are excellent for use in the large cruise ships that travel to Alaska.

Because the current tax on the residual fuel is at five cents per gallon, companies such as Tesoro Alaska are forced to sell their residual fuel at a loss since there is no market for the fuel. By reducing the tax, a market is created with the cruise ships; more than 90 cruise ships will be coming into Seward this summer. The cruise ships that serve Seward now purchase fuel in Vancouver, British Columbia. According to the final report of the Governor's Task Force on Regulatory Reform, if the price for residual fuel can be competitive with prices in Canada, the initial potential is for annual sales of \$7,000,000 and increased employment for Alaskan residents.

I urge the Senate Transportation Committee to support SB 327.

FINAL REPORT
OF THE
GOVERNOR'S TASK FORCE
ON
REGULATORY REFORM

MARCH 19, 1993

OIL

SI 9. Propose a statutory or regulatory change to make marketing of heavy fuels (heavy bunker oil) more economically competitive by eliminating or reducing the taxes. Statutory reference AS 43.40.1 - May be possible to do by regulation.

Due to the excessive tax on heavy fuels if used instate (\$2.10), heavy fuels have no instate sales/useage. In 1970-72, heavy bunker fuel was sold, to a small market, for use instate, by such firms as Sealand. In 1972, the present tax was placed on this fuel. All sales then ceased, and have remained non-existent since that date. Currently, there is the potential for a market of these fuels in Alaska, if the price of the fuel can be competitive with prices in Canada (current fuel source). The initial potential is for annual sales of \$7,000,000, and employment for 7-10 Alaskans. Refineries instate do produce the heavy bunker fuel, and then it sell as an exported product.

MINING

SI 10. Change the valid timeframe of an Exploration and Reclamation permit from one year to five years (DNR). 11 AAC 97.300

Currently permits are only good for one year, and require considerable effort and expense in preparation. Exploration and reclamation themselves are likely to span several years. Requiring firms to file anew each year is an unnecessary additional expense both for the business enterprise and the State, which does not contribute to either the applicant or ADNR.

If ADNR is seeking updated information on changes, then alter the regulations to require notification of any changes when and if changes occur from those in the original approved permit.

SI 11. Add a phrase to 18 AAC 80.020 so that it reads: "Toxic and Other Deleterious Organic and Inorganic Substances -Substances shall not exceed Alaska Drinking Water Standards (18 AAC 80) or EPA Quality Criteria for Water as applicable to substances and use. i.e. if the water is not used as a public water system. 18 AAC 80.020 Source Protection is not the applicable use."

This is recommended in order to get away from effective treated water at the source. As a result, "raw water" prior to treatment would not have to meet the same standards as water taken and treated for public consumption.