

HB

287

<TARGET><BILL>HB 287</BILL><SUBJECT>HB
287</SUBJECT><COMM>HRLS28</COMM></TARGET>

STATE CAPITOL
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Governor Sean Parnell
STATE OF ALASKA

January 28, 2014

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 approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Refining and Marketing Company, LLC (Tesoro).

Tesoro's Nikiski refinery is the largest tax payer in the Kenai Peninsula Borough and supplies products to 31 company-owned Alaska retail outlets and 44 "branded" outlets operated by franchise owners. This legislation would allow Tesoro to continue supplying these outlets with fuel, which will help strengthen Alaska's growing economy. Tesoro is a key economic engine in Alaska and specifically the Kenai Peninsula, employing 200 Alaskans in full-time, high paying positions. The Nikiski refinery produces approximately two to three million gallons per day of refined petroleum products, mostly consumed in Alaska.

This bill would approve and ratify an "Amendment to the Agreement for the Sale of Royalty Oil." The amendment would extend the existing contract by one year, providing for the sale of the State's royalty oil to Tesoro Refining and Marketing Company, LLC, allowing for royalty oil deliveries to continue until January 31, 2016. The contract provides for sale of between 5,000 and 15,000 barrels per day of the State's royalty oil, subject to certain nomination provisions. The royalty oil will be sold at a price calculated to equal or exceed the value the State would obtain for the royalty oil if it was taken in-value and sold by the producers rather than taken in-kind and sold by the State to Tesoro.

The Alaska Royalty Oil and Gas Development Advisory Board reviewed the proposed amendment through a public hearing process and, in accordance with AS 38.06.050, issued a written recommendation on December 11, 2013 for the legislative approval of the sale. A copy of the agreement for the sale of royalty oil to be amended, the resolution recommending approval, and the report required by AS 38.06.070(c) are available from the Department of Natural Resources.

House Bill No. 287

The Honorable Mike Chenault
January 28, 2014
Page 2

Extending the 2013 Tesoro contract is in the State's best interest and is important to several hundred private-sector employees in the Kenai Peninsula Region, as well as the economy throughout the state of Alaska.

I urge your prompt and favorable action on this measure.

Sincerely,

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

Sean Parnell
Governor

Enclosure



Alaska Department of
**NATURAL
RESOURCES**

Briefing Paper
HB 287: Approve Tesoro Royalty Oil Sale
Division of Oil and Gas
January 2014

Purpose:

This bill grants legislative approval of an amendment of a royalty oil supply contract negotiated between the State of Alaska and Tesoro Refining & Marketing Company, LLC (Tesoro), the owner and operator of the Kenai Refinery.

History:

The Department of Natural Resources (DNR) and Tesoro recently entered a one-year royalty oil supply contract in October 2013 to deliver up to 15,000 barrels per day of Alaska North Slope royalty oil beginning February 1, 2014. Legislative approval was not required for “the sale, exchange or other disposition of oil or gas *for one year or less* if the sale, exchange, or other disposition of oil or gas is entered into to relieve storage or market conditions.”

Subsequent to the approval of the one-year contract, DNR and Tesoro agreed to an amendment to continue deliveries for one year beyond the State’s current contractual obligation. Extending the October 2013 Agreement through January 31, 2016 and committing to royalty oil deliveries for more than one year triggered additional provisions of AS 38.05.183 and AS 38.06.055 that require a recommendation of the Alaska Oil and Gas Royalty Development Advisory Board (Royalty Board) and approval by the Alaska Legislature.

The Royalty Board reviewed the proposed amendment through a public hearing process and, in accordance with AS 38.06.050, issued a written recommendation on December 11, 2013, for legislative approval of the sale. Their resolution, along with the DNR commissioner’s determination, is included in the Final Best Interest Finding and Determination for an Amendment of the “Agreement for the Sale of Royalty Oil between and among the State of Alaska and the Tesoro Refining & Marketing Company, LLC, a Delaware Limited Liability Company, October 25, 2013.”

Sectional Analysis:

Section 1 provides legislative approval of an amendment of a royalty oil contract between the State of Alaska and Tesoro Corporation and Tesoro Refining & Marketing Company LLC, attached as Exhibit 1 to the final best interest finding and determination executed January 9, 2014.

Section 2 provides an immediate effective date.

CS FOR HOUSE BILL NO. 287(RLS)

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the determination of the royalty received by the state on oil
2 production refined or processed in the state; providing tax credits for qualified
3 infrastructure expenditures for in-state refineries and hydrocarbon processing facilities;
4 approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro
5 Corporation and Tesoro Refining and Marketing Company LLC; and providing for an
6 effective date."

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

8 * **Section 1.** AS 38.05.180(cc) is amended to read:

9 (cc) The provisions of (aa), [AND] (ee), and (hh) of this section do not
10 prohibit the commissioner from accepting any payment on a federal lease tendered by
11 the federal agency responsible for determination and transmittal of the payment to the
12 state under 30 U.S.C. 191 or otherwise due the state as the state's royalty share of gas
13 production or the state's royalty share of oil production irrespective of the state's

1 acceptance of an amount that is different than the amount due under the lease for
2 purposes of determining royalty share on oil and gas production under that subsection.

3 * **Sec. 2.** AS 38.05.180 is amended by adding new subsections to read:

4 (hh) Upon written request of a lessee of a lease issued under this section or of
5 a lessee of federal land from which the state is entitled to receive a share of the royalty
6 on oil production, the commissioner may enter into an agreement with the lessee to
7 accept, as a value for the state's royalty share of oil production sold to an in-state
8 refiner, an amount that is not less than the price established in a contract between the
9 lessee and the in-state refiner but not exceeding the amount that would otherwise be
10 due under the lease. This subsection applies to a contract entered into after
11 December 31, 2014. The commissioner shall respond to a request received under this
12 section within 90 days after the receipt of the request by the department. The
13 commissioner may enter into an agreement under this section if

14 (1) the commissioner issues a written finding that

15 (A) the agreement is in the best interest of the state;

16 (B) the parties to the contract between the lessee and the in-
17 state refiner are not affiliated under (2) of this subsection; and

18 (C) based on clear and convincing evidence,

19 (i) the contract price is not unreasonably low; and

20 (ii) the prospective reduction in royalty receipts will be
21 balanced by employment opportunities or other tangible benefits to the
22 state; and

23 (2) the primary function of the in-state refiner's contracting with the
24 lessee is to engage in the manufacture of refined petroleum products in the state, and
25 the in-state refiner is not affiliated with the lessee or with a subsequent purchaser of
26 more than 10 percent of the in-state refiner's product; the parties to a contract or
27 purchase are affiliated if, in the judgment of the commissioner, one of the parties to
28 the contract or purchase exercises substantial influence over the policies and actions of
29 the other as evidenced by a relationship based on common ownership or family
30 interest or by action taken in concert whether or not that influence is based on
31 stockholdings, stockholders, officers, or directors.

1 (ii) In (cc) and (hh) of this section,

2 (1) "in-state refiner" means a person engaged in the manufacture of
3 refined petroleum products in the state;

4 (2) "price established in the contract between the lessee and the in-state
5 refiner" includes tax reimbursement amounts, deliverability and other charges, and
6 other forms of consideration paid by the in-state refiner, as appropriate, under the
7 contract;

8 (3) "state's royalty share of oil production" includes payments on
9 federal leases made to the state under 30 U.S.C. 191.

10 * **Sec. 3.** AS 43.20 is amended by adding a new section to read:

11 **Sec. 43.20.053. Qualified in-state oil refinery or hydrocarbon processing**
12 **facility infrastructure expenditures tax credit.** (a) A taxpayer that owns an in-state
13 oil refinery or hydrocarbon processing facility whose primary function is the
14 manufacturing and sale of refined petroleum products or processed hydrocarbon
15 products to third parties in arm's length transactions may apply a credit against the tax
16 due under this chapter for a qualified infrastructure expenditure incurred in the state
17 for a tax year beginning after December 31, 2014, and before January 1, 2020. The
18 total amount of credit a taxpayer may receive under this section may not exceed the
19 lesser of 40 percent of qualified infrastructure expenditures incurred in the state during
20 the tax year or \$10,000,000 for each in-state refinery or hydrocarbon processing
21 facility for which qualified expenditures are incurred.

22 (b) A taxpayer applying the credit under this section against a liability under
23 this chapter shall claim the credit on the taxpayer's return. A tax credit or portion of a
24 tax credit under this section may not be used to reduce the taxpayer's tax liability
25 under this chapter below zero. Any unused tax credit or portion of a tax credit under
26 this section may be carried forward to the five tax years immediately following the tax
27 year in which the qualified infrastructure expenditures were incurred.

28 (c) An expenditure that is the basis of the credit under this section may not be
29 the basis for

30 (1) a deduction against the tax levied under this chapter;

31 (2) a credit or deduction under another provision of this title; or

1 (3) any federal credit claimed under this title.

2 (d) A person entitled to a tax credit under this section that is greater than the
3 person's tax liability under this chapter may request a refund or payment in the amount
4 of the unused portion of the tax credit.

5 (e) The department may use money available in the oil and gas tax credit fund
6 established in AS 43.55.028 to make a refund or payment under (d) of this section in
7 whole or in part if the department finds that

8 (1) the claimant does not have an outstanding liability to the state for
9 unpaid delinquent taxes under this title; and

10 (2) after application of all available tax credits, the claimant's total tax
11 liability under this chapter for the calendar year in which the claim is made is zero.

12 (f) A refund under this section does not bear interest.

13 (g) The issuance of a refund under this section does not limit the department's
14 ability to later audit or adjust the claim as provided in AS 43.05 if the department
15 determines that the taxpayer claiming the credit was not entitled to the amount of the
16 credit.

17 (h) In this section,

18 (1) "processed hydrocarbon products" means separate marketable
19 elements, compounds, or mixtures of oil or natural gas in a liquid or gaseous form,
20 including gasoline, diesel, jet fuel, gas, oil, heating oil, kerosene, ammonia, and urea;

21 (2) "qualified infrastructure expenditure" means an expenditure
22 directly attributable to the in-state purchase, installation, modification, adjustment, or
23 other alteration of tangible personal property for the manufacture or transport of
24 refined petroleum products, petroleum-based feedstock, or processed hydrocarbon
25 products;

26 (3) "refined petroleum products" means separate marketable elements,
27 compounds, or mixtures of oil in liquid form, including gasoline, diesel, jet fuel, gas
28 oil, heating oil, and kerosene;

29 (4) "unpaid delinquent tax" means an amount of tax for which the
30 department has issued an assessment that has not been paid and, if contested, has not
31 been finally resolved in the taxpayer's favor.

1 * **Sec. 4.** AS 43.55.028(a) is amended to read:

2 (a) The oil and gas tax credit fund is established as a separate fund of the state.

3 The purpose of the fund is to purchase transferable tax credit certificates issued under
4 AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 and to
5 pay refunds and payments claimed under AS 43.20.046, [OR] 43.20.047, or
6 43.20.053.

7 * **Sec. 5.** AS 43.55.028(g) is amended to read:

8 (g) The department may adopt regulations to carry out the purposes of this
9 section, including standards and procedures to allocate available money among
10 applications for purchases under this chapter and claims for refunds and payments
11 under AS 43.20.046, [OR] 43.20.047, or 43.20.053 when the total amount of the
12 applications for purchase and claims for refund exceed the amount of available money
13 in the fund. The regulations adopted by the department may not, when allocating
14 available money in the fund under this section, distinguish an application for the
15 purchase of a credit certificate issued under former AS 43.55.023(m) or a claim for a
16 refund or payment under AS 43.20.046, [OR] 43.20.047, or 43.20.053.

17 * **Sec. 6.** The uncodified law of the State of Alaska is amended by adding a new section to
18 read:

19 ROYALTY OIL SALE CONTRACT WITH TESORO CORPORATION AND
20 TESORO REFINING AND MARKETING COMPANY LLC APPROVED AND
21 RATIFIED. In accordance with AS 38.06.055, the legislature approves and ratifies the
22 proposed Amendment to Agreement for the Sale of Royalty Oil attached as Exhibit 1 to the
23 final best interest finding and determination executed January 9, 2014, by the Department of
24 Natural Resources regarding the amendment of the Agreement for the Sale Of Royalty Oil
25 Between and Among the State of Alaska and Tesoro Corporation, a Delaware Corporation
26 and Tesoro Refining and Marketing Company LLC, a Delaware Limited Liability Company,
27 October 25, 2013.

28 * **Sec. 7.** Sections 1 - 5 of this Act take effect January 1, 2015.

29 * **Sec. 8.** Except as provided in sec. 7 of this Act, this Act takes effect immediately under
30 AS 01.10.070(c).

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 287
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB287CS(RLS)-DOR-TAX-04-16-14
Title: APPROVE TESORO ROYALTY OIL SALE
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: H Rules

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

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

| | FY2015 Appropriation Requested | Included in Governor's FY2015 Request | Out-Year Cost Estimates | | | | |
|-------------------------------|--------------------------------------|--|-------------------------|------------|------------|------------|------------|
| | | | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
| OPERATING EXPENDITURES | FY 2015 | FY 2015 | | | | | |
| 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 | *** | | *** | *** | *** | *** | *** |
|---------------------------|-----|--|-----|-----|-----|-----|-----|

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?

Why this fiscal note differs from previous version:

| |
|---|
| Note reflects ammendment adopted by H RLS committee on 4-16-14. |
|---|

Prepared By: Matt Fonder, Director
Division: Tax
Approved By: Angela M. Rodell, Commissioner
Agency: Department of Revenue

Phone: (907)269-1033
Date: 04/16/2014 10:50 PM
Date: 04/16/14

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB287 (RLS)

Analysis

Bill Language:

This bill involves the approval of the royalty sale oil contract with Tesoro Corporation, determinations of royalty oil received by the state, and adds a section to DOR's corporate income tax statutes, creating a new corporate income tax credit for certain in-state oil refineries. This analysis is limited to the tax credit created in this bill.

-The tax credit created by this bill is a new corporate income tax credit for a taxpayer that owns an in-state refinery or hydrocarbon processing facility and incurs "qualified infrastructure expenditures" (attributable to the in-state purchase, installation, modification, adjustment, or other alteration of tangible personal property for the manufacture or transport of refined petroleum products or petroleum-based feed-stocks) during a tax year. The credit may not exceed the lesser of 40% of total qualifying expenditures or \$10 million per tax year. The credit sunsets in 5 years. The taxpayer is required to apply the credit against any corporate income taxes owed to the state, and any unused portion can be carried forward to future tax years, or it can also be refunded by the state.

Revenues:

It is difficult to determine the amount of credits which may be claimed by taxpayers with these new credits. There are a limited number of in-state refineries and hydrocarbon processing facilities, and the maximum credit would be \$10 million each tax year (for up to 5 tax years) per qualifying refinery or hydrocarbon processing facility. If a refinery or hydrocarbon processing facility was able to "max-out" these combined credits, it would be entitled to a credit of \$50 million over 5 years, but the taxpayer would have had to expend \$125 million in "qualified infrastructure expenditures" to obtain the maximum amount of credits. Because these credits are refundable, if a taxpayer is able to "max-out" these combined credits for 5 years, the state would realize reduced revenues of \$50 million over 5 years.

It is unlikely that in-state refineries or hydrocarbon processing facilities would have a corporate income tax liability of \$10 million in any given tax year, so the bulk of these credits would likely be carried forward to future tax years, or be refunded.

Expenditures:

The department can implement the provisions of this bill with existing resources.

Regulations:

The department does not anticipate that it will need to adopt additional regulations to implement this bill.

AMENDMENT

by Chenault

OFFERED IN THE HOUSE

TO: CSHB 287(FIN)

1 Page 1, line 3, following "**refineries**":

2 Insert "**and hydrocarbon processing facilities**"

3

4 Page 3, line 10, following "**refinery**":

5 Insert "**or hydrocarbon processing facility**"

6

7 Page 3, line 11, following "refinery":

8 Insert "or hydrocarbon processing facility"

9

10 Page 3, line 12, following "products":

11 Insert "or processed hydrocarbon products"

12

13 Page 3, line 18, following "refinery":

14 Insert "or hydrocarbon processing facility"

15

16 Page 4, following line 14:

17 Insert a new paragraph to read:

18 "(1) "processed hydrocarbon products" means separate marketable
19 elements, compounds, or mixtures of oil or natural gas in a liquid or gaseous form,
20 including gasoline, diesel, jet fuel, gas, oil, heating oil, kerosene, ammonia, and urea;"

21

22 Renumber the following paragraphs accordingly.

23

- 1 Page 4, line 18:
- 2 Delete "or petroleum-based feedstock"
- 3 Insert ", petroleum-based feedstock, or processed hydrocarbon products"

AMENDMENT

by Chenault

OFFERED IN THE HOUSE

TO: CSHB 287(FIN)

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- 2 Delete "or petroleum-based feedstock"
- 3 Insert ", petroleum-based feedstock, or processed hydrocarbon products"

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version HB 287
Fiscal Note Number 1
(H) Publish Date 1/29/14

Identifier (file name) DNR-DOG-1-21-14 Dept. Affected Natural Resources
Title Royalty Oil Sale Contract to Tesoro Appropriation Oil & Gas
Allocation Oil & Gas
Sponsor Rules by Request of the Governor
Requester Governor OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| | FY15 Appropriation Requested | Included in Governor's FY15 Request | Out-Year Cost Estimates | | | | |
|-------------------------------|------------------------------------|---|-------------------------|-------------|-------------|-------------|-------------|
| | | | FY16 | FY17 | FY18 | FY19 | FY20 |
| OPERATING EXPENDITURES | FY15 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
| 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 | | (Thousands of Dollars) | | | | | |
|-------------|-------------------|------------------------|------------|------------|------------|------------|------------|
| 1002 | Federal Receipts | | | | | | |
| 1003 | GF Match | | | | | | |
| 1004 | GF | | | | | | |
| 1005 | GF/Prgm (DGF) | | | | | | |
| 1007 | I/A Rcpts (Other) | | | | | | |
| 1156 | Rcpt Svcs (DGF) | | | | | | |
| | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| POSITIONS | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

| CHANGE IN REVENUES | *** | *** | *** | *** | *** | *** | *** |
|--------------------|-----|-----|-----|-----|-----|-----|-----|
|--------------------|-----|-----|-----|-----|-----|-----|-----|

Estimated SUPPLEMENTAL (FY14) operating costs 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY15) costs 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 Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial Version

Prepared by Bill Barron, Director
Division Division of Oil & Gas
Approved by Joe Balash, Commissioner
Division Department of Natural Resources

Phone 907-269-8800
Date/Time 1/7/14 5:00 PM
Date 1/9/2014

FISCAL NOTE ANALYSIS #1

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 287

Analysis

This legislation 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 amendment will have no fiscal impact to operating expenditures and positive indeterminate change in revenues.

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 Appropriation Requested | Included in Governor's FY2015 Request | Out-Year Cost Estimates | | | | |
|-------------------------------|--------------------------------------|--|-------------------------|----------------|----------------|----------------|----------------|
| | | | 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 | *** | | *** | *** | *** | *** | *** |
|---------------------------|-----|--|-----|-----|-----|-----|-----|

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 | Phone: | (907)465-4730 |
| Division: | Commissioner's Office | Date: | 04/14/2014 11:00 AM |
| Approved By: | Joe Balash, Commissioner | Date: | 04/14/14 |
| Agency: | Department of Natural Resources | | |

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.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 287(FIN)
Fiscal Note Number: 3
(H) Publish Date: 4/15/14

Identifier: HB287CS(FIN)-DOR-TAX-04-14-14
Title: APPROVE TESORO ROYALTY OIL SALE
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HFIN

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

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 | *** | | *** | *** | *** | *** | *** |
|---------------------------|-----|--|-----|-----|-----|-----|-----|

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?

Why this fiscal note differs from previous version:

Initial note, reflects changes adopted by the HFIN committee on 4-14-14.

| | | | |
|--------------|--------------------------------|--------|---------------------|
| Prepared By: | Matt Fonder, Director | Phone: | (907)269-1033 |
| Division: | Tax | Date: | 04/14/2014 12:30 PM |
| Approved By: | Angela M. Rodell, Commissioner | Date: | 04/14/14 |
| Agency: | Department of Revenue | | |

FISCAL NOTE ANALYSIS #3

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 287(FIN)

Analysis

Bill Language:

This bill involves the approval of the royalty sale oil contract with Tesoro Corporation, determinations of royalty oil received by the state, and adds a section to DOR's corporate income tax statutes, creating a new corporate income tax credit for certain in-state oil refineries. This analysis is limited to the tax credit created in this bill.

-The tax credit created by this bill is a new corporate income tax credit for a taxpayer that owns an in-state refinery and incurs "qualified infrastructure expenditures" (attributable to the in-state purchase, installation, modification, adjustment, or other alteration of tangible personal property for the manufacture or transport of refined petroleum products or petroleum-based feed-stocks) during a tax year. The credit may not exceed the lesser of 40% of total qualifying expenditures or \$10 million per tax year. The credit sunsets in 5 years. The taxpayer is required to apply the credit against any corporate income taxes owed to the state, and any unused portion can be carried forward to future tax years, or it can also be refunded by the state.

Revenues:

It is difficult to determine the amount of credits which may be claimed by taxpayers with these new credits. There are a limited number of in-state refineries, and the maximum credit would be \$10 million each tax year (for up to 5 tax years) per qualifying refinery. If a refinery was able to "max-out" these combined credits, it would be entitled to a credit of \$50 million over 5 years, but the taxpayer would have had to expend \$125 million in "qualified infrastructure expenditures" to obtain the maximum amount of credits. Because these credits are refundable, if a taxpayer is able to "max-out" these combined credits for 5 years, the state would realize reduced revenues of \$50 million over 5 years.

It is unlikely that in-state refineries would have a corporate income tax liability of \$10 million in any given tax year, so the bulk of these credits would likely be carried forward to future tax years, or be refunded.

Expenditures:

The department can implement the provisions of this bill with existing resources.

Regulations:

The department does not anticipate that it will need to adopt regulations to implement this bill.