HB

100

<TARGET><BILL>HB 100</BILL><SUBJECT>HB 100</SUBJECT><COMM>HFIN29</COMM></TARGET>

HOUSE COMMITTEE REPORT

(11)
Date Referred to Committee: March 27, 2015 **FURTHER REFERRALS:**

Date of Committee Action: 04·09·2015

The FINANCE Committee considered: **HB 100**

HOUSE BILL NO. 100
"An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea or ammonia; and providing for an effective date."

HB 100-UREA/AMMONIA FACILITY TAX CREDIT

Recommends it be replaced with [ ] HCS or [√] CS for HB 100 **(** FIN **)**
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_______ **[ ] Same Title [√] New Title**

[ ] attach amendments
[ ] add new referral to ___________Committee
[ ] Letter of Intent___________Committee

List of Abbrev for Depts.:
ADM
AJS
CED
COR
EED
DEC
DFG
GOV
DHS
LWF
LAW
LEG
MVA
DNR
DPS
REV
DOT
UA

NEW FISCAL NOTES
*FN# is assigned by Chief Clerk's Office

*FN#	List by Dept(s):	Fiscal	Indet.	Zero

PREVIOUS FISCAL NOTES

FN#	List by Dept(s):	Fiscal	Indet.	Zero
1	REV			✓

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
Dan Saddler	SADDLER	X			
[signature]	Kawasaki		X		
[signature]	GUTTENBERG		X		
Lynn Gattis	Gattis	X			
Bryce Edgmon	Edgmon	✓			
[signature]	Gara		✓		
Tammie Wilson	Wilson	X			
Chair: [signature]	NEUMAN	X			
Chair: [signature]	Thompson	✓			

Fiscal Note

State of Alaska
2015 Legislative Session

Bill Version:	CSHB 100(RES)
Fiscal Note Number:	1
(H) Publish Date:	3/27/2015

Identifier: HB100-DOR-TAX-3-9-15
Title: UREA/AMMONIA FACILITY TAX CREDIT
Sponsor: CHENAULT
Requester: House Resources Committee

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)

	FY2016 Appropriation Requested	Included in Governor's FY2016 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2016**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
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 (FY2015) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) 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:

Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax	Date:	03/09/2015 03:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	03/09/15
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 LEGISLATIVE SESSION

Analysis

The bill adds a section to DOR's corporate income tax statutes, creating a new corporate income tax credit for owners of facilities used in the manufacture and sale of urea and ammonia. This analysis is limited to the tax credit created in this bill and does not consider the broader economic activity that would result from the business development that it may incentivize.

Urea and ammonia are typically manufactured by harvesting nitrogen from the atmosphere. This process is highly energy intensive and in Alaska has historically used large amounts of natural gas as "feedstock." The tax credit envisioned in this bill is limited to the amount of state royalty paid on natural gas that would be delivered to the manufacturing facility. As written, the tax credit could not be used to reduce a taxpayer's liabiltiy below zero, and cannot be carried forward to a subsequent tax year.

Although the owner of the facility is not expected to be the gas producer who is responsible to pay the state royalty, it is expected that the owner would be able obtain that information for the purpose of using the credit.

Although available statewide to any facility engaged in the manufacture of urea and ammonia, this legislation is widely understood to be for the purpose of assisting the Agrium fertilizer plant in Nikiski to retool and reopen. The sponsor has provided the Department of Revenue with a recent study by the McDowell group entitled "Potential Impacts of Agrium's Operations on State of Alaska Revenues." This study has been used as a source document for this fiscal note. If passed, it is not expected that there will be any other facilities in Alaska who use this tax credit.

According to the McDowell study, a reopened Agrium plant utilizing a single production train would consume 28 BCF / year of gas with 21 BCF coming from state leases. Assuming a wellhead value of $5.70 / mcf the total royalty payment to the state would be $14.96 million / year. This is the maximum annual tax credit liability envisioned by this legislation. Assuming two years to get the plant ready for reopening, we assume no revenue impact prior to FY18. Unlike other tax credit programs, there would be no tax benefit for the facility owner during the time they are under construction. The tax benefit would not begin accruing until they began actually purchasing gas for the purpose of manufacturing.

Assuming a corporate income tax rate of 9.4%, it would require taxable profits of $159 million per year to generate a tax liability equal to the maximum credit available under this bill. A recent article in the Peninsula Clarion estimated a corporate income tax liaibilty for Agrium at $3 to $4 million per year. Since the actual anticipated profits are unknown, this fiscal note is an indeterminate revenue impact beginning in FY18, with an actual amount of foregone revenue between zero and $14.96 million per year, and with a likely figure in the $3 to $4 million range. If the plant did not reopen and begin actually purchasing gas, the state's obligation would be zero.

This tax credit sunsets after calendar year 2026.

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.

CS FOR HOUSE BILL NO. 100(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Olson

A BILL

FOR AN ACT ENTITLED

"An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea, ammonia, or gas-to-liquid products; relating to establishing the value of the state's royalty share of gas production based on contracts with certain in-state processing facilities that manufacture urea, ammonia, or gas-to-liquid products; and providing for an effective date."

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

* **Section 1.** AS 38.05.180 is amended by adding a new subsection to read:

(*ll*) For a contract that is entered into on or after the effective date of this subsection, within 90 days after the written request of a lessee of a lease issued under this section, in order to establish the value of the state's royalty share of gas production sold by the lessee under the contract, the commissioner may enter into an agreement with the lessee to use or accept as a price for the gas an amount that is not less than the price established in the contract between the lessee and an in-state processing facility

whose primary function is the manufacturing and sale of urea, ammonia, or gas-to-liquid products to third parties in arm's length transactions, not to exceed the amount that would otherwise be due under the lease. The commissioner may enter into an agreement under this subsection if

(1) the commissioner makes a written finding that

(A) it is in the best interest of the state; and

(B) based on clear and convincing evidence, the contract price is not unreasonably low; and

(2) the primary function of the in-state processing facility is to engage in the production of urea, ammonia, or gas-to-liquid products, and the lessee is not affiliated with either an owner of the in-state processing facility or with a subsequent purchaser of more than 10 percent of the urea, ammonia, or gas-to-liquid products produced by the processing facility; for purposes of this paragraph, the parties are affiliated if, in the judgment of the commissioner, one of the parties exercises substantial influence over the policies and actions of the other as evidenced by a relationship based on common ownership or family interest or by action taken in concert without regard to whether that influence is based on stockholdings, stockholders, officers, or directors; in this subsection, "gas-to-liquid product" means a liquid produced by a processing facility that combines, breaks up, or rearranges atoms present in natural gas, but does not include liquefied natural gas.

* **Sec. 2.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.052. Credit for the in-state manufacture of urea, ammonia, or gas-to-liquid products. (a) A taxpayer that owns an interest, either directly or through a partnership or limited liability company, in an in-state processing facility whose primary function is the manufacturing and sale of urea, ammonia, or gas-to-liquid products to third parties in arm's length transactions is entitled to receive a credit under this section against the tax due under this chapter. The credit under this section is equal to the percentage of the amount of royalty paid under AS 38.05.135 on natural gas from a state lease that is delivered in the taxable year of the taxpayer for use at the in-state processing facility equal to the percentage of the ownership interest held by the taxpayer in the in-state processing facility.

(b) A tax credit or portion of a tax credit under this section may not be used to reduce a taxpayer's tax liability under this chapter below zero. An unused tax credit or portion of a tax credit received under this section may not be carried forward for use in a taxable year of the taxpayer after the taxable year in which the credit is earned.

(c) To claim a credit under this section, the taxpayer shall report to the department the name of each lessee delivering natural gas for use at the in-state processing facility, the identification and quantity of natural gas from each state lease that is the source of the natural gas, the ownership percentage of the taxpayer in the in-state processing facility, and the price for the natural gas established in a contract between the in-state processing facility and the lessee delivering the natural gas.

(d) In this section, "gas-to-liquid product" has the meaning given in AS 38.05.180(*ll*).

* **Sec. 3.** AS 43.20.052 is repealed.

* **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. AS 43.20.052, added by sec. 2 of this Act, applies to the amount of royalty paid under AS 38.05.135 on natural gas from a state lease that is delivered for use at an in-state processing facility whose primary function is the manufacturing and sale of urea, ammonia, or gas-to-liquid products to third parties in arm's length transactions on or after July 1, 2017, and before January 1, 2024.

* **Sec. 5.** Sections 1, 2, and 4 of this Act take effect July 1, 2017.

* **Sec. 6.** Section 3 of this Act takes effect January 1, 2024.

2015 HOUSE FINANCE COMMITTEE VOTE SHEET

Passed

DATE: 04.09.15

~~Amendment:~~ Report CSHB100(FIN) out of committee

MEMBER	Favor	Oppose
REP. GUTTENBERG		✓
REP. KAWASAKI		✓
REP. MUNOZ		
REP. PRUITT		
REP. SADDLER	✓	
REP. WILSON	✓	
REP. EDGMON	✓	
REP. GARA		✓
REP. GATTIS	✓	
REP THOMPSON	✓	
REP NEUMAN	✓	

YEA 6 NAY 3

Failed

29-LS0423\E.3
Nauman
4/8/15

AMENDMENT #1

OFFERED IN THE HOUSE BY REPRESENTATIVE GARA
TO: CSHB 100(RES)

Page 1, line 4, following "**ammonia;**"

Insert "**providing an optional exemption from municipal property taxation for certain in-state processing facilities that manufacture urea or ammonia;**"

Page 1, following line 6:

Insert a new bill section to read:

"* **Section 1.** AS 29.45.050 is amended by adding a new subsection to read:

(x) A municipality may by ordinance approved by the voters exempt or partially exempt from taxation an in-state processing facility whose primary function is the manufacturing and sale of urea or ammonia to third parties in arm's length transactions. An exemption under this subsection may be of limited or unlimited duration."

Page 1, line 7:

Delete "**Section 1**"

Insert "**Sec. 2**"

Renumber the following bill sections accordingly.

Page 2, line 27, following "section.":

Insert "A credit under this section may not exceed $2,000,000 for each in-state processing facility a year."

Page 3, line 11:

Delete "sec. 2"

Insert "sec. 3"

Page 3, line 14:

Delete "Sections 1, 2, and 4"

Insert "Sections 1 - 3 and 5"

Page 3, line 15:

Delete "Section 3"

Insert "Section 4"

HB100

2015 HOUSE FINANCE COMMITTEE VOTE SHEET

Failed

DATE: 04.09.2015

Amendment: #1 - HB100

MEMBER	Favor	Oppose
REP. EDGMON		
REP. GARA	✓	
REP. GATTIS		✓
REP. GUTTENBERG	✓	
REP. KAWASAKI	✓	
REP. MUNOZ ABSENT		
REP. PRUITT absent.		
REP. SADDLER		✓
REP. WILSON		✓
REP. THOMPSON		✓
REP NEUMAN		✓

YEA 3 NAY 5

amend Amend HB100

2015 HOUSE FINANCE COMMITTEE VOTE SHEET

Passed

C
Delete date
Insert date
adds 2 additional
years.

DATE: 04.09.15.

Amendment: Conceptual

MEMBER	Favor	Oppose
REP. GARA		
REP. GATTIS		
REP. GUTTENBERG		
REP. KAWASAKI		
REP. MUNOZ		
REP. PRUITT		
REP. SADDLER		
REP. WILSON		
REP. EDGMON		
REP THOMPSON		
REP NEUMAN		

YEA NAY

NO OBJECT

Amendment to Amend HB100
-GARA-

2015 HOUSE FINANCE COMMITTEE VOTE SHEET

Conceptual Amendment . Thompson

Failed

5 NAY

DATE: 04.09.15

Amendment: Amend TO Conceptual

MEMBER	Favor	Oppose
REP. GATTIS		✓
REP. GUTTENBERG	✓	
REP. KAWASAKI	✓	
~~REP. MUNOZ~~ A		
~~REP. PRUITT~~ A		
REP. SADDLER	✓	
REP. WILSON		✓
REP. EDGMON		✓
REP. GARA	✓	
REP THOMPSON		✓
REP NEUMAN		✓

YEA 4 NAY 5

29-LS0423\G
Nauman
4/7/15

Adopted
4-9-15

CS FOR HOUSE BILL NO. 100(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Olson

A BILL

FOR AN ACT ENTITLED

"An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea, ammonia, or gas-to-liquid products; relating to establishing the value of the state's royalty share of gas production based on contracts with certain in-state processing facilities that manufacture urea, ammonia, or gas-to-liquid products; and providing for an effective date."

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

* **Section 1.** AS 38.05.180 is amended by adding a new subsection to read:

(*ll*) For a contract that is entered into on or after the effective date of this subsection, within 90 days after the written request of a lessee of a lease issued under this section, in order to establish the value of the state's royalty share of gas production sold by the lessee under the contract, the commissioner may enter into an agreement with the lessee to use or accept as a price for the gas an amount that is not less than the price established in the contract between the lessee and an in-state processing facility

whose primary function is the manufacturing and sale of urea, ammonia, or gas-to-liquid products to third parties in arm's length transactions, not to exceed the amount that would otherwise be due under the lease. The commissioner may enter into an agreement under this subsection if

(1) the commissioner makes a written finding that

(A) it is in the best interest of the state; and

(B) based on clear and convincing evidence, the contract price is not unreasonably low; and

(2) the primary function of the in-state processing facility is to engage in the production of urea, ammonia, or gas-to-liquid products, and the lessee is not affiliated with either an owner of the in-state processing facility or with a subsequent purchaser of more than 10 percent of the urea, ammonia, or gas-to-liquid products produced by the processing facility; for purposes of this paragraph, the parties are affiliated if, in the judgment of the commissioner, one of the parties exercises substantial influence over the policies and actions of the other as evidenced by a relationship based on common ownership or family interest or by action taken in concert without regard to whether that influence is based on stockholdings, stockholders, officers, or directors; in this subsection, "gas-to-liquid product" means a liquid produced by a processing facility that combines, breaks up, or rearranges atoms present in natural gas, but does not include liquefied natural gas.

* **Sec. 2.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.052. Credit for the in-state manufacture of urea, ammonia, or gas-to-liquid products. (a) A taxpayer that owns an interest, either directly or through a partnership or limited liability company, in an in-state processing facility whose primary function is the manufacturing and sale of urea, ammonia, or gas-to-liquid products to third parties in arm's length transactions is entitled to receive a credit under this section against the tax due under this chapter. The credit under this section is equal to the percentage of the amount of royalty paid under AS 38.05.135 on natural gas from a state lease that is delivered in the taxable year of the taxpayer for use at the in-state processing facility equal to the percentage of the ownership interest held by the taxpayer in the in-state processing facility.

(b) A tax credit or portion of a tax credit under this section may not be used to reduce a taxpayer's tax liability under this chapter below zero. An unused tax credit or portion of a tax credit received under this section may not be carried forward for use in a taxable year of the taxpayer after the taxable year in which the credit is earned.

(c) To claim a credit under this section, the taxpayer shall report to the department the name of each lessee delivering natural gas for use at the in-state processing facility, the identification and quantity of natural gas from each state lease that is the source of the natural gas, the ownership percentage of the taxpayer in the in-state processing facility, and the price for the natural gas established in a contract between the in-state processing facility and the lessee delivering the natural gas.

(d) In this section, "gas-to-liquid product" has the meaning given in AS 38.05.180(*ll*).

* **Sec. 3.** AS 43.20.052 is repealed.

* **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. AS 43.20.052, added by sec. 2 of this Act, applies to the amount of royalty paid under AS 38.05.135 on natural gas from a state lease that is delivered for use at an in-state processing facility whose primary function is the manufacturing and sale of urea, ammonia, or gas-to-liquid products to third parties in arm's length transactions on or after July 1, 2017, and before January 1, 2022.

* **Sec. 5.** Sections 1, 2, and 4 of this Act take effect July 1, 2017.

* **Sec. 6.** Section 3 of this Act takes effect January 1, 2022.

29-LS0423\N
Nauman
3/31/15

adopted 04.03.15

CS FOR HOUSE BILL NO. 100( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Olson

A BILL

FOR AN ACT ENTITLED

"An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea or ammonia; relating to establishing the value of the state's royalty share of gas production based on contracts with certain in-state processing facilities that manufacture urea or ammonia; and providing for an effective date."

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

* **Section 1.** AS 38.05.180 is amended by adding a new subsection to read:

(*ll*) For a contract that is entered into on or after the effective date of this subsection, within 90 days after the written request of a lessee of a lease issued under this section, in order to establish the value of the state's royalty share of gas production sold by the lessee under the contract, the commissioner may enter into an agreement with the lessee to use or accept as a price for the gas an amount that is not less than the price established in the contract between the lessee and an in-state processing facility

whose primary function is the manufacturing and sale of urea or ammonia to third parties in arm's length transactions, not to exceed the amount that would otherwise be due under the lease. The commissioner may enter into an agreement under this subsection if

(1) the commissioner makes a written finding that

(A) it is in the best interest of the state; and

(B) based on clear and convincing evidence, the contract price is not unreasonably low; and

(2) the primary function of the in-state processing facility is to engage in the production of urea or ammonia, and the lessee is not affiliated with either an owner of the in-state processing facility or with a subsequent purchaser of more than 10 percent of the urea or ammonia produced by the processing facility; for purposes of this paragraph, the parties are affiliated if, in the judgment of the commissioner, one of the parties exercises substantial influence over the policies and actions of the other as evidenced by a relationship based on common ownership or family interest or by action taken in concert without regard to whether that influence is based on stockholdings, stockholders, officers, or directors.

* **Sec. 2.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.052. Credit for the in-state manufacture of urea or ammonia. (a) A taxpayer that owns an interest, either directly or through a partnership or limited liability company, in an in-state processing facility whose primary function is the manufacturing and sale of urea or ammonia to third parties in arm's length transactions is entitled to receive a credit under this section against the tax due under this chapter. The credit under this section is equal to the percentage of the amount of royalty paid under AS 38.05.135 on natural gas from a state lease that is delivered in the taxable year of the taxpayer for use at the in-state processing facility equal to the percentage of the ownership interest held by the taxpayer in the in-state processing facility.

(b) A tax credit or portion of a tax credit under this section may not be used to reduce a taxpayer's tax liability under this chapter below zero. An unused tax credit or portion of a tax credit received under this section may not be carried forward for use in a taxable year of the taxpayer after the taxable year in which the credit is earned.

(c) To claim a credit under this section, the taxpayer shall report to the department the name of each lessee delivering natural gas for use at the in-state processing facility, the identification and quantity of natural gas from each state lease that is the source of the natural gas, the ownership percentage of the taxpayer in the in-state processing facility, and the price for the natural gas established in a contract between the in-state processing facility and the lessee delivering the natural gas.

* **Sec. 3.** AS 43.20.052 is repealed.

* **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. AS 43.20.052, added by sec. 2 of this Act, applies to the amount of royalty paid under AS 38.05.135 on natural gas from a state lease that is delivered for use at an in-state processing facility whose primary function is the manufacturing and sale of urea or ammonia to third parties in arm's length transactions on or after July 1, 2017, and before January 1, 2027.

* **Sec. 5.** Sections 1, 2, and 4 of this Act take effect July 1, 2017.

* **Sec. 6.** Section 3 of this Act takes effect January 1, 2027.

Alaska State Legislature

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REPRESENTATIVE MIKE CHENAULT

SPEAKER OF THE ALASKA STATE HOUSE

SPONSOR STATEMENT

COMMITTEE SUBSTITUTE for HOUSE BILL 100 (RES): "An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea or ammonia; relating to establishing the value of the state's royalty share of gas production based on contracts with certain in-state processing facilities that manufacture urea or ammonia; and providing for an effective date."

House Bill 100 seeks to incentivize the production of certain value-added products that use as their feed stock natural gas from state leases.

HB 100 allows a company that produces urea or ammonia to credit their taxes under AS43.20 if they purchase gas from a state lease. The credit is only available for a limited time, cannot be carried forward from one year to the next and the value of the credit cannot exceed the amount the state receives for royalty.

It is my belief that this credit will be viewed favorably by the market and will act as an incentive for capital to flow to the Kenai Peninsula and Alaska.

Representative_Mike_Chenault@legis.state.ak.us

Alaska State Legislature

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REPRESENTATIVE MIKE CHENAULT
SPEAKER OF THE ALASKA STATE HOUSE

CHANGES IN CSHB 100 ( ), VERSION N FROM CSHB 100 (RES)

CSHB 100( ), Work Order No. 29-LS0423\N (Nauman) makes changes to **CSHB 100(RES)** to address the possibility than an in-state processing facility that manufactures urea or ammonia may have more than one owner. A person is an owner if the person is the sole owner or if the person is a member of a partnership or limited liability company that owns the processing facility. The new version also clarifies that the credit is based on natural gas delivered *for use at* the processing facility and not merely delivered *to* the processing facility.

Description of changes in CSHB 100( ) from CSHB 100(RES):

(No change in Title.)

Section 1. AS 38.05.180(*ll*)(2), on page 2 of the bill, relates to the acceptance of a contract between a lessee and in-state processing facility that may be used as the basis for determining the amount of royalty for natural gas production due to the State from the lessee. In CSHB 100( ), language is added to clarify that a lessee delivering natural gas for use at the in-state processing facility may not be affiliated with either an owner of the processing facility or with a purchaser of more than 10 percent of the urea or ammonia produced by the processing facility.

AS 38.05.180(*ll*)(2) is on page 2, lines 9 – 17 of CSHB 100( ).

Rep.Mike.Chenault@akleg.gov

Sec. 2. AS 43.20.052 provides a credit for the in-state manufacture of urea or ammonia based on the royalty due to the State on natural gas delivered for use at the in-state processing facility.

In AS 43.20.052(a), language is added to address the situation in which there may be more than one owner/taxpayer of the processing facility; multiple owners may have an ownership interest through a partnership or limited liability company. Where there is more than one owner, the percentage of the available credit for each owner is equal to the percentage ownership the person has in the processing facility.

Also, language is added to clarify that the delivery of natural gas "*for use at* the in-state processing facility" rather than "*to* the in-state processing facility" is the basis for the tax credit. The phrase "for use at" ensures that only the natural gas that is actually delivered for use at the facility is eligible for the credit; natural gas delivered to but not used at the facility may not be used as a basis for the credit.

AS 43.20.052(a) is on page 2, lines 20 – 27 of CSHB 100( ).

In AS 43.52.052(b), the phrase "reduce *the* taxpayer's tax liability" was changed to "reduce *a* taxpayer's tax liability" for consistency with a multiple-owner/taxpayer structure for a processing facility.

AS 43.20.052(b) is on page 2, lines 28 – 31 of CSHB 100( ).

In AS 43.20.052(c), language is amended to require a report on natural gas that is delivered "for use at the in-state processing facility" rather than "to the in-state processing facility" to match the language change in AS 43.52.052(a). Additional language is added to require a report of the percentage ownership held by each owner of the processing facility.

AS 43.20.052(c) is on page 3, lines 1 – 6 of CSHB 100( ).

(No change in sec. 3.)

<u>Sec. 4.</u> The applicability section is amended to clarify that gas delivered *for use* at the processing facility (rather than *to* the facility) during the period of applicability is eligible for the credit. Also, language is added to more fully describe the in-state processing facility so that it is consistent with the description of the facility in <u>AS 43.20.052</u>, that would be enacted by sec. 2 of the bill.

Sec. 4 of the bill is on page 3, lines 9 – 13 of CSHB 100( ).

(No changes is secs. 5 and 6.)

Good Morning Representative Thompson,

I would appreciate your support of HB 100. It is most important for the following reasons which I know you are aware of.

· Jobs - with oil and gas prices low it's only a matter of time before job losses mount in the oilfield. It could be important to mention that Agrium's "economic reach" goes well beyond Kenai and into many communities throughout the State.

· Business - its not just about hiring people to do KNO work, it's also about the cash infusion from doing it. There are a large number of indirect jobs generated by a facility like KNO.

· Cook Inlet - just a few years ago we were looking at importing natural gas to energize the rail-belt. New exploration and production have saved us from that, but now it's time to establish a steady market for explorers, and Agrium is steady market. Absent a gas buyer like Agrium giving explorers a reason to invest, the rail-belt is going to wind up in the same situation it was in a few years ago.

· State benefits - we want the state of Alaska seen as a good place to do business, and the state wants to add value to it's natural resources. It's appropriate for the state to partner with companies like Agrium to attract private investment.

Respectfully,
Jay Goold

Jay Goold
Manager
Paramount Supply Company
7928 King Street
Anchorage, Alaska 99518 USA
Office: 907-349-0280
Cell: 907-244-0365 (24/7)
www.paramountsupply.com

Alaska Garden & Pet Supply Inc. dba, **Alaska Mill & Feed Co.**

114 North Orca • P.O. Box 101246 • Anchorage, Alaska 99510 • Phone (907) 279-4519 • FAX (907) 276-7416

March 06, 2015

Dear Representatives Neuman, Thompson, and Sadler:

We operate a feed mill, a commercial distribution business for horticultural and revegetation products, a retail operation, and a fertilizer blending plant. We built our fertilizer plant thirty plus years ago to take advantage of the urea produced on the Kenai Peninsula. As you know, urea is a source of nitrogen and the plant provided us with a very price competitive nitrogen source. We continued to supply our plant with the nitrogen from Kenai until the plant was closed several years ago. Currently, we bring in rail cars of urea from Agrium's Canadian plants.

Even though we import urea via rail, our products are still competitive, but our margins have shrunk and the additional transportation costs, which are substantial, are passed on to our customers. Alaskans pay more for everything because of transportation and because there are very few manufacturing facilities in the State. The Agrium plant in Kenai was the rare exception and it made a significant difference from a supply and a cost stand point.

Our customer base is much larger and more diverse than you might imagine. We supply the State DOT with urea from the West Coast for deicing for smaller, rural airports throughout Alaska. Before the Agrium Plant closed, the Kenai urea was used at the airports. Our retail packages of fertilizer are sold in all the major chain stores and independent retail outlets under the Arctic Gro brand. Our Arctic Melt brand ice melt products which are also sold in most retail outlets contain a few urea based specialty products. We also supply commercial contractors, landscapers, government agencies, municipalities, and farmers with fertilizer.

If State leaders are serious about diversifying our economy, encouraging additional exploration, promoting well paying job growth, encouraging local manufacturing, and lowering costs to the residents of Alaska, they need to encourage Agrium to open the urea plant in Kenai.

I support House Bill 100 and I hope you will also.

Sincerely,

Ken Sherwood
C.E.O.

FURIE
Operating Alaska LLC

The Honorable Speaker of the House Chenault
29th Alaska State Legislature
Juneau, Alaska

April 6, 2015

Subject: Letter of Support for House Bill 100
Relating to tax credits for certain in-state processing facilities

Dear Speaker Chenault,

Furie Operating Alaska, LLC ("Furie") is a new Cook Inlet oil and gas exploration and development company. This spring and summer, we will be installing the first offshore natural gas production platform in the Cook Inlet since the Osprey in 2000. Furie is forecasting our first natural gas production in October 2015.

Furie's successful exploration program, natural gas discovery, and upcoming production infrastructure can be accredited in part by the forward-thinking legislative actions that established the Cook Inlet exploration and development tax credit programs. This extremely successful program is evidenced by new oil and gas E&P companies coming to Alaska to do business, the resurgence of new businesses and economic development across the Kenai Peninsula, increased natural gas reserves and production, the restarted LNG shipments to Japan, the hopeful reopening of the Agrium fertilizer plant, and all of the direct and indirect jobs that have been created for Alaskans.

As with the oil and gas tax credits, the credits contemplated in HB 100 will help to continue new development and the re-opening of the Agrium fertilizer plant. Among other things, the Agrium plant will create a new market for recently discovered and the re-developed natural gas reserves.

As you know from living on the Kenai Peninsula, oil and gas exploration and development has caused a renaissance in new businesses, developments, and jobs. The reopening of the Agrium fertilizer plant in Nikiski will continue that trend. Furie supports your efforts with HB 100.

Should you have any questions, please do not hesitate in contacting me.

Respectfully Yours,

Bruce Webb

Bruce Webb
Senior Vice President

1029 W. 3rd Avenue, Suite 500 | Anchorage, AK 99501
OFFICE: 907-277-3726 | FAX: 907-277-3796

Oilfield Service Co. LLC

March 31, 2015

15-GEN-035

Representative Mike Chenault
Alaska State Legislature
State Capitol Room 208
Juneau AK, 99801

Re: Support HB100

Dear Mr. Speaker:

I am writing this letter on behalf of Peak Oilfield Service Company LLC and, more specifically, our 400-plus employees located in and around the Cook Inlet. Our company relies heavily on the oil & gas industry throughout the State of Alaska. In turn we provide good-paying jobs that help create and sustain a vibrant economy. Peak is in full support of HB100, and we view this opportunity to diversify the economic engine for the area as a step in the right direction. The real potential for inspiring the restart of the Agrium Facility lies with the tremendous "economic reach" that would go beyond Kenai and directly affect many communities throughout the State of Alaska. Finding and encouraging large consumers of Cook Inlet gas will help spur additional exploration and development.

I appreciate all of the efforts that you and your colleagues have accomplished to date, and wish to make clear you have my support with our industry's best interest in mind.

If you have any further questions or require additional information, please do not hesitate to contact me at (907) 263-7008.

Sincerely,

Patrick M. Walsh, PE
President & CEO

Cc: Co-Chair: Representative Steve Thompson
Co-Chair: Representative Mark Neuman
Vice-Chair: Representative Dan Saddler

ARCTIC WIRE ROPE and SUPPLY inc.

6407 Arctic Spur Road, Anchorage, Alaska 99518
(907) 562-0707, Fax (907) 562-2426

March 26, 2015

Dear Speaker Chenault,

I own Arctic Wire Rope & Supply, an industrial manufacturing and supply company in Anchorage. I am writing to encourage passage of HB 100.

Obviously I have a vested interest in seeing this happen as we were a strong supplier to Agrium in the past but reopening the plant would have more far reaching economic impact than my shop, especially in the Kenai area. At a time when abundant oil and gas is having a negative impact on the Alaskan economy, this is actually a unique way for us to take advantage of an oversupply of gas.

Much like what Iceland is doing with aluminum smelting leveraging their hydropower, we can do the same with our new found gas, creating more local value by turning the gas into fertilizer. I especially like the concept of "pay to play" as the state doesn't give credits until the Agrium facilities are up and running.

The more value added manufacturing we can do, especially at the present time, the better.

Thank you for your consideration,

Eric

Eric McCallum
President
Arctic Wire Rope & Supply, Inc

cc:

Representative Benjamin Nageak
Representative David Talerico
Representative Mike Hawker

Univar USA Inc
590 E 100th Avenue
Anchorage, AK 99515
USA

907 344 7444 **T**
907 522 1486 **F**
www.univarusa.com

March 28, 2015

State of Alaska Legislators:

Re: House Bill 100 – Tax Abatement – Agrium Kenai Operations

I'm not sure that Alaskans could have too many jobs, but we should always encourage and support jobs that create gainful long-term substance. To that end, I encourage your favorable attention to the minimized balance of taxation to support the re-start of the Agrium Kenai Nitrogen Operations.

Having been a long time supplier partner of Agrium (and formerly Unocal) Univar and its selection of manufacturing supporters are in favor of Agrium receiving tax abatement considerations to help them return to some measure of their former economic glory. Not to mention the jobs that a re-start would create, it is sound economically and financially beneficial to the State of Alaska to re-install Agrium as a contributing exporter of Alaskan natural resource development.

The resource development potential that Cook Inlet possesses should be supported by the State of Alaska for those individuals and companies who are willing to invest in getting those idle resources into the global economy.

Please do your part to abate the tax structure with appropriate incentives in order to reinstate jobs both directly and indirectly.

Kindest regards,

Ken D Lambertsen
District Manager – Univar USA Inc
Anchorage, Alaska

Cc: Steve Wendt, Agrium, Jason Miller, Univar,

UDELHOVEN
Oilfield System Services, Incorporated

184 East 53rd Avenue
Anchorage, Alaska 99518-1222
(907) 344-1577 Fax (907) 522-2541

Speaker Mike Chenault

I would like to express my strong support for the House Bill 100 which is encouraging the re-start of the Agrium Kenai facility. In 1978 the facility became the continent's second largest nitrogen-based fertilizer plant. Agrium is a steady market and could establish a steady market for explorers and give them a reason to invest.

This is a big jobs issue for the Cook Inlet area, and there are a large number of indirect jobs generated by a facility like KNO, this could be an economic reach that goes well beyond the Kenai and into many communities throughout the State. The businesses that support their effort also work with the community to make it a better place to live; this is a win, win for everyone.

Sincerely,

James Udelhoven

Jim Udelhoven

The Economic Benefits of Reopening the Agrium Kenai Nitrogen Plant

Prepared for:
Agrium U.S. Inc.

McDowell Group
Research-Based Consulting
Juneau
Anchorage

May 2013

The Economic Benefits of Reopening the Agrium Kenai Nitrogen Plant

Prepared for:
Agrium U.S. Inc.

Prepared by:
McDowell Group
Juneau • Anchorage

May 2013

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Executive Summary

Agrium U.S. Inc. contracted with McDowell Group, an Alaska research-based consulting firm, to quantify the economic impact of reopening the Agrium Kenai Nitrogen Operations located near Nikiski in the Kenai Peninsula Borough.

Before its closure in 2007, Agrium Kenai Nitrogen Operations was one of Alaska's few major manufacturing operations (outside the seafood industry) and contributed significantly to the local and statewide economies. The facility was also the United States' second largest producer of ammonia and urea, consisting of two urea and two ammonia plants, a tidewater port facility, and a power cogeneration facility. At capacity, the plant could use as much as 155 million cubic feet daily (or 53 billion cubic feet annually) of Cook Inlet natural gas.

With reopening of the plant, there are substantial economic benefits to the Kenai Peninsula Borough and Alaska economies. A summary of these impacts are highlighted below:

Redevelopment Phase Impacts

- Redevelopment will include inspection, assessment and renovation of the existing facility, a process that is expected to last 26 months.
- The plant rehabilitation project will require an annual average labor force of approximately 440 workers. The $200 million project will generate about $75 million in direct labor income over the redevelopment phase.
- Including all multiplier effects (direct, indirect, and induced effects) the plant rehabilitation effort will account for an estimated 815 annual jobs and $110 million in total labor income.

Production Phase Impacts

Direct Impacts

- The production workforce required for a single-train operation (three plants) is estimated at 140 permanent, full-time employees. At full production (a two-train operation, all six plants), 240 workers will be required.
- Annual labor income for the single train operation would total approximately $14 million. Annual labor income would increase to $24 million with re-commissioning of the second train. Agrium employees are expected to earn among the highest paid wages in the Kenai Peninsula Borough, perhaps two and half times the Borough's average wage.

TOTAL IMPACTS

- Spending in support of production operations (including purchases of natural gas, as well as variety of other goods and services) will create additional jobs and income in Alaska (indirect impacts). In addition, payroll dollars attributed to Agrium's economic activity circulate throughout the economy creating jobs and income (induced impacts).

- Including direct, indirect, and induced employment, operation of a single train will account for a total of 340 jobs and $30 million in annual labor income in Alaska.

- Including direct, indirect and induced effects, at full production (two trains), Agrium's Kenai operations will account for approximately 600 jobs and $50 million in annual labor income in Alaska.

PLANT "TURNAROUNDS" IMPACT

- Most inspection, maintenance and minor report work is conducted while the facility is operating. However, approximately every four years the plant will be shut down to undergo major maintenance and equipment overhaul, a process called a "turnaround."

- The turnaround may employ as many 1,000 workers over a labor- and capital-intensive four-week period. A budget estimate for this work could range between $25 million to $30 million (about which half would be spent on capital equipment).

- Turnaround contractors may employ nonresidents with specialized skills; however, spending by these workers on lodging, food, and other goods and services, have a substantial short-term impact on the local economy.

OTHER ECONOMIC BENEFITS

Kenai Peninsula Borough Tax Revenue

Agrium Property Tax Payments

- Agrium's Kenai operation was once among the largest property tax payers in the Kenai Peninsula Borough (KPB); however, the facility's assessed value declined after closure at the end of 2007. Investment in plant rehabilitation and re-start of operations will once again place Agrium among the top local taxpayers. Estimates of the assessed value of the re-commissioned facility, coupled with the current property tax mill rate, indicate an annual tax payment of $2.2 million to the Borough, equivalent to about 4 percent of KPB's current property tax revenue.

- If the second train is re-commissioned, Agrium would likely become the largest property tax payer in the KPB.

Agrium Employee Property and Sales Tax Payments

- All of Agrium's employees are expected to live in the Kenai Peninsula Borough and pay property taxes for their homes. Agrium homeowners could pay a combined total ranging from $242,760 (single-train scenario) to $416,357 (full production scenario) in Borough property taxes.

- Agrium and Agrium's families will also pay sales tax to KPB and city governments for locally purchased goods and services.

- Total annual sales tax revenue to the Borough related to the Agrium workforce may range from approximately $265,000 (single-train scenario) to $467,000 (full production scenario). These estimates do not include sales tax revenues paid by the Agrium-related population to the City of Kenai or the City of Soldotna, where no doubt some Agrium payroll dollars will be spent.

Charitable Contributions and Membership Organization Support

- Once back in production, Agrium is expected to resume its community investment role, supporting local nonprofit organizations and projects. It is also anticipated that future employees will actively give back to their community in volunteer hours, cash and in-kind donations. Agrium is also expected to re-engage in their involvement in civic and business organizations.

SOCIAL IMPACTS

Population

- Re-development and production will directly and indirectly result in population migration into the Kenai Peninsula Borough. Under a single-train scenario, the 340 Agrium-related jobs would support a population of 530, or 0.9 percent of the Kenai Peninsula Borough population. Under full production, the 600 Agrium-related jobs would support a population of approximately 935, or 1.7 percent of the Borough's total current population.

Student Enrollment and School District Revenue

- A portion of Agrium's employees are expected to have school-age dependents that will be enrolled in public schools in the Kenai Peninsula Borough.

- Approximately 130 students (the equivalent of 1.5 percent of current student enrollment) are expected to be enrolled by Agrium families under a single-train production scenario. Under a full production scenario, approximately 220 students (or 2.5 percent of enrollment) are expected to be enrolled.

- This enrollment could represent approximately $692,250 (single-train) to $1,171,500 (full production) in state education funding to the District.

- Additionally, as Agrium employees spend money in the community and pay property taxes, and Agrium pays its own property taxes, its presence in the Borough will have a positive impact on local revenue the Borough contributes to the District.

Summary of Economic Impacts of Re-opening Agrium Kenai Operations

Economic Activity	Impacts
Redevelopment Phase	
Expected length of plant rehabilitation	26 months
Direct employment (annual average)	440
Total annual employment (annual average direct, indirect and induced impacts)	815
Direct payroll (Redevelopment Phase)	$75 million
Total payroll (Redevelopment Phase direct, indirect and induced payroll impacts)	$110 million
Production Phase (Single-Train Scenario)	
Direct annual employment	140
Total employment (direct, indirect and induced impacts)	340
Direct annual payroll	$14 million
Total payroll impacts (direct, indirect and induced impacts)	$30 million
Agrium property tax payment to KPB	$2.2 million
Total Agrium employee property tax payments to KPB	$242,760
Total population impacts	531
KPB School District student enrollment	130
KPB School District State foundation revenue	$692,250
Production Phase (Two-Train – full production – Scenario)	
Direct annual employment	240
Total employment (direct, indirect and induced impacts)	600
Direct annual payroll	$24 million
Total payroll impacts (direct, indirect and induced impacts)	$50 million
Agrium employee property tax payment to KPB	$416,357
Total population impacts	935
KPB School District student enrollment	220
KPB School District State education funding	$1.2 million

Source: Direct employment estimates from Agrium. All others figures are McDowell Group estimates.

Chapter 1. Introduction

Background on Agrium Kenai Nitrogen Operations

The Agrium Kenai Nitrogen Operations complex is located near Nikiski, 10 miles north of Kenai. When it was built in 1968 (production started in 1969), it consisted of one urea and one ammonia plant. In 1977, the complex doubled in size, adding another urea and ammonia plant with supporting utilities. Agrium purchased the plant from Unocal in 2000, along with Unocal's entire agricultural products business.

At the time of its closure in 2007, the Kenai plant was the United States' second largest producer of ammonia and urea. The Agrium Kenai Nitrogen Operations complex had an annual production capacity of nearly 2 million metric tons. Much of Agrium's Kenai production was destined for overseas markets, including South Korea, Mexico, Taiwan, Thailand, Australia, Chile, New Zealand, and the Philippines. Within Alaska, urea was distributed and sold in small quantities for deicing purposes and agricultural use.

Redevelopment Phase

Inspection and Assessment

The path toward re-initiating operations at the plant will begin with a year-long process of inspecting equipment and assessing the operational readiness of the facility. In addition to creating five full-time positions on the Agrium payroll, this phase will employ 40 to 50 local contract workers to conduct the top-to-bottom inspections. These inspections will provide information necessary to accurately determine the cost associated with returning the plant to production-ready status. This phase will also include initial efforts to identify and potentially secure the natural gas supplies needed to feed the plant. Agrium expects to invest approximately $6 million in this phase.

Renovation

Assuming plant rehabilitation is not cost prohibitive, and assuming an adequate supply of natural gas can be secured, Agrium would move into a 26-month renovation phase. Preliminary estimates indicate an investment of $200 million will be required to rehabilitate or replace equipment, machinery and ancillary facilities, to make the plant production-ready. Approximately $160 million of this investment is expected to be spent in Alaska. The balance will be spent on equipment manufactured outside Alaska. These numbers are subject to change, pending the outcome of the plant's inspection and assessment phase.

Production Phase

Agrium's Kenai complex includes two production trains comprised of six plants. Plants 1, 2 and 3 are the original train (the south train), which was installed over 40 years ago (in 1968). The second (north) train, plants 4, 5 and 6, was installed in 1977. Agrium will initially restart just the newer train, employing 140 full-time workers. Agrium would restart the second train at a later date, determined largely by the availability of natural gas. The two-train operation would employ 240 workers on a permanent, full-time basis.

Operating at 50 percent of capacity, the operation will consume approximately 75 to 80 million cubic feet of gas per day (75 to 80 mmcf/day) or about 26 to 28 billion cubic feet annually (bcf/year). It will produce 630,000 metric tons of ammonia (about half or which is used in the production of urea) and 620,000 metric tons of urea. With both trains in operation, gas consumption and production of ammonia and urea would be double these amounts.

Chapter 2. Employment and Payroll Impacts of Redevelopment and Production

Economic Impact of Redevelopment Phase

Direct Redevelopment-Related Employment and Payroll

Rehabilitating the plant over a 26-month period will require a large, but temporary, workforce. While specific rehabilitation-phase workforce requirements have not been determined, it is possible to estimate labor requirements based on expected expenditures. Approximately 80 percent of the $200 million redevelopment budget will be spent in Alaska (the balance will be spent on equipment manufactured outside the U.S.). Economic impact models can be used to estimate the employment effects of spending related to plant rehabilitation. IMPLAN is a widely-used model for measuring the employment and labor income effects of commercial and industrial activity. According to the IMPLAN model, a repair and construction project budgeted at $160 million over 26 months would require approximately 440 workers. These workers would earn $37.5 million in labor income annually or about $75 million in total over the redevelopment-phase.

Indirect Employment and Payroll

The rehabilitation-phase would have additional employment and labor income multiplier effects. As money spent in Alaska in support of the project circulates through the economy, jobs and income are created in the support sector. Again based on IMPLAN analysis, the total employment effect (including all direct, indirect, and induced effects) of the rehabilitation effort would be an estimated 815 jobs and $55 million in annual payroll over the course of the redevelopment phase.

Agrium Kenai Operations Redevelopment Related Spending, Employment and Payroll

Total Spending	Spending in Alaska	Direct Annual Average Employment	Total Direct and Indirect Employment	Direct Payroll*	Total Direct and Indirect Payroll *
$200 million	$160 million	440	815	$75 million	$110 million

*26 month total.
Source: McDowell Group estimates.

Economic Impact of Production

Direct Employment and Payroll

As described in Chapter 1, employment for a single-train operation will require a permanent production work force of 140 full-time employees. At full production, (a two-train operation) employment would increase to 240 workers.

Though Agrium has not yet established wage and salary schedules for the reopened plant, it is likely salaries would be among the highest paid in the KPB. In 2002, the average annual wage for Agrium Kenai Operations employees was $82,584. In 2012 dollars, that would be an annual wage of $104,634. Wages paid in Alaska's refinery sector may also provide a reasonable proxy for wages at a reopened Agrium plant. In 2011 (the most recent full-year data), refinery workers in Alaska earned $114,800, according to Alaska Department of Labor and Workforce Development (DOLWD) data.[1] For purposes of this study, it is conservatively assumed Agrium Kenai Operations wages will average about $100,000 annually. Based on that average, annual payroll would total $14 million for the single train operation and $24 million for the two-train operation.

Total personnel costs, including payroll taxes and benefits, would be approximately 35 percent above payroll (wage) costs. At that labor overhead rate, annual personnel costs would total $18.9 million for the single train operation and $32.4 million for two-train production.

Indirect Employment and Payroll

Purchases of Goods and Services

Non-payroll spending in support of Agrium operations will create jobs and income in those businesses that provide the goods and services required to support the facility. The single largest expenditure will be for the natural gas that serves as feedstock for the ammonia and urea production process. While the source and price for feedstock natural gas is yet to be determined, it is possible to roughly estimate annual spending on natural gas.

Based on data published in previous studies conducted by McDowell Group, in 2003, Agrium spent $60.9 million on approximately 38.5 bcf of gas. That averages to about $1.583 per thousand cubic feet. That price was 69 percent below the prevailing value of Cook Inlet natural gas in 2003 ($2.288). In 2001, Agrium spent $80.2 million on approximately 54.2 bcf of gas. That price was 67 percent below the prevailing value of Cook Inlet natural gas in 2001 ($2.197).

Over the most recent four quarters (2nd quarter 2012 through 1st quarter 2013), the prevailing value of Cook Inlet natural gas averaged $5.449. If Agrium were to pay 68 percent of that value to secure its necessary feedstock gas, it would pay approximately $102 million annually for 27 bcf per year to supply a single-train operation and $204 million annually for approximately 55 bcf per year needed to supply a two-train operation.

[1] Alaska Department of Labor and Workforce Development, Quarterly Census of Employment and Wages, 2011.

In addition to natural gas, Agrium will purchase a variety of other goods and services in support of the Kenai operations. These purchases totaled $15 million in 2001 (when the plant was operating at full capacity) and $16 million in 2003 (when the plan was operated at about 75 percent of capacity). Adjusted for inflation, the 2003 expenditures have a current value of approximately $20 million. While the magnitude of these non-gas expenditures is likely to be somewhat dependent on production volume, for purposes of this study non-gas purchases are assumed to total $20 million for one and two-train operations.

In 2003, Agrium purchased goods or services from 384 different Alaska businesses scattered across most sectors of the economy. Approximately 210 of those businesses were located within the Kenai Peninsula Borough, with most of the remainder located in Anchorage.

Indirect and Induced Employment and Payroll

Spending on natural gas and other goods and services will create additional jobs in Alaska. Jobs and income that are generated as a result of business spending on goods and services are termed "indirect." Jobs and income are also created when workers employed by Agrium spend their payroll dollars in the local economy. This "induced" employment and income occurs throughout the economy wherever residents spend their income on household necessities, transportation, recreation, health care, other personal services, etc. Together indirect and induced impacts are termed "multiplier effects."

The most significant potential indirect employment impact would be related to the purchase of large volumes of Cook Inlet natural gas. Approximately 27 bcf/year will be required as feedstock for a single train operation and about double that for a two-train operation. As described previously, Agrium could spend $102 million (single train) to $204 million (two-train) annually to secure this gas.

Meeting Agrium's natural gas requirements locally would require a significant increase in Cook Inlet gas production, which in 2012 totaled 107 bcf. To the extent that new Agrium-related demand for natural gas spurs an increase in gas exploration and development activity, and ultimately an increase in Cook Inlet gas production, jobs will be created in the natural gas production sector. This would include jobs on production platforms and jobs with the wide variety of firms that provide goods and services to gas producers.

In previous studies, the IMPLAN model has provided multipliers for estimating the indirect and induced employment and payroll impacts of Agrium's Kenai operations. However, because the facility has not been in operation since 2007, up-to-date multipliers are not available. For purposes of this study, McDowell Group modified the older multipliers to account for inflation, changes in natural gas prices, and other factors to develop current multipliers that provide reasonable estimates of indirect and induced employment and payroll related to Agrium's Kenai operations. The results of the multiplier analysis are presented in the following table.

Production Employment and Annual Payroll Impacts

	Direct Employment	Indirect & Induced Employment	Total Employment	Direct Annual Payroll	Indirect & Induced Payroll	Total Annual Payroll
One Train	140	200	340	$14 million	$16 million	$30 million
Two Trains	240	360	600	$24 million	$26 million	$50 million

Source: Direct employment provided by Agrium. All others are McDowell Group estimates.

In total, restart of the north train will generate a total direct, indirect and induced employment impact of 340 jobs and $30 million in annual payroll. Operation of both trains would have an employment effect of 600 jobs and approximately $50 million in annual payroll.

Other Employment and Payroll Impacts

Plant "Turnarounds"

In addition to the ongoing direct and indirect employment associated with routine production operations (described above), approximately every four years a labor- and capital-intensive plant "turnaround" needs to be performed. Most inspection, maintenance and minor repair work on the plant can be conducted while the facility is operating. However, periodically, the plant must be shutdown to undergo major maintenance and equipment overhaul, a process called a turnaround. A turnaround at Agrium's Kenai facility can include as many as 1,000 workers employed over a four-week period. The budget for a turnaround would be approximately $25 million to $30 million, with about half of that amount spent on capital equipment. Most of the people employed in the turnaround will be contracted nonresident workers with specialized skills who travel from one turnaround project to the next. Nevertheless, spending by these workers on lodging, food, beverages and other things have a substantial short-term impact on the local economy.

Employee Wages

When in production previously, Agrium paid among the highest wages in the Kenai Peninsula Borough. In 2003, Agrium paid a monthly average wage of $6,882, equivalent to an annual wage of $82,584. In 2003, that was about two and a half times the economy-wide Kenai Peninsula Borough average of $33,576. Though Agrium wages would certainly be higher today (or in the near future, after reopening), even the company's 2003 wages are well above prevailing wages in the borough. Compared to 2011 wages (the most recent available full-year data), Agrium's 2003 wages are still nearly double the combined government and private sector average. When adjusted for inflation, Agrium's average 2003 annual wage has a current value of $104,634, more than double the Borough's average wage of $42,156.

High wages are important from a socioeconomic perspective because of increased induced effects (those economic effects related to local spending of payroll dollars in the support sector) and because high wages are more conducive to home ownership, supporting a family, charitable contributions, and other local economic benefits described in the following chapter.

Agrium Kenai Operations Average Monthly and Annual Wages versus Kenai Peninsula Borough Average Monthly and Annual Wages

	Average Monthly Wages	Average Annual Wages
Agrium Kenai Operations (2003)	***$6,882***	***$82,584***
Agrium Kenai Operations (current value)	***$8,719***	***$104,634***
All KPB Government Sector (2011)	$4,090	$49,080
All KPB Private Ownership (2011)	$3,325	$39,900
Total Government and Private (2011)	$3,513	$42,156

Source: Agrium (2003) and Alaska Department of Labor & Workforce Development.

Chapter 3. Other Economic Benefits of Agrium Kenai Operations

Re-start of Agrium's Kenai operations will have a range of economic benefits in addition to direct and indirect employment and payroll. This chapter describes and quantifies those benefits.

Kenai Peninsula Borough Tax Revenue

Agrium Property Tax Payments

Ten years ago, when the Agrium plant was in full production, Agrium was the second-ranked property taxpayer in the Kenai Peninsula Borough. In 2002, Agrium paid $2.21 million in property taxes. Agrium alone accounted for about 5 percent of all borough property tax revenues.

As production was reduced to a single train, the taxable value of the plant declined, as did tax payments. Agrium's property tax payments totaled $1.02 million in 2006. Most recently, in 2012, Agrium's total property tax bill was $141,000.

With redevelopment and restart of the plant, Agrium's property tax assessment and tax payment will increase. Since 2002, the mill rate in the Agrium facility's taxing unit has declined from 12.05 to 10.12. If the property is assessed at a value equivalent to the amount invested in re-commissioning the facility (plus the assessed value of the property while it was not in production), the annual tax payment to the Kenai Peninsula Borough would be approximately $2.2 million. That would place it among the top three largest property tax payers in the borough. In 2012, the Kenai Peninsula Borough took in $54.1 million in property tax revenues.[2]

Additional investment to bring the second (south) production train on-line would result in further increase in assessed value, and further increase in property tax payments. Estimates of the cost to bring the south train into production are not available. However, it is likely that with the redevelopment of the second train, Agrium would become the largest property tax payer in the KPB.

Agrium Employee Property Tax Payments

All of Agrium's employees are expected to live in the Kenai Peninsula Borough and pay property taxes on their homes. While some future Agrium employees may already reside in the borough, the new jobs created by reopening the plant will result in an overall increase in population (all other forces in the economy held constant) and an increase in demand for housing, either directly or indirectly. As this increased demand for housing is met, residential property taxes paid to the borough will increase. While it is not possible to predict the assessed value of homes owned by future Agrium employees, general measures can be used to calculate property tax payments.

[2] Alaska Taxable 2012, Alaska Department of Commerce, Community and Economic Development.

Based on a borough-wide 2012 average taxable value for single-family residences of \$202,429[3], taxed at the Borough mill rate of 8.57, and assuming all Agrium employees own their own home:

- Under a single train scenario, Agrium families would pay at least \$242,760 in Borough property taxes exclusive of additional service area and city taxes on residential property.
- Under a two-train scenario, Agrium families would pay at least \$416,357 in Borough property taxes.

Though not all Agrium employees may own a home (some may be renters), these are still conservative estimates. The much higher than average wages earned by Agrium employees would likely translate to larger, more expensive homes than the borough average, and in higher average assessed valuations. In addition, this figure does not include property tax contributions by the population of homeowners affected indirectly by Agrium's activity.

Sales Tax Revenue

While it is not possible to precisely calculate the Borough's sales tax revenue from future spending by Agrium and its employees, it is important to note there will be a positive impact. Kenai Peninsula Borough's 3 percent sales tax revenue results from a complex system of variable taxation depending on specific location of the expenditure, per invoice limit of \$500 regardless of the total value of the product purchased, expenditures by both residents and non-residents, and expenditures by Peninsula businesses and industries that are not exempt from sales taxation due to the resale provision of the sales tax code.[4]

However, given Agrium's potential total impacts could account for 1.7 to 3.1 percent of total Borough employment (depending on single- or two-train production), 3.7 to 6.2 percent of total Borough payroll and 0.9 to 1.7 percent of the Borough's population (see following section of this report for assessment of population impacts), plus Agrium's direct spending on goods and services, it is clear there will be additional direct and indirect sales tax revenues flowing to the Borough as a result of a restart of Agrium operations.

Alaska Taxable 2012, published by the Alaska Department of Commerce and Economic Development, states the per capita sales revenue for the Kenai Peninsula Borough (which levies a 3 percent sales tax) was \$500 in 2012.[5] This figure includes all sales tax revenue (\$28,385,150) divided by the Borough's 2012 population (56,756). Applying this average to the Agrium-related population, sales tax revenue to the Borough will be approximately \$265,000 (single-train scenario) or up to \$467,000 (two-train scenario). These estimates are also conservative as they do not include sales tax revenues that would be paid by the Agrium-related population to the City of Kenai or the City of Soldotna, where no doubt some Agrium payroll dollars would be spent.

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[3] Per conversation with Dennis Mueller, Appraisal Manager, KPB Assessing Department (April 18, 2013).

[4] http://www2.borough.kenai.ak.us/financedept/

[5] http://commerce.alaska.gov/dnn/Portals/4/pub/OSA%20TAXABLE%202012%20-%20FINAL%202013-02-05.pdf

Other Economic Benefits

Charitable Contributions and Membership Organizations

Once back in production, Agrium is expected to return to its role as an important local community investor, supporting local nonprofit organizations and projects. While it is not known how much Agrium will contribute to charitable organizations in the future, their corporate history of giving provides some insight to their commitment.

In 2003, Agrium contributed $194,740 in charitable donations or paid membership fees to 43 nonprofit organizations in Nikiski, Kenai, Soldotna, Homer, and Anchorage. Agrium also provided in-kind support to seven local organizations. These nonprofit organizations ranged from local school programs (in 22 different sports and academic activities), youth athletic and academic programs (17 activities), community services and civic organizations (16), environmental programs (1), senior services (42), and a variety of other health, sport, and economic development programs (19).[6]

Agrium also matched dollar-to-dollar its employees' contributions to the United Way of Kenai. In 2003, the total contribution to United Way, including employee contributions, was $59,700.

It is anticipated future employees will be like past employees, actively giving back to their community as volunteers and providers of skills, equipment, and material.

In addition, Agrium is expected to fully reengage with local civic and business organizations, such as membership in the Alaska State Chamber of Commerce, Alaska Support Industry Alliance, Resource Development Council, Kenai Chamber of Commerce, North Peninsula Chamber of Commerce, Soldotna Chamber of Commerce, and Kenai Peninsula Convention and Visitors Bureau.

Social Impacts

Population

Re-development and operation of Agrium's Kenai operation will directly or indirectly result in population migration into the Kenai Peninsula Borough. It is safe to assume some new Agrium workers will be drawn from the existing local workforce; however, relatively low unemployment rates in the Kenai Peninsula Borough means the demand for workers will be shifted to other employers (sometimes termed job "back-filling"). The unemployment rate in the Kenai Peninsula Borough averaged 8.4 percent in 2012, the lowest rate since 2008. In August of 2012, the unemployment in the borough was 6.8 percent.

Participation rates can be used to estimate long-term population effects associated with an increase in the number of jobs in a community, region, or state. The participation rate is a measure of the relationship between the number of jobs and the number of residents in an area. Based on Bureau of Economic Analysis (BEA) employment data and population data from the U.S. Census and ADOLWD, the participation rate in Alaska has ranged from 0.63 to 0.65 over the past ten years, averaging 0.64 over

[6] McDowell Group. *The Economic Impact of Closing Agrium Kenai Nitrogen Operations,* April 2004, p. 12.

that period. This means there has been an average of 64 jobs for every 100 residents in the state. (The job count includes jobs held by residents and nonresidents.) Participation rates vary from place to place, depending on a variety of factors. Larger communities, with better-developed economies, typically have higher participation rates than smaller communities.

Based on participation rate of 0.64, the population effects of restarting Agrium's Kenai operation would be:

- Under a single train operation scenario, the 340 Agrium-related jobs would support a population of 531, or 0.9 percent of the Kenai Peninsula Borough population.[7]

- Under a full production (two trains) scenario, the 600 Agrium-related jobs would support a population of approximately 935 or 1.7 percent of the Borough's total population.

Student Enrollment and Kenai Peninsula Borough School District Revenue

It is anticipated a portion of Agrium's employees will have school-age dependents (between the ages of 5 to 18). Presuming a similar ratio of employee households with school-age dependents as determined in a 2003 study and all students are enrolled in public schools in Kenai Peninsula Borough:

- Under a single train scenario, Agrium families would account for approximately 130 students (or 1.5 percent of the district's enrollment (FY 2013)).[8]

- Under a two train scenario, Agrium families would account for approximately 220 students (or 2.5 percent of enrollment (FY 2013)).

Based on the State of Alaska's public school funding formula, the Kenai Peninsula Borough School District receives funding from the State of Alaska for each student enrolled in its schools. For each Agrium dependent enrolled in the District, funding will differ depending on the size of the school attended, special needs of the student, and other factors. In FY 2013, the District received $75,858,743 in state foundation funding for an Adjusted Daily Membership of 17,246.[9] Using a simplified approach, on average, the District received $5,325 per student. Using current funding as a guide:

- Under a single train scenario, Agrium families would account for approximately $692,250 in state foundation funding to the District.[10]

- Under a two train scenario, Agrium families would account for approximately $1,171,500 in state foundation funding.

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[7] 340 total jobs divided by the statewide average labor participation rate of 0.64.

[8] According to the Kenai Peninsula Borough School District, the FY2013 enrollment was 8,892 students.

[9] Average Daily Membership means the aggregate number of full-time equivalent students enrolled in a school district during the student count period for which a determination is being made, divided by the actual number of days that school is in session for the student count period for which the determination is made (AS 14.17.990).

[10] According to the Kenai Peninsula Borough School District, the FY2013 enrollment was 8,892 students.

The Kenai Peninsula Borough School District also receives local funding support from the Borough government. Most of the borough revenue is generated by sales and property tax. As Agrium employees spend money in the community and also pay their property taxes, and Agrium pays its own property taxes, Agrium's presence will also have a positive impact on local revenue to the District. Additionally, federal revenue is expected to increase with each new student.

Potential Impacts of Agrium's Operation on State of Alaska Revenues

Prepared for:
Agrium Inc.

Prepared by:

McDowell
GROUP
Juneau • Anchorage

January 2015

Potential Impacts of Agrium's Operation on State of Alaska Revenues

Reopening of the Agrium Kenai Nitrogen Operations will generate new tax and royalty payments to the State of Alaska. As a major purchaser of Cook Inlet natural gas, Agrium will stimulate royalty payments and production taxes. Further, profitable operation of the Kenai nitrogen facility will result in corporate income tax payments by Agrium to the State of Alaska. This brief study of Agrium's revenue impacts on the State of Alaska supplements a May 2013 McDowell Group report, *The Economic Benefits of Reopening the Agrium Kenai Nitrogen Plant.*

This supplement provides an overview of annual revenue impacts under a single-train operation. Based on assumptions and calculations described below, State of Alaska revenues from royalties and production taxes (less tax credits) would be $15.0 million under a single-train production scenario.

Supply of Cook Inlet Gas to Agrium

While in operation, Agrium typically purchased 15 to 25 percent of Cook Inlet's annual production of gas. With the reopening of Agrium's facility, a single-train scenario requiring 28 billion cubic feet (bcf) of gas per year would use the equivalent of approximately 25 percent of Cook Inlet's gas production.

With increased exploration in the region, and as new fields are developed or considered for development, gas producers are seeking new or expanded markets. A commitment from Agrium to purchase large volumes of gas will provide a critical market to support current exploration and development efforts. While gas to feed the Kenai nitrogen operations may eventually come from a combination of existing and new Cook Inlet gas production, this study's underlying assumption is that annual Cook Inlet gas production ultimately will increase by the amount consumed by Agrium each year.

The rate of taxation on fields supplying gas to Agrium will differ depending on when those fields initially started producing. It is not possible to predict which specific fields (such as Beluga or Kitchen Lights) would provide gas to Agrium; however, for modeling purposes, it is assumed gas supply would come from a field that started production after April 1, 2006.

State Gas Production Revenue

Gas produced for the Agrium plant would be assessed a production tax and generate incremental royalty gas for the State of Alaska, as described below.

Royalty Gas Payments

While the rate may vary, the State of Alaska typically receives 12.5 percent of gas produced from State leases in Cook Inlet. The State can take ownership of this gas in a number of ways, but generally receives it in the form of royalty payments equal to the well-head value of the gas produced.

Production Taxes

Production taxes are levied on the Production Tax Value (PTV) of the gas, which is the remaining 87.5 percent of gross production (well-head) value after the royalty share and qualified expenses are deducted. (Qualified expenses include any gas used during its production, as well as some capital and operating costs.)

The amount of the production tax is dependent on the date the field in question originally produced gas:

- If the property supplying the purchased gas began producing prior to April 1, 2006, the production tax is the lesser of 35 percent or the rate that was in place during the previous 12 months.
- If the property supplying the purchased gas began producing after April 1, 2006, the production tax is the lesser of 35 percent or $0.177/thousand cubic feet (mcf). This application of the tax was used in McDowell Group's calculations, which are presented in the table below.

Cook Inlet Natural Gas Production Taxes and Royalty Payments

Tax Credits

Finally, if the producer purchases or earns qualifying tax credits, these tax credits are subtracted from the production tax owed to the State of Alaska. These credits allow producers to deduct certain exploration and production expenses. The following is a list of tax credits for which a Cook Inlet gas producer may qualify:

- *Small Producer Tax Credit* – a maximum of $12 million to companies with a relatively small statewide presence. Most Cook Inlet producers qualify for this tax credit, which often reduces their tax liability to zero.
- *Well Lease Expenditure Credit* – 40 percent of well-lease expenditures, predominantly qualifying exploration costs.
- *Qualified Capital Credit* – 20 percent of qualifying capital expenditures.
- *Loss Carryforward Credit* – 25 percent of a financial loss from the previous year.

Potential Revenue Scenario

Assuming most Cook Inlet producers would qualify for a Small Producer Tax Credit, the main revenue flowing to the State from Agrium gas purchases would result from the 12.5 percent royalty share. The table below provides a revenue scenario based on single-train production at Agrium's facility.

These calculations assume a wellhead gas-value of $5.70/mcf and further assume supply comes from a field that started production after April 1, 2006. In addition, it is anticipated that approximately 25 percent of the gas used for production will come from non-State leases, and 10 percent of value at the point of production qualifies as lease expenses. This model does not assume any other tax credits beyond the Small Producer Tax Credit.

Summary of Annual Royalty and Production Tax Revenue Impacts Under a Single-Train Production Scenario

	Single-Train Scenario
Gross Production (bcf)	28
Production from State of Alaska leases	21
Royalty Payment	
Minus Royalty Gas (bcf) (12.5% of gross production)	(2.6)
Net Producer Gas (bcf)	18.4
Royalty Payment ($5,700,000/bcf)	$14,962,500
Production Tax Payment	
Value at Point of Production ($5,700,000/bcf)	$104,737,500
Minus Qualified Lease Expenses	($10,473,750)
Equals Production Tax Value (PTV)	$94,263,750
Production Tax Payment ($177,000/bcf)	$3,252,375
Small Producer Tax Credits (up to $12 M maximum)	($3,252,375)
Total State Revenue Impact (Royalty Payment *plus* Production Tax Payment *minus* Small Producer Tax Credit)	**$14,962,500**

Corporate Income Tax

The State of Alaska levies an income tax on corporations that ranges from 0 to 9.4 percent of taxable income. This tax liability depends on a number of factors, including the amount of federal taxes paid, whether the company is active outside Alaska, and whether it is an oil and gas company. For purposes of this analysis, it is assumed Agrium would be taxed at a rate of 9.4 percent.

The gas purchased by Agrium would result in at least two corporate income tax payments to the State.

The gas purchased by Agrium would result in at least two corporate income tax payments to the State. First, Agrium would pay income tax based on the factors mentioned above. Second, the producer of the gas presumably would also pay a corporate income tax to the State of Alaska.

State Revenue Economic Multiplier Effects

Taxes and royalty payments to the State of Alaska by Agrium and its gas supplier(s) would become part of a much larger pool of taxes and royalties generated by Alaska's oil and gas industry. Oil- and gas-related revenues account for the vast majority of all State of Alaska unrestricted General Fund revenue (88 percent in FY2014). These revenues are used to fund a broad range of agency operations, programs, and projects.

As the State spends these taxes and revenues (including those that would be generated directly or indirectly by Agrium's Kenai operations), jobs and wages are generated across Alaska.

It is possible to estimate the direct, indirect, and induced employment and wage impacts of State revenue Agrium would generate. Based on modeling previously conducted by McDowell Group for the Alaska Oil and Gas Association, $1 million in tax and royalty payments translates (as it is spent by state government) into 9.6 jobs and $475,000 in annual wages, including all multiplier effects.[1]

The following table illustrates the jobs and wages that would be associated with taxes and royalties generated by Agrium's Kenai operations. For purposes of these calculations, total single-train revenues are estimated at $15.0 million. This estimate represents total royalty payments plus conservative upward adjustments to account for corporate income tax payments by Agrium and the gas supplier(s).

Jobs and Wages Associated with Taxes and Royalties Generated by Agrium's Kenai Nitrogen Operations

	Single-Train Scenario
Taxes and Royalties Paid	$15.0 million
Employment	140 jobs
Annual Wages*	$7.1 million

In addition to the jobs and wages presented in the table above, under a single-train production scenario, McDowell Group's 2013 study of the reopening of Agrium's Kenai plant estimated 140 direct jobs required to operate the plant with annual direct wages of $14 million.[2]

[1] McDowell Group 2014, *The Role of Oil and Gas Industry in the Alaska's Economy.*
[2] McDowell Group 2013, *The Economic Benefits of Reopening the Agrium Kenai Nitrogen Plant.*

Cook Inlet Energy
A Wholly Owned Subsidiary of Miller Energy Resources

Cook Inlet Energy, LLC
601 W. 5th Avenue, Suite 310
Anchorage, Alaska 99501

March 30, 2015

To: Representative Mike Chenault, Speaker of the House
Representative Benjamin Nageak, Co- Chair
Representative David Talerico, Co-Chair
Representative Mike Hawker, Vice-Chair

From: David Hall

RE: HB 100 – Support

Dear Representatives,

Cook Inlet Energy, LLC (CIE) supports HB 100. CIE is an independent producer of oil and gas in Cook Inlet and on the North Slope of Alaska. The potential for increasing in-state natural gas markets is a critical component to CIE's ongoing business plan. Agrium US, Inc. (Agrium) has a fertilizer manufacturing facility located in Nikiski, Alaska that currently is month-balled. Prior to its ceasing production Agrium transformed over 80 Bcf per year of natural gas into fertilizer for export from Alaska. When CIE evaluates where to invest capital exploring for natural gas, it considers where large, year round, commercial purchasers of natural gas such as Agrium are located.

The re-start of the Agrium facility will provide construction jobs and manufacturing positions. Additionally, there will be significant ancillary jobs generated by the vendors and support services necessary for ongoing operations. The multiplier effect of these jobs will be a much needed and significant to the greater Kenai area.

As Agrium finalizes their decision process to re-start their facility, HB 100, as submitted will provide tax abatement after the Agrium Fertilizer production facility is re-started. As currently written, the amount of the abatement would never be more than the amount the state receives in Cook Inlet gas royalty payments and typically would be a small percentage of the overall royalty payments. CIE supports HB 100 and encourages the legislature to enact the bill into law.

Thank you for considering these public comments. If you have any questions please do not hesitate to contact me.

Respectfully,

David Hall

David Hall
CEO

From: Rep. Steve Thompson
Sent: Friday, April 03, 2015 3:13 PM
To: Helen Phillips
Subject: FW: House Bill 100, Agrium

From: Thomas McGrath [mailto:tommcgrath@gci.net]
Sent: Friday, April 03, 2015 2:38 PM
To: Rep. Steve Thompson
Subject: House Bill 100, Agrium

Dear Representative Thompson:

I would like to encourage you to pass House Bill 100 this year as it is beneficial to Alaska and especially south Central Alaska to have Agrium operational.

At a time when we are taking a hit with the lower than normal oil prices and the associated consequences Agrium back in operation would be a boon to Jobs, associated businesses and would consequently benefit the state of Alaska.

Thank You

Tom McGrath

250-4302

Agrium

The Economic Benefits of Reopening the

Agrium Kenai Nitrogen Plant

Agrium U.S. Inc. is considering reopening its Agrium Kenai Nitrogen Operations located near Nikiski in the Kenai Peninsula Borough.

Prior to its closing in 2007 due to an insufficient supply of natural gas, the Agrium plant was one of the region's largest private sector employers and among the top sources of tax revenue to the borough. If the plant were to reopen, it could bring hundreds of new jobs and millions of dollars in new payroll, to the Kenai Peninsula Borough and Alaska economies.

If an economically viable supply of natural gas can be secured, a return to production would begin with a single-train operation requiring 140 permanent full-time employees who could earn a total of $14 million in annual labor income. At full production (two trains) 240 workers would be required, with annual labor income totaling $24 million. Each production train consists of an ammonia plant and a urea plant.

Expected Benefits

Single-train Production

- **140:** Direct jobs
- **$14 million:** Direct payroll
- **340:** Total jobs (direct, indirect, and induced) in Alaska
- **$30 million:** Total payroll (direct, indirect and induced) in Alaska

Full/Two-train Productio

- **240:** Direct jobs
- **$24 million:** Direct payroll
- **600:** Total jobs in Alaska
- **$50 million:** Total payroll in Alaska

- **$100,000:** Estimated average employee wage (excluding benefits)
- **100%:** Employees living in Alaska

History & Redevelopment Phase Impacts

Our History

When the Agrium Kenai Nitrogen Operations complex was built in 1968 (production started in 1969), it consisted of a urea and ammonia plant. In 1977, the complex doubled in size, adding another urea and ammonia plant with supporting utilities. Agrium purchased the plant from Unocal in 2000.

At the time of its closure in 2007, the Kenai plant was the second largest producer of ammonia and urea in the U.S. The complex had an annual production capacity of nearly 2 million metric tons. Much of Agrium's Kenai production was destined for overseas markets, including South Korea, Mexico, Taiwan, Thailand, Australia, Chile, New Zealand, and the Philippines. Within Alaska, urea was distributed and sold in small quantities for de-icing purposes and agricultural use.

Economic Impacts

The economic Impact of reopening Agrium Kenai Nitrogen Operations will occur at three levels:

- **Direct impacts** — Agrium's own employment and payroll
- **Indirect impacts** — jobs and income generated in businesses that provide goods and services to Agrium Kenai Nitrogen Operations
- **Induced impacts** — jobs and income created as Agrium employees and employees of its contractors and vendors spend their payroll dollars in the local economy

Redevelopment Phase

The path toward re-opening operations includes inspection, assessment, and renovation of the existing facility.

Inspecting equipment and assessing operational readiness of the facility would take about a year, and create five full-time positions and employ about 40 to 50 local contract workers. During this phase, Agrium is seeking to identify and potentially secure the natural gas supplies needed to feed the plant. Agrium expects to invest approximately $6 million in this phase.

Assuming plant rehabilitation is economical, and assuming an adequate supply of natural gas can be secured, Agrium would move into a 26-month renovation phase.

The $200 million project would require a temporary labor force averaging approximately 440 workers. These workers would earn a total of $75 million in direct labor income over the 2-year plant rehabilitation timeframe.

Including all multiplier effects (direct, indirect, and induced effects) the plant rehabilitation effort could account for an estimated 815 annual jobs and $110 million in total labor income.

Production Phase Impacts

Agrium's Kenai complex includes two production trains comprised of six plants. Plants 1, 2 and 3 are the original train (the south train), which was installed in 1968. The second (north) train, plants 4, 5 and 6, was installed in 1977.

Operating at 50 percent of capacity, the operation would consume approximately 75-80 million cubic feet of gas per day (75-80 mmcf/day) or about 26- 28 billion cubic feet annually (bcf/year). It will produce 630,000 metric tons of ammonia and 620,000 metric tons of urea. With both trains in operation, gas consumption and production of ammonia and urea would be double these amounts.

Direct Impacts

Agrium's current plan is to restart just the newer train, employing 140 full-time workers with an annual labor income of approximately $14 million.

The second train could start up at a later date, determined largely by the availability of natural gas. A two-train operation would employ 240 workers on a permanent, full-time basis. Annual labor income would increase to $24 million.

Agrium employees are expected to earn among the highest wages in the Kenai Peninsula Borough, perhaps two and half times the Borough's average wage.

Total Impacts

Including direct, indirect, and induced employment, operation of a single train could account for approximately 340 jobs and $30 million in annual labor income in Alaska.

Including direct, indirect and induced effects, at full production (two trains), Agrium's Kenai operations could account for approximately 600 jobs and $50 million in annual labor income in Alaska.

Plant "Turnaround" Impacts

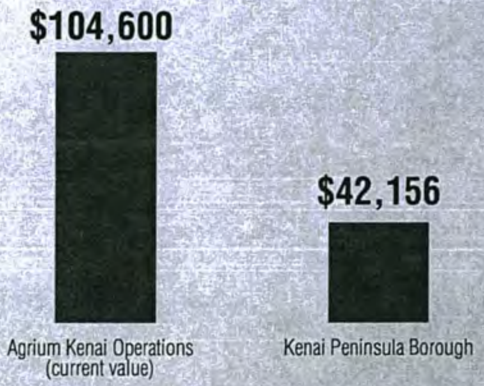
Approximately every four years the plant will be shut down to undergo major maintenance and equipment overhaul, a process called a "turnaround."

The turnaround may employ as many 1,000 workers over a labor- and capital-intensive four-week period, with total spending ranging between $25 million and $30 million.

Turnaround contractors may employ nonresidents with specialized skills; however, spending by these workers on lodging, food, and other goods and services, will have a substantial short-term impact on the local economy.

Average Annual Wage

Agrium Kenai Operations and
Kenai Peninsula Borough, 2011



Source: Agrium and Alaska Department of Labor and Workforce Development

Strengthening Communities

Generating Government Revenue

Investment in plant rehabilitation and re-start of operations would once again place Agrium among the top local taxpayers. Estimates of the assessed value of the re-commissioned facility, coupled with the current property tax mill rate, indicate an annual tax payment of $2.2 million to the Kenai Peninsula Borough, equivalent to about 4 percent of KPB's current property tax revenue.

If the second train is re-commissioned, Agrium would likely become the largest property tax payer in the KPB.

All of Agrium's employees are expected to live in the Kenai Peninsula Borough and pay property taxes for their homes. Agrium homeowners could pay a combined total ranging from $243,000 (single-train scenario) to $416,000 (full production scenario) in Borough property taxes.

Agrium and Agrium's families will also pay sales tax to KPB and city governments for locally purchased goods and services.

Total annual sales tax revenue to the Borough related to the Agrium workforce may range from approximately $265,000 (single-train scenario) to $467,000 (full production scenario). These estimates do not include sales tax revenues paid by the Agrium-related population to the City of Kenai or the City of Soldotna, where no doubt some Agrium payroll dollars will be spent.

Other Socioeconomic Benefits

COMMUNITY CONTRIBUTIONS: If the plant re-opens, Agrium expects to resume its community investment role, supporting local nonprofit organizations and projects. It is also anticipated that future employees would actively give back to their community in volunteer hours, cash and in-kind donations.

SCHOOL DISTRICT REVENUE: A portion of Agrium's employees are expected to have school-age dependents enrolled in Kenai Peninsula Borough School District schools. This enrollment could represent approximately $700,000 (single-train) to $1.2 million (full production) in state education funding to the District. Additionally, as Agrium employees spend money in the community and pay property taxes, and Agrium pays its own property taxes, its presence in the Borough will have a positive impact on local revenue the Borough contributes to the District.

Want to know more?

Visit us online at www.agrium.com, or contact us at: 907.776.5579

Agrium

This handout was prepared for Agrium U.S. Inc. by McDowell Group, Inc. ©2013. Sources for the data in this brochure include Agrium, U.S., and *The Economic Benefits of Reopening the Agrium Kenai Nitrogen Plant* prepared by McDowell Group, Inc., 2013.

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Lynn@dowlandbach.com

April 6, 2015

House Resources Committee
Co-Chair Rep. Ben Nageak
Co-Chair Rep. David Talerico
Vice-Chair Rep. Mike Hawker

RE: HB100- Urea/Ammonia Facility Tax Credit

Dear House Resources Committee:

Dowland-Bach is a forty year old Alaska based manufacturing, distribution and automation services firm based in Anchorage. Our primary clients are the oil and gas industry in Alaska and around the world. We are one of Alaska's relatively few manufacturing entities, building controls systems, UL control panels and production and chemical injection skids and modules for industry in Alaska. Our company benefits both directly and indirectly from increased resource development in the form of continued jobs and manufacturing and distribution services.

I am writing to express Dowland-Bach's support of HB100 – Urea Facility Tax Credit. Specifically:

Jobs: With oil and gas prices low, job losses are beginning to occur in the oilfield. This bill could have a significant impact on Agrium's work to restart their plant, which has numerous benefits for the entire Alaska economy.

Business: The impact of an Agrium restart is not just about the people working on the plant in Kenai. The overall cash infusion and indirect jobs across Alaska would be dramatic and important for the entire State. Cook Inlet has rebounded and customers like Agrium, as a steady customer, would insure that this continues.

In summary, I am fully supportive of the intent of this bill and respect your diligence in moving this forward in the best interest of Alaska's economy.

Sincerely,

Lynn C. Johnson
Chairman, Dowland-Bach Corporation

From: Rep. Steve Thompson
Sent: Friday, April 03, 2015 3:13 PM
To: Helen Phillips
Subject: FW: House Bill 100, Agrium

From: Thomas McGrath [mailto:tommcgrath@gci.net]
Sent: Friday, April 03, 2015 2:38 PM
To: Rep. Steve Thompson
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At a time when we are taking a hit with the lower than normal oil prices and the associated consequences Agrium back in operation would be a boon to Jobs, associated businesses and would consequently benefit the state of Alaska.

Thank You

Tom McGrath

250-4302

Homer Electric Association, Inc.

Corporate Office
3977 Lake Street
Homer, Alaska 99603-7680
Phone (907) 235-8551
FAX (907) 235-3313

Central Peninsula Service Center
280 Airport Way
Kenai, Alaska 99611-5280
Phone (907) 283-5831
FAX (907) 283-7122

March 11, 2015

Representative Mike Chenault
Speaker of the House, Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault:

RE: Agrium Facility Re-start

Homer Electric Association (HEA) would like to recognize efforts to re-start the Kenai Agrium facility by supporting HB 100, currently being considered in the Alaska Legislature. The bill, if approved, would establish a tax abatement that the Kenai Agrium facility would qualify for once the plant was re-furbished and operating.

The following objectives are potential benefits of re-starting the Kenai Agrium facility:

- Jobs - With oil and gas prices low, it is only a matter of time before job losses mount in the oilfield. It is important to mention that Agrium's "economic reach" goes well beyond Kenai and into many communities throughout the State.
- Business – It is not just about hiring people to work at the Kenai Agrium facility, it is also about the overall economic impact. There are a large number of indirect jobs generated by a business like the Kenai Agrium facility.
- Cook Inlet - Just a few years ago we were looking at importing natural gas to energize the Railbelt. New exploration and production have saved us from that, but now it is time to establish a steady market for producers. Absent a gas buyer like Agrium giving explorers a reason to invest, the Railbelt is going to wind up in the same situation it was in a few years ago.

Should you have any questions or require additional information, please feel free to contact me at (907) 283-2312 or email to bjanorschke@homerelectric.com.

Sincerely,

Bradley P. Janorschke
General Manager

cc: Steve Wendt, Agrium U.S. Inc. Facility Manager

LYNDEN
6400 S. Airpark Place, Suite 1
Anchorage, AK 99502
(907)245-1544

March 20, 2015

House Resources Committee
Co-Chair Rep. Ben Nageak
Co-Chair Rep. David Talerico
Vice-Chair Rep. Mike Hawker

RE: HB100 – Urea/Ammonia Facility Tax Credit

Dear House Resources Committee:

Lynden is a multi-modal transportation and logistics company, with over 900 Alaska employees, a history of scheduled service to Alaska starting in 1954, and extensive activity throughout the state of Alaska, including support for all segments of the economy. Lynden has provided transportation services for the resource industry including significant logistics support for virtually every project in Alaska. Our company benefits both directly and indirectly from increase resource development in the form of continued jobs and transportation services.

I am writing to express Lynden's support of HB100 – Urea Ammonia Facility Tax Credit. Specifically:

- ✓ Jobs - with oil and gas prices low job losses are beginning to occur in the oilfield. This bill could have a significant impact on Agrium's work to restart their plant, which has both direct and indirect job benefit (including companies such as Lynden) for the local and Alaska economy.

- ✓ Cook Inlet - just a few years ago we were looking at importing natural gas to energize the rail-belt. New exploration and production improved the outlook for the peninsula. The re-start and engagement of Agrium as an active participant in the market is beneficial to the continued exploration and development in Cook Inlet which benefits Alaska by diversification and stabilization in the gas market.

As you are aware, tax credits are a long-standing tool that can be utilized with the specific intent of spurring new developments and good jobs in the resource sector. With that in mind, we are fully supportive of the intent of this bill and respect your diligence in moving this forward in the best interests of Alaska's economy.

Sincerely,

LYNDEN TRANSPORT

Paul Friese
Vice President of Sales – Alaska

Cc: Rep. Mike Chenault – Bill Sponsor

Tom Wright

From: mark stynsberg <mstyns@gmail.com>
Sent: Wednesday, March 11, 2015 1:33 PM
To: LIO Kenai; Rep. Mike Chenault; Rep. Benjamin Nageak; Rep. David Talerico; Rep. Mike Hawker; mark stynsberg
Subject: Support HB100

Representatives,

As a former 32 year employee at the Agrium plant and now a grandfather of seven, I encourage you to support HB100 because:

It might just be the 'tipping point' to get the board of directors 'on board' with incentive to re-start.

It would provide about 140 full-time jobs at the plant.

There is a ballpark figure of $275million to get the plants running again (construction jobs).

This is a value-added process; ammonia is made from steam, air, and natural gas; urea is made from ammonia and carbon dioxide. It is a bigger process than just shipping out resources.

Please help our communities and children and grandkids have a future, and feed a future.

Thank you,
Mark Stynsberg

Tom Wright

From: Robert Warthen <rwarthen@nordaqenergy.com>
Sent: Monday, March 23, 2015 2:48 PM
To: Rep. Mike Chenault
Cc: Rep. Benjamin Nageak; Rep. Mike Hawker; Rep. David Talerico
Subject: HB100

Dear Representative Chenault:

As a 48 year resident of Alaska, I support House bill 100 currently being considered in the Alaska Legislature. Even though recent exploration and production efforts have stabilized South central Alaska's usage of natural gas for the next few years, it's time to establish a steady market for producers, thus eliminating seasonal swings of demand. Gas storage from the CINGSTA project certainly helps, but with gas reserves declining, storage will not be the answer. Today Producers are accelerating production to maintain demand, but other than Kitchen Lights (Furie) and Cosmopolitan offshore (Blue Crest - Pac West) no significant gas discoveries have been made. The Agrium facility represents a steady demand for the usage of natural gas; thus, Agrium will be a gas purchaser giving explorers a reason to invest and commit dollars to drilling.

Currently with oil prices low, the Oil and Gas Industry in Alaska, is experiencing job losses and capital spending delays. Agrium's economic reach goes well beyond Kenai and into many communities throughout
the State. It's not only the Agrium jobs created, but also the cash infusion from doing it. Additionally, there are a large number of indirect jobs generated by a facility like the Agrium Plant, and also the tax benefits to the
Kenai Peninsula Borough

Thanks for considering my support for this Bill.
Best Regards,

Robert C Warthen
9350 Nordic Drive
Anchorage, Alaska 99507

March 09, 2015

Dear Representative Chenault:

Alaska Mill and Feed has been an integral part of granular fertilizer distribution in the Alaska Market for over 30 years. In fact, our fertilizer blending facility was built in a large part due to the availability of the local supply of urea on the Kenai Peninsula. We were able to bring to the Alaska market a competitively priced product for not only the agricultural community but also to the individual homeowner with our Arctic Gro Brand of fertilizer products. In addition, we sold urea to the local airports as a deicing agent.

Now that the Urea plant has been closed for several years we have seen shrinking margins and higher costs to the agricultural community, Alaska homeowners, and the State of Alaska to maintain airport runways.

The bottom line is that opening the Urea plant in Kenai will lower costs in all these areas. In additions it will help spur the local Kenai area economy by creating needed well paying jobs, Encouraging Agrium to open this plant is the right thing for Alaska and its residents.

Please support House Bill 100.

Sincerely,

Joel Klessens

President

Alaska Garden & Pet Supply Inc. dba, **Alaska Mill & Feed Co.**

114 North Orca • P.O. Box 101246 • Anchorage, Alaska 99510 • Phone (907) 279-4519 • FAX (907) 276-7416

March 06, 2015

Dear Representatives Neuman, Thompson, and Sadler:

We operate a feed mill, a commercial distribution business for horticultural and revegetation products, a retail operation, and a fertilizer blending plant. We built our fertilizer plant thirty plus years ago to take advantage of the urea produced on the Kenai Peninsula. As you know, urea is a source of nitrogen and the plant provided us with a very price competitive nitrogen source. We continued to supply our plant with the nitrogen from Kenai until the plant was closed several years ago. Currently, we bring in rail cars of urea from Agrium's Canadian plants.

Even though we import urea via rail, our products are still competitive, but our margins have shrunk and the additional transportation costs, which are substantial, are passed on to our customers. Alaskans pay more for everything because of transportation and because there are very few manufacturing facilities in the State. The Agrium plant in Kenai was the rare exception and it made a significant difference from a supply and a cost stand point.

Our customer base is much larger and more diverse than you might imagine. We supply the State DOT with urea from the West Coast for deicing for smaller, rural airports throughout Alaska. Before the Agrium Plant closed, the Kenai urea was used at the airports. Our retail packages of fertilizer are sold in all the major chain stores and independent retail outlets under the Arctic Gro brand. Our Arctic Melt brand ice melt products which are also sold in most retail outlets contain a few urea based specialty products. We also supply commercial contractors, landscapers, government agencies, municipalities, and farmers with fertilizer.

If State leaders are serious about diversifying our economy, encouraging additional exploration, promoting well paying job growth, encouraging local manufacturing, and lowering costs to the residents of Alaska, they need to encourage Agrium to open the urea plant in Kenai.

I support House Bill 100 and I hope you will also.

Sincerely,

Ken Sherwood
C.E.O.

From: Jay Goold <jaygoold@paramountsupply.com>
Sent: Friday, March 27, 2015 10:10 AM
To: Rep. Mike Chenault
Subject: House Bill 100

Importance: High

Good Morning Representative Chenault,

I appreciate you sponsoring HB 100. It is most important for the following reasons which I know you are aware of.

- Jobs - with oil and gas prices low it's only a matter of time before job losses mount in the oilfield. It could be important to mention that Agrium's "economic reach" goes well beyond Kenai and into many communities throughout the State.

- Business - its not just about hiring people to do KNO work, it's also about the cash infusion from doing it. There are a large number of indirect jobs generated by a facility like KNO.

- Cook Inlet - just a few years ago we were looking at importing natural gas to energize the rail-belt. New exploration and production have saved us from that, but now it's time to establish a steady market for explorers, and Agrium is steady market. Absent a gas buyer like Agrium giving explorers a reason to invest, the rail-belt is going to wind up in the same situation it was in a few years ago.

- State benefits - we want the state of Alaska seen as a good place to do business, and the state wants to add value to it's natural resources. It's appropriate for the state to partner with companies like Agrium to attract private investment.

Respectfully,
Jay Goold

Jay Goold
Manager
Paramount Supply Company
7928 King Street
Anchorage, Alaska 99518 USA
Office: 907-349-0280
Cell: 907-244-0365 (24/7)
www.paramountsupply.com

KENAI LEGISLATIVE INFORMATION OFFICE

Email: **Kenai_LIO@akleg.gov**

Phone: **907-283-2030** / Fax: **907-283-3075**

WRITTEN TESTIMONY

NAME: J.R. Meyers

REPRESENTING: Self

BILL # or SUBJECT: HB 100

COMMITTEE: House Resources **DATE:** 3-25-15

Dear Representatives,

Alaska is in no position to continue subsidizing industry.

Get the state budget in order.

I urge you to vote NO on HB100.

Peace & Blessings,

J.R. Myers

Soldotna, AK

ALASKA FARM BUREAU, INC.

Bryce Wrigley, President
bjwrigley@gmail.com

Amy Seitz, Executive Director
amy.seitz@gmail.com

March 18, 2015

Representative Mike Chenault
State Capitol
Juneau, AK 99801

Dear Speaker Chenault:

Thank you for your efforts to increase resource development in Alaska. The Alaska Farm Bureau supports your efforts with HB 100.

As you are aware, opening the Agrium plant again will benefit the agriculture community. For years many farmers purchased fertilizer from the Nikiski plant. When Agrium closed, fertilizer had to be shipped in, adding a significant increase to the operating costs for hay, barley, oats, straw, etc. This, in turn, increased the costs to farmers purchasing these products for feed, as well as for consumers wanting to purchase local food.

Having a local fertilizer source is not just an economic benefit to agriculture, but also solidifies Alaska's food security. Imagine the incalculable value of having an in-state fertilizer source in the event of some major disruption in West Coast ports.

The Alaska Farm Bureau also supports this bill for the other economic benefits to Alaska. There will be an increase in jobs, the obvious ones at the plant, as well as the indirect jobs generated by a facility like KNO. Having a steady market for gas supplies gives a reason for explorers to invest.

The economic benefits from increasing gas exploration and production as well as decreasing the costs for the agricultural industry are many. Each dollar we can keep in Alaska, instead of going outside for things such as fertilizer, will get re-circulated in feed stores, grocery stores, hardware stores, etc.

Thank you again for efforts to benefit the gas and agricultural industries with House Bill 100.

Sincerely,

Bryce Wrigley, President
Alaska Farm Bureau, Inc

37075 Nicholas View Lane Soldotna, AK 99669 Telephone: 907-252-5064

HOUSE FINANCE COMMITTEE

HB 100-UREA/AMMONIA FACILITY TAX CREDIT

SIGN-IN TO TESTIFY

INVITED TESTIFIERS

Name: Steve Wendt Subject/Bill No: 100

Co./Dept./Title: Manager Phone: 907-776-8144

Email Address: swendt@agrium.com Zip: 99611

Do you wish to testify? ✓ Yes ___No ___Respond To Questions

Name: Adam Diamond Subject/Bill No: 100

Co./Dept./Title: Manager Phone: 303 656-5035

Email Address: adam.diamond@agrium.com Zip: 80304

Do you wish to testify? ___Yes ___No ___Respond To Questions

Name: ___ Subject/Bill No: ___

Co./Dept./Title: ___ Phone: ___

Email Address: ___ Zip: ___

Do you wish to testify? ___Yes ___No ___Respond To Questions

Name: ___ Subject/Bill No: ___

Co./Dept./Title: ___ Phone: ___

Email Address: ___ Zip: ___

Do you wish to testify? ___Yes ___No ___Respond To Questions

Name: ___ Subject/Bill No: ___

Co./Dept./Title: ___ Phone: ___

Email Address: ___ Zip: ___

Do you wish to testify? ___Yes ___No ___Respond To Questions