

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES,

1993-1994

1069

143

HB

450

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 14, 1994

FURTHER REFERRALS:

Date of Committee Action: 3/25/94 am

The FINANCE Committee considered:

HB 450

HOUSE BILL NO. 450

INVESTMENT POOLS FOR PUBLIC ENTITIES

"An Act relating to investment pools for public entities; and providing for an effective date."

- RECOMMENDATIONS: [] the same title
 be replaced with _____ [] a new title
 [] have attached amendments(s)
 [✓] do pass
 [] do not pass
 [] no recommendations
 [] individual recommendations
 [] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

[] fiscal impact _____

[] fiscal note(s) _____

[✓] zero fiscal note DCRA

[] zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Ronald J. Larson</i> Larson	X	<i>Sean A. Farrell</i> FARRELL		X	
<i>Mark P. Hanley</i> Hanley	X	<i>Jay Brown</i> BROWN		✓	
<i>Larry Martin</i> MARTIN	X	<i>Greg Thurman</i> THURMAN		X	
<i>Bernard Grussendorf</i> GRUSSENDORF	X				
<i>Tom Hoffman</i> HOFFMAN	✓				
<i>Richard T. Fosbitt</i> FOSBITT	X				

CO CHAIRMAN'S SIGNATURE

Ronald J. Larson
Larson

Revision Date: _____ Dept. Affected: Community & Regional Affairs
 Title: "An Act relating to investment pools for public BRU: _____
entities; and providing for an effective date." Component: _____
 Sponsor: House Finance Committee
 Requestor: _____ COMPONENT SERIAL NO. _____

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE:						
----------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

Estimate of current (FY94) Impact \$ none

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Remond Henderson *J. Henderson* Director Phone: 465-4708
 Division: Administrative Services Date: 3/22/94
 Approved for the Commissioner by: Bruce Geraghty Deputy Commissioner Date: _____
 Agency: Community & Regional Affairs *E. Benoit*

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information call the Governor's Legislative Office

Alaska Permanent Capital Management Company

900 West Fifth Avenue, Suite 701
Anchorage, Alaska, 99501

Phone: (907) 272-7575

Fax: (907) 272-7574

November 10, 1993

TO: AMLIP Board

FROM: David A. Rose,  Financial Advisor

SUBJECT: Investment Policy

We have reviewed the Pool's Investment Policy as set forth by Pool Resolution and Alaska Statutes 37.23.

Our review of the above, in light of current market practices and conventions, indicates that Pool performance could be enhanced by several technical changes. These changes would put the Pool on a level playing field with competing money market funds.

The attached, marked up copy of the statute, sets forth the recommended changes. The proposed changes have been coordinated with the Commissioner of Revenue and language recommended by the Commissioner has been utilized. Thus, there is full agreement as to verbiage. A copy of the Commissioner's letter is attached to this memorandum.

Technical changes are as follows:

- 37.23.020 is clarified to permit the purchase of floating rate securities, provided there is an annual rate reset.
- 37.23.020 (3)(A) is clarified to explicitly permit the purchase of Yankee securities when the parent of a US branch bank is rated "A" or higher. The Pool currently invests in these securities.
- A new section 37.23.035 is added to explicitly authorize securities lending provided collateral is provided and income from securities lending benefits Pool participants.
- 37.23.040 (2) is deleted to permit the holding of larger quantities of bank issued securities.

The above four changes do not subject the Pool to extraordinary risk and they comport with concepts embodied in prudent investor rules adhered to by similar funds and

Registered with the U.S. Securities and Exchange Commission

AMLIP BOARD

institutions.

I urge the AMLIP Board to (1) authorize these changes (2) pursue their adoption by the state legislature and (3) amend Pool investment policy upon amendment of statute.

Alaska Permanent Capital Management Company

900 West Fifth Avenue, Suite 701
Anchorage, Alaska, 99501

Phone: (907) 272-7575

Fax: (907) 272-7574

January 4, 1995

Representative Ronald L. Larson
House of Representatives
Committee on Finance
State Capitol
Juneau, Alaska 99801-1182

Dear Ron:

Many thanks for sending me work draft 8-LS1413\A which makes amendments to AS 37.23. These changes will enhance the financial performance of the AML Investment Pool.

I have carefully reviewed the draft and find that it conforms, in every respect, to the needs of the Pool and to the suggestions offered by the Administration. The bill is technically correct and there are, to my knowledge, no conflicts of any kind.

We would appreciate sponsorship by the House Finance Committee and I will make myself available by telephone or teleconference if you have any questions or require oral testimony. Kent Swisher, Executive Director of the Alaska Municipal League is also available to assist.

I have not requested a member of the other body to introduce similar legislation. Kent Swisher can make such a request if you think it will be helpful or expeditious. Please advise him accordingly.

Fran and I send you and Emily warm wishes for a full year of happiness and accomplishment.

Sincerely,



David A. Rose, Financial Adviser
Alaska Municipal League Investment Pool, Inc.

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

October 7, 1993

David A. Rose
Alaska Permanent Capital Management Company
900 West 5th Avenue, Suite 791
Anchorage, AK 99502

Dear Dave:

I applaud your efforts to seek legislative approval for the participants of the Alaska Municipal League Investment Pool to participate in securities lending. The Department of Revenue has a securities lending program. This fully collateralized vehicle has been very successful and added a considerable amount of income to the funds.

After reading your proposed language authorizing securities lending in the statutes, I have two observations. The language would allow for "adequate collateralization or indemnification, or both." While indemnification is important, being fully collateralized at all times is a critical component to a successful securities lending program; the proposed language makes collateralization optional. Also, you may find being indemnified may reduce your split of the lending proceeds and eliminate potential lending candidates that are prohibited from indemnification.

My other observation is a small one. Part of the last sentence in the proposed language states "and shall serve to increase investment pool net yield." I realize insuring that the participants in the pool receive the proceeds from a lending program is important, but adding to the yield may be inconsistent with AIMR standards for computing performance measurement.

With those observations in mind, the following language may be worth your consideration:

37.23.035.5 SECURITIES LENDING. Securities held by an investment pool may be loaned provided such securities are fully collateralized and collateral is safekept by a party independent of the borrowers. Collateral must meet institutional and prudent investor standards. All pool proceeds from securities lending shall inure to the benefit of investment pool participants.

I concur with the other proposed language changes to the statutes. Those changes should give the pool participants greater flexibility within very prudent standards.

David A. Rose
October 6, 1993

Page 2

Please accept these observations as they are given, as a positive attempt to assist you in achieving your goal. I would encourage you to call on me or Bob Storer, Chief Investment Officer, should you require assistance.

Sincerely,



Darrel J. Rexwinkel
Commissioner

DJR:pml

11 12 13 14 15 16 17



February 23, 1994

TO: Representative Al Vezey, Chair
and Members
House State Affairs Committee

FROM: Kent E. Swisher, Executive Director

RE: **HB 450 - Relating to Investment Pools for Public Entities**

The Alaska Municipal League strongly supports **HB 450**, which would allow public entity investment pools such as the AML Investment Pool a broader range of investment options to enhance their financial performance. The concepts embodied in **HB 450** were suggested by Dave Rose, Investment Adviser to the AML Investment Pool, and approved by the Pool's Board of Directors in November 1993.

As you may know, AML was instrumental in gaining passage, in 1992, of AS 37.23, the Public Entity Investment Pool Act. AML's Pool was organized under the Act and opened for business in early 1993. It is directed by a Board of Directors chaired by Jerome Selby, AML Past President and Mayor of the Kodiak Island Borough. Dave Rose of Alaska Permanent Capital Management Company serves as Investment Adviser.

The AML Investment Pool was organized to offer Alaska's local governments and school districts a secure investment opportunity with a high rate of return and same-day access. Its investment objectives are, in priority order, preservation of capital, liquidity, and a high rate of return. As of December 1993, 27 municipalities and school districts were members of the Pool, and total investments were nearly \$30 million. Pool yields have been competitive with alternate short-term investment options, but can be improved, according to advisers, if the amendments proposed in **HB 450** are adopted.

The proposed amendments to AS 37.23 have been coordinated with the Department of Revenue. They clarify the ability of the Pool to invest in certain types of securities and authorize the Pool to participate in securities lending, provided certain conditions are met.

AML urges your support of **HB 450**.

94legls:hb450.223

HOUSE COMMITTEE REPORT

(7)
 Date Referred: February 9, 1994 FURTHER REFERRALS: Finance

Date of Committee Action: 3-12-94

The STATE AFFAIRS Committee considered: HB 450

HOUSE BILL NO. 450 INVESTMENT POOLS FOR PUBLIC ENTITIES

"An Act relating to investment pools for public entities; and providing for an effective date."

RECOMMENDATIONS: [] the same title
 be replaced with _____ [] a new title

[] have attached amendments(s)

[] do pass

[] do not pass

[] no recommendations

[] individual recommendations

[] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Dept/Date)
 [] fiscal impact _____ [] fiscal note(s) _____

[] zero fiscal note HSTA [] zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
[<input checked="" type="checkbox"/>] <u>zero</u> fiscal note <i>M. Vezy</i>	X	<i>[Signature]</i>		X	
<i>[Signature]</i>	X				
<i>[Signature]</i>	X				
<i>[Signature]</i>	<input checked="" type="checkbox"/>				

[Signature]

 CHAIRMAN'S SIGNATURE

HEB

450

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/5/94

FURTHER:

DATE TURNED INTO OFFICE: 4-6-94

The Finance Committee considered

HOUSE BILL NO. 450

"An Act relating to investment pools for public entities; and providing for an effective date."

and recommends:

- replace with _____ CS _____ (FINANCE)
- or adopt previous _____ CS _____ (_____)
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations.

NEW FISCAL NOTES

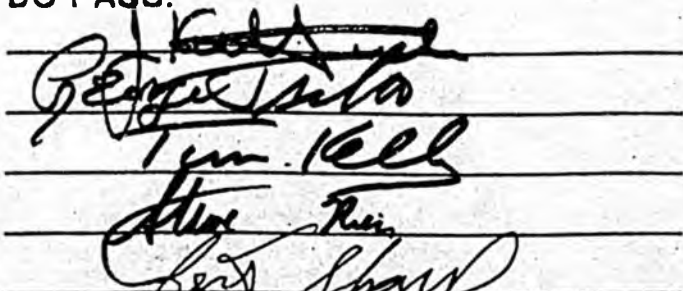
Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
DCR/A	3-22-94	0	

Appropriation No Fiscal Note

DO PASS:



OTHER RECOMMENDATIONS:

1. _____
Co-Chair: Signature/Recommendation

2. _____
Co-Chair: Signature/Recommendation

STATE OF ALASKA
1994 LEGISLATIVE SESSION

FISCAL NOTE

No. 2
Bill Version: HB 450
(H) Publish Date: 3/25/94

Revision Date: _____ Dept. Affected: Community & Regional Affairs
Title: "An Act relating to investment pools for public BRU: _____
entities; and providing for an effective date." Component: _____
Sponsor: House Finance Committee
Requestor: _____ COMPONENT SERIAL NO. _____

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE:						
----------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

Estimate of current (FY94) impact \$ none

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Remond Henderson *J. Henderson* Director Phone: 465-4708
Division: Administrative Services Date: 3/22/94
Approved for the Commissioner by: Bruce Geraghty Deputy Commissioner Date: _____
Agency: Community & Regional Affairs *Bruce Geraghty*

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information call the Governor's Legislative Office

COMMITTEE COPY

SENATE COMMITTEE REPORT
FIRST COMMITTEE OF REFERRAL

DATE: 3/30/94

FURTHER: FINANCE

DATE TURNED INTO OFFICE: _____

The L&C Committee considered HOUSE BILL NO. 450

4-5-94

"An Act relating to investment pools for public entities; and providing for an effective date."

and recommends:

replace with _____ CS _____

- same title
- new title
- technical title change (HB only)

attaches amendment(s)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

FISCAL NOTE INFORMATION

Department	Date	Zero	Fiscal

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

Governor's Bill with Previous Fiscal Notes (enter information above)

DO PASS:

OTHER RECOMMENDATIONS:

Chair: Signature and Recommendation

HB

453

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 18, 1994

FURTHER REFERRALS:

Date of Committee Action: 4/8/94

The FINANCE Committee considered:

HB 453

HOUSE BILL NO. 453

TAX ON RESIDUAL MARINE FUEL OIL

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date."

RECOMMENDATIONS:

be replaced with _____

(S) HB 453 (FIN)

the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact Revenue

fiscal note(s) ~~_____~~

zero fiscal note DUTPF

zero fiscal note(s) _____

SIGNING <u>DO PASS</u>	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<u>Edgar P Maclean</u> Maclean ✓					
<u>Ronald L Larson</u> Larson x	x	<u>Tom Hoff</u> Hoffman ✓			
<u>Mark Hanley</u> Hanley x	x	<u>Larry Brown</u> Brown ✓			
<u>Terrey Martin</u> Martin x	x				
<u>Sean K. Russell</u> Russell x	x				
<u>Ben Grossenbacher</u> Grossenbacher x	x				

Ronald L Larson ED Maclean
 CO CHAIRMAN'S SIGNATURE
 LARSON Maclean

FISCAL NOTE

Revision Date:
Title: Tax on Residual Marine Fuel Oil

Department Affected: DOT&PF
BRU:

Sponsor: G. Davis
Requestor:

Component:
Component Serial Number:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING:	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE FUND SOURCE	0	0	0	0	0	0
---------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

1002 FEDERAL RECEIPTS	0	0	0	0	0	0
1003 GF MATCH	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/PROGRAM RECEIPTS	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL FUNDING:	0	0	0	0	0	0

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY94) impact: \$0

ANALYSIS: (Attach a separate page if necessary)

This bill will not impact DOT&PF.

Prepared by: Roger Allington, Acting Director

Phone: 465-6978

Division: Planning

Date: February 17, 1994

Approved by Commissioner:

B.A. Campbell
B.A. Campbell

Phone: 465-3901

Agency: Department of Transportation and Public Facilities

Date: February 23, 1994

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office

HB 453

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. CSHB 453 (FIN)

Revision Date:

Dept. Affected: Revenue

Title: Tax on Residual Marine Fuel Oil

BRU: Revenue Operations

Component: Income and Excise Audit

Sponsor: Rep. G. Davis

Requestor: (H) RLS

COMPONENT SERIAL NO. 113

Expenditures/Revenues:

(Thousands of Dollars)

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

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE: General	***	***	***	***	***	***
------------------------------	-----	-----	-----	-----	-----	-----

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary.)

*** See Attached

Prepared by:

Larry E. Meyers

Phone: 465-2320

Division:

Income and Excise Audit Division

Date: April 12, 1994

Approved by Commissioner:

Darrel J. Rexwinkel

Date: April 12, 1994

Agency:

Department of Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office



Bill Analysis

This bill levies a tax on residual fuel oil used in and on passenger watercraft, namely cruise ships, of 1 cent per gallon after marine fuel tax collections under AS 43.40.010 (5 cents per gallon) derived from passenger watercraft exceed \$205,000.

During the course of the year, taxpayers will pay marine fuel taxes at the 5 cent per gallon rate on all residual fuel oil sales. Each year, Department of Revenue will determine total tax collections derived from residual fuel oil sales and issue refunds to taxpayers on tax collections exceeding \$205,000. Refunds will be for the difference between the 5 cent per gallon amount paid and the 1 cent per gallon levy provided under this bill.

Operating Costs

Department of Revenue does not anticipate that this bill will impact its operating budget. Based on our understanding, this bill will affect a very small number of taxpayers. The Department will modify existing database systems to separately account for sales and revenue generated from passenger watercraft and generate reports to identify sales subject to refund. The Department will absorb this program into its existing operating budget.

Revenue

Based on data provided by industry, tax payments on fuel sales attributable to passenger watercraft at the current 5 cent per gallon rate has historically been about \$205,000. According to industry, this provision for the 1 cent tax under this bill will result in increased passenger watercraft fuel oil sales. However, data on additional sales that would be generated above the \$205,000 level is not available at this time. Additional revenue generated from this bill will directly correspond to additional sales beyond the \$205,000 level at 1 cent per gallon.

8-LS1357X
Chenoweth
3/28/94

adopted
4/2/94 Fm

CS FOR HOUSE BILL NO. 453()
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE G.DAVIS

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing, for purposes of the levy and collection of the motor fuel
2 tax and for a limited period, a different tax levy on residual fuel oil used in
3 and on certain watercraft; and providing for an effective date."

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

5 * **Section 1.** (a) For purposes of calculating the tax due under AS 43.40, notwithstanding
6 the rate set out in AS 43.40.010(a)(2) or (b)(2), on and after the effective date of this Act and
7 until June 30, 1998, during each year beginning October 1 and ending the following
8 September 30, the rate of the tax that is (1) levied and collected on residual fuel oil sold or
9 transferred in the state and used in and on passenger watercraft, or (2) levied and collected
10 on residual fuel oil consumed by a user and used in and on passenger watercraft, is one cent
11 a gallon after revenue derived from the tax levied under AS 43.40.010(a)(2) and (b)(2) on
12 passenger watercraft equals \$205,000 during that year.

13 (b) The Department of Revenue shall pay as a refund to every person required by
14 AS 43.40 to collect and remit the tax on residual fuel oil used in or on passenger watercraft

1 and who has remitted the motor fuel tax to the state at the rate set out in AS 43.40.010(a)(2)
2 or (b)(2), a refund of the difference between the tax paid to the department and the amount
3 of the tax required to be paid to the department at the rate set out in (a) of this section.

4 (c) The Department of Revenue may adopt regulations to implement this section.

5 (d) In this section,

6 (1) "passenger watercraft" means watercraft that are capable of carrying
7 passengers for hire and that are principally used for that purpose;

8 (2) "residual fuel oil" means the heavy refined hydrocarbon known as number
9 6 fuel oil that is the residue from crude oil after refined petroleum products have been
10 extracted by the refining process and that may be consumed or used only when sufficient heat
11 is provided to the oil to reduce its viscosity rated by kinetic unit and to give it fluid properties
12 sufficient for pumping and combustion.

13 * Sec. 2. APPLICABILITY. In calculating the tax due under AS 43.40 and sec. 1 of this
14 Act for the period beginning on the effective date of this Act and ending the following
15 September 30, the Department of Revenue shall take into account amounts received from the
16 levy of the tax set out in AS 43.40.010(a)(2) and (b)(2) on residual fuel oil used in passenger
17 watercraft after September 30, 1993, and before the effective date of this Act. In this section,
18 "passenger watercraft" and "residual fuel oil" have the meanings given in sec. 1 of this Act.

19 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

SPONSOR STATEMENT

CS for HOUSE BILL 453()

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date."

House Bill 453 is simple, straight forward legislation. HB 453 will attempt to create an equal playing field between Alaska's residual fuel oil industry and their counterparts in the Lower 48 and Canada.

Residual fuel oil is the residue from crude oil after the light oils, gasoline, naptha, kerosine, and mid-distillates are extracted in the refining process. The only applications for residual fuel oil in Alaska are asphalt, cruise ship fuel and reinjection into the pipeline. The cruise ship industry is the prime potential market for this fuel oil.

This product is subject to the State's motor fuel tax. The tax rate for residual fuel oil is five cents per gallon.

As a result of this product's current rate of taxation, Alaska's residual fuel oil is automatically non-competitive with the same product available elsewhere. Though many ships cruise Alaska waters during the summer tourist season, minimal quantities of this fuel oil are purchased in Alaska due to our comparatively high tax. Consequently the state receives minimal revenue from the tax.

House Bill 453 will reduce the tax rate levied on the sale of residual fuel oil, which will stimulate sales of residual fuel oil and benefit Alaska's economy, while simultaneously guaranteeing consistent revenues to the state treasury. This legislation will increase job opportunities in the trucking and fuel industries, thus benefitting the Alaska economy.

This bill is a prime economic development initiative.

- it creates a market for an Alaskan product
- has great revenue potential for the State
- creates jobs and infrastructure
- reduces environmental risk - reduces unwanted emissions

I urge your favorable consideration of this legislation.

SECTIONAL ANALYSIS

CS for HOUSE BILL 453()

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date.

- Section 1 (a) Amends AS 43.40.010 by decreasing the motor fuel tax rate on residual fuel oil from five cents to one cent. The decreased tax rate applies only to the cruise ship industry. However, the decreased tax rate will not apply until the state has received \$205,000 (last year's revenue) in revenue from the five cent a gallon rate. Also, provides a sunset clause for June 30, 1998.
- Section 1 (b) The department will reimburse the persons who pay the five cent a gallon rate after the \$205,000 threshold has been obtained.
- Section 1 (c) Grants the Department of Revenue the authority to adopt regulations
- Section 1 (d) Provides definitions for "passenger watercraft" and "residual Fuel Oil."
- Section 2 Clarifies the applicability of this chapter.
- Section 3 Provides for an immediate effective date.

Alaska State Legislature

Interim:
P.O. Box 1287
Soldotna, AK 99669
(907) 262-8414



Session:
State Capitol
Juneau, AK 99801
(907) 465-2693

Representative Gary L. Davis

SPONSOR STATEMENT

CS for HOUSE BILL 453(L&C)

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date."

House Bill 453 is simple, straight forward legislation. HB 453 will attempt to create an equal playing field between Alaska's residual fuel oil industry and their counterparts in the Lower 48 and Canada.

Residual fuel oil is the residue from crude oil after the light oils, gasoline, naphtha, kerosine, and mid-distillates are extracted in the refining process. The only applications for residual fuel oil in Alaska are asphalt, cruise ship fuel and reinjection into the pipeline.

This product is subject to the State's motor fuel tax. The tax rate for residual fuel oil is five cents per gallon.

As a result of the current rate of taxation on this product, Alaska's residual fuel oil is automatically non-competitive with the same product available elsewhere. The cruise ship industry is the prime potential market for this fuel oil. However, even though many ships cruise Alaska waters during the summer, minimal quantities of this extremely tax sensitive fuel oil are purchased in Alaska. Consequently the state receives minimal revenue from the tax.

House Bill 453 will reduce the tax rate levied on the sale of residual fuel oil, which will stimulate sales of residual fuel oil and benefit Alaska's economy. This legislation will increase job opportunities in the trucking and fuel industries. Simultaneously, state revenues will likely remain consistent and possibly increase.

Representing House District 8 - Soldotna to Seward

SPONSOR STATEMENT

ALASKA TRUCKING ASSOCIATION, INC.

3443 Minnesota Drive • Anchorage, Alaska 99503 • PHONE (907) 275-1149 • FAX (907) 274-1946

March 9, 1994

ALASKA TRUCKING ASSOCIATION POSITION PAPER

TO: Representative Gary Davis
and
Members of the Legislature

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

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

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

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

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

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

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

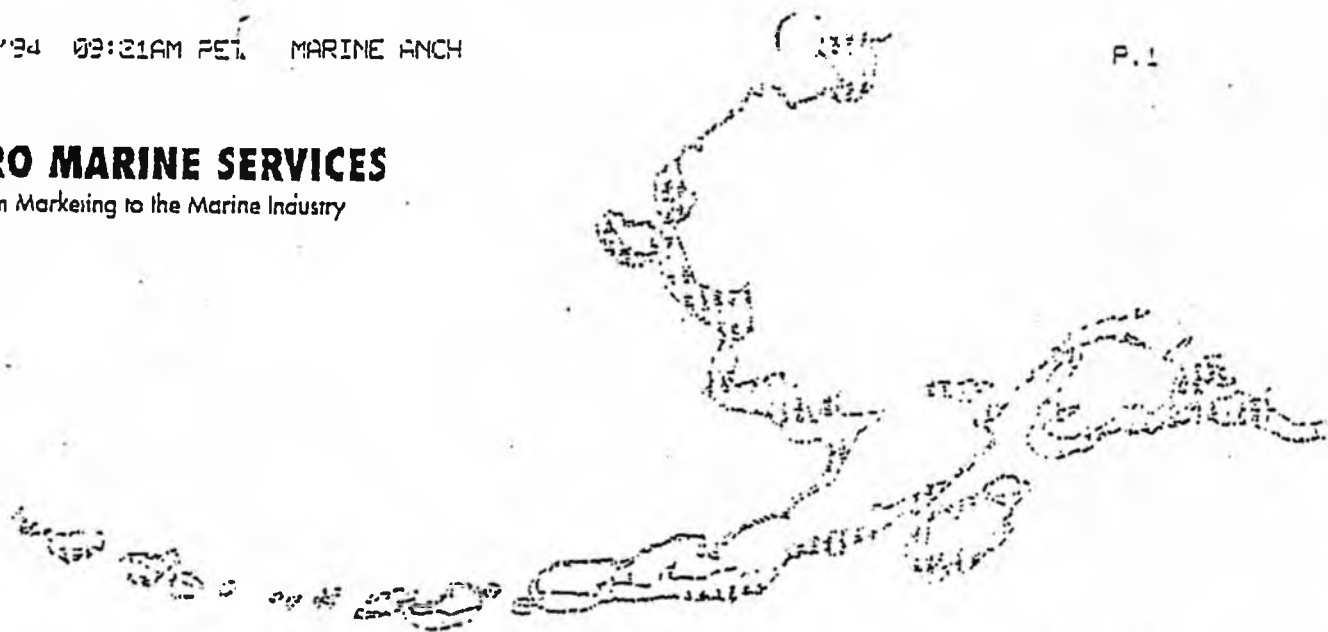
Please move this bill. Please support this bill. It's a good piece of legislation.

LETTERS OF SUPPORT



PETRO MARINE SERVICES

Petroleum Marketing to the Marine Industry



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

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

PORT OF SEWARD MARKET

THE SEWARD PROGRAM: IN THE SPRING OF 1993 PETRO MARINE INVESTED \$509,500 IN A PUMPING/INLINE BLEND SYSTEM TO SELL SHIPS BUNKERS IN SEWARD. PETRO MARINE ESTABLISHED THIS FIRST OF ITS KIND FACILITY IN ALASKA AFTER PRINCESS CRUISE SIGNED A THREE YEAR CONTRACT TO BUY A SPECIFIED MINIMUM VOLUME. PRINCESS NEEDED BUNKERS FOR VESSEL STABILITY AND PETRO MARINE NEEDED A MINIMUM QUANTITY FOR ITS RETURN ON INVESTMENT. DURING THE 1993 SUMMER SEASON PETRO MARINE SOLD 4,106,876 GALLONS OF BUNKERS AND PAID \$205,343.80 MARINE TAX.

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

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

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

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

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

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

CRUISE LINE	IFC 380 TONS	MARINE DIESEL	GALLONS
PRINCESS CRUISE	37,800	NONE	10,357,200 (CONTRACT MAXIMUM)
HOLLAND AMERICA	16,380	1,260	4,675,000 (TWO SHIPS)
CROWN	5,400	630	1,673,000 (ONE SHIP)
REGENCY	5,100	1,520	2,717,000 (TWO SHIPS)
OTHER	7,000	3,520	3,000,000 (THREE SHIPS)
	74,600	7,030	22,622,200
	=====	=====	=====

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

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

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

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

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

PETRO MARINE SERVICES

WHAT IS SHIPS BUNKERS?

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

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

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

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

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

REASONS FOR BUYING BUNKERS IN ALASKA:

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

EXAMPLE OF TAX POLICY ON SHIPS BUNKER SALES

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

SOURCE: OIL PRICE INFORMATION SERVICE (OPIS)

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

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

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

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

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

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

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

***CALIFORNIA REPEALS [BUNKER] FUEL TAX

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

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

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

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

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

KENT DAWSON COMPANY

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

March 16, 1994

The Honorable Al Vezey
Chair, House State Affairs
Committee
State Capitol
Juneau, Alaska 99801-1182

Dear Mr. Chairman:

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

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

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

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

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

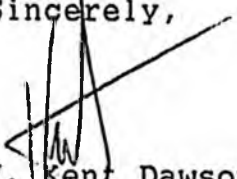
The Honorable Al Vezey

- 2 -

March 16, 1994

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

Sincerely,



V. Kent Dawson

Attachment

PRINCESS CRUISES 

1000
Santa Monica
Boulevard
Los Angeles,
California
90407-4149
Corporate
310 553-1770
Telex
TRN 186372
Telefax
310-277-2175

February 28, 1994
Ref: SAN/cjt #1612

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

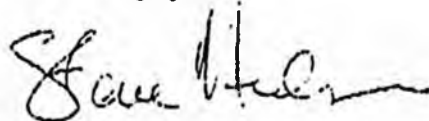
Dear Jim,

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

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

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

Very truly yours,



Stephen A. Nielsen

Sponsored by: Jones

CITY OF SEWARD, ALASKA
RESOLUTION NO. 94-030

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

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

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

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

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

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

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

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

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

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

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

THE CITY OF SEWARD, ALASKA

Dave W. Crane
Dave W. Crane, Mayor

SB 327 is companion to HB 453 - Resolution of Support

DRAFT - RESOLUTION 94-01

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

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

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

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

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

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

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

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

PASSED BY THE GREATER KENAI CHAMBER OF COMMERCE BOARD OF DIRECTORS THIS _____ DAY OF _____, 1994.

Valerie Edmundson, President
Kenai Chamber of Commerce
Board of Directors

ATTEST: _____
Laura R. Measles
Executive Director

*3/4/94 Approved @ Kenai Chamber Board meeting.
Similar resolution going to Kenai
City Council on 3/16/94*

MAR 09 '84 09:23AM PETRO MARINE ANCH

A PROPOSAL
TO DEVELOP AN ALASKAN MARKET
FOR BUNKER FUEL

PREPARED MAY 1993

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

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

I. BACKGROUND

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

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

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

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

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

PETRO MARINE SERVICES

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

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

I. BACKGROUND

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

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

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

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

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

PETRO MARINE SERVICES

-2-

II. ECONOMIC BENEFITS

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

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

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

III. PROBLEM

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

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

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

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

The vastly increased volume will mean economics of scale in:

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

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

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

-3-

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

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

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

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

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

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

THE ECONOMIC OPPORTUNITY

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

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

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

House Bill No. 453
Statement of Legislative Intent
March 8, 1994

H.B. 453 lowers the tax rate on marine bunker fuel from \$0.05 to \$0.015 per gallon in an effort to establish a new Alaska market. Over 98.5% of bunker fuel produced in Alaska is exported to Japan or the West Coast from Tesoro's Kenai refinery. The \$0.05 per gallon tax prevents Alaska from servicing the cruise ship business, as bunker fuel is available at other locations at lower prices.

Total Bunker Sales: Impact on Bill's Financial Neutrality

A critical factor evaluated has been whether or not there will be sufficient sales volume increases to offset the lower tax rate. There were 12 million gallons of taxable bunker fuel sold during 1993 in Alaska. Tesoro accounted for 2/3's this amount, using the product as bunker fuel for its tankers, and for sales to other transport tankers. Alaska's 1993 sales generated approximately \$600,000 in marine bunker fuel taxes. A reduction to \$0.01 would have reduced the tax income by \$480,000 which translates into a need for 50 Million more gallons of product sales to retain revenue neutrality. (Note: The total in-state bunker fuel sales in 1993 represent only 1.47% of the total produced in-state. Source: Tesoro Alaska Petroleum Company).

Opportunity for New Market Development

Petro Marine Services has projected an expanded bunker fuel market from the cruise ship industry if the current tax is lowered to \$0.015. The expected volumes are sufficient to offset the lower tax rate provided by this bill making it revenue neutral as it relates to the tourist ship business.

Sale of Bunker to Tanker Ships

During the 5 years (189-1993) years, the average usage was 5.8 MM gallons ranging from as little as 1 MM gallons (1990) to 7.1 MM gallons (1991). Based on the five year average, the lower tax rate of \$0.015 would require an additional 15 Million or more gallons of bunker sales per year to remain revenue neutral. Tesoro does not expect to experience such an increase, even if the tax rate is reduced. This would be equivalent to approximately \$225,000 in lost taxes from bunkering tankers not in the cruise ship category. This does not take into account the economic benefit from the 12 new seasonal jobs created; sales and property taxes; a major investment in facilities at Seward; and increased freight transportation business in the region. It is unclear whether these benefits will offset the loss in revenue from a reduction in tax rates to the tanker bunkering market.

Legislative Intent

If HB 453 is enacted with a tax reduction applicable only to cruise ships, a bill sunset is expected. It is the intent of the legislature to reexamine this issue prior to the law's sunset to determine if the sales volumes have met those projected, and to evaluate the extension of the lower tax rate to the remaining bunker fuel customers, subject to identification of offsetting tax revenue, and or other tangible benefits, generated by the total bunker fuel sales to tour ships, tankers, and other users.

MAR 09 '94 01:44PM PETRO MARINE ANCH

P.1/1

RESIDUAL FUEL SPECIFICATIONS: THE DEFINITION IN HOUSE BILL 453 AND SENATE BILL 327 INTENDS TO REFER TO ANY SHIPS BUNKER THAT IS A BLEND USING RESIDUAL FUEL OIL. UNFORTUNATELY LIKE A CASTLE, ONE MAN'S BUNKER OIL IS NOT THE SAME AS ANOTHER. THERE ARE MORE THAN ONE SET OF STANDARDS FOR ENGINE OILS:

- INTERNATIONAL COUNCIL ON COMBUSTION ENGINES (CIMAC)
- BRITISH STANDARDS INSTITUTE (BSI)
- INTERNATIONAL STANDARDS ORGANIZATION (ISO)

ONE OF MANY STANDARDS GENERALLY USED TO GRADE FUELS IS ITS VISCOSITY. ONE OF THE INDUSTRY GRADING STANDARDS IS KINEMATIC VISCOSITY MEASURED IN WHAT IS CALLED CENTISTOKES (CST). THIS IS A MEASURE OF THE NUMBER OF SECONDS IT TAKES FOR A FUEL TO PASS THROUGH A STANDARD DEVICE UNDER CONTROLLED TEMPERATURES.

THE TYPE OF FUELS THAT WOULD BE COVERED BY THIS NEW LEVY ARE FUELS THAT ARE THE RESULT OF BLENDING RESIDUAL FUEL OIL WITH A DIESEL OR OTHER VISCOSITY BREAKER. THE RESULTING FUEL WILL ALWAYS HAVE A VISCOSITY GREATER THAN NO1 OR NO2 DIESEL. THE FOLLOWING ARE THE GENERALLY ACCEPTED INTERNATIONAL STANDARDS FOR THE FUELS WE ARE TALKING ABOUT.

PRODUCT	KINEMATIC VIS IN CST		
	MIN	MAX	
NO2 DIESEL (CALLED MARINE GAS OIL IN THE MARINE FIELD)	1.9	4.1	SOLD IN ALASKA AS HEATING FUEL, MARINE DIESEL
NO1 DIESEL	1.3	2.4	SOLD IN ALASKA AS HEATING FUEL
MARINE FUELS GRADE DMB	2.5	11	CALLED MARINE GASOIL IN MARINE FIELD
DMC	-	14	
RMA-10	6.0	10	
RML-55	-	55	
GAS TURBINE FUEL OILS 3-GT 4-GT			
FUEL OILS GRADE NO. 4	5.5	24	SOMETIMES CALLED HAGO
FUEL OILS GRADE NO. 5	58	168	
FUEL OILS GRADE NO. 6	92	-	CALLED NO6, RESIDUAL FUEL

THE SHIPS BUNKERS THAT PETRO MARINE SELLS IN SEWARD ARE SOLD ON VISCOSITY RATING. THE TABLE BELOW SHOWS THE AMOUNT OF NO2 DIESEL BLENDED WITH RESIDUAL FUEL OIL TO ACHIEVE REQUESTED VISCOSITY.

REQUESTED SHIP BUNKER	% OF DIESEL
100 CST	25
160 CST	19
380 CST	8
420 CST	7
900 CST	0



City and Borough of Sitka

304 LAKE STREET, SITKA, ALASKA, 99835

March 9, 1994

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

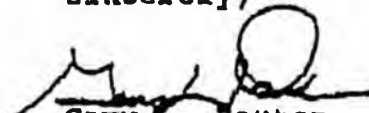
Re: SENATE BILL NO. 327

Dear Senator Sharp,

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

We strongly urge your support of this legislation.

Sincerely,


Gary M. Paxton
Administrator
City and Borough of Sitka

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

GREATER SOLDOTNA CHAMBER OF COMMERCE
RESOLUTION NO. 94-3

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

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

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

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

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

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

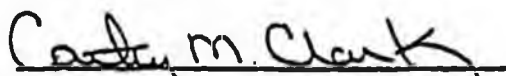
WHEREAS, the purchase of Bunker fuel by Cruiselines would have a positive economic impact to the State of Alaska and the Kenai Peninsula Borough,

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

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


Kurt Eriksson, Vice President

ATTEST:


Cathy M. Clark, Executive Director



Holland America Line
Westours Inc.

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

To fax : (907) 561-6500

Seattle February 16 1994

Dear Mr. Burns

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

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

Very truly yours

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

c.c. D. Grausz



Crown Cruise Line

February 18, 1994
L94057aa

VIA FAX: 907-561-6500

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

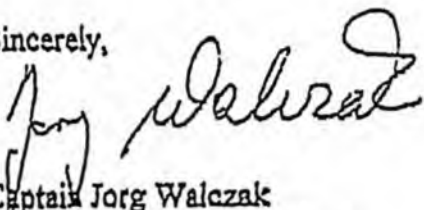
Dear Mr. Burns:

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

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

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

Sincerely,



Captain Jorg Walczak
Director, Marine Operations

JW:aa

cc: P. Grant, Sr. VP Operations



REGENCY CRUISES

March 1, 1994

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

Dear Mr. Burns:

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

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

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

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

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

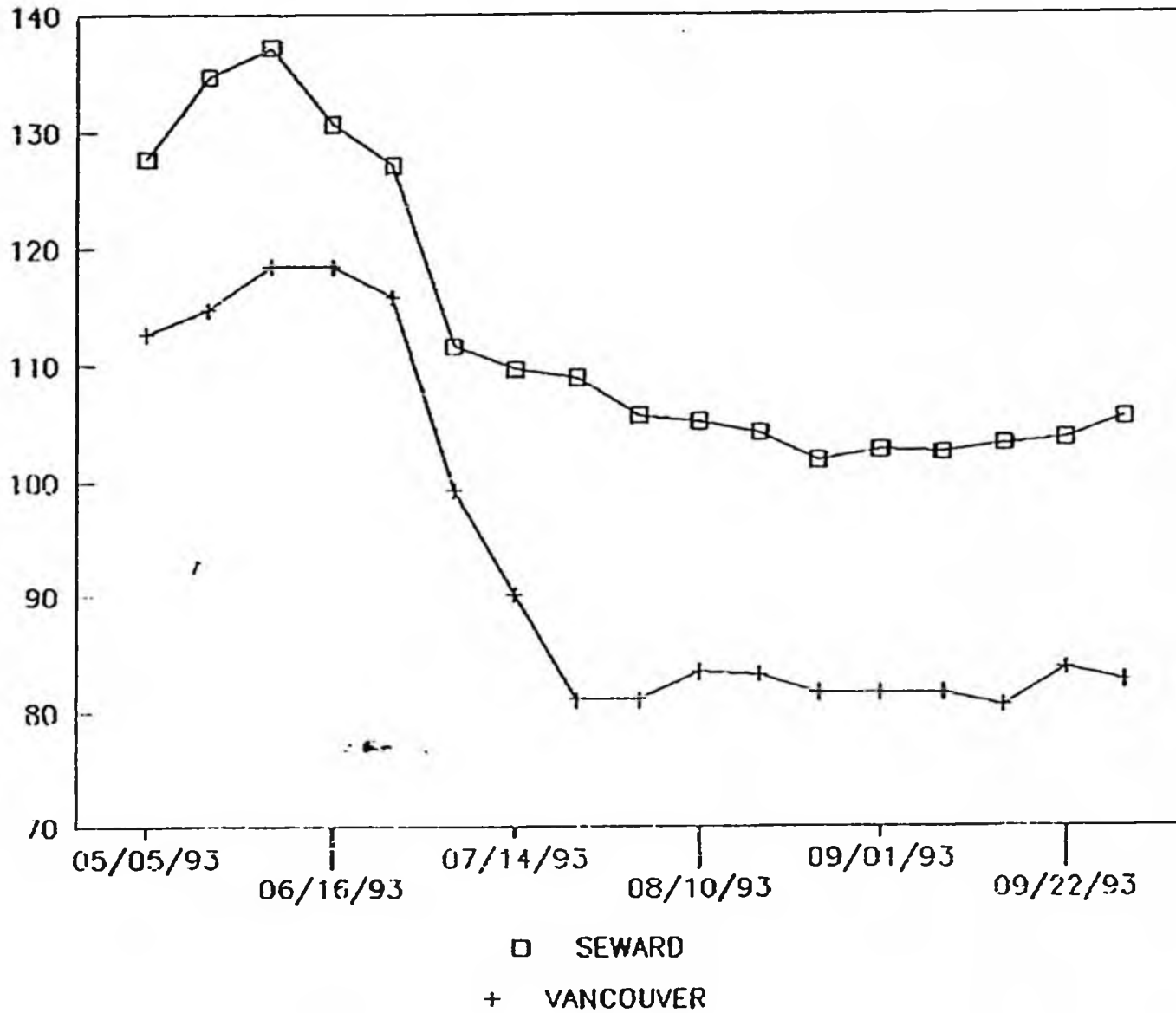
Sincerely,
REGENCY CRUISES

Andrew K. Horton
Manager - Port Operations

AKH/GG

BUNKER PRICES IFO 380

SUMMER 1993 SEWARD VS CANADA



P.1/2

GRAPHS

\$/MT

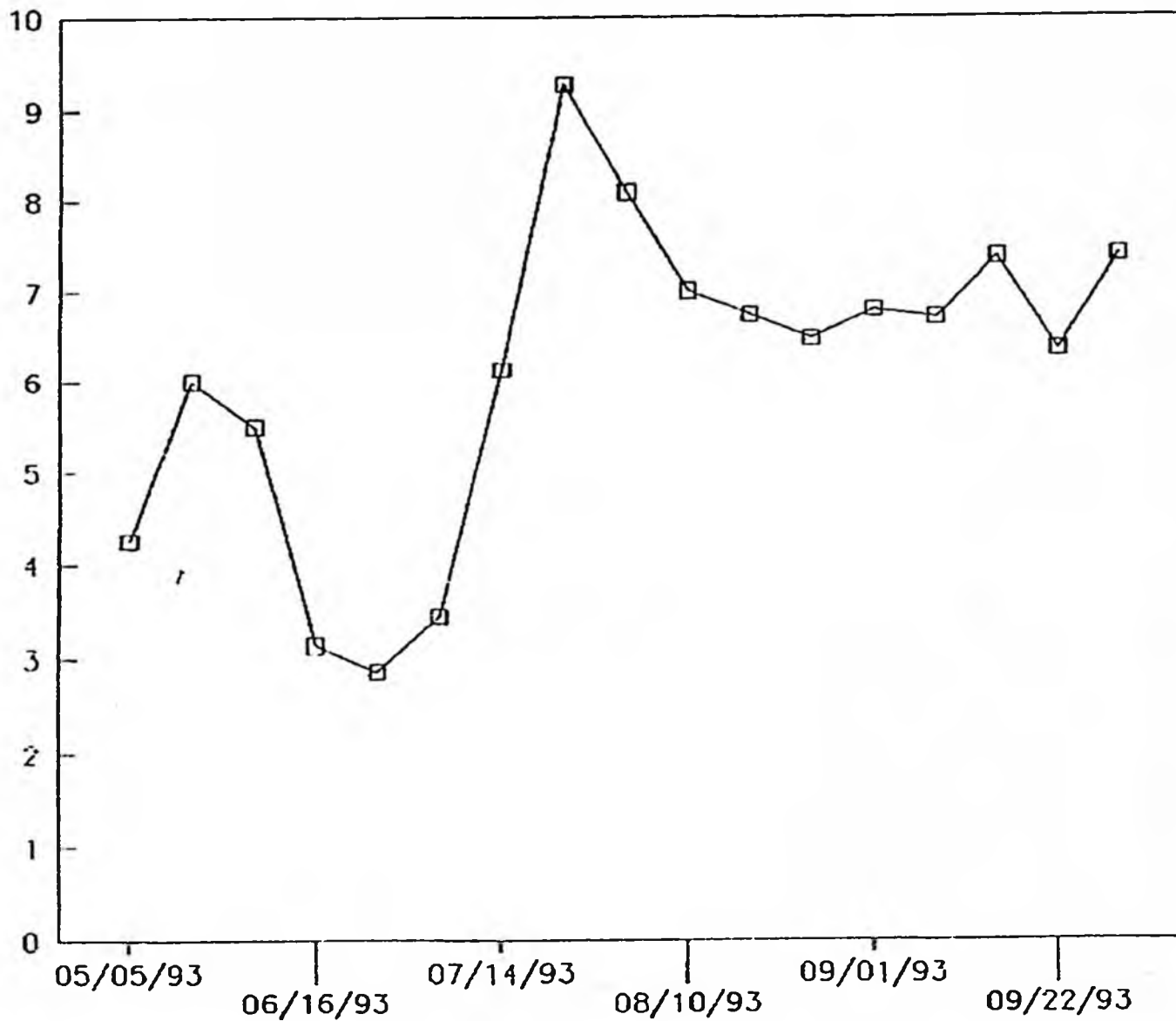
WINE WICH

MAR 09 '94 01:25PM PET

BUNKER PRICES

SEWARD OVER CANADA FOR 1993

CENTS PER GALLON



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

MARCH 19, 1993

TABLE OF CONTENTS

FOREWARD Page 1

METHODOLOGY Page 2

EXECUTIVE SUMMARY Page 3

GENERAL PRINCIPLES Page 4

ADMINISTRATIVE PROCEDURES ACT :AS 44.62 Page 4

OTHER STATUTORY CHANGES Page 6

ADMINISTRATIVE CHANGES Page 8

SPECIFIC INDUSTRIES Page 11

AGRICULTURE Page 11

LAND USE Page 12

UNDERGROUND STORAGE TANKS Page 12

OIL Page 13

MINING Page 13

TOURISM Page 16

GAME GUIDE/CHARTER FISHING Page 17

CONTAMINATION Page 18

ADDITIONAL REMARKS Page 19

COSTS Page 22

TASK FORCE STATUS Page 23

APPENDEX OF ARTICLES & REPORTS Page 24

OIL

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

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

MINING

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

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

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

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

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

HOUSE COMMITTEE REP

(7)

Date Referred: March 16, 1994

FURTHER REFERRALS:

Finance

Date of Committee Action: 3-17-94

The STATE AFFAIRS Committee considered:

HB 453

HOUSE BILL NO. 453

TAX ON RESIDUAL MARINE FUEL OIL

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 453 (H+C) the same title a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) REVENUE

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>[Signature]</i>	X	<i>[Signature]</i>		X	
<i>[Signature]</i>	X				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	X				
<i>[Signature]</i>	✓				

[Signature]
CHAIRMAN'S SIGNATURE

HOUSE COMMITTEE REPORT

(7)
Date Referred: February 9, 1994

FURTHER REFERRALS:

State Affairs
Finance

Date of Committee Action: 3/15/94

The LABOR AND COMMERCE Committee considered:

HB 453

HOUSE BILL NO. 453

TAX ON RESIDUAL MARINE FUEL OIL

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date."

RECOMMENDATIONS: the same title
be replaced with CS HB 453 (L+C) a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note Revenue

zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Brown</i>	✓	<i>Joseph [Signature]</i>			✓
<i>Bill Hudson</i>	✓				
<i>W. J. Williams</i>	✓				
<i>Joe Sutton</i>	✓				

Bill Hudson
CHAIRMAN'S SIGNATURE

KENT DAWSON COMPANY, INC.

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

April 6, 1994

The Honorable Ron Larson
The Honorable Eileen MacLean
Co-Chairs, House Finance
Committee
State Capitol
Juneau, Alaska 99801

Dear Mr. and Madam Chair:

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

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

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

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

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

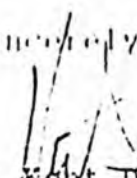
Offices: The Assembly Building
Suite 303
211 Fourth Street

The Honorable Ron Larson
The Honorable Eileen MacLean - 2 -

April 6, 1994

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

Sincerely,


V. Keft Dawson

Attachment

PRINCESS CRUISES 

1000
 Santa Monica
 Boulevard
 Los Angeles,
 California
 90017-4189
 Corporate
 310-555-1776
 Telex
 TRF 184472
 Telefax
 310-577-5175

February 28, 1994
 Ref: SAN/cjt #1612

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

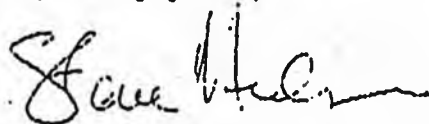
Dear Jim,

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

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

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

Very truly yours,



Stephen A. Nielsen

HB

453

SFIN

FILE

SENATE FINANCE, COMMITTEE REPORT

DATE: 4/15/94

FURTHER:

DATE TURNED INTO OFFICE: 4-19-94

The Finance Committee considered **CS FOR HOUSE BILL NO. 453(FIN)**

"An Act establishing, for purposes of the levy and collection of the motor fuel tax and for a limited period, a different tax levy on residual fuel oil used in and on certain watercraft; and providing for an effective date."

and recommends:

- replace with _____ CS _____ (FINANCE)
- or adopt previous _____ CS _____ (_____)
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
DOT	2/23/94	0	
DOR	4/12/94	0	

Appropriation No Fiscal Note

DO PASS:

Tim Kelly
Steve King
Bob Mang

OTHER RECOMMENDATIONS:

Justine DO Pass

1. True course. 10 pass
 Co-Chair: Signature/Recommendation

2. Don Do: PASS
 Co-Chair: Signature/Recommendation

FISCAL NOTE

Revision Date:
Title: Tax on Residual Marine Fuel Oil

Department Affected: DOT&PF
BRU:

Sponsor: G. Davis
Requestor:

Component:
Component Serial Number:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING:	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE FUND SOURCE	0	0	0	0	0	0
---------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

1002 FEDERAL RECEIPTS	0	0	0	0	0	0
1003 GF MATCH	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/PROGRAM RECEIPTS	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL FUNDING:	0	0	0	0	0	0

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY94) impact: \$0

ANALYSIS: (Attach a separate page if necessary)

This bill will not impact DOT&PF.

Prepared by: Roger Allington, Acting Director

Phone: 465-6978

Division: Planning

Date: February 17, 1994

Approved by Commissioner: B.A. Campbell

Phone: 465-3901

Agency: Department of Transportation and Public Facilities

Date: February 23, 1994

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office

COMMITTEE COPY

110, 453

FISCAL NOTE

No. 2

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL

Bill Version: CSHB 453(FIN)

(H) Publish Date: 4/13/94

Revision Date: _____
Title: Tax on Residual Marine Fuel Oil
Sponsor: Rep. G. Davis
Requestor: (H) RLS

Dept. Affected: Revenue
BRU: Revenue Operations
Component: Income and Excise Audit
COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

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

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUND SOURCE: General	---	---	---	---	---	---
------------------------------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary.)

--- See Attached

Prepared by: Larry E. Meyers
Division: Income and Excise Audit Division
Approved by Commissioner: Darrel J. Rexwinkel
Agency: Department of Revenue

Phone: 465-2320
Date: April 12, 1994
Date: April 12, 1994

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information call the Governor's Legislative Office

CSHB 453 (FIN)
Tax on Residual Marine Fuel Oil
April 12, 1994
Page 2 of 2

Bill Analysis

This bill levies a tax on residual fuel oil used in and on passenger watercraft, namely cruise ships, of 1 cent per gallon after marine fuel tax collections under AS 43.40.010 (5 cents per gallon) derived from passenger watercraft exceed \$205,000.

During the course of the year, taxpayers will pay marine fuel taxes at the 5 cent per gallon rate on all residual fuel oil sales. Each year, Department of Revenue will determine total tax collections derived from residual fuel oil sales and issue refunds to taxpayers on tax collections exceeding \$205,000. Refunds will be for the difference between the 5 cent per gallon amount paid and the 1 cent per gallon levy provided under this bill.

Operating Costs

Department of Revenue does not anticipate that this bill will impact its operating budget. Based on our understanding, this bill will affect a very small number of taxpayers. The Department will modify existing database systems to separately account for sales and revenue generated from passenger watercraft and generate reports to identify sales subject to refund. The Department will absorb this program into its existing operating budget.

Revenue

Based on data provided by industry, tax payments on fuel sales attributable to passenger watercraft at the current 5 cent per gallon rate has historically been about \$205,000. According to industry, this provision for the 1 cent tax under this bill will result in increased passenger watercraft fuel oil sales. However, data on additional sales that would be generated above the \$205,000 level is not available at this time. Additional revenue generated from this bill will directly correspond to additional sales beyond the \$205,000 level at 1 cent per gallon.

SECTIONAL ANALYSIS

CS for HOUSE BILL 453(FIN)

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date.

- Section 1 (a) Amends AS 43.40.010 by decreasing the motor fuel tax rate on residual fuel oil from five cents to one cent per gallon. The decreased tax rate applies only to the cruise ship industry. However, the decreased tax rate will not apply until the state has received \$205,000 (last year's revenue) in revenue from the five cent a gallon rate. Also, provides a sunset clause for June 30, 1998.
- Section 1 (b) The department will reimburse the persons who pay the five cent a gallon rate after the \$205,000 threshold has been obtained.
- Section 1 (c) Grants the Department of Revenue the authority to adopt regulations
- Section 1 (d) Provides definitions for "passenger watercraft" and "residual fuel oil."
- Section 2 Clarifies the applicability of this chapter.
- Section 3 Provides for an immediate effective date.

SPONSOR STATEMENT

CS for HOUSE BILL 453(FIN)

"An Act amending the motor fuel tax to establish a different tax levy on residual fuel oil used in and on watercraft; and providing for an effective date."

House Bill 453 is simple, straight forward legislation. HB 453 will attempt to create an equal playing field between Alaska's residual fuel oil industry and their counterparts in the Lower 48 and Canada.

Residual fuel oil is the residue from crude oil after the light oils, gasoline, naphtha, kerosine, and mid-distillates are extracted in the refining process. The only applications for residual fuel oil in Alaska are asphalt, cruise ship fuel and reinjection into the pipeline. The cruise ship industry is the prime potential market for this fuel oil.

This product is subject to the State's motor fuel tax. The tax rate for residual fuel oil is five cents per gallon.

As a result of this product's current rate of taxation, Alaska's residual fuel oil is automatically non-competitive with the same product available elsewhere. Though many ships cruise Alaska waters during the summer tourist season, minimal quantities of this fuel oil are purchased in Alaska due to our comparatively high tax. Consequently the state receives minimal revenue from the tax.

House Bill 453 will reduce the tax rate levied on the sale of residual fuel oil, which will stimulate sales of residual fuel oil and benefit Alaska's economy, while simultaneously guaranteeing consistent revenues to the state treasury. This legislation will increase job opportunities in the trucking and fuel industries, thus benefitting the Alaska economy.

This bill is a prime economic development initiative.

- it creates a market for an Alaskan product
- has great revenue potential for the State
- creates jobs and infrastructure
- reduces environmental risk - reduces unwanted emissions

I urge your favorable consideration of this legislation.

MAR 09 '94 09:23AM PETRO MARINE ANCH

A PROPOSAL
TO DEVELOP AN ALASKAN MARKET
FOR BUNKER FUEL

PREPARED MAY 1993

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

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

I. BACKGROUND

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

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

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

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

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

PETRO MARINE SERVICES

II. ECONOMIC BENEFITS

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

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

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

III. PROBLEM

The current Alaska state motor fuel tax of \$0.08/gallon is a significant impediment to gaining the full potential of residual fuel oil volume available at Seward.

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

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

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

The vastly increased volume will mean economics of scale in:

- c product cost
- c freight
- c amortization of investment

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

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

-3-

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

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

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

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

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

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

PETRO MARINE SERVICES

THE ECONOMIC OPPORTUNITY

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

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

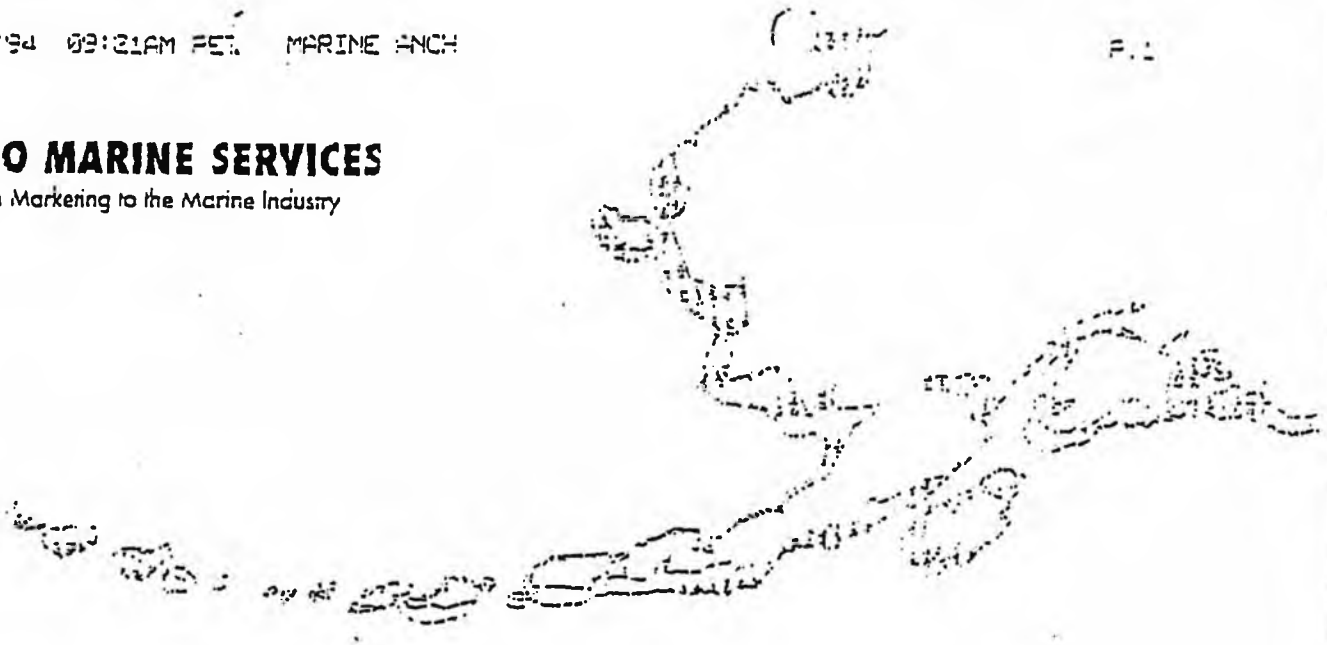
To summarize, bunker or residual fuel oil is not a motor fuel by industry definition. ASTM designation and "The Manual of Oil and Gas Terms" both define this product as heavy, high viscosity oil used primarily in industry, in large commercial buildings, and for the generation of electricity.

PETRO MARINE SERVICES

Petroleum Marketing to the Marine Industry

PETRO MARINE SERVICES

Petroleum Marketing to the Marine Industry



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

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

140°

46
252

PORT OF SEWARD MARKET

THE SEWARD PROGRAM: IN THE SPRING OF 1993 PETRO MARINE INVESTED \$509,500 IN A PUMPING/INLINE BLEND SYSTEM TO SELL SHIPS BUNKERS IN SEWARD. PETRO MARINE ESTABLISHED THIS FIRST OF ITS KIND FACILITY IN ALASKA AFTER PRINCESS CRUISE SIGNED A THREE YEAR CONTRACT TO BUY A SPECIFIED MINIMUM VOLUME. PRINCESS NEEDED BUNKERS FOR VESSEL STABILITY AND PETRO MARINE NEEDED A MINIMUM QUANTITY FOR ITS RETURN ON INVESTMENT. DURING THE 1993 SUMMER SEASON PETRO MARINE SOLD 4,106,876 GALLONS OF BUNKERS AND PAID \$205,343.80 MARINE TAX.

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

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

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

CRUISE LINE	IFC 380	GALLONS
	TONS	
PRINCESS CRUISE	17,300	10,357,200 (CONTRACT MAXIMUM)
HOLLAND AMERICA	4,095	1,122,000 (ONE SHIP IN SEWARD)
CROWN	2,700	740,000 (ONE SHIP)
REGENCY	4,050	1,110,000 (TWO SHIPS)
	48,145	13,329,200
	=====	=====

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

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

CRUISE LINE	IFC 330 TONS	MARINE DIESEL	GALLONS
PRINCESS CRUISE	37,800	NONE	10,357,200 (CONTRACT MAXIMUM)
HOLLAND AMERICA	16,380	1,260	4,875,000 (TWO SHIPS)
CROWN	5,400	630	1,673,000 (ONE SHIP)
REGENCY	8,100	1,620	2,717,000 (TWO SHIPS)
OTHER	7,000	3,520	3,000,000 (THREE SHIPS)
	74,680	7,030	22,622,200
	=====	=====	=====

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

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

- TESORO INVESTED \$75,000 IN A TRUCK RACK LOADING SYSTEM FOR NO6 FUEL OIL
- PETRO MARINE INVESTED \$609,500 ON A NEW PUMPING/INLINE BLENDING SYSTEM TO THE ALASKA RAILROAD DOCK.
- PETRO MARINE EMPLOYED 2 DOCK WATCH OPERATORS.
- WEAVER BROTHERS TRUCKING PURCHASED TWO TRUCKS AND EMPLOYED 4 DRIVERS
- TOTAL SALES FOR 1993 WAS 4,106,876 GALLONS, 356 TRUCK LOADS
- THE AVERAGE PRICE DIFFERENCE BETWEEN SEWARD AND VANCOUVER FOR SHIP BUNKERS IN 1993 WAS 6.08 CENTS PER GALLON

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

- PETRO MARINE WILL HIRE 4 DOCK WATCH OPERATORS AND A OPERATIONS SUPERVISOR
- TESORO WILL UPGRADE THE TRUCK LOADING RATE AT THE REFINERY RACK
- WEAVER WILL BUY 3 ADDITIONAL TRUCKS AND EMPLOYEE 10 ADDITIONAL DRIVERS

PETRO MARINE SERVICES

WHAT IS SHIPS BUNKERS?

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

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

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

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

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

REASONS FOR BUYING BUNKERS IN ALASKA:

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