

ALASKA LEGISLATURE

1070

HOUSE and SENATE FINANCE COMMITTEE FILES,

1993-1994

144

EXAMPLE OF TAX POLICY ON SHIPS BUNKER SALES

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

SOURCE: OIL PRICE INFORMATION SERVICE (OPIS)

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

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

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

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

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

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

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

***CALIFORNIA REPEALS [BUNKER] FUEL TAX

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

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

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

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

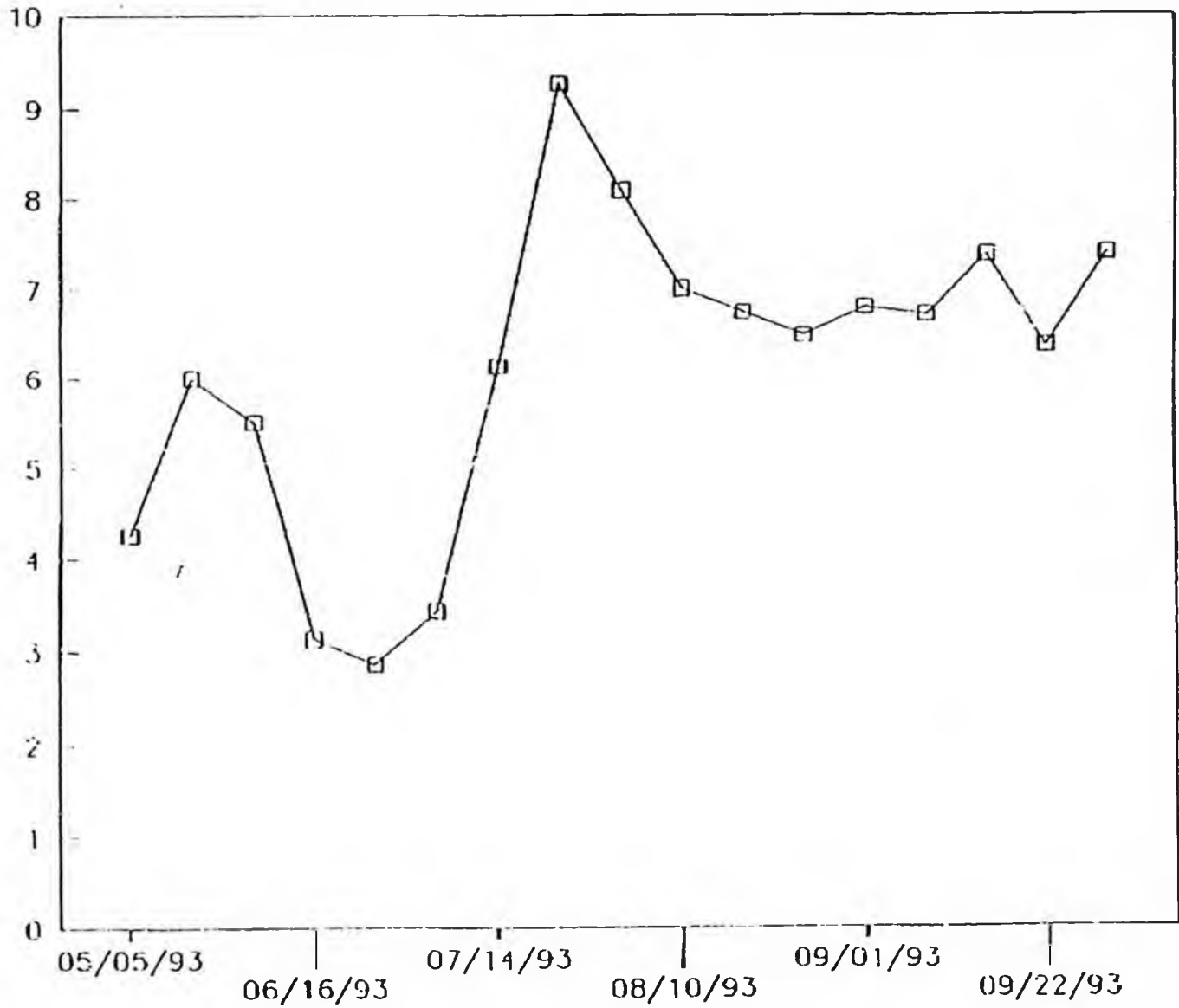
THE CALIFORNIA 8.25% DROVE BUSINESS AWAY. WITH THE ALASKA RATE OF 13%, BUNKER SALES IN-STATE ARE SPECIAL CIRCUMSTANCES ONLY. (I.E WEATHER EMERGENCIES, BALLAST NEEDS, IN-HOUSE REQUIREMENT) THERE IS NO "MARKET" PRESENTLY BUT THERE COULD BE IF THE ALASKA MARINE TAX ON HEAVY SHIPS BUNKERS WERE REDUCE TO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

PETRO MARINE SERVICES

BUNKER PRICES

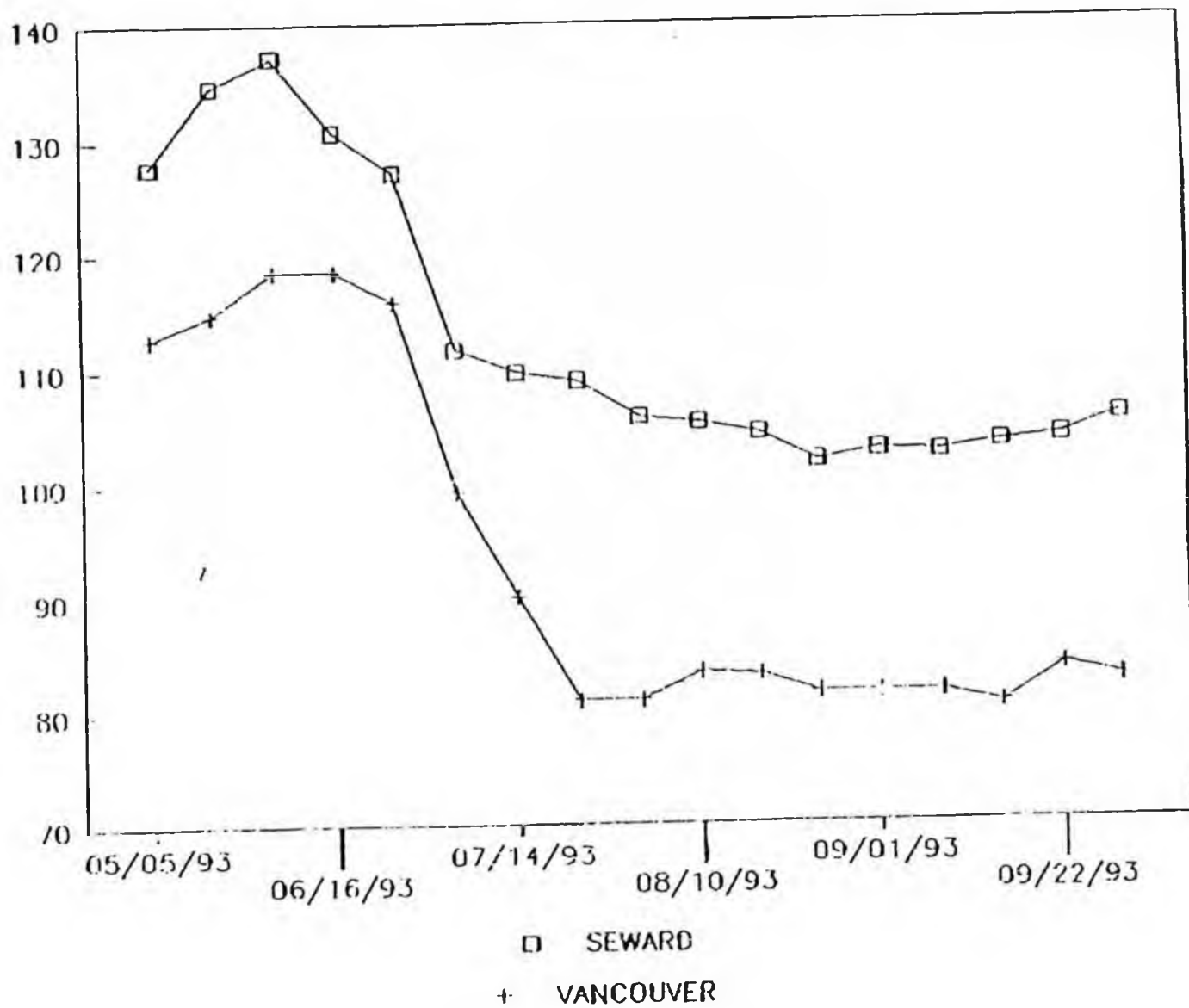
SEWARD OVER CANADA FOR 1993

NOTES PER GALLON



BUNKER PRICES IFO 380

SUMMER 1993 SEWARD VS CANADA



P. 1/2

1000 Sillars Avenue West & Seaside, Vancouver, BC V6P 1A1

MR 05 124 GREEN RE... WHITE RICH

\$ / MT

**THE FOLLOWING PAGES MAY
NOT FILM LEGIBLY BECAUSE OF
THE POOR QUALITY OF THE ORIGINAL**

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 MPMS 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	
FML-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	162	
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
150 CST	19
380 CST	8
420 CST	7
900 CST	3

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 Kanai 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.

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

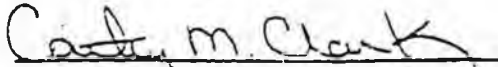
WHEREAS, the purchase of Bunker fuel by Cruiselines would have a positive economic impact to the State of Alaska and the Kenai Peninsula Borough,

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

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 \$0.05 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.

Galerie 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
TJH

Sponsored by: Jones

CITY OF SEWARD, ALASKA
RESOLUTION NO. 94-030

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

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

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

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

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

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

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


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

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

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

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

THE CITY OF SEWARD, ALASKA



Dave W. Crane, Mayor

SB 327 is similar to the IRS - less than 1000

ALASKA TRUCKING ASSOCIATION, INC.

3413 Minnesota Drive • Anchorage, Alaska 99503 • PHONE (907) 275-1149 • FAX (907) 274-1346

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





City and Borough of Sitka

304 LAKE STREET, SITKA, ALASKA, 99835

March 9, 1994

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


Re: SENATE BILL NO. 327

Dear Senator Sharp,

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

We strongly urge your support of this legislation.

Sincerely,


Gary L. Paxton
Administrator
City and Borough of Sitka

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

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

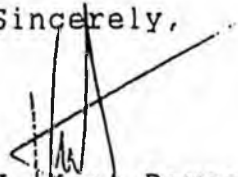
The Honorable Al Vezey

- 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



Holland America Line
Westours Inc.

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

To fax : (907) 561-6200

Seattle February 16 1994

Dear Mr. Burns

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

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

Very truly yours

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

c.c. D. Grausz



Crown Cruise Line

February 18, 1994
L940571a

VIA FAX: 907-561-6500

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

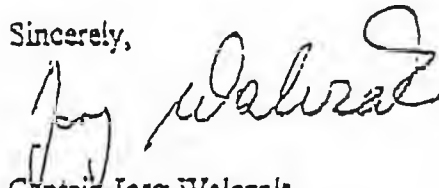
Dear Mr. Burns:

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



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 bunkars 450 M/T of IFO 180 and 150 M/T of MDO, the Regent Star 450 M/T of IFO 100 and 130 M/T of MDO every two weeks.

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

Sincerely,
REGENCY CRUISES

Andrew K. Horton
Manager - Port Operations

AKH/GG

PRINCESS CRUISES

453-1111

Miss
Santa Monica
Beverly Hills
Los Angeles
California
90407-4188
Corporate
Tel: 310-541-1111
Telex
700 188432
Telefax
310-541-1111

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 cruise 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 (2,550,000 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

Low prices fuel a busy bunker market

By Fred McCague

Low prices in the Pacific Northwest have caused a swing in the pattern of bunkering. Prices in Puget Sound dipped below \$60.00 per ton during December, and while they are now in the \$66 to \$68 range, they remain among the lowest in the world, matched only by the Houston area and the Persian Gulf, and are about \$7 per ton below Los Angeles prices. Although the location has precluded ship diversions to Puget Sound for bunkers only, the lower prices and better supply are making Seattle and Puget Sound the prime bunker source on the West Coast, and shifting bunker purchases from the Orient to the Pacific Northwest.

Shio Shiozaki of Pacific Northern Oil Corp. says between 1 and 1.2 million barrels (155,000 - 185,000 tons) of bunker fuel is sold in Puget Sound annually, now exceeding sales in Los Angeles/Long Beach and she notes "We are doing more container lines than before." Abigail Addington, Marketing Manager PNW for BP Marine America says BP's sale of its Ferndale refinery does not affect BP Marine and they "maintain a strong presence in the Northwest market." She notes bunkers are a volatile market "changing with the swing in prices," adding cyclical price swings can mean buying in Korea or Singapore one trip and Seattle the next. BP and Pacific Northern are the two largest suppliers in Puget Sound and on the Columbia River.

Low Vancouver prices have sparked an increase in bunker sales and prompted one new entry...

The Vancouver market is traditionally \$5 to \$10 per ton higher than Puget Sound because the region traditionally imports bunker fuel to augment local production, and shore-based installations, including pulp mills, compete for the supply. In addi-

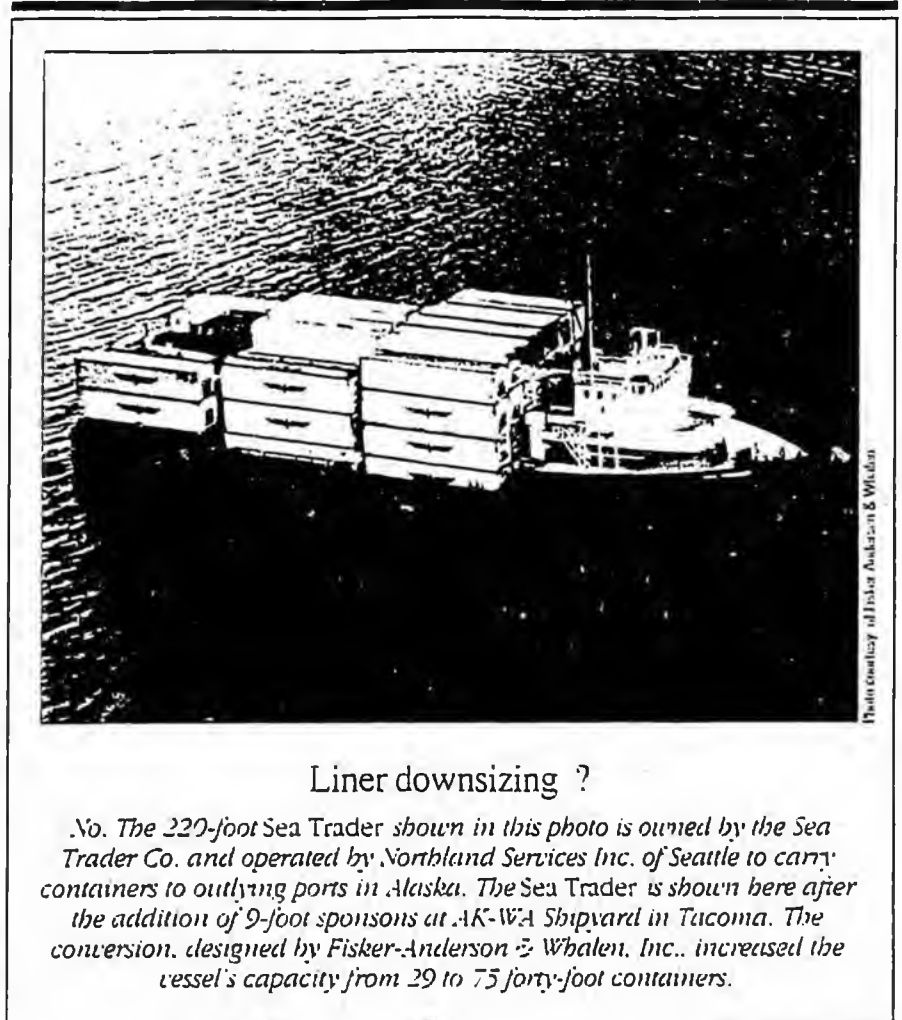


Photo courtesy of Baker Anderson & Wilbur

Liner downsizing ?

No. The 220-foot Sea Trader shown in this photo is owned by the Sea Trader Co. and operated by Northland Services Inc. of Seattle to carry containers to outlying ports in Alaska. The Sea Trader is shown here after the addition of 9-foot sponsons at AK-WA Shipyard in Tacoma. The conversion, designed by Fisker-Anderson & Whalen, Inc., increased the vessel's capacity from 29 to 75 forty-foot containers.

tion, sales are hampered by a 7 percent provincial bunker tax.

In the past, ships frequently bunkered at Port Angeles en route to Vancouver, and Shiozaki said her company bunkered a number of Vancouver-destined ships at Port Angeles during the recent port strike. Low Vancouver prices (currently in the low \$70 range plus tax) have sparked an increase in bunker sales and prompted one new entry: Sea Fuels, division of Seaspan International, last year into the Vancouver scene. Vancouver prices are expected to rise again during

the summer, the peak sales season, as the port bunkers the entire 20-ship Alaska cruise fleet.

Portland and the Columbia River are smaller bunker markets and, like Vancouver, prices follow Puget Sound levels but are \$5 to \$10 per ton higher because all fuel must be barged in. Sales volumes are about one quarter those of Puget Sound. Pacific Northern and BP are the only active competitors in this market at the moment. Currently Portland prices are lower than Yokohama, encouraging grain ships to purchase locally. ■

Russian Far East Update

The only monthly report for people serious about business in the Russian Far East

Your business guide to...

Privatization	Shipping
Joint Ventures	Forestry
Communications	Fishing
Banking	Mining

Contact us for a sample and subscription information
P.O. Box 22125
Seattle, WA 98122
Tel. (206) 447-2668
Fax (206) 628-0979

FINAL 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 (S2.10), heavy fuels have no instate sales/useage. In 1970-72, heavy bunker fuel was sold to a small market, for use instate, by such firms as Sealand. In 1972, the present tax was placed on this fuel. All sales then ceased, and have remained non-existent since that date. Currently, there is the potential for a market of these fuels in Alaska, if the price of the fuel can be competitive with prices in Canada (current fuel source). The initial potential is for annual sales of \$7,000,000, and employment for 7-10 Alaskans. Refineries instate do produce the heavy bunker fuel, and then it sell as an exported product.

MINING

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

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

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

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

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

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 ENCH

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.

II. 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 \$0.05/gallon is a significant impediment to gaining the full potential of residual fuel oil volume available at Seward.

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

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

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

The vastly increased volume will mean economics of scale in:

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

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

"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.

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

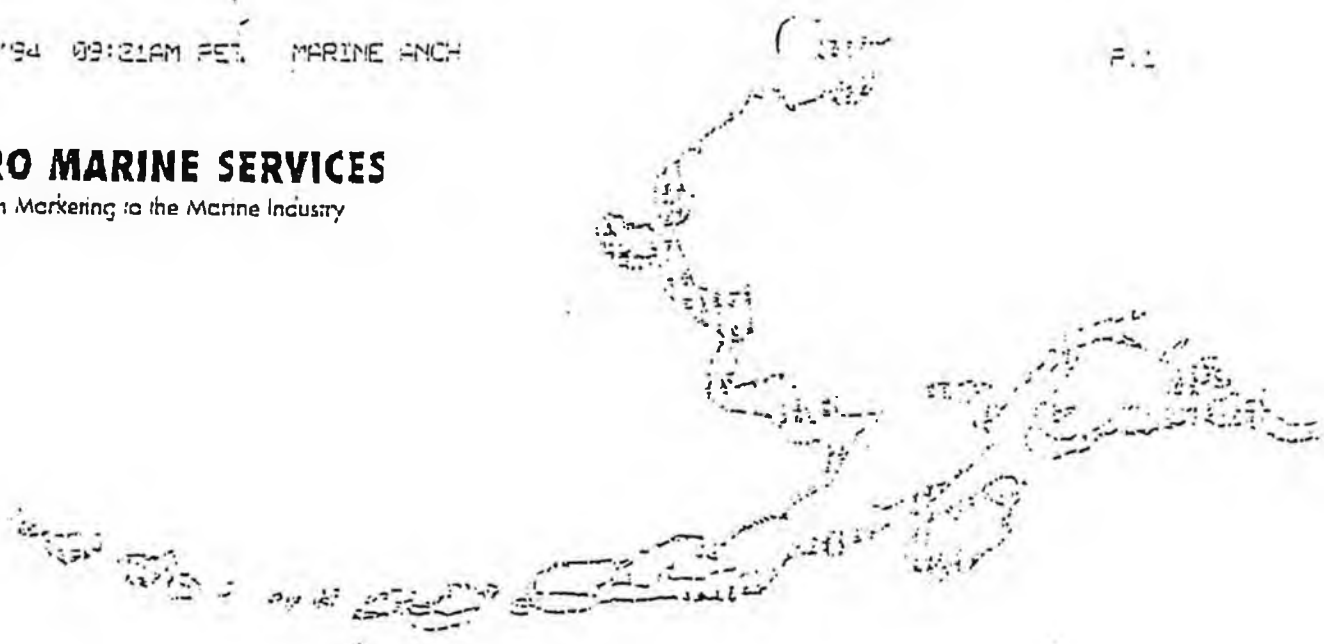
Petroleum Marketing to the Marine Industry

MAR 09 '94 09:21AM PET. MARINE ANCH

P. 1

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, 54 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 1.79 CENTS PER GALLON)

CRUISE LINE	IFC 330 TONS	GALLONS	
PRINCESS CRUISE	37,300	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 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	3,100	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 5 ADDITIONAL TRUCKS AND EMPLOYEE 10 ADDITIONAL DRIVERS

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, VISCIOUS, 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 VISCIOUS 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 3.25% 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

THE
FOLLOWING
DOCUMENTS
ARE
POOR
ORIGINAL
COPIES

EXAMPLE OF TAX POLICY ON SHIPS BUNKER SALES

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

SOURCE: OIL PRICE INFORMATION SERVICE (OPIS)

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

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

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

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

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

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

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

***CALIFORNIA REPEALS [BUNKER] FUEL TAX

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

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

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

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

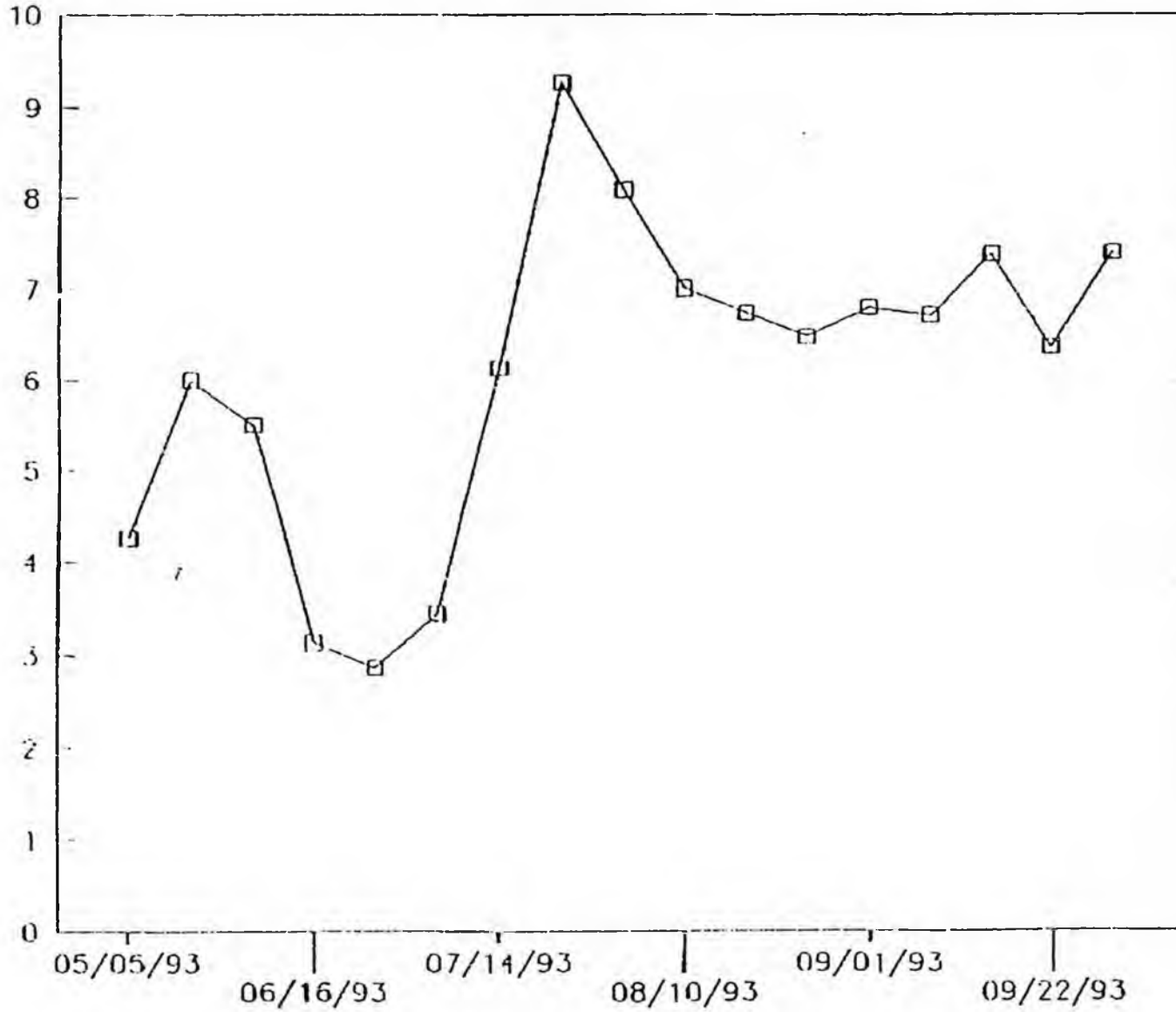
THE CALIFORNIA 8.25% DROVE BUSINESS AWAY. WITH THE ALASKA RATE OF 1%, BUNKER SALES IN-STATE ARE SPECIAL CIRCUMSTANCES ONLY. (I.E WEATHER EMERGENCIES, BALLAST NEEDS, IN-HOUSE REQUIREMENT) THERE IS NO "MARKET" PRESENTLY BUT THERE COULD BE IF THE ALASKA MARINE TAX ON HEAVY SHIPS BUNKERS WERE REDUCE TO 1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

PETRO MARINE SERVICES

BUNKER PRICES

SEWARD OVER CANADA FOR 1993

CENTS PER GALLON

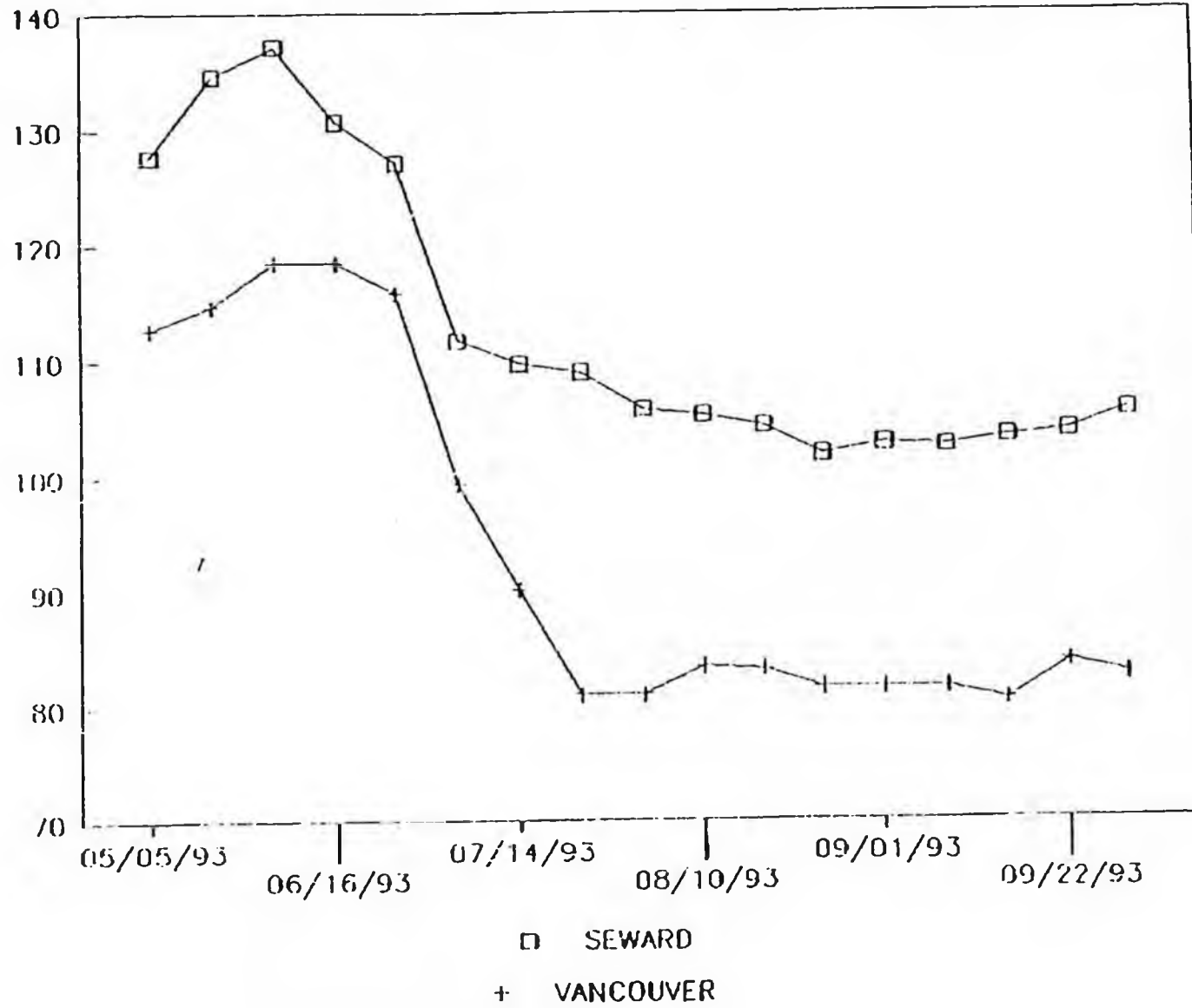


300 Elliott Avenue West • Seattle, WA 98119 • 206 • 461-3333 • FAX 206 • 461-3334

DATE OF THE QUARTERLY REPORT: 10/15/93

BUNKER PRICES IFO 380

SUMMER 1993 SEWARD VS CANADA



700 Elliott Avenue West & Seattle, WA 98107

MAR 09 '94 01:58PM PST WPIE HICH

\$ / MT

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	2.3	2.4	SOLD IN ALASKA AS HEATING FUEL
MARINE FUELS GRADE DMS	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 WAGO
FUEL OILS GRADE NO. 5	58	162	
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

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.

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

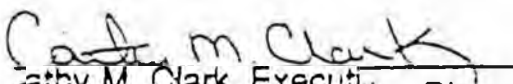
WHEREAS, the purchase of Bunker fuel by Cruiselines would have a positive economic impact to the State of Alaska and the Kenai Peninsula Borough,

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

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 3.05 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.

Galerie 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
TJM

Sponsored by: Iones

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 inland on watercraft of all descriptions to one cent per gallon.

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

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

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

THE CITY OF SEWARD, ALASKA



Dave W. Crane, Mayor

SB 327 is now in the US - Letter of Support

ALASKA TRUCKING ASSOCIATION, INC.

3443 Minnesota Drive • Anchorage, Alaska 98503 • 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





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 99801-1192
FAX No. 463-2070

Re: SENATE BILL NO. 327

Dear Senator Sharp,

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

We strongly urge your support of this legislation.

Sincerely,

Gary L. Paxton
Administrator
City and Borough of Sitka

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

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

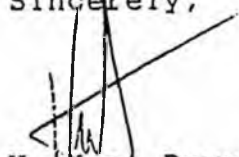
The Honorable Al Vezey

- 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,

A handwritten signature in black ink, appearing to read 'V. Kent Dawson', is written over a large, diagonal scribble that obscures the text of the signature.

V. Kent Dawson

Attachment



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 WSC
HOLLAND-AMERICA LINE-WESTOURS Inc.

c.c. D. Grausz



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 bunkars 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

AKB/GG

PRINCESS CRUISES

452-11

11/10/94
Santa Monica
Hollywood
Los Angeles
California
90047-4186
Corporate
Tel: 310 554 1177
Telex
709 188 472
Telefax
310 554 1177

February 28, 1994
Ref: SAN/cjc #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 cruise 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

Low prices fuel a busy bunker market

By Fred McCague

Low prices in the Pacific Northwest have caused a swing in the pattern of bunkering. Prices in Puget Sound dipped below \$60.00 per ton during December, and while they are now in the \$66 to \$68 range, they remain among the lowest in the world, matched only by the Houston area and the Persian Gulf, and are about \$7 per ton below Los Angeles prices. Although the location has precluded ship diversions to Puget Sound for bunkers only, the lower prices and better supply are making Seattle and Puget Sound the prime bunker source on the West Coast, and shifting bunker purchases from the Orient to the Pacific Northwest.

Shio Shiozaki of Pacific Northern Oil Corp. says between 1 and 1.2 million barrels (155,000 - 185,000 tons) of bunker fuel is sold in Puget Sound annually, now exceeding sales in Los Angeles/Long Beach and she notes "We are doing more container lines than before." Abigail Addington, Marketing Manager PNW for BP Marine America says BP's sale of its Ferndale refinery does not affect BP Marine and they "maintain a strong presence in the Northwest market." She notes bunkers are a volatile market "changing with the swing in prices," adding cyclical price swings can mean buying in Korea or Singapore one trip and Seattle the next. BP and Pacific Northern are the two largest suppliers in Puget Sound and on the Columbia River.

Low Vancouver prices have sparked an increase in bunker sales and prompted one new entry...

The Vancouver market is traditionally \$5 to \$10 per ton higher than Puget Sound because the region traditionally imports bunker fuel to augment local production, and shore-based installations, including pump jacks, compete for the supply. In addi-

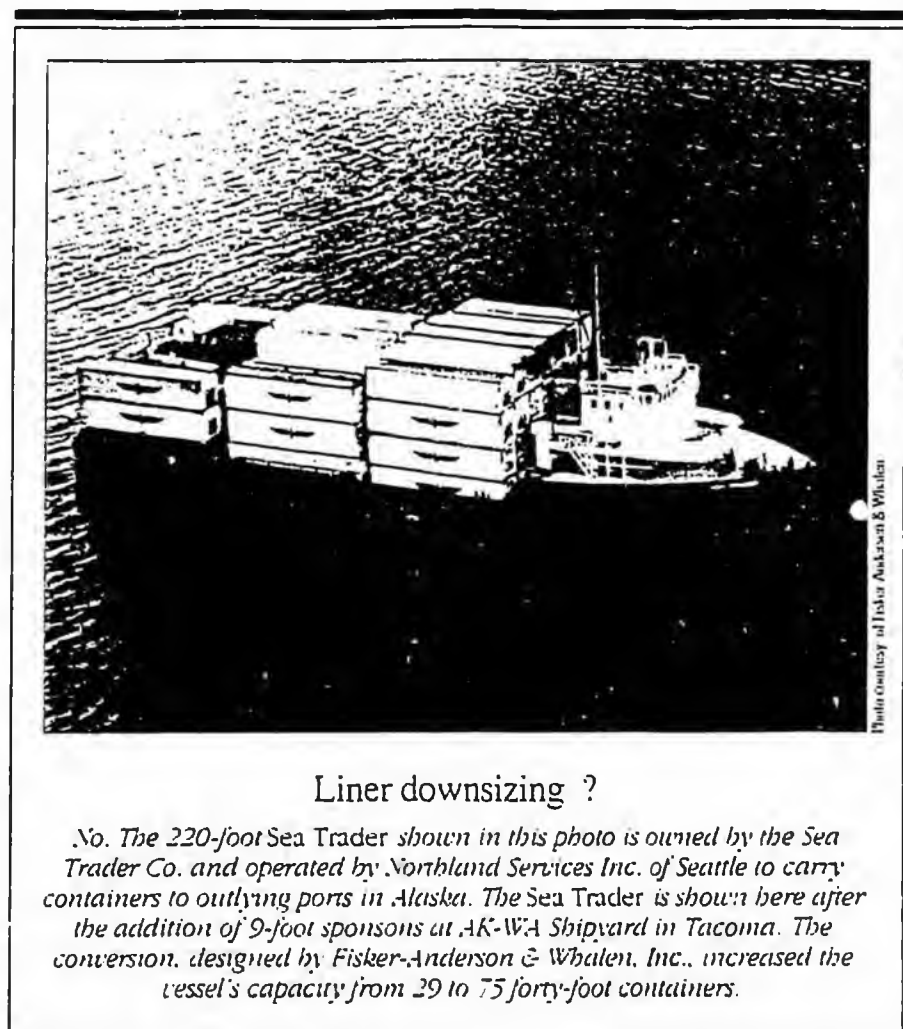


Photo courtesy of Fisker Anderson & Whalen

Liner downsizing ?

No. The 220-foot Sea Trader shown in this photo is owned by the Sea Trader Co. and operated by Northland Services Inc. of Seattle to carry containers to outlying ports in Alaska. The Sea Trader is shown here after the addition of 9-foot sponsons at AK-WA Shipyard in Tacoma. The conversion, designed by Fisker-Anderson & Whalen, Inc., increased the vessel's capacity from 29 to 75 forty-foot containers.

tion, sales are hampered by a 7 percent provincial bunker tax.

In the past, ships frequently bunkered at Port Angeles en route to Vancouver, and Shiozaki said her company bunkered a number of Vancouver-bound ships at Port Angeles during the recent port strike. Low Vancouver prices (currently in the low \$70 range plus tax) have sparked an increase in bunker sales and prompted one new entry, Sea Fuels, division of Seaspan International, last year into the Vancouver scene. Vancouver prices are expected to rise again during

the summer, the peak sales season, as the port bunkers the entire 20-ship Alaska cruise fleet.

Portland and the Columbia River are smaller bunker markets and, like Vancouver, prices follow Puget Sound levels but are \$5 to \$10 per ton higher because all fuel must be barged in. Sales volumes are about one quarter those of Puget Sound. Pacific Northern and BP are the only active competitors in this market at the moment. Currently Portland prices are lower than Yokohama, encouraging grain ships to purchase locally. ■

Russian Far East Update

The only monthly report for people serious about business in the Russian Far East

Your business guide to...

Privatization	Shipping
Joint Ventures	Forestry
Communications	Fishing
Banking	Mining

Contact us for a sample and subscription information
P.O. Box 22125
Seattle, WA 98122
Tel. (206) 447-2553
Fax (206) 628-1070

FINAL 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
APPENDIX 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 (S2.10), heavy fuels have no instate sales/useage. In 1970-72, heavy bunker fuel was sold, to a small market, for use instate, by such firms as Sealand. In 1972, the present tax was placed on this fuel. All sales then ceased, and have remained non-existent since that date. Currently, there is the potential for a market of these fuels in Alaska, if the price of the fuel can be competitive with prices in Canada (current fuel source). The initial potential is for annual sales of \$7,000,000, and employment for 7-10 Alaskans. Refineries instate do produce the heavy bunker fuel, and then it sell as an exported product.

MINING

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

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

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

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

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

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 Sharp

 1.
 Co-Chair: Signature/Recommendation

OTHER RECOMMENDATIONS:

Justine D. R.

 2.
 Co-Chair: Signature/Recommendation

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	
DRR	4/12/94	0	

Appropriation No Fiscal Note

DO PASS:

Tim Kelly
Steve King
Bob Sharp

OTHER RECOMMENDATIONS:

Justine NO Pass

1. Tim Kelly
 Co-Chair: Signature/Recommendation

2. Steve King
 Co-Chair: Signature/Recommendation

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
Bea Sharp

OTHER RECOMMENDATIONS:
Justine NO Pass

1. True Pass
 Co-Chair: Signature/Recommendation

2. True Pass
 Co-Chair: Signature/Recommendation

НВ

454

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: February 9, 1994

FURTHER REFERRALS:

Date of Committee Action: 2/22/94

The FINANCE Committee considered:

HB 454

HOUSE BILL NO. 454

APPROP: COST OF OIL/GAS LITIGATION

"An Act making a supplemental appropriation to the Department of Law to pay costs of certain continuing legal proceedings; and providing for an effective date."

RECOMMENDATIONS:

be replaced with CS HB 454 (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 _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Donald J. Larson</i>					
<i>Harold J. ...</i>	X				
<i>Sean Farrell</i>	X	<i>Mark ...</i>		X	
<i>Baron Grussendorf</i>	X	<i>Terry Martin</i>		X	
<i>Mike Savane</i>	✓	<i>John Hoffmann</i>		✓	
<i>Lay Brown</i>	✓	<i>Sam ...</i>		X	
<i>Richard ...</i>	X	<i>Therriault</i>			
<i>EPmechan</i>					

EPmechan Donald J. Larson
 CHAIRMAN'S SIGNATURE

CS FOR HOUSE BILL NO. 454(FIN)
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 EIGHTEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Funding Information:	General Fund	\$13,837,500
	Other Funds	<u>4,612,500</u>
		\$18,450,000

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

A BILL

FOR AN ACT ENTITLED

1 "An Act making a supplemental appropriation to the Department of Law to pay
 2 costs of certain continuing legal proceedings; and providing for an effective date."

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

4 * Section 1. The sum of \$18,450,000 is appropriated to the Department of Law to pay
 5 continuing costs for legal proceedings involving oil and gas revenue due or paid to the state
 6 or state title to oil and gas land, and proceedings before state and federal regulatory agencies
 7 involving the transportation of oil and gas, for the fiscal year ending June 30, 1994, from the
 8 following sources:

9	General fund	\$13,837,500
10	Permanent Fund Corporation receipts	4,612,500

11 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

HB

454

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 3/24/94

FURTHER:

DATE TURNED INTO OFFICE: 3-26-94

The Finance Committee considered CS FOR HOUSE BILL NO. 454(FIN)

"An Act making a supplemental appropriation to the Department of Law to pay costs of certain continuing legal proceedings; 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

Appropriation No Fiscal Note

DO PASS:

[Signature]
[Signature]

OTHER RECOMMENDATIONS:

1. *[Signature]*
 Co-Chair: Signature/Recommendation

2. *[Signature]*
 Co-Chair: Signature/Recommendation

SENATE COMMITTEE REPORT

jud

DATE: 3/9/94

FURTHER: Finance

DATE TURNED INTO OFFICE: 3/24/94

Judiciary Committee considered CS FOR HOUSE BILL NO. 454(FIN)

"~~An Act~~ making a supplemental appropriation to the Department of Law to pay costs of certain continuing legal proceedings; and providing for an effective date."

and recommends:

and report it back as follows

- replace with _____ CS _____ ()
- 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

NO FIN APP

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

[Signature]

Da [Signature] (NO REC)
[Signature] No Rec

[Signature]
Chair: Signature and Recommendation

SENATE COMMITTEE REPORT

Jack DATE: 3/9/94

FURTHER: Finance

DATE TURNED INTO OFFICE: 3/24/94

Judiciary Committee considered CS FOR HOUSE BILL NO. 454(FIN)

"An Act making a supplemental appropriation to the Department of Law to pay costs of certain continuing legal proceedings; and providing for an effective date."

and recommends: and report it
back as follows

[] replace with _____ CS _____ ()

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

NO FIN app

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS: _____

OTHER RECOMMENDATIONS:

Dr. Arch D. Wiley (NO REC)

Dr. Emanuel A. Little, No Rec

Chair: Signature and Recommendation

Dr. Robin L. Taylor, No Rec

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

March 25, 1994

The Honorable Steve Frank
Co-Chair, Senate Finance
Room 518
State Capitol
Juneau, AK 99801-1182

Re: FY 94 Oil and Gas
litigation supplemental
HB 454

Dear Senator Frank:

The Department of Law urgently requests Finance Committee approval of a supplemental appropriation for oil and gas litigation in FY 94 in the amount of \$18,450,000. The appropriation is contained in HB 454 now pending in your committee.

The department is now in the trial preparation stage for four major cases. Two of these cases involve royalty matters set for trial in the spring of 1995. The remaining cases are tax matters set for formal administrative proceedings. All of these cases are complex, involving substantial amounts of time and expense to prepare. The legislature partially funded the FY 1994 oil and gas special litigation budget request unit by appropriating \$10.358 million (l. 11-12, sec. 25, ch. 65, SLA 1993) of the estimated \$25 million needed to finance a full year of litigation activities. Because of the expense of document collection, production and organization, the need to take numerous depositions, and the employment and preparation of experts for all of these cases, the original appropriation has been fully expended.

Consequently, it is imperative that a special supplemental appropriation bill be considered by the Senate Finance Committee at the earliest possible time. There is precedent for expedited consideration of an oil and gas litigation-related supplemental appropriation (see, e.g., ch. 2, SLA 1983; ch. 1, SLA 1981). Without early enactment of a supplemental appropriation, we will be forced to shut down our litigation effort at the most crucial pretrial period. Our efforts in the royalty cases are being driven by scheduling orders imposed by the Superior Court. Our efforts in the tax cases are being driven by the policy of the administration to resolve long standing tax disputes that may add significantly to state revenues.

WALTER J. HICKEL, GOVERNOR

PLEASE REPLY TO:

1031 WEST 4TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE (907) 269-5100
FAX: (907) 276-3697

KEY BANK BUILDING
100 CUSHMAN ST., SUITE 400
FAIRBANKS, ALASKA 99701-4679
PHONE: (907) 451-2811
FAX: (907) 451-2846

P.O. BOX 110300-DIMOND COURT HOUSE
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600
FAX: (907) 465-6735

The supplemental will complete funding in FY 94 for the following major activities:

1. Royalty Cases.

In re ANS Royalty litigation (formerly known as State v. Amerada Hess). This case is scheduled for trial beginning in Spring 1995. The case involves the validity and method of calculation of charges assessed by North Slope producers for the state's royalty oil produced in the form of natural gas liquids. We are incurring significant expense to process over 2,500,000 documents produced by our opponents during discovery. We are also conducting oral depositions of persons who may provide relevant evidence concerning the state or the producer's case. Experts were hired to prepare reports to support the cases of the respective parties. These reports were exchanged with our opponents and we must now depose these experts. In order to be ready for trial, it is crucial to continue funding these activities.

MAPCO. The department is also deeply committed to prosecuting the state's claims against MAPCO for a retroactive price adjustment under certain royalty oil contracts. This case is also scheduled for a Spring 1995 trial. The recovery of over \$100 million is at stake in this case. All other royalty oil purchasers have either admitted liability or settled for substantially all of the state's claims. MAPCO is alone in its denial of liability and is defending this case in a manner which appears to be calculated to cost the state the maximum amount to obtain a judgment. Again, the continuation of funding is crucial to keep up the pace set by MAPCO and the Superior Court.

2. Oil and gas tax cases.

Tax proceedings conducted before the Department of Revenue are confidential. Accordingly, the department is unable to disclose the specific taxpayers, issues, or amounts at issue. It is expected that the cases currently being developed will require the processing of millions of documents and the employment of several experts. Development of these cases is contingent upon additional funding since existing appropriations are fully committed.

3. TAPS cases.

TAPS Corrosion Case. The TAPS corrosion case between the state and the TAPS owners is stayed to permit the parties to undertake a cooperative corrosion control program. The parties hope that the program will provide a basis for settlement of the dispute. The department is expending substantial amounts through

outside counsel to support the cooperative program. It is possible that the program will either continue and the case will settle, or the parties may abandon the cooperative program and return to litigation. If the program continues, the state will incur substantial sums to provide expert support for the program. If the case returns to litigation, the costs of preparing for hearing before the Federal Energy Regulatory Commission could be substantial. Presently, we expect that the cooperative program will be extended by FERC. However, we must be prepared for the other eventuality.

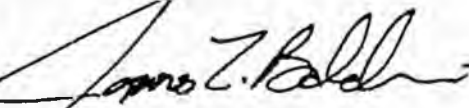
TAPS audit. The department gave the TAPS owners notice of the state's right to audit for tariff review purposes. An audit was last done through 1986. The audit may provide a basis for questioning substantial expenses recovered by the owners through the TAPS tariff. It is expected that the legislature and public will be critical of the time lag since the last audit. It is imperative that the administration anticipate this criticism by moving forward now with the audit. The shortfall in available appropriations will delay the audit. The main audit firm has expressed a reluctance to begin in earnest without assurance of funding. Additionally, Alyeska appears prepared to litigate our right of access to their documents. The litigation will add an unanticipated expense to our audit effort.

In closing, please let me stress the importance of enacting an early supplemental. A temporary cessation of trial preparation would be required in the absence of an early supplemental. This will have a devastating effect on the state's oil and gas litigation. Our trial teams would, for the most part, be disbanded. Reconstruction of the teams later would be difficult and, in the long term, more expensive for the state than continuing our current level of activity. The emergency measures described here would send a signal of weakness to the producers. A shutdown now would make it far more difficult (if not impossible) to arrive at settlements that are acceptable to the state.

Sincerely,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By



James L. Baldwin
Assistant Attorney General

The Honorable Steve Frank
Co-Chair, Senate Finance

March 25, 1994
Page 4

cc: Bruce M. Botelho
Attorney General

Dick Pegues, Director
Administrative Services Division

MEMORANDUM

State of Alaska
Department of Law

TO: Charles E. Cole
Attorney General

DATE: November 10, 1993

FILE NO.:

TEL. NO.: 465-3672

SUBJECT: Oil and Gas Litigation
Funding History

Richard I. Pegues

FROM: Richard I. Pegues, Director
Administrative Services Division

The following is a listing of appropriations made to the Department of Law for oil and gas litigation. The appropriations began in FY 77 and continue to the current fiscal year, FY 94. The appropriations were both lapsing and non-lapsing and, thus, most were fully expended. However, perhaps as much as \$300,000 lapsed from the 12-month appropriations.

Department of Law

CH 89/SLA 77	\$ 465.0
CH 113/SLA 78/Pg. 55/Ln. 7	2,000.0
CH 7/SLA 78	958.3
CH 80/SLA 79/Pg. 46/Ln. 22	1,500.0
CH 120/SLA 80/Pg. 62/Ln. 16	2,000.0
CH 50/SLA 80/Sec. 257	1,920.0
CH 1/SLA 81/Secs. 1-2	10,615.0
CH 1/SLA 81/Sec. 5	734.0
CH 101/SLA 82/Sec. 40	815.2
CH 101/SLA 82/Sec. 42	4,433.4
CH 101/SLA 82/Sec. 43	211.7
CH 101/SLA 82/Sec. 44	436.0
CH 107/SLA 83/Sec. 11	11,222.7
CH 2/SLA 83/Secs. 2-3	5,425.2
CH 122/SLA 84/Sec. 11	9,149.6
CH 98/SLA 85/Sec. 12	9,149.6
CH 129/SLA 86/Sec. 12	8,900.0
CH 130/SLA 86/Sec. 4	488.0

RECEIVED
Department of Law
NOV 12 1993 PM
7:18 AM
7,8,9,10,11,12,1,2,3,4,5,6

Department of Law (Cont'd.)

CH 95/SLA 87/Sec. 20	9,483.8
CH 9/SLA 87	(1,912.1)
CH 154/SLA 88/Sec. 17	14,474.0
CH 173/SLA 88/Sec. 4	400.0
CH 173/SLA 88/Sec. 5	1,539.0
CH 116/SLA 89/Sec. 25	14,000.0 ¹
CH 17/SLA 90/Sec. 1(p)	747.6
CH 17/SLA 90/Sec. 1(q)	8,274.3
CH 209/SLA 90/Sec. 30(a)	10,500.0
CH 207/SLA 90/Sec. 30(b)	3,500.0 ²
CH 1/SLA 91/Sec. 14	12,000.0 ³
CH 73/SLA 91/Sec. 40	11,000.0 ⁴
CH 8/SLA 92/Sec. 2	15,500.0 ⁵
CH 136/SLA 92/Sec. 44	10,358.4 ⁶
CH 41/SLA 93/Sec. 77	8,800.0 ⁷

¹ 3,500.0 of this appropriation is from the Permanent Fund Reserve Account to Law; the remaining 10,500.0 is from the general fund.

² This 3,500.0 appropriation is from the Permanent Fund Reserve Account to the Permanent Fund Board. The Board in turn provided these funds to Law for royalty and title litigation purposes.

³ 2,000.0 of this appropriation is from the Permanent Fund Earnings Reserve Account; the remaining 10,000.0 is from the general fund.

⁴ 1,750.0 of this appropriation is from the Permanent Fund Earnings Reserve Account to Law; the remaining 9,250.0 is from the general fund.

⁵ 2,500.0 of this appropriation is from the Permanent Fund Earnings Reserve Account to Law; the remaining 13,000.0 is from the general fund.

⁶ 2,750.0 of this appropriation is from the Permanent Fund Earnings Reserve Account to Law; the remaining 7,608.4 is from the general fund.

⁷ 2,200.0 of this amount is from Permanent Fund Corporation receipts. The remaining 6,600.0 is from the general fund.

CH 65/SLA 93/Sec. 25

10,358.4⁸

TOTAL

\$199,447.1

cc: Bruce M. Botelho
Deputy Attorney General

⁸

2,750.0 of this amount is from Permanent Fund Corporation receipts. The remaining 7,608.4 is from the general fund.

WALTER J. HICKEL, GOVERNOR

PLEASE REPLY TO:

1031 WEST 4TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE (907) 269-5100
FAX: (907) 276-3697

KEY BANK BUILDING
100 CUSHMAN ST., SUITE 400
FAIRBANKS, ALASKA 99701-4679
PHONE: (907) 451-2811
FAX: (907) 451-2846

P.O. BOX 110300-DIMOND COURT HOUSE
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600
FAX: (907) 465-6735

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

March 25, 1994

The Honorable Steve Frank
Co-Chair, Senate Finance
Room 518
State Capitol
Juneau, AK 99801-1182

Oil and Gas Settlements

Dear Senator Frank:

The following are estimates of savings or payments to the state as a result of litigation efforts under the oil and gas BRU:

Year Settlement <u>Signed</u>	Payment <u>Description</u>	Immediate Payment <u>(nearest thou.)</u>	Future Benefit <u>(nearest thou.)</u>
Gas royalty settlements			
1982	Union Cook Inlet royalty settlement	\$ 848,000	\$
1984	Phillips LNG royalty settlement	36,300,000	
1985	Marathon LNG royalty settlement	4,300,000	
1985	Union and Marathon royalty settlement	4,200,000	
1986	ARCO, Chevron & Shell Cook Inlet gas royalty settlement	1,568,000	
1988	Union royalty settlement	<u>300,000</u>	
	Sub-total	47,516,000	

Oil royalty settlements

North Slope royalty case¹

1989	Amerada Hess	318,624	
1990	ARCO Alaska	287,000,000	
1990	Freeport-McMoRan	331,000	
1991	Marathon	424,039	
1991	British Petroleum	185,000,000	
1991	Phillips	12,944,960	
1991	LL&E	251,848	
1992	Mobil	17,000,000	
1992	Texaco-Getty	3,200,000	
1992	Chevron	4,888,130	
1992	Exxon	128,000,000	
1992	Shell	203,854	
1992	Petro Star	2,100,000	
1993	Tesoro	10,273,000	115,500,000
1993	Chevron	87,700,000	
	Subtotal	732,635,455	115,500,000

Tax settlements²

Taxpayer A	\$243,000,000
Taxpayer B	172,200,000
Taxpayer C	28,100,000
Taxpayer D	5,525,000
Taxpayer E	2,257,000
Taxpayer F	32,800,000
Taxpayer G	2,075,000
Taxpayer H	19,000,000
Taxpayer I	165,000,000
Taxpayer J	3,000,000
Taxpayer K	851,000
Taxpayer L	13,573,000
Taxpayer M	630,000,000
Taxpayer N	50,273,000
Taxpayer O	3,500,000

¹ This amount only includes settlements for the past. It does not include estimate of future revenues to the state that will occur - without litigation - under a future formula agreed to by each of the parties who have settled.

² These cases do not include the state's victory in *Atlantic Richfield Co. v. State*, 705 P.2d 418 (Alaska 1985), in which the state's separate accounting methodology was upheld, thus voiding oil company claims of \$2 billion in tax refunds.

Taxpayer P	69,824,000
Taxpayer Q	42,200,000
Taxpayer R	650,000
Taxpayer S	4,002,000
Taxpayer T	6,858,000
Taxpayer U	9,600,000
Taxpayer V	<u>63,870,000</u>

Subtotal	1,568,158,000
----------	---------------

Federal government revenue sharing

1986	Congressional settlement	51,000,000	135,000,000
1987	Congressional authorization state to receive its minimum "8(g)" share of Dinkum Sands escrow account	<u>323,000,000</u>	<u> </u>
	Subtotal	374,000,000	135,000,000

Federal Energy Regulatory Commission Proceedings (through 1992)

1984	Kuparuk I settlement		6,000,000
1985	TAPS settlement ³	250,460,000	2,649,650,000
1990	Milne Point settlement		2,500,000
1991	Kuparuk II settlement		82,600,000
1993	Endicott Pipeline	<u>10,200,000</u>	<u>3,800,000</u>
	Subtotal	260,660,000	2,744,550,000

TOTAL		\$2,982,969,455	\$2,995,050,000
--------------	--	-----------------	-----------------

GRAND TOTAL		<u>\$5,978,019,455</u>	
--------------------	--	------------------------	--

Please note that frequently the full benefit of the settlement is not reflected in the retroactive amount. Typically, the dispute was resolved prospectively as well. The 1985 settlement with Union and Marathon is an example of a case where the prospective benefit was probably greater than the retroactive benefit. In the 8(g) case, winning 27 percent of federal revenues in the 8(g) zone in 1986 opened the way to receiving

³ In addition, the state received approximately \$33.28 million in costs and attorney's fees paid into the general fund.

The Honorable Steve Frank
Co-Chair, Senate Finance

March 25, 1994
Page 4

\$323 million in 1987, and to 27 percent of future revenues as well.

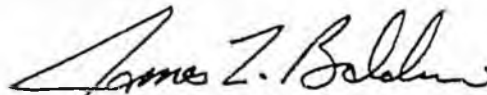
This summary does not include savings in which attempts to interfere with state's revenue opportunities have been thwarted. For example, we successfully defended against vigorous efforts by ARCO and Exxon to have the U.S. District Court in Kansas enjoin tax claims potentially worth over \$100 million. We have, of course, also defended the state's oil and gas leasing program against various attacks.

If you have any questions, please do not hesitate to contact me.

Sincerely,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By:



James L. Baldwin
Assistant Attorney General

JLB:tg

MORRISON & FOERSTER

SAN FRANCISCO
LOS ANGELES
SACRAMENTO
ORANGE COUNTY
PALO ALTO
WALNUT CREEK
SEATTLE

ATTORNEYS AT LAW
2000 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20006-1888
TELEPHONE (202) 887-1500
TELEFACSIMILE (202) 887-0763
TELEX 90-4030 MRSN FOERS WSH

NEW YORK
DENVER
LONDON
BRUSSELS
HONG KONG
TOKYO

DIRECT DIAL NUMBER

March 11, 1994

(202) 887-8727

VIA UPS OVERNIGHT

James L. Baldwin
Assistant Attorney General
State of Alaska
Department of Law, Civil Division
P.O. Box 110300
State Capitol - Pouch K
Juneau, Alaska 99811

RECEIVED
Department of Law
MAR 14 1994
AM 7 8 9 10 11 12 1 2 3 4 5 6 PM

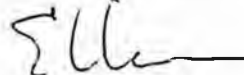
Dear Jim:

The "return on investment" of 13 to 1 cited in the newspaper story on oil and gas litigation expenses seemed low to us. The substantial settlement benefits from lower tariff rates seem to have been omitted. In any event, we thought you might be able to use an update of the revenue effect of the settlements for TAPS and all three feeder pipelines. Summary tables and more detailed backup schedules are enclosed.

I asked Horst, Frisch to separate out the refund revenues for the Kuparuk and Endicott settlements. (See Table 3.) When these refunds are added to those from the TAPS settlement (Table 1), the total in direct revenue resulting from refunds is approximately \$315 million. In addition, lower tariff rates have thus far increased royalty and severance taxes by approximately \$3.5 billion, measured against the filed rates prior to the settlements.

Please call if you have any questions or would like additional analyses. These numbers can be updated quickly at any time.

Best regards,



Ellen E. Deason

Enclosures

TABLE 1
TAPS SETTLEMENT AGREEMENT
ADDITIONAL REVENUES COLLECTED BY THE STATE OF ALASKA UNDER
THE TAPS SETTLEMENT AGREEMENT THROUGH 1994 (\$ MILLIONS)

	<u>Resulting From Refunds</u>	<u>Resulting From Lower Tariffs (1985 - 1994)</u>	<u>Total</u>
Additional Royalties	\$108.41	\$1,826.83	\$1,935.24
Additional Production Taxes	108.77	1,651.07	1,759.84
Reimbursement of Litigation Expenses	<u>33.28</u>	<u>0.00</u>	<u>33.28</u>
TOTAL	<u><u>\$250.46</u></u>	<u><u>\$3,477.89</u></u>	<u><u>\$3,728.35</u></u>

Horst, Frisch, Clowery & Finan
March 7, 1994

TABLE 2
TAPS SETTLEMENT AGREEMENT
BENEFIT FROM REDUCED TAPS TARIFFS (12/12/85-12/31/93)
(revenue amounts in millions)

	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	NGLs	Explanation
1985							
1 Annual Oil Movement (million bbls)	587,948	78,799	0,704	0,000	0,000	0,000	Alaska Department of Revenue
2 Pro-rated for Last 20 Days of Year	31,120	4,318	0,039	0,000	0,000	0,000	20/365 x Line 1
3 Pro-rated Deliveries of 5 Carriers	20,279	2,814	0,025	0,000	0,000	0,000	65.1637% x Line 2
4 Pre-TSM Tariff (Weighted Average-8 Carriers)	\$6.16	\$6.28	\$6.28	\$0.00	\$0.00	\$0.00	1985 BOY Tariffs (Effective Until 12/12/85)
5 Weighted Average TSM Tariff (6 carriers)	\$5.31	\$5.31	\$5.31	\$0.00	\$0.00	\$0.00	Settlement Agreement, Exhibit D
6 Tariff Differential	\$0.85	\$0.97	\$0.97	\$0.00	\$0.00	\$0.00	Line 4 - Line 5
7 Tariff Revenue Effect	\$17,237	\$2,729	\$0,024	\$0,000	\$0,000	\$0,000	Line 3 x Line 6
8 Royalty Rate	12.50%	12.50%	18.35%	0.00%	0.00%	0.00%	Alaska Department of Revenue
9 Royalties	\$2,155	\$0,341	\$0,004	\$0,000	\$0,000	\$0,000	Line 7 x Line 8
10 State Production Tax Rate	NA	NA	NA	NA	NA	NA	NA
11 Economic Limitation Factor (ELF)	NA	NA	NA	NA	NA	NA	Not Applicable
12 Effective Production Tax Rate	15.00%	8.86%	6.00%	0.00%	0.00%	0.00%	Alaska Department of Revenue
13 Production Taxes	\$2,262	\$0,164	\$0,001	\$0,000	\$0,000	\$0,000	Line 12 x (Line 7 - Line 9)
14 Residual Benefit to TAPS Shippers	\$12,820	\$2,224	\$0,019	\$0,000	\$0,000	\$0,000	Line 7 - Line 9 - Line 13
1986							
15 Annual Oil Movement (million bbls)	581,280	93,993	4,709	0,000	0,000	0,000	Alaska Department of Revenue
16 Pro-rated (6 Carriers, full year)	365,751	61,249	3,069	0,000	0,000	0,000	65.1637% x Line 15
17 Pro-rated (2 Carriers, 169 days)	90,533	15,161	0,760	0,000	0,000	0,000	34.8363% x Line 15 x 169/365
18 Pre-TSM Tariff (Weighted Average-8 Carriers)	\$6.16	\$6.28	\$6.28	\$0.00	\$0.00	\$0.00	1985 BOY Tariffs (Effective Until 12/12/85)
19 Pre-TSM Tariff (Weighted Average-2 Carriers)	\$5.69	\$5.76	\$5.76	\$0.00	\$0.00	\$0.00	1986 BOY Tariffs (Effective Until 7/15/86)
20 Weighted Average TSM Tariff (All 8 Carriers)	\$4.49	\$4.60	\$4.60	\$0.00	\$0.00	\$0.00	TSM Rates
21 Tariff Differential (6 Carriers)	\$1.67	\$1.68	\$1.68	\$0.00	\$0.00	\$0.00	Line 18 - Line 20
22 Tariff Differential (2 Carriers)	\$1.20	\$1.16	\$1.16	\$0.00	\$0.00	\$0.00	Line 19 - Line 20
23 Tariff Revenue Effect	\$719,443	\$120,485	\$6,038	\$0,000	\$0,000	\$0,000	Line 16 x Line 21 + Line 17 x Line 22
24 Royalty Rate	12.50%	12.50%	18.35%	0.00%	0.00%	0.00%	Alaska Department of Revenue
25 Royalties	\$89,930	\$15,061	\$1,108	\$0,000	\$0,000	\$0,000	Line 23 x Line 24
26 State Production Tax Rate	15.00%	15.00%	12.25%	0.00%	0.00%	0.00%	Alaska Department of Revenue
27 Economic Limitation Factor (ELF)	100.00%	57.61%	21.33%	0.00%	0.00%	0.00%	Alaska Department of Revenue
28 Effective Production Tax Rate	15.00%	8.64%	2.61%	0.00%	0.00%	0.00%	Line 26 x Line 27
29 Production Taxes	\$94,427	\$9,110	\$0,129	\$0,000	\$0,000	\$0,000	Line 28 x (Line 23 - Line 25)
30 Residual Benefit to TAPS Shippers	\$535,086	\$96,314	\$4,800	\$0,000	\$0,000	\$0,000	Line 23 - Line 25 - Line 29

TABLE 2
TAPS SETTLEMENT AGREEMENT
BENEFIT FROM REDUCED TAPS TARIFFS (12/12/85-12/31/93)
(revenue amounts in millions)

	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	NGLs	Explanation
1987							
31 Annual Oil Movement (million bbls)	572,301	102,898	0.040	8,770	16,090	9,898	Alaska Department of Revenue
32 Pre-TSM Tariff (Weighted Average)	\$6.00	\$6.10	\$6.10	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
33 Weighted Average TSM Tariff	\$3.91	\$4.07	\$4.07	\$4.42	\$3.86	\$3.91	TSM Rates
34 Tariff Differential	\$2.09	\$2.03	\$2.03	\$1.68	\$2.14	\$2.09	Line 32 - Line 33
35 Tariff Revenue Effect	\$1,196,109	\$208,879	\$0,081	\$14,734	\$34,433	\$20,683	Line 31 x Line 34
36 Royalty Rate	12.50%	12.50%	18.35%	14.45%	12.50%	12.50%	Alaska Department of Revenue
37 Royalties	\$149,514	\$26,110	\$0,015	\$2,129	\$4,304	\$2,585	Line 35 x Line 36
38 State Production Tax Rate	15.00%	15.00%	12.25%	12.25%	12.25%	10.00%	Alaska Department of Revenue
39 Economic Limitation Factor (ELF)	91.40%	54.94%	31.16%	100.00%	74.83%	100.00%	Alaska Department of Revenue
40 Effective Production Tax Rate	13.71%	8.24%	3.82%	12.25%	9.18%	10.00%	Line 38 x Line 39
41 Production Taxes	\$143,488	\$15,062	\$0,003	\$1,544	\$2,765	\$1,810	Line 40 x (Line 35 - Line 37)
42 Residual Benefit to TAPS Shippers	\$903,107	\$167,707	\$0,064	\$11,061	\$27,363	\$16,288	Line 35 - Line 37 - Line 41
1988							
43 Annual Oil Movement (million bbls)	558,182	110,642	0.000	37,498	14,688	20,078	Alaska Department of Revenue
44 Pre-TSM Tariff (Weighted Average)	\$6.00	\$6.10	\$0.00	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
45 Weighted Average TSM Tariff	\$3.14	\$3.35	\$0.00	\$3.08	\$3.35	\$3.14	TSM Rates
46 Tariff Differential	\$2.86	\$2.75	\$0.00	\$3.04	\$2.65	\$2.86	Line 44 - Line 45
47 Tariff Revenue Effect	\$1,596,401	\$304,266	\$0,000	\$113,894	\$38,923	\$57,417	Line 43 x Line 46
48 Royalty Rate	12.50%	12.50%	0.00%	14.45%	12.50%	12.50%	Alaska Department of Revenue
49 Royalties	\$199,550	\$38,033	\$0,000	\$18,472	\$4,865	\$7,177	Line 47 x Line 48
50 State Production Tax Rate	15.00%	15.00%	0.00%	12.25%	12.25%	10.00%	Alaska Department of Revenue
51 Economic Limitation Factor (ELF)	82.80%	57.70%	0.00%	100.00%	55.31%	100.00%	Alaska Department of Revenue
52 Effective Production Tax Rate	12.42%	8.66%	0.00%	12.25%	6.78%	10.00%	Line 50 x Line 51
53 Production Taxes	\$173,489	\$23,042	\$0,000	\$11,946	\$2,308	\$5,024	Line 52 x (Line 47 - Line 49)
54 Residual Benefit to TAPS Shippers	\$1,223,362	\$243,190	\$0,000	\$85,575	\$31,750	\$45,216	Line 47 - Line 49 - Line 53
1989							
55 Annual Oil Movement (million bbls)	505,881	109,570	1.714	35,732	13,081	17,800	Alaska Department of Revenue
56 Pre-TSM Tariff (Weighted Average)	\$6.00	\$6.10	\$6.10	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
57 Weighted Average TSM Tariff	\$3.01	\$3.22	\$3.22	\$3.25	\$2.90	\$3.01	TSM Rates
58 Tariff Differential	\$2.99	\$2.88	\$2.88	\$2.85	\$3.10	\$2.99	Line 56 - Line 57
59 Tariff Revenue Effect	\$1,512,584	\$315,562	\$4,936	\$101,836	\$40,551	\$53,222	Line 55 x Line 58
60 Royalty Rate	12.50%	12.50%	18.35%	14.45%	12.50%	12.50%	Alaska Department of Revenue
61 Royalties	\$189,073	\$39,445	\$0,906	\$14,715	\$5,069	\$6,653	Line 59 x Line 60
62 State Production Tax Rate	15.00%	15.00%	12.25%	12.25%	12.25%	10.00%	Alaska Department of Revenue
63 Economic Limitation Factor (ELF)	90.62%	73.86%	0.00%	90.39%	24.95%	100.00%	Alaska Department of Revenue
64 Effective Production Tax Rate	13.59%	11.08%	0.00%	11.07%	3.06%	10.00%	Line 62 x Line 63
65 Production Taxes	\$179,905	\$30,591	\$0,000	\$9,647	\$1,084	\$4,657	Line 64 x (Line 59 - Line 61)
66 Residual Benefit to TAPS Shippers	\$1,143,606	\$245,525	\$4,031	\$77,474	\$34,398	\$41,912	Line 59 - Line 61 - Line 65

TABLE 2
TAPS SETTLEMENT AGREEMENT
BENEFIT FROM REDUCED TAPS TARIFFS (12/12/85-12/31/93)
(revenue amounts in millions)

	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	NGLs	Explanation
1990							
67 Annual Oil Movement (million bbls)	470.127	108.151	6.828	36.181	14.468	18.182	Alaska Department of Revenue
68 Pre-TSM Tariff (Weighted Average)	\$8.00	\$6.10	\$6.10	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
69 Weighted Average TSM Tariff	\$3.90	\$4.19	\$4.19	\$4.29	\$3.73	\$3.90	TSM Rates
70 Tariff Differential	\$2.10	\$1.91	\$1.91	\$1.81	\$2.27	\$2.10	Line 68 - Line 69
71 Tariff Revenue Effect	\$987.267	\$208.568	\$12.659	\$65.488	\$32.828	\$38.140	Line 67 x Line 70
72 Royalty Rate	12.50%	12.50%	18.35%	14.45%	12.50%	12.50%	Alaska Department of Revenue
73 Royalties	\$120,408	\$25,821	\$2,323	\$9,463	\$4,105	\$4,768	Line 71 x Line 72
74 State Production Tax Rate	15.00%	15.00%	12.25%	12.25%	12.25%	10.00%	Alaska Department of Revenue
75 Economic Limitation Factor (ELF)	89.46%	87.64%	0.00%	78.98%	0.96%	100.00%	Alaska Department of Revenue
76 Effective Production Tax Rate	14.92%	13.15%	0.00%	9.68%	0.12%	10.00%	Line 74 x Line 75
77 Production Taxes	\$128,879	\$23,761	\$0.000	\$5,420	\$0,034	\$3,337	Line 76 x (Line 71 - Line 73)
78 Residual Benefit to TAPS Shippers	\$734,979	\$156,908	\$10,336	\$50,604	\$28,699	\$30,035	Line 77 - Line 73 - Line 77
1991							
79 Annual Oil Movement (million bbls)	465.375	113.150	7.300	41.245	13.505	23.725	Alaska Dept. of Revenue Est. (11/5/92)
80 Pre-TSM Tariff (Weighted Average)	\$6.00	\$6.10	\$6.10	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
81 Weighted Average TSM Tariff	\$3.59	\$3.89	\$3.89	\$3.87	\$3.47	\$3.59	TSM Rates
82 Tariff Differential	\$2.41	\$2.21	\$2.21	\$2.23	\$2.53	\$2.41	Line 80 - Line 81
83 Tariff Revenue Effect	\$1,121,554	\$250,062	\$16,133	\$91,876	\$34,168	\$57,177	Line 79 x Line 82
84 Royalty Rate	12.50%	12.50%	18.38%	14.69%	12.50%	12.50%	Alaska Department of Revenue (11/5/92)
85 Royalties	\$140,194	\$31,258	\$2,965	\$13,508	\$4,271	\$7,147	Line 83 x Line 84
86 State Production Tax Rate	15.00%	15.00%	12.25%	12.25%	12.25%	10.00%	Alaska Department of Revenue
87 Economic Limitation Factor (ELF)	99.44%	87.96%	0.00%	72.78%	0.75%	100.00%	Alaska Department of Revenue (11/5/92)
88 Effective Production Tax Rate	14.92%	13.15%	0.00%	8.92%	0.09%	10.00%	Line 86 x Line 87
89 Production Taxes	\$116,380	\$28,869	\$0.000	\$6,996	\$0,027	\$5,003	Line 88 x (Line 83 - Line 85)
90 Residual Benefit to TAPS Shippers	\$834,980	\$189,935	\$13,168	\$71,472	\$29,869	\$45,027	Line 83 - Line 85 - Line 89
1992							
91 Annual Oil Movement (million bbls)	431.148	117,852	6,954	41,724	12,444	26,718	Alaska Dept. of Revenue Est. (3/4/94)
92 Pre-TSM Tariff (Weighted Average)	\$6.00	\$6.10	\$6.10	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
93 Weighted Average TSM Tariff	\$3.44	\$3.66	\$3.66	\$3.65	\$3.32	\$3.44	TSM Rates
94 Tariff Differential	\$2.56	\$2.44	\$2.44	\$2.45	\$2.68	\$2.56	Line 92 - Line 93
95 Tariff Revenue Effect	\$1,103,739	\$297,559	\$16,968	\$102,224	\$33,350	\$68,398	Line 91 x Line 84
96 Royalty Rate	12.50%	12.52%	18.38%	14.84%	12.50%	12.50%	Alaska Department of Revenue (3/4/94)
97 Royalties	\$137,967	\$35,989	\$3,119	\$14,966	\$4,169	\$8,550	Line 95 x Line 96
98 State Production Tax Rate	15.00%	14.97%	12.25%	12.25%	13.40%	10.00%	Alaska Department of Revenue (3/4/94)
99 Economic Limitation Factor (ELF)	89.31%	88.04%	0.00%	74.13%	0.17%	100.00%	Alaska Department of Revenue (3/4/94)
100 Effective Production Tax Rate	14.90%	13.18%	0.00%	9.09%	0.02%	10.00%	Line 98 x Line 99
101 Production Taxes	\$143,866	\$33,163	\$0.000	\$7,930	\$0,007	\$5,985	Line 100 x (Line 95 - Line 97)
102 Residual Benefit to TAPS Shippers	\$821,905	\$218,407	\$13,849	\$79,328	\$29,175	\$53,863	Line 95 - Line 97 - Line 101

TABLE 2
TAPS SETTLEMENT AGREEMENT
BENEFIT FROM REDUCED TAPS TARIFFS (12/12/85-12/31/93)
(revenue amounts in millions)

	Prudhoe Bay	Kuparuk	Milne Point	Endicott	Lisburne	NGLs	Explanation
<u>1993</u>							
103 Annual Oil Movement (million bbls)	386.170	114.975	6.935	39.055	16.060	27.010	Alaska Dept. of Revenue Est. (3/4/94)
104 Pre-TSM Tariff (Weighted Average)	\$6.00	\$6.10	\$6.10	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
105 Weighted Average TSM Tariff	\$2.91	\$3.12	\$3.12	\$3.09	\$2.80	\$2.91	TSM Rates
106 Tariff Differential	\$3.09	\$2.98	\$2.98	\$3.01	\$3.20	\$3.09	Line 104 - Line 105
107 Tariff Revenue Effect	\$1,193,265	\$342,626	\$20,666	\$117,556	\$51,392	\$83,461	Line 103 x Line 106
108 Royalty Rate	12.50%	12.50%	18.35%	14.44%	12.50%	12.50%	Alaska Department of Revenue (3/4/94)
109 Royalties	\$149,158	\$42,828	\$3,792	\$16,975	\$6,424	\$10,433	Line 107 x Line 108
110 State Production Tax Rate	15.00%	15.00%	15.00%	15.00%	15.00%	10.00%	Alaska Department of Revenue (3/4/94)
111 Economic Limitation Factor (ELF)	98.80%	88.14%	0.00%	79.10%	0.00%	78.00%	Alaska Department of Revenue (3/4/94)
112 Effective Production Tax Rate	14.84%	13.22%	0.00%	11.87%	0.00%	7.80%	Line 110 x Line 111
113 Production Taxes	\$154,893	\$39,636	\$0,000	\$11,934	\$0,000	\$5,896	Line 112 x (Line 107 - Line 109)
114 Residual Benefit to TAPS Shippers	\$889,214	\$260,161	\$16,874	\$88,647	\$44,968	\$67,332	Line 107 - Line 109 - Line 113
<u>1994</u>							
115 Annual Oil Movement (million bbls)	392.193	113.150	6.570	36.500	29,748	28,288	Alaska Dept. of Revenue Est. (3/4/94)
116 Pre-TSM Tariff (Weighted Average)	\$6.00	\$6.10	\$6.10	\$6.10	\$6.00	\$6.00	1985 BOY Tariffs
117 Weighted Average TSM Tariff	\$3.28	\$3.53	\$3.53	\$3.46	\$3.14	\$3.28	TSM Rates
118 Tariff Differential	\$2.74	\$2.57	\$2.57	\$2.64	\$2.86	\$2.74	Line 116 - Line 117
119 Tariff Revenue Effect	\$1,074,607	\$290,796	\$16,885	\$96,360	\$85,078	\$77,506	Line 115 x Line 118
120 Royalty Rate	12.50%	12.50%	18.35%	14.44%	12.50%	12.50%	Alaska Department of Revenue (3/4/94)
121 Royalties	\$134,328	\$36,349	\$3,098	\$13,914	\$10,635	\$9,698	Line 119 x Line 120
122 State Production Tax Rate	15.00%	15.00%	15.00%	15.00%	15.00%	10.00%	Alaska Department of Revenue (3/4/94)
123 Economic Limitation Factor (ELF)	98.80%	86.58%	0.00%	73.64%	0.00%	78.00%	Alaska Department of Revenue (3/4/94)
124 Effective Production Tax Rate	14.82%	12.99%	0.00%	11.05%	0.00%	7.80%	Line 122 x Line 123
125 Production Taxes	\$139,350	\$33,045	\$0,000	\$9,107	\$0,000	\$5,290	Line 124 x (Line 119 - Line 121)
126 Residual Benefit to TAPS Shippers	\$800,932	\$221,401	\$13,787	\$73,339	\$74,443	\$62,529	Line 119 - Line 121 - Line 125
<u>Summary: 1985-1994</u>							
127 Total Tariff Revenue Effect	\$10,522,206	\$2,329,530	\$94,390	\$704,167	\$350,732	\$456,008	Sum of Lines 7, 23, 35, 47, 59, 71, 83, 95, 107, 119
Benefit to State							
128 Total Royalties	\$1,315,278	\$291,235	\$17,330	\$102,143	\$43,842	\$57,001	Sum of Lines 9, 25, 37, 49, 61, 73, 85, 97, 109, 121
129 Total Production Taxes	\$1,306,939	\$236,444	\$0,133	\$64,524	\$6,225	\$36,802	Sum of Lines 13, 29, 41, 53, 65, 77, 89, 101, 113, 125
130 Residual Benefit to Shippers	\$7,899,991	\$1,801,851	\$76,927	\$537,500	\$300,665	\$362,204	Sum of Lines 14, 30, 42, 54, 66, 78, 90, 102, 114, 126

Assumptions

- 1 Pre-TSM tariff rates for Lisburne and NGLs are assumed equal to the Prudhoe Bay Sadlerochit weighted average rate of \$6.00.
- 2 Pre-TSM tariff rates for Milne Point and Endicott are assumed equal to the Kuparuk weighted average rate of \$6.10.
- 3 NGL production tax rate set equal to 10 percent and ELF assumed equal to 100 percent.
- 4 TSM tariff rates for NGLs are assumed equal to the Prudhoe Bay Sadlerochit TSM rates.
- 5 Schrader Bluff production included with Milne Point amounts.
- 6 Sag Delta production included with Endicott amounts.
- 7 Pt. McIntyre production included with Lisburne amounts.