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Senate Bill 314 Sponsor Statement

"An Act limiting retroactive adjustments in the sale price of state royalty oil sold by the state to a refiner."

This legislation corrects an unintended consequence resulting from the State's filing of a protest with Federal Energy Regulatory Commission (FERC) regarding interstate tariff rates on the Trans Alaska Pipeline System (TAPS). Senate Bill 314 amends AS 38.05.183(f) so as to disallow retroactive adjustments in the sale price of royalty oil where a TAPS transportation rate change has occurred.

The effect of the State's filing (from January 1, 2005 forward) is to create a potential retroactive payment for any in-state refinery purchasing State royalty oil until the FERC case is settled. This could be as late as August of 2009. Though the State is a signer to both the ten year royalty oil contract with Flint Hills Resources Alaska (effective April 1, 2004) and the TAPS Settlement Methodology (TSM) which governs TAPS rates through 2009, the State chose to challenge TSM *prior* to 2009 thus creating retroactivity potential for Flint Hills Resources Alaska (FHRA).

The negative impact on FHRA and other entities has been real and immediate. FHR must reserve for this potential liability up to $50 million dollars per year. With up to five years to settle the case with FERC, accumulated retroactive liability could reach $200 million or more. This has caused FHRA to cancel a $175 million clean fuels project and a $91 million naphtha stabilizer project.

In addition, low margin products such as naphtha have been discontinued in 2006 and FHRA is purchasing 10,000 barrels less per day of State royalty oil, for which a premium is paid. This has also resulted in the loss of approximately $7 million in shipping revenue for the Alaska Railroad and $1 million in fuel flowage fees for the Port of Anchorage. FHRA is also not able to provide long term contracts to fuel customers such as Golden Valley Electric Association because of the uncertainty caused by potential retroactivity.

Senate Bill 314 eliminates the uncertainty for buyers of State royalty oil and encourages investment and product production decisions to be based on genuine market factors rather than the prospect of tariff retroactivity. It also restores fairness in terms of avoiding retroactivity with respect to raw materials that have long since been manufactured and sold into the marketplace.