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## **AOGA Educational Seminar**

**Current Refining Industry Climate in Alaska**  
**January 6, 2011**

## **OBJECTIVES**

1. Introductions and Thank You's
2. Overview of Alaska Refining Capability
3. Why Declining Oil Production Matters?
4. Royalty in Kind Crude

## Introductions

Mike Brose

- Flint Hills Resources VP Alaska Operations & North Pole Refinery Manager
- Member of AOGA Board of Directors

## Overview of Alaska Refining Capability

- 6 Refinery Operations in Alaska
- 2 Interior, 2 South Central, & 2 North Slope
  - Flint Hills & PetroStar - North Pole
  - PetroStar, Valdez & Tesoro, Kenai
  - Conoco Phillips & BP – Prudhoe Bay
- In total, Refineries have the potential to meet Alaska's fuel demand.
  - Global economics, demand destruction, import competition, and economic drivers have limited refinery utilization in the past years.

## Why Declining Oil Production Matters?

- Discussion all day focuses on decline and its impact on Oil Exploration, Production, and Transportation
- ***Refining*** is the value adding component of the chain by transforming the crude oil into consumable products.
  - Alaska’s Natural Resources are being converted into products for Alaskans, by Alaskans.
  - Resources stay home – creating the maximum total benefit for the citizens of Alaska.

## Why Declining Oil Production Matters?

- Declining North Slope oil production will ultimately lead to refinery production cuts.
  - Lack of Natural Gas for industrial use triples the cost of energy and hinders other economic development for Alaska.
  - Increased costs to deliver and process colder crude in refineries
  - In the end, with no change to the current conditions, Alaskan refineries connected to TAPS will struggle to stay economically competitive as throughput declines.

## Royalty-in-Kind Oil – Maximum Benefit for Alaska

- Royalty-in-Kind (RIK) oil costs more than Royalty-in-Value (RIV).
  - This may seem to be a win for the state.
  - However, over half of the State's royalty oil is being exported out of state, limiting the resource to a one time benefit.
  - Only FHR purchases Royalty-in-Kind oil.
  - All others have found more economically advantaged alternatives.
    - Even though others can acquire RIK oil cheaper than FHR's contractual obligations.
    - This includes importing non-Alaskan crudes to Alaskan refineries.

## **Royalty-in-Kind Oil – Maximum Benefit for Alaska**

- To maximize benefit for Alaskan Citizens, we ask that total value be considered.
  - Alaskan refineries should compete for Alaskan oil in a free and open market, with neither subsidy nor premium.
  - When Alaskan oil is processed in Alaskan refineries to produce fuels for Alaskan citizens and businesses, only then is maximum benefit realized.

## **Royalty-in-Kind Oil – Maximum Benefit for Alaska**

- We urge you to carefully review the law relative to the sale of Royalty Oil. [AS 38.05.183 through AS 38.06.70]
  - Beginning this year, FHR will be working with the Royalty Oil Gas Advisory Board to take action on a proposed contract in 2012.
  - We anticipate legislation to be forwarded by the Governor to the legislature in 2013 to approve a contract effective April 1, 2014.

**THANK YOU!!**