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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!!