Refining Industry in Alaska

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OBJECTIVES

1. Introductions and Thank You’s
2. Overview of Alaska Refining Industry
3. Issues that matter to the Legislature
   • Royalty in Kind Crude
   • Liquefied Natural Gas
Introductions

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Overview of Alaska Refining Current Landscape

• 3 Refining Operation Companies in Alaska that produce consumer fuel and petroleum products
  – Tesoro - Kenai
  – PetroStar - Valdez & North Pole
  – Flint Hills Resources – North Pole

• 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.
How Does Alaska’s Refining Industry Create Value?

- Refining is **THE** value adding component of the product supply chain by transforming the crude oil into consumable products.
  - Alaska’s Natural Recourses are being converted into products for Alaskans, by Alaskans.
  - Resources stay home – creating the maximum total benefit for the citizens of Alaska.
How Does Alaska’s Refining Industry Create Value?

• Basic steps in the refinery process:
  – Crude Preparation (Cleaning and Boiling)
  – Fractionation / Distillation (Separation of crude into raw products)
  – Product Purification (Combination of reactions and other separation technologies)
  – Product Distribution (Tankage, terminals, racks)

• Products to market include gasoline, jet fuel, diesel fuels & asphalt
What are the challenges in Alaska’s refining industry?

• **Crude Supply**
  – North Slope oil production is dropping
  – North Slope crude is higher quality and higher cost (lighter and sweeter than many other world commodity crudes)
  – Most Alaskan refineries are tied directly to North Slope crude

• **Energy Cost**
  – Puts the industry at a significant competitive disadvantage

• **World Competition**
  – This is not an isolated market or industry
  – Both crude and products are competing against world wide demand and world class refineries
Royalty-in-Kind Oil – Maximum Benefit for Alaska

• FHR has been working with DNR on a Royalty in Kind contract renewal.
  – Original contract started on April 1, 2004 and will expire in 2014.
  – Both FHR and DNR believe this 2013 Session is the appropriate time to complete the renewal process and have been working very hard to meet that objective.
  – FHR must have a Royalty in Kind crude contract to continue to operate.
  – The primary issue is the price of the crude. We need a price that is the same as the producers pay for royalty in value crude.
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, well 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.
  • 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.
Liquefied Natural Gas

• FHR is no longer leading the LNG trucking project.
  – The plant we designed is large enough to serve much more than the industrial demand FHR was targeting.
  – It does not make sense to build that plant for industrial demand alone.
  – It became clear that the State would be asked to be the source for the other half of the plant.
  – If the State is being asked to fund half the plant, we believe it makes sense for the State to be in the driver’s seat in investigating demand and determining if this is a good investment for the State.

• FHR is still interested in using LNG in North Pole
  – We would consider a proposal from the State to participate.
THANK YOU!!