



Flint Hills closure puts fuel market in flux

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Flint Hills Resources will cease refining operations at its North Pole refinery near Fairbanks this spring, the company announced Feb. 4 in a press release.

The extraction unit at the refinery will be shut down on May 1, ending gasoline production. Crude Oil Processing Unit No. 2 will shut down shortly thereafter, depending on operational requirements, but no later than June 1, according to the company.

Flint Hills will continue marketing activities in Interior Alaska, the company said.

The closure of Unit No. 2 will end production of jet fuel and all other refined products. The company will continue to market fuels through its terminals in Anchorage and Fairbanks. Supply for those terminals will come from other sources, Flint Hills announced.

The loss of refinery jobs will have an impact on Fairbanks. Flint Hills now employs 126 in Alaska and after the closure 35 will remain in Fairbanks and 10 in Anchorage to work at the company's fuel terminal, Flint Hills spokesman Jeff Cook said.

There will be major changes in Interior fuel markets, the refinery has been a major supplier of gasoline, jet fuel, diesel and other products, including to major military installations.

Those fuels will have to be supplied from Southcentral Alaska.

"This has been a difficult decision made after a long, thorough and deliberative process," said Mike Brose, a company vice president and the refinery manager.

The refinery has faced difficult economic conditions in recent years, mainly the loss of jet fuel sales to air carriers in Anchorage due to fuel imports and less demand. However, Brose said the financial liability of soil and groundwater contamination left by previous owners were a major factor in the decision.

"Our company has spent an enormous amount of money and resources addressing soil and groundwater contamination that was caused when Williams owned the refinery and the State of Alaska owned the land underneath it," Brose said in the press release.

"So far, neither Williams nor the State of Alaska have accepted any responsibility for the cleanup. With the already extremely difficult refining market conditions, the added burden of excessive costs and uncertainties over future cleanup responsibilities make continued refining operations impossible."

Gov. Sean Parnell said he spoke with top company officials Feb. 4, the day the closure was announced.

"I was told market forces were the major factor, but that contamination issues that seemed unresolvable played a big part. It was an accumulation of economic issues. It isn't accurate to say it was any thing," he said.

The governor said had met with Flint Hills last fall regarding groundwater contamination issues at the refinery. "It is the state's responsibility to ensure safe groundwater and Flint Hills has done a good job in supply drinking water to people who are affected."

In that meeting the company expressed displeasure that Williams Companies has not stepped up to its responsibility on contamination, but also displeasure at the state's hard line on the groundwater contamination, the governor said.

"I spoke to the Commissioner of Environmental Conservation, Larry Hartig, and the Attorney General to make sure we are being reasonable but also instructed them to ensure we are protecting the public from groundwater contamination," Parnell said.

One other small refinery operates in the Interior region, a plant owned and operated by Petro Star Inc.

The state of Alaska has been supplying Flint Hills with state-owned royalty oil. The returned residual oil is a major source of heat for crude oil flowing through the Trans-Alaska Pipeline System to Valdez — the southern terminus of the pipeline.

During the winter, the crude temperature in TAPS drops as it flows south of Prudhoe Bay, creating potential operating problems for the pipeline, but the oil is warmed when Flint Hills returns residual oil to the pipeline. The refinery near Fairbanks is approximately at the halfway point of the 800-mile pipeline.

"We are not totally dependent on this (returned oil), however, as we have other ways of adding heat to the pipeline," said Michelle Egan, a spokeswoman for Alyeska Pipeline Service Co.

Alyeska is now warming the oil itself by recirculating crude at Pump Stations 7 and 9, and will soon add new capabilities to add heat at Pump Station 5, she said.

The returned oil to TAPS from Flint Hills is of less benefit to Alyeska in any event because Flint Hills has installed facilities to extract much of the heat as a source of energy for refinery operations.

"The oil returned is cooler than it was, so it is less important to them," said Kevin Banks, commercial manager at the state Division of Oil and Gas, who monitors crude oil issues for state royalty purposes.

Flint Hills has been drawing about 82,000 barrels per day to 84,000 barrels per day from TAPS, with about 22,000 to 25,000 barrels per day used to make products, according to state documents prepared in September 2013 for sales of state royalty oil. The balance is returned to TAPS as residual oil.

At those throughput volumes Flint Hills would produce about 143,000 gallons of gasoline per day, 41,000 gallons of home heating oil per day and 68,000 to 194,000 gallons per day of various products such as naphtha, asphalt, a small volume of high sulfur diesel and other products, according to the state documents prepared by the Division of Oil and Gas.

The closure of the refinery has implications for the state-owned Alaska Railroad Corp. The railroad has recently been shipping about 3.5 million gallons of jet fuel per week on five trains, according to railroad spokesman Tim Sullivan.

"(Flint Hills) has been a very important customer to us and we're still trying to review what this means for the Alaska Railroad," Sullivan said.

Banks, at the Division of Oil and Gas, said that some of the fuel shipped south on the railroad by Flint Hills will be offset by fuel shipped north to replace the refinery's supply in Interior markets, but that the northbound shipments of gasoline, diesel and jet fuel probably won't offset the loss of jet fuel shipped south for the railroad.

Ted Stevens International Airport manager John Parrott said that since 2009, Flint Hills-refined jet fuel has accounted for about one-third of the roughly 600 million gallons of fuel used by airlines in Anchorage annually. In 2007, before the recession slowed flight activity at the airport, Flint Hills fuel made up about 600 million of the 900 million gallons consumed at the airport during the year, he said.

That 300 million-gallon drop equates almost exactly to the capacity of Tower 3 at the refinery, a unit that was shut down by Flint Hills, Parrott said.

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