TESTIMONY OF

PETRO STAR INC.

HB 411

BEFORE THE HOUSE FINANCE COMMITTEE
4/11/18

Chairman Foster and Members of the Committee:

For the record, my name is Doug Chapados and I am the President/CEO of Petro Star Inc.

For those who may not be familiar with our company, Petro Star is engaged in petroleum refining at its Valdez and North Pole refineries. Additionally, through terminals and distribution centers located in Fairbanks, Anchorage, Valdez, Kodiak, and Unalaska, Petro Star also provides fuel and services to a wide range of Alaska consumers, including home and business owners, fishing fleets, electrical utilities, commercial airlines, and Alaska's military and coast guard installations.

Being a wholly owned subsidiary of Arctic Slope Regional Corporation, Petro Star is Alaska's only locally owned refiner and, with the closure of the Flint Hills Resources Refinery in 2014, the last operator of refineries that draw crude oil directly from the Trans-Alaska Pipeline System, or TAPS as it is more commonly known.

Given its reliance on TAPS for crude oil supply, Petro Star and our parent company ASRC are opposed to yet another attempt to change Alaska's existing oil and gas tax policies. It is especially troubling that this latest effort comes despite two consecutive years of ***increased*** North Slope production and TAPS throughput, which strongly suggests that the existing tax regime is working as intended.

After many years of steady decline, increased TAPS throughput is something of a new concept for Petro Star, but it is one we are happy to embrace. Just two years ago, Petro Star was engaged in negotiations with the Department of Natural Resources and Division of Oil & Gas for the purchase of State Royalty in Kind (RIK) crude oil. Entering these negotiations, Petro Star was seeking to secure a long term supply of 30,000 bbls/day of RIK crude oil. However, it soon became evident that DNR would be unable to meet Petro Star's volume request. In fact, North Slope production forecasts at the time predicted continued steep, year-over-year declines, thus limiting DNR's ability to supply RIK oil in the quantities Petro Star needed.

Ultimately, Petro Star signed two RIK crude oil contracts – together, these cover a five-year period and feature a sharp ramp down in sales volume, starting at 23,500 bbls/day of supply in Year 1 and steadily falling to just 10,500 bbls/day in Year 5. This real world example helps to illustrate how far Alaska has come in just two years' time in terms of oil production and I believe that were we negotiating contracts today, far more RIK oil would be made available to Petro Star's needs.

ANS crude oil is Petro Star's lifeblood and the potential for future declines in North Slope production is not a scenario we care to contemplate. However, legislation like HB411 has the very real potential to reverse recent production gains and comes at a time when the industry appears poised to ship even more oil on TAPS in the coming years. This renewed vitality is one of many reasons why ASRC elected to reinvest capital in Petro Star's operations – most notably, Petro Star acquired a fuel terminal within the Port of Anchorage last year and recently completed expansion of its North Pole Refinery, restoring both asphalt oil production to Interior Alaska and a local source of low-cost fuel to Golden Valley Electric Association's power generation facilities.

Investments such as these are far less likely in the event Petro Star cannot be assured of an adequate long term supply of crude oil. HB411 creates additional uncertainty and threatens potential TAPS throughput growth and sustainability and for these reasons, both Petro Star and ASRC oppose its passage.

Thank you for this opportunity to speak before the committee this evening.