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Flint Hills to shut North Pole refinery; about 80 jobs ending

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A fuel transport leaves the Flint Hills Resources North Pole Refinery on Monday, May, 12, 2008.

SAM HARREL — FAIRBANKS DAILY NEWS-MINER FILE PHOTO

The Flint Hills oil refinery in North Pole will reduce operations over the next several months and then shut down, and the company is blaming the high cost of doing business in Alaska and expensive issues with contamination that it says it inherited from the prior owner.

Flint Hill Resources Alaska LLC announced Tuesday it would shut down one of its two remaining units on May 1, ending its production of gasoline, and will shutter the second unit no later than June 1, ending production of jet fuel and other products. Two other units had closed earlier.

The refinery closure will cost the Fairbanks North Star Borough a top employer and taxpayer and Stevens Anchorage International Airport one source of locally produced jet fuel. But the impact on the Alaska Railroad, which now ships Flint Hills fuel, was unclear.

Flint Hills says it will hold onto its terminals and will bring in gasoline and jet fuel from Outside.

"We'll continue to meet our existing contracts," said Flint Hills spokesman Jeff Cook. "We have a tank farm and terminal in Anchorage and we have a tank farm and terminal in North Pole. So we'll be able to bring fuel in by rail or truck into Fairbanks and by water into Anchorage."

Flint Hills is owned by Koch Industries Inc., the Kansas-based multinational corporation.

It employs 126 people and will keep 35 in North Pole and 10 in Anchorage, Cook said. Employees are being encouraged to apply for jobs at other Flint Hills facilities and the company will cover their moving costs, he said. Those who don't stay with Flint Hills will get severance packages. People will be able to stay on the job until Nov. 1, he said.

Gov. Sean Parnell said he directed the Department of Labor and Workforce Development to help affected workers find new jobs, collect unemployment benefits and get career counseling.

Freight trains typically transport Flint Hills fuel south to Anchorage five days a week in 30 tank cars at a time, said Alaska Railroad spokesman Tim Sullivan.

"Flint Hills has been a very important customer of ours and we are currently assessing what that will mean to the railroad," he said.

Alyeska Pipeline Service Co. now buys a refinery byproduct piped in from Flint Hills to keep the crude warm in winter and reduce risk of ice and wax problems in the trans-Alaska pipeline. But Alyeska also has other ways of keeping the oil warm, said spokeswoman Michelle Egan.

A fuel consortium of airlines and carriers at the Anchorage airport three years ago expanded its fuel storage facility to buy from more suppliers, so the shutdown will have minimal impact, said Paul McElroy, Alaska Airlines spokesman.

"It may seem ironic that it's become cheaper for international carriers to import fuel to Anchorage than to have it refined and shipped from North Pole, but airlines are going to look for where they can get fuel most cheaply, and not whether it's from Alaska," Gunnar Knapp, director of the Institute of Social and Economic Research at the University of Alaska Anchorage, said in an email.

North Slope crude used to trade at a discount but now costs more than other U.S. oil, Cook said.

"So we've got higher oil costs. We've got no natural gas in Fairbanks so our energy costs for electricity and fuel require about three times what Lower 48 refineries have," he said.

Plus, a new tank farm near Anchorage being financed with an Alaska Industrial Development and Export Authority loan will be able to bring in cheaper fuel that Flint Hills can make, he said.

AIDEA, a state corporation, announced in July that its board had agreed to take on 90 percent of a \$15.5 million loan to a company called Central Alaska Energy LLC to build a new, seven-million gallon tank farm at Port MacKenzie, across Knik Arm from Anchorage.

State Rep. Doug Isaacson, R-North Pole and a former mayor there, said he was livid over the closure and predicted ripple effects, including the railroad losing a main source of revenue.

"We have made it more expensive to refine in-state than we have accommodated out of state. Instead of giving a \$15 million benefit for an in-state refiner, we've paid \$15 million to help support the import of refined fuel from out of state," he said.

The loan was one of many the agency provides to help Alaska businesses and didn't affect the Flint Hills closure, said Karsten Rodvik, AIDEA spokesman.

"This Point Mac tank farm is not even built yet and is not scheduled to be in operation until late this year," he said Tuesday evening.

Flint Hills also is dealing with a costly, serious and ongoing environmental issue.

Mike Brose, vice president of Flint Hills and the refinery manager, said in a written statement that the closure also relates to contamination caused when Williams Companies Inc. owned the refinery and the state owned the land underneath it.

"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," Brose said in the statement.

The refinery has changed hands several times since opening in August 1977. Williams bought it from MAPCO in 1998.

The Koch brothers bought the refinery operation and terminals in 2004. Inspections at the time did not find evidence that sulfolane, an industrial solvent used in gasoline production, had migrated off the property, Cook said. That discovery came in October 2009, he said.

Kristin Ryan, director of spill response and prevention for the Department of Environmental Conservation, said in an interview Tuesday night that sulfolane was dumped on the property by Williams and at a time it wasn't considered a dangerous chemical.

In tracking other contaminants, DEC discovered the sulfolane had extended far beyond the plant boundaries, she said. Studies on rats and guinea pigs suggest that it could harm the immune systems of humans, though more research is needed.

The plume was eventually found to cover much of North Pole, she said.

Flint Hills provides a water treatment system, bulk water tanks or bottled water for 300 affected property owners, Cook said.

"That cost is going to be there regardless and they've committed to staying involved in providing safe drinking water to the public, so their costs aren't going away," Ryan said.

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