FLINT HILLS RESOURCES, LLC

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APPENDIX 1:
SALE OIL NOMINATION PROCEDURE

Example Nomination Procedure for July 2014 Deliveries

	Prudhoe Bay & Satellites	Greater Pt McIntyre Area	MPU Total	DIU Total	KRU Total	Northstar Total	CRU Total	Badami Total	Ooguruk Total	Nikaitchuq Total	Total
March 15, 2014											
State receives preliminary barrel per day (bpd) production forecasts from thi operator 105 days prior to the start of the production month	149,600	14,000	14,000	5,800	73,700	9,200	47,500	1,000	6,700	8,000	329,500
Not later than											
March 21, 2014											
RIK purchaser notifies state of monthly bpd nomination (a)											30,000
Not later than											
March 30, 2014											
State computes RIK %											
Estimated royalty rates	12.50%	13.34%	13.77%	14.42%	12.50%	27.50%	14.74%	14.80%	5.00%	12.50%	
State Ownership	100.00%	100.00%	100.00%	100.00%	100.00%	82.16%	67.82%	100.00%	100.00%	100.00%	
Total state estimated royalty bpd (bpd * royalty rate)	18,700	1,868	1,928	836	9,213	2,079	4,748	148	335	1,000	40,854
State's Total RIK nomination percentage											73.43%
(Purchaser RIK bpd/estimated royalty bpd)											
March 30, 2014											
State notifies unit operator of state's RIK nomination percentage	94.64%	94.64%	95.00%	95.00%	85.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
May 26, 2014											
Unit operator notifies state and working interest owners of updated production forecast											
Production forecast (bpd) for July production month	188,938	30,009	10,900	8,560	72,080	7,300	45,064	1,291	6,900	7,800	378,842
State calculates RIK bpd											
Royalty rates based on updated estimates (b)	12.50%	13.391158%	12.50%	12.50%	12.50%	27.50%	14.74%	14.80%	5.00%	12.50%	
State's RIK nomination percentage	94.64%	94.64%	95.00%	95.00%	85.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
RIK bpd (bpd production forecast * Royalty rate * nomination %)	22,351	3,803	1,294	1,017	7,659	0	0	0	0	0	36,124
State's Tendering percentage	11.83000000%	12.67339193%	11.87500000%	11.87500000%	10.62500000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	
(RIK bpd/Production Forcast volumes)											
May 31, 2014											
State notifies RIK purchaser of bpd volume available for July production mon	22,351	3,803	1,294	1,017	7,659	0	0	0	0	0	36,124
August 2, 2014											
State invoices RIK purchaser for May production											
Metered volume for July 1-31, 2014	7,279,221	561,360	375,992	260,120	2,712,974	256,569	1,406,636	42,261	207,194	248,903	13,351,230
State's RIK Tendering percentage	11.83000000%	12.67339193%	11.87500000%	11.87500000%	10.62500000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	0.00000000%	
Total RIK bbls	861,131.84	71,143.35	44,649.05	30,889.25	288,253.49	-	-	-	-	-	1,296,067
bpd volume (Total RIK/31) (varies from forecast)	27,778	2,295	1,440	996	9,298	0	0	0	0	0	41,809
bpd volume varies from forecast	9,078	427	(488)	160	86						9,264

Table notes:

(a) The state determines from which units to nominate RIK volumes (section 2.1.5 of the Agreement)

(b) The estimated royalty percentage for Greater Pt McIntyre is a composite royalty rate from several fields and will vary with production

Proration Procedure

The State may prorate the amount of the Buyer's Sale Oil nomination for the Month of Sale Oil delivery in excess of 24,000 barrels per day when the amount of available Royalty Oil is insufficient to supply the Buyer's Sale Oil nomination and the nomination of other purchasers of the State's Royalty Oil. The State will prorate the Buyer's Sale Oil nomination for the Month of Sale Oil delivery according to the following calculation:

1. The State will first determine if the sum of the total nominations of all of the State's royalty in-kind purchasers exceeds the 85 percent of total Royalty Oil.

For example, assume that the State receives a preliminary barrel per day production (bpd) forecast from the North Slope operators that the total Royalty Oil for the Month of Sale Oil delivery will be 40,000 bpd. Eighty-five percent of this amount is equal to 40,000 x 0.85 = 34,000 bpd.

Also assume also that the Buyer's Sale Oil nomination for the Month of Sale Oil delivery is equal to 29,000 bpd; the sum of the nominations submitted to the State by other royalty in-kind purchasers for the Month of Sale Oil delivery is equal to 11,000 bpd. The sum of the nominations of all of the State's royalty in-kind purchasers exceeds 85 percent of total Royalty Oil, i.e., 29,000 bpd + 11,000 bpd > 34,000 bpd. Therefore, the Buyer's nomination will be prorated.

2. Subtract 24,000 barrels per day from the Buyer's Sale Oil nomination for the Month of Sale Oil delivery and divide the result by the sum of the nominations of all the State's royalty in-kind purchasers, including the Buyer's Sale Oil nomination, for the Month of Sale Oil delivery minus 24,000 barrels per day.

(29,000 bpd – 24,000 bpd)/(29,000 bpd + 11,000 bpd – 24,000 bpd) = 0.31250

3. This factor is multiplied by 24,000 bpd subtracted from 85 percent of total Royalty Oil;

0.31250 × (34,000 bpd – 24,000 bpd) = 3,125 bpd

4. This amount is added to 24,000 to equal the Buyer's prorated Sale Oil nomination for the Month of Sale Oil delivery.

3,125 bpd + 24,000 bpd = 27,125 bpd

APPENDIX 2:
EXAMPLE OF CALCULATION OF PRICE OF SALE OIL

The Price of the Sale Oil delivered by the State to the Buyer each Month for each Unit from which the Sale Oil is nominated is:

Price = ANS Spot Price –2.15 – Tariff Allowance + Quality Bank Adjustment – Line Loss

ANS Spot Price

Table 2-1 illustrates the calculation of the ANS Spot Price for July 2014.

Table 2-1: Calculation of ANS Spot Price

	Platt's Oilgram Price Report			Telerate On-line Data Reporting			Reuters On-line Data Reporting		
Effective Date	ANS Daily Low	ANS Daily High	ANS Daily Midpoint Average	ANS Daily Low	ANS Daily High	ANS Daily Midpoint Average	ANS Daily Low	ANS Daily High	ANS Daily Midpoint Average
07/01/14	$111.28	$111.32	$111.30000	$110.49	$110.59	$110.54000	$110.49	$110.59	$110.54000
07/02/14	$113.01	$113.05	$113.03000	$112.56	$112.66	$112.61000	$112.44	$112.54	$112.49000
07/03/14	$112.64	$112.68	$112.66000	$112.73	$112.83	$112.78000	$112.20	$112.30	$112.25000
07/07/14	$114.66	$114.70	$114.68000	$114.39	$114.49	$114.44000	$114.22	$114.32	$114.27000
07/08/14	$112.28	$112.32	$112.30000	$111.75	$111.85	$111.80000	$111.74	$111.85	$111.79500
07/09/14	$111.20	$111.24	$111.22000	$110.69	$110.79	$110.74000	$110.70	$110.79	$110.74500
07/10/14	$113.36	$113.40	$113.38000	$113.82	$113.92	$113.87000	$114.60	$114.70	$114.65000
07/11/14	$113.84	$113.88	$113.86000	$114.91	$114.99	$114.95000	$114.84	$114.94	$114.89000
07/14/14	$113.47	$113.51	$113.49100	$113.00	$113.10	$113.05000	$113.60	$113.70	$113.65050
07/15/14	$114.90	$114.94	$114.92000	$114.95	$115.02	$114.98500	$115.19	$115.29	$115.24000
07/16/14	$113.55	$113.59	$113.57000	$113.96	$114.05	$114.00500	$114.08	$114.18	$114.13000
07/17/14	$115.16	$115.20	$115.18000	$115.25	$115.35	$115.30000	$115.45	$115.55	$115.50000
07/18/14	$115.60	$115.64	$115.62000	$116.40	$116.50	$116.45000	$115.39	$115.49	$115.44000
07/21/14	$116.26	$116.30	$116.28000	$116.31	$116.41	$116.36000	$116.18	$116.28	$116.23000
07/22/14	$116.20	$116.23	$116.21500	$116.82	$116.92	$116.87000	$116.82	$116.92	$116.87000
07/23/14	$116.50	$116.55	$116.52500	$116.15	$116.25	$116.20000	$116.15	$116.25	$116.20000
07/24/14	$116.65	$116.70	$116.67500	$116.72	$116.81	$116.76500	$116.54	$116.64	$116.59000
07/25/14	$115.71	$115.75	$115.73000	$115.41	$115.51	$115.46000	$115.35	$115.45	$115.40000
07/28/14	$114.75	$114.78	$114.76500	$114.02	$114.12	$114.07000	$114.39	$114.50	$114.44500
07/29/14	$113.93	$113.99	$113.96000	$114.80	$114.86	$114.83000	$114.65	$114.75	$114.70000
07/30/14	$113.55	$113.59	$113.57000	$114.01	$114.06	$114.03500	$113.18	$113.28	$113.23000
07/31/14	$114.16	$114.20	$114.18000	$114.15	$114.25	$114.20000	$114.46	$114.54	$114.50000
	Platt's Montly Avg. =		$114.23232	Telerate Monthly Avg. =		$114.28682	Reuters Monthly Avg. =		$114.26161

ANS Spot Price$_{\text{July 2014}}$ = $114.260250

Tariff Allowance

The Tariff Allowance (TA) is the sum of (1) the average, weighted by ownership, of the Minimum Interstate TAPS Tariff for each owner in effect on the Day the Sale Oil is tendered by the State to the Buyer; and (2) any tariffs paid by Buyer for shipment of Sale Oil upstream of Pump Station No. 1. Table 2-2, 2-3, and 2-4 illustrates how the state will calculate the TA for each of the Units from which Sale Oil may be offered.

Table 2-2: Calculation of TAPS Portion of Tariff Allowance

Ownership-Weighted Average Minimum Interstate TAPS Tariff – July 2014				
Pipeline Company	FERC No.	Percent Pipeline Company Ownership	Minimum Interstate TAPS Tariff (Pump Station No.1 to Valdez Marine Terminal) by Pipeline Company	TAPS Tariff times Company Ownership Percentage
ConocoPhillips Transportation Alaska, Inc.		29.61017%	$5.04	$1.49235
ExxonMobil Pipeline Company		21.28289%	$5.06	$1.07691
BP Pipelines (Alaska) Inc.		49.10694%	$5.04	$2.47499
		100.0000%		

Ownership-Weighted Average Minimum Interstate TAPS Tariff = $5.04426

Table 2-3: Calculation of Portion of Tariff Allowance Upstream of Pump Station No. 1

Minimum Tariff on Pipelines Upstream of Pump Station No. 1 – July 2014				
Pipeline Company	FERC No.	RCA Tariff Advice Letter No.	Pipeline	Tariff
Kuparuk Transportation Company			Kuparuk River Unit to TAPS Pump Station No. 1	$0.26400
Endicott Pipeline Company			Endicott Main Production Island to TAPS Pump Station No. 1	$2.01000
Kuparuk Transportation Company			Milne Point Pipeline Connection to TAPS Pump Station No. 1	$0.19300
Milne Point Pipeline Company			Milne Point Central Facilities to Kuparuk Transportation Company Tie-in	$0.96000
			Total MPU Upstream Tariff Allowance:	$1.15300
Kuparuk Transportation Company			Kuparuk River Unit to TAPS Pump Station No. 1	$0.26400
Alpine Transportation Company			Colville, Alaska Alpine Field to Kuparuk River Unit	$0.69000
			Total CRU Upstream Tariff Allowance:	$0.95400
BP Transportation (Alaska) Inc.			Northstar Unit Seal Island to TAPS Pump Station No. 1	$2.14000

Table 2-4: Calculation of Tariff Allowance for Each Unit

Calculation of TA for Prudhoe Bay Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Upstream Tariff	$0.00000
TA_{PBU}	$5.04426

Calculation of TA for Kuparuk River Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04497
Kuparuk Transportation Co. Tariff	$0.26400
TA_{KRU}	$5.30826

Calculation of TA for Duck Island Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Endicott Pipeline Co. Tariff:	$2.01000
TA_{DIU}	$7.05426

Calculation of TA for Milne Point Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Kuparuk Transportation Co. Tariff	$0.19300*
Milne Point Pipeline Co. Tariff	$0.96000
TA_{MPU}	$6.19726

Calculation of TA for Colville River Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
Kuparuk Transportation Co. Tariff:	$0.26400
Alpine Transportation Company Tariff:	$0.69000
TA_{MPU}	$5.99826

Calculation of TA for Northstar Unit

Ownership-Weighted Average Minimum Interstate TAPS Tariff:	$5.04426
BP Transportation (Alaska) Inc. Tariff:	$2.14000
TA_{DIU}	$7.18426

*From Kuparuk Pipeline/Milne Point Pipeline connection to TAPS Pump Station No. 1.

Quality Bank Adjustment (QBA)

The TAPS Quality Bank compensates shippers of a high-value crude oil stream when a lower-value crude oil stream is blended in the common stream.[1] To calculate the Price of the Sale Oil at the Point of Delivery an adjustment must be made for the impact that the sale oil will have on the value of the commingled crude oil stream when it enters the TAPS Valdez terminal.

[1] Mitchell & Mitchell, 8300 Douglas Avenue, #800, Dallas, TX 75225, administers the TAPS Quality Bank. Anyone who ships oil on TAPS must make prior arrangements with Mitchell & Mitchell to participate in the TAPS Quality Bank.

The QBA is a per-barrel value, either positive or negative, and will be calculated each Month by the State for Sale Oil from each Unit. The State will estimate a QBA for each applicable Unit for the initial billing. Typically, the State receives the data to calculate the actual QBA for the Month about two Months after the Month the Sale Oil is delivered. For this reason the QBA will be subject to a routine true-up in a subsequent adjustment.

Table 2-5: Hypothetical TAPS Quality Bank Data
(as provided by the Quality Bank Administrator)

TAPS Quality Bank
Stream Values and Total Stream Volume Shipped
July 2014

Sample Location	Stream	Volume (BBL)	Stream Value ($/BBL)	Total Stream Value ($)
PBU IPA	PBU IPA	6,339,237	$110.4164400000	$699,955,981.86
LISBURNE	LISBURNE	271,173	$112.2028800000	$30,426,391.58
ENDICOTT	ENDICOTT	202,497	$109.5248100000	$22,178,445.45
KUPARUK	KUPARUK	7,008,864	$109.1719600000	$765,171,420.25
NORTHSTAR	NORTHSTAR	396,155	$115.0336100000	$45,571,139.77
PS #1	PS #1 REFERENCE	14,217,926	**$109.9529832205**	$1,563,303,378.91
GVEA OFFTAKE	GVEA PASSING	10,748,066	$109.9891900000	$1,182,171,073.41
GVEA RETURN	GVEA RETURN	2,601,950	$107.3460500000	$279,309,054.80
GVEA	GVEA REFERENCE	13,350,016	**$109.4740357018**	$1,461,480,128.20
PSVR OFFTAKE	PSVR PASSING	11,912,350	$109.4969400000	$1,304,379,691.54
PSVR RETURN	PSVR RETURN	1,051,990	$105.4520200000	$110,934,470.52
PSVR	PSVR REFERENCE	12,978,304	**$109.1697812657**	$1,415,314,162.05

KTC Quality Bank
Stream Values and Total Stream Volume Shipped
July 2014

Sample Location	Stream	Volume (BBL)	Stream Value ($/BBL)	Total Stream Value ($)
ALPINE	ALPINE	2,241,772	$110.7967700000	$248,381,096.68
MILNE POINT	MILNE POINT	638,565	$108.6292500000	$69,366,837.03
KUPARUK REFERENCE	KUPARUK REFERENCE	7,010,971	$109.1719600000	$765,401,445.57
NIKAITCHUQ	NIKAITCHUQ	210,697	$107.4115200000	$22,631,285.03
KUPARUK RIVER UNIT	KUPARUK RIVER UNIT	3,919,937	**$108.4257800166**	$425,022,226.84

Table 2-5 shows the kind of information supplied by the TAPS quality bank administrator that will be used to calculate the quality bank differential for Sale Oil produced from each Unit. The TAPS quality bank administrator provides this information to the State, pipeline owners, and shippers. As a shipper on TAPS, the Buyer will also receive this information. In the column titled "Stream Value ($/BBL)" are the different per-barrel values of each stream produced from the Units from which Sale Oil may be delivered. The PSVR Reference Stream value is labeled "PSVR Reference" and is the stream value of the blended TAPS stream immediately downstream of the Petro Star Valdez Refinery return stream. The Quality Bank Adjustment is calculated as the difference between the stream value of each Unit and the PSVR Reference Stream.

For example, assume that the Month is July 2014 and the Sale Oil is produced from Lisburne. The QBA for Sale Oil from Lisburne (QBA_{LIS}) is calculated as the per-barrel difference between the Stream value for Lisburne, indicated as "Lisburne" in Table 2.5, and the PSVR Reference Stream Value. In this example Sale Oil from Lisburne increases the value of the stream of oil measured at Valdez. Therefore, $3.0330987343 per barrel is the QBA incorporated in the calculation of Price for Sale Oil from Lisburne.

Quality Bank Adjustment for Lisburne = the stream value for Lisburne minus the stream value of PSVR Reference (from Table 2-5)

$$QBA_{LIS} = 112.2028800000 - 109.1697812657$$

$$QBA_{LIS} = \$3.03310$$

Note: The Price of Sale Oil from the PBU IPA and Lisburne are invoiced separately.

Using the results of the example calculations above, Line Loss for Sale Oil delivered from Lisburne in July 2014 equals

$$\text{Line Loss}_{LIS} = (.0009) \text{ X } (\$114.26025 - \$2.15 - \$5.04426 + \$3.03310) = \$0.09909$$

Calculating the Price of Sale Oil

The Price of Sale Oil delivered from Lisburne in July 2014 is

$$\text{Price}_{LIS} = \$114.26025 - \$2.15 - \$5.04426 + \$3.03310 - \$0.09909 = \$110.00000$$

Note that each number in the equation is rounded to five decimal places. If a number's sixth decimal is 0, 1, 2, 3, or 4, the number shall be truncated to the fifth decimal. If a number's sixth decimal is 5, 6, 7, 8, or 9, the number shall be truncated to the fifth decimal and the fifth decimal shall be increased by 1.

RIK Differential Readjustment Mechanism

The RIK Differential used in the calculation of the Price of Sale Oil will be adjusted one time for deliveries of Sale Oil on and after April 1, 2016. The adjustment of the new RIK Differential will be based on data provided by BP, ExxonMobil, and CPAI and documented in their royalty filings, including all revisions to that data that are available to the State at the time the State prepares the statement of account for the April 2016 Month of delivery.

Table 2-6 below illustrates the type of data provided by BP, ExxonMobil, and CPAI as well as the calculation of "Valdez Value_{RIV}." In the columns labeled "D.V." and "M.C" are hypothetical Monthly data for the destination values and the deductions for marine transportation costs as reported by BP, ExxonMobil, and CPAI and based on the provisions of their Royalty Settlement Agreements. BP, ExxonMobil, and CPAI also report their total royalty production for the Month of delivery subject to the formula in each lessee's Royalty Settlement Agreement; these data appear in the columns labeled "Bbls." The royalty volume-weighted average destination values and marine transportation cost allowances for each Month appear in the next two columns under the heading "Volume-Weighted Avg" and are used to calculate the Valdez Value$_{RIV}$. In the last column, the Valdez Value$_{RIV}$ for each Month is the volume-weighted average D.V. minus the volume-weighted average M.C for the three lessees.

Table 2.6: BP, ExxonMobil, CPAI Royalty Data and the Monthly Valdez Value$_{RIV}$

MONTH	BP			ExxonMobil			CPAI			Volume-Weighted Avg		Valdez
	D.V.	M.C.	Bbls	D.V.	M.C.	Bbls	D.V.	M.C.	Bbls	D.V.	M.C.	Value$_{RIV}$
January 2013	101.53	1.98	76,111	100.77	2.06	104,640	101.64	2.01	91,494	101.27605	2.02083	99.25522
February 2013	102.14	1.92	69,894	103.06	2.04	96,969	103.81	2.02	68,253	103.00500	1.99852	101.00648
March 2013	101.02	1.89	177,753	100.81	2.10	244,451	101.40	2.06	223,746	101.07142	2.02836	99.04306
April 2013	102.57	1.90	177,975	101.58	2.08	244,681	101.59	2.05	219,228	101.86023	2.01985	99.84038
May 2013	104.79	1.97	192,612	104.99	2.07	264,556	104.50	2.07	226,690	104.76971	2.04183	102.72788
June 2013	103.42	1.99	168,878	103.53	2.09	232,341	104.13	2.04	192,484	103.69268	2.04534	101.64734
July 2013	105.38	2.05	160,907	104.77	2.12	224,361	104.01	2.05	183,118	104.69852	2.07763	102.62089
August 2013	104.61	2.02	138,865	105.48	2.15	194,061	104.83	2.03	158,678	105.02434	2.07455	102.94979
September 2013	104.03	2.04	155,503	105.02	2.09	215,284	104.95	2.01	178,072	104.71953	2.04988	102.66965
October 2013	103.89	2.03	132,344	103.62	2.06	182,834	104.19	2.06	146,405	103.87713	2.05140	101.82573
November 2013	102.88	2.01	129,313	102.03	2.05	177,737	101.39	2.04	152,921	102.05748	2.03543	100.02205
December 2013	102.64	2.02	138,107	102.79	2.07	189,725	103.10	2.02	152,566	102.84566	2.03975	100.80592
⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮
December 2015	115.26	2.08	197,608	114.73	2.11	201,469	114.08	2.09	167,673	114.72386	2.09362	112.63024

Table 2-7 shows how the data provided by BP, ExxonMobil, and CPAI will be combined with the ANS Spot Price and the initial RIK Differential to arrive at the monthly difference between the value of RIK at Valdez and the value of RIV at Valdez.

Table 2.7: Monthly Difference between ANS Spot Price Minus $2.15 and Valdez Value$_{RIV}$

MONTH	PTR	RIK Differential	Valdez Value$_{RIV}$	Discrepancy
January 2013	100.56657	2.15	99.25522	-0.83865
February 2013	101.83060	2.15	101.00648	-1.32588
March 2013	100.63789	2.15	99.04306	-0.55517
April 2013	102.17962	2.15	99.84038	0.18923
May 2013	105.69509	2.15	102.72788	0.81721
June 2013	103.49037	2.15	101.64734	-0.30696
July 2013	105.32769	2.15	102.62089	0.55680
August 2013	103.93398	2.15	102.94979	-1.16581
September 2013	105.02457	2.15	102.66965	0.20492
October 2013	103.77881	2.15	101.82573	-0.19692
November 2013	102.56780	2.15	100.02205	0.39575
December 2013	103.28099	2.15	100.80592	0.32507
⋮	⋮	⋮	⋮	⋮
December 2015	115.34177	2.15	112.63024	0.56153

The second column in Table 2-7 is the monthly ANS Spot Price as calculated in Table 2.1.[2] The third column is the RIK Differential value initially set in Section 2.3 at $2.15. The fourth column is Valdez Value_{RIV} as computed in Table 2-6. The final column in Table 2-7 labeled "Discrepancy" is calculated as the ANS Spot Price minus $2.15 minus Valdez Value_{RIV}. Notionally, this final column represents how the RIK value at Valdez diverged from the volume-weighted average RIV value at Valdez each Month. A positive amount means that the RIK value at Valdez exceeded the RIV value.

The hypothetical data contained in Table 2-6 and 2-7 do not include the months January 2014 through November 2015 for the sake of presentation. When the State adjusts the RIK Differential for April 2016 and thereafter, the State will first take the average of the actual calculated Discrepancy for each of the thirty-six Months between January 2013 and December 2015. RIK Differential for Sale Oil deliveries on and after April 1, 2016 is

$$\text{RIK Differential} = \begin{cases} \$2.30 & \text{if} \quad \text{Average Discrepancy} > \$0.15 \\ \$2.15 + \text{Average Discrepancy} & \text{if} \quad -\$0.15 \leq \text{Average Discrepancy} \leq \$0.15 \\ \$2.00 & \text{if} \quad \text{Average Discrepancy} < -\$0.15 \end{cases}$$

Suppose that the simple average of the thirty-six values in the Discrepancy column was $0.42. This indicates that, on average, the RIK value for Sale Oil at Valdez was $0.42 per barrel higher than the volume-weighted average unaudited value of the State's RIV at Valdez. Based on this hypothetical Discrepancy of $0.42, the RIK Differential in the final three years of the contract would be $2.30. On the other hand, if the average Discrepancy was determined to be -$0.16, the RIK Differential in the final three years of the contract would be $2.00. Finally, if the average Discrepancy was $0.02, the RIK Differential in the final three years of the contract would be $2.17.

[2] The calculation of ANS Spot Price is defined in Section 2.3. For the purposes of the calculating the adjustment of the RIK Differential the same procedures will apply to calculate an ANS Spot Price for the January 2013 through December 2015 period.

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APPENDIX 3
EXAMPLE OF CALCULATION OF INTEREST AND LATE PAYMENT PENALTIES

Sample Calculation of an Invoice for July 2014 Deliveries

Assumptions:

1. Month is August 2014.
2. Sale Oil delivered to the Buyer from Lisburne in July 2014 = 31,000 barrels (1,000 bpd).
3. July 2014 Price of the Sale Oil for Lisburne as initially estimated by the State = $110.00000 per barrel.
4. Statement of account, with July 2014 invoice, sent to the Buyer on August 2, 2014.
5. July 2014 invoice payment due to the State = August 22, 2014.
6. Buyer pays State only $1,000,000 on the due date, August 22, and pays the outstanding balance on August 25, 2014.
7. Annual interest rate provided by Alaska Statute 38.05.135(d) for August 2014 is 11 percent.

Method for calculating Buyer's invoice payment for July 2014 deliveries:

Invoice Amount = Quantity of Sale Oil x Buyer's Price of Sale Oil
= 31,000 x $110.00000 = $3,410,000.00

Because payment in full was not received by the State on or before August 22, 2014, interest will accrue on the unpaid balance from August 22, 2014 through the date the payment is received, and a late payment penalty will be assessed.

Below is a sample calculation of late payment penalty fee (assuming that it is not waived under Section 3.7) and interest. This sample calculation shows what will happen if the Buyer makes a partial payment on August 22 and the balance on August 25.

Late Payment Penalty Fee:		
Statement of Account amount	=	$3,410,000.00
Amount paid on August 22	=	$1,000,000.00
Outstanding balance (8/22/11)	=	$2,410,000.00
Late Payment Penalty Fee ($2,410,000 x 5%) =	=	$120,500.00
Interest:		
$2,410,000 x (11%/365) x 3 Days	=	$2,178.90
Amount Buyer owes on August 25, 2014	=	$2,532,678.90

Note: As more accurate data is received by the State, the State may adjust the Price and/or the actual quantity of Sale Oil and invoice the Buyer in the initial adjustment invoice submitted with the following Month's (August 2014) statement of account.

Sample Calculation of an Adjustment Invoice in September 2014

Assumptions:

1. Month is September 2014.
2. Sale Oil delivered in July 2014 has been revised to 30,000 barrels.
3. July 2014's price for Sale Oil is unchanged at $110.00000 per barrel.
4. Date of the statement of account that contains the adjustment invoice is September 1, 2014.
5. Date the adjustment invoice payment is due to the State = September 20, 2014.

Method for calculating the Buyer's adjustment invoice amount for July 2014:

Invoice Amount = Quantity of Sale Oil x Buyer's Price of Sale Oil
= 30,000 x $110.00000
= $3,300,000.00

Adjusted Invoice Amount for July 2014	=	$3,300,000.00
Amount previously paid by the Buyer for July 2014	=	$3,410,000.00
Overpayment for July 2014	=	($110,000.00)

Credit due the Buyer against statement of account amount dated September 1 due September 20, 2014.

Note: As more accurate data is received by the State, the State may adjust the Price and/or the actual quantity of Sale Oil and invoice the Buyer in the adjustment invoice submitted with the following Month's (October 2014) statement of account.

Sample Calculation of an Adjustment Invoice in October 2014

Assumptions:

1. Month is October 2014.
2. July 2014's price for Sale Oil is changed to $110.05000 per barrel due to a change in the quality bank.
3. The statement of account that contains the adjustment invoice is October 4, 2014.
4. The adjusted invoice payment is due to the State = October 20, 2014.

Method for calculating the Buyer's adjustment invoice amount for July 2014:

Production Month Invoice Amount = Quantity of Sale Oil x Buyer's Price of Sale Oil
= 30,000 x $110.05000
= $3,301,500.00

Adjusted Invoice Amount for July 2014	=	$3,301,500.00
Amount previously paid by the Buyer for July 2014	=	$3,300,000.00
Underpayment for July 2014	=	$1,500.00

The underpayment is due the State on October 20, 2014.

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APPENDIX 4
SPECIAL COMMITMENT

Wholesale Rack Price Parity

Buyer agrees, for any period of time in which Buyer is purchasing Sale Oil under this Agreement, to maintain the Buyer wholesale truck rack posted price for gasoline in Fairbanks at a price not to exceed the Buyer wholesale truck rack posted price for gasoline in Anchorage on an annual simple average basis (within a tolerance/variation of 1 cent per gallon (cpg)). Buyer makes no guarantee of the price parity for Buyer's wholesale truck rack posted prices for gasoline in Fairbanks and Anchorage on a daily basis. If the annual average variation of the aforementioned posted prices exceeds 1 cpg, Buyer shall have ninety (90) days to reduce the variation below 1 cpg, averaged over an all-inclusive timeframe, including the ninety (90) day period and the previous annual period. This provision shall only apply to gasoline produced by Buyer at its Alaska refinery. This provision shall not apply to any gasoline exchanges. An example of the calculations appears in Table 4-1.

Table 4-1 Wholesale Truck Rack Posted Price True-Up

Wholesale Rack Price Parity	Scenario 1			Scenario 2		
	Buyer Fairbanks Posting (cpg)	Buyer Anchorage Posting (cpg)	Fairbanks minus Anchorage (cpg)	Buyer Fairbanks Posting (cpg)	Buyer Anchorage Posting (cpg)	Fairbanks minus Anchorage (cpg)
January	104.00	102.44	1.56	106.00	102.44	3.56
February	103.00	100.76	2.24	103.00	100.76	2.24
March	100.00	103.01	(3.01)	106.00	103.01	2.99
April	108.00	110.02	(2.02)	114.00	110.02	3.98
May	112.00	110.07	1.93	112.00	110.07	1.93
June	111.00	109.40	1.60	114.00	109.40	4.60
July	106.00	108.38	(2.38)	108.00	108.38	(0.38)
August	107.00	109.77	(2.77)	109.00	109.77	(0.77)
September	112.00	114.02	(2.02)	115.00	114.02	0.98
October	115.00	114.02	0.98	119.00	114.02	4.98
November	115.00	113.38	1.62	113.00	113.38	(0.38)
December	112.00	113.70	(1.70)	116.00	113.70	2.30
Annual Average	**108.75**	**109.08**	**(0.33)**	**111.25**	**109.08**	**2.17**
January				119	119.95	(0.95)
February		**Not Applicable**		125	126.19	(1.19)
March				133	134.13	(1.13)
15 Month Average				**114.13**	**112.62**	**1.52**

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Report to the Alaska Legislature from the Alaska Royalty Oil and Gas Development Advisory Board February 28, 2013

According to AS 38.06.070(c), the Alaska Royalty Oil and Gas Development Advisory Board ("Royalty Board") "...shall make a full report to the legislature on each criterion specified in (a) or (b) of this section for any disposition of royalty oil or gas that requires legislative approval. The board's report shall be submitted for legislative review at the time a bill for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature." This document is the Royalty Board's report regarding the sale by the Department of Natural Resources to sell up to 30,000 barrels per day of royalty oil to the Flint Hills Resources North Pole refinery under a proposed titled, Agreement for the Sale of Royalty Oil Between and Among the State of Alaska, Flint Hill Resources, LLC, a Delaware Limited Liability Company and Flint Hills Resources Alaska, LLC, An Alaska Limited Liability Company ("Proposed Contract").

The Royalty Board reviewed the Preliminary Best Interest Finding and Determination for the Sale of Alaska North Slope Oil to Flint Hills Resources Alaska, LLC" ("Preliminary Finding and Determination") prepared by the Department of Natural Resources ("DNR") and, at a public hearing held in Fairbanks, Alaska, on February 26, 2013, heard testimony from DNR staff, representatives from Flint Hills Resources Alaska, LLC., and heard testimony from the public.

AS 38.06.070(a) and (b) lists several criteria that the Royalty Board must consider when making a recommendation to the legislature for the sale of royalty oil. Below each criterion is listed in boldface type followed by the Royalty Board's findings. The data and information below draws extensively from DNR's Preliminary Finding and Determination.

AS 38.06.070(a)(1) the revenue needs and projected fiscal condition of the state

The revenue needs and fiscal condition of the state are illustrated by the fact that 1 in every 5 dollars generated in the Alaska economy is generate by the oil and gas industry. In FY 2012, 93 percent of the state's unrestricted general fund revenue was paid by oil and gas activities and the state earned $2.95 billion from oil and gas royalty payments. Given that the approximately $3.5 to $5.9 billion revenues generated by the sale represents a small improvement over the state's next best alternative, i.e., payments from the North Slope lessees for royalty in-value, the sale will contribute additional funds to the state general fund revenue.

AS 38.06.070(a)(2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs

The North Pole refinery meets a substantial proportion of the local and regional need for petroleum-based energy. Flint Hills Resources produces approximately 18 percent of the gasoline consumed in Alaska and 26 percent of the jet fuel sold in Alaska. The North Pole refinery produces 330 million gallons of refined petroleum products per year. On a daily basis, FHR supplies 672,000 gallons of jet fuel, 143,000 gallons of gasoline, 41,000 gallons of heating fuel, and between 68,000 and 194,000 gallons of various products used in electrical generation and other uses: HAGO, LAGO, naphtha, asphalt, refining fuel, and small amounts of high-sulfur diesel. All products are sold in Alaska in both the Interior and in Anchorage—primarily jet fuel sales at the Ted Steven International Airport.

In the absence of the sale of the state's royalty oil under the Proposed Contract, Flint Hills Resources could face the prospects of discontinued operation of the refinery. The loss of a domestic supply of refined product would have to be substituted by imports at possibly higher prices to residential and commercial customers. This would also mean a dramatic shift in the product supplies manufactured by other refineries in the state.

AS 38.06.070(a)(13) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange, or other disposition of oil and gas or both

As in most of the discussion of the benefits of the Proposed Contract, the effects of the sale should be understood in that they are generated in keeping the status quo. In the absence of the sale, there is a higher likelihood that the refinery might close and the benefits enjoyed today would disappear. In that the sale will contribute to the maintenance of the status quo, there is unlikely to be any incremental capital investment, increased payroll, jobs, or secondary investment that may be attributed to the sale. On the other hand, there is a specific provision in the Proposed Contract that the contract may be extended if FHR invests in a large capital project at the North Pole refinery or commits to binding support of a North Slope natural gas transportation system. If the latter were to occur in part because of FHR's commitment to the project, there would be a substantial local capital investment and hiring. The project could also contribute to potentially lower energy costs for Interior residents and generate positive environmental spillover effects.

AS 38.06.070(a)(4) the projected social impacts of the transaction

The sale is unlikely to generate incremental social impacts. In the absence of the sale 1,300 jobs in the Fairbanks North Star Borough would be at risk with attendant impacts on social infrastructure and higher demand for social services. Property taxes currently paid by FHR to the local government would also be substantially affected. With a loss of jobs, population losses due to out-migration would have negative social consequences for the local communities in the region.

AS 38.06.070(a)(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction

The sale is likely to impose negligible additional costs or responsibilities for the state or the Fairbanks North Star Borough or the city of North Pole. The absence of the sale could impose substantial impacts on the social safety net provided by these governments as consequence of job losses and the decline of local tax revenues.

AS 38.06.070(a)(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction

FHR's North Pole refinery is a substantial part of the local and regional labor market. The sale is expected to generate only negligible additional labor market demand but the absence of the sale could have a substantial opposite effect. FHR employs 129 full time equivalent positions, most of who are employed at the North Pole refinery. These jobs generate a total of 1,300 direct and indirect jobs in the wider economy of the Fairbanks North Star Borough. These are high paying positions as well: the average direct income associated with employment at the refinery is $166,000 per year per position and contributes to another $66,000 per year in indirect income effects.

AS 38.06.070(a)(7) the projected positive and negative environmental effects related to the transaction

The projected environmental effects of the sale, insofar as the sale will maintain the status quo, will be negligible. However, in the absence of the current locally produced refined products, there could be increased environmental impacts associated with the transportation of imported petroleum products and the substitution of wood generated heat for relatively clean-burning petroleum home heating fuel.

AS 38.06.070(a)(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments

The sale by itself will maintain the status quo operation of the North Pole refinery and will generate negligible effects on the activities in the various economic sectors of the region. If the refinery were to close as consequence of not selling royalty oil under the Proposed Contract, the loss of 26 percent of the jet fuel supply would affect flight and airport operations at both the Fairbanks International and Ted Stevens International Airport in Anchorage. The Alaska Railroad would lose one of its largest customers and its unit costs would increase. Other domestic refineries would be forced to substitute for the lost supply from the shuttered North Pole refinery but imports would likely be a new and significant source of supply. Generally, higher energy costs to residential and commercial consumers would generate a host of investment adjustments: possible lower property values and higher prices for goods and services throughout the economy.

In addition to the above criteria, the Royalty Board also verified that conditions of AS 38.06.070(b) had been achieved through the Proposed Contract. AS 38.06.070(b) says, "When it is economically feasible and in the public interest, the board may recommend to the commissioner of natural resources, as a condition of the sale of oil or gas obtained by the state as royalty, that

(1) the oil or gas be refined or processed in the state;

Article IV in the Proposed Contract has an explicit provision that "Buyer agrees to use commercially reasonable efforts to process the Sale Oil at its refinery in North Pole, Alaska."

(2) the purchaser be a refiner who supplies products to the Alaska market with price or supply benefits to state citizens; or (3) the purchaser construct a processing or refining facility in the state.

The Flint Hills Resources North Pole refinery has been in continuous operation since 1979 and has provided a slate of refined products for Alaska residential and commercial customers. Indeed, the initial 25-year royalty oil sale by DNR is responsible for the very existence of the North Pole refinery in that a secure long-term supply of crude oil made initial financing of the refinery's construction possible. In testimony heard in the public hearing on February 28, 2013, the Royalty Board learned of an anecdotal fact that the start-up of North Pole refinery led to the immediate halving of the retail price of gasoline as locally produced gasoline replaced imports.

THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD
Resolution 13-1

Whereas, on Tuesday, February 26, 2013 at 1:00 p.m., the Alaska Royalty Oil and Gas Development Advisory ("Royalty Board") conducted a public hearing at the Noel Wien Library Auditorium in Fairbanks, Alaska at 1:00 p.m. to consider the proposed royalty in-kind oil supply contract titled, "Agreement for the Sale of Royalty Oil Between and Among the State of Alaska, Flint Hill Resources, LLC, a Delaware Limited Liability Company and Flint Hills Resources Alaska, LLC, An Alaska Limited Liability Company" ("Proposed Contract").

Whereas, under the Proposed Contract, DNR will sell to Flint Hills Resources Alaska, LLC, between 18,000 to 30,000 barrels per day of North Slope royalty oil. Upon enactment of legislation approving the Proposed Contract, delivery of the royalty oil will begin on April 1, 2014.

Whereas, at this public hearing the Royalty Board reviewed the Preliminary Best Interest Finding and Determination for the Sale of Alaska North Slope Oil to Flint Hills Resources Alaska, LLC" ("Preliminary Finding and Determination") submitted to the Royalty Board by the Department of Natural Resources ("DNR") via email on February 19, 2013 and provided in hard copy to the Royalty Board members at the public hearing.

Whereas, at this public hearing the Royalty Board heard testimony from the staff of DNR, representatives of Flint Hills Resources, and members of the public.

Whereas, on the following Thursday, February 28, 2013, the Royalty Board conducted a public meeting in Conference Room 1860 at the Robert Atwood State Office Building in Anchorage at 9:00 a.m. to review the testimony heard at the February 26, 2013 public hearing and to consider the approval and recommendation to the Alaska Legislature in light of the criteria of AS 38.06.070. After a thorough discussion, the Royalty Board voted to approve the proposed sale and recommend the proposed agreement be approved by the Alaska Legislature. The Royalty Board also adopted the attached report to be submitted to the Alaska Legislature along with its recommendation as required under AS 38.06.070.

Be it resolved, that based on the Royalty Board's review of the Proposed Contract, the Preliminary Finding and Determination, and the information presented at its public hearing, the Royalty Board is of the opinion that the proposed disposition of North Slope royalty oil to Flint Hills Resources Alaska, LLC meets the requirements of AS 38.06.070. In accordance with AS 38.06.070(c) the Royalty Board submits the attached report and, in accordance with AS 38.06.050, recommends that the Alaska State Legislature approve the Proposed Contract.

Bob Roses	Date: 2/26/13	Charles Wiegers	Date: 2/28/13
Steve Menard	Date: 2/28/13	Steve Selvaggio	Date
Dana Pruhs	Date: 2/28/13	Daniel Patrick O'Tierney	Date
Joe Balash	Date	Bruce Tangeman	Date: 2/28/13

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RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

February 25, 2013

Mr. Kevin Banks
Alaska Division of Oil and Gas
550 West Seventh Avenue, Suite 1100
Anchorage, AK 99501-3560

Dear Mr. Banks:

The Resource Development Council (RDC) is writing to support the proposed new royalty oil contract between the State of Alaska and Flint Hills Resources Alaska (FHR).

RDC is an Alaskan business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism, and fisheries industries. Our membership includes all of the Alaska Native Regional Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to expand the state's economic base through the responsible development of our natural resources.

The proposed contract fully meets the criteria set out for the sale of royalty oil under Alaska Statute 38.05 and 38.06. RDC requests that approval of the negotiated contract occur in an expeditious manner before the State Royalty Advisory Board and the Alaska Legislature.

The proposed sale of royalty oil to FHR is needed to meet in-state need for crude and facilitate continued operations of the North Pole refinery with significant benefits to Alaskans and the Interior Alaska economy. RDC agrees with the Commissioner of Natural Resources that the proposed contract for the sale of the State's royalty oil to FHR is in the public's best interest.

The proposed contract commits the State to deliver a maximum of 30,000 barrels per day to FHR between April 1, 2014 and March 31, 2019.

For decades, the refinery at North Pole has been a major component of the Interior Alaska economy, providing good-paying jobs and tax revenues to the Fairbanks North Star Borough. The refinery has provided reasonably-priced fuels, and shipments from the refinery have benefited Alaskan entities, including the Alaska Railroad Corporation. Moreover, FHR has been an excellent corporate citizen, supporting many organizations statewide.

RDC encourages the State Royalty Advisory Board and the Alaska Legislature to expeditiously approve the negotiated contract. It will serve Alaskans well.

Sincerely,

Carl Portman
Deputy Director

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503
Phone: 907-276-0700 • Fax: 907-276-3887 • Email: resources@akrdc.org • Website: akrdc.org

Sponsored by: Mayor Bryce Ward
Introduced & Adopted: March 4th, 2013

CITY OF NORTH POLE
RESOLUTION 13-04

A RESOLUTION SUPPORTING LEGISLATIVE ACTION TO APPROVE THE FIVE YEAR ROYALTY OIL CONTRACT BETWEEN FLINT HILLS RESOURCES LLC AND THE ALASKA DEPARTMENT OF NATURAL RESOURCES DURING THE 28TH LEGISLATIVE SESSION

WHEREAS, the royalty contract proposed between Flint Hills Resources and the Alaska Department of Natural Resources satisfies all state requirements; and

WHEREAS, a five year contract allows for enough stability for outside investment in the Flint Hills Refinery; and

WHEREAS, Flint Hills Resources LLC has no other supplier of crude oil; and

WHEREAS, lack of a royalty oil contract with the State of Alaska would put the refinery at sever risk of closure; and

WHEREAS, Flint Hills Resources is an instate producer of oil, creating jobs in the City of North Pole and the State of Alaska; and

WHEREAS, based on a FEDC study the Flint Hills Refinery is responsible for up to 1,600 indirect jobs that average over $60,000 a year; and

WHEREAS, if the Flint Hills Refinery was to shut down it would have over a $100,000,000 negative impact on the community; and

WHEREAS, Flint Hills Resources is a Major contributor to property tax revenue for the City of North Pole; and

WHEREAS, the City of North Pole desires to promote and maintain local business in the City.

NOW, THEREFORE, BE IT RESOLVED that the North Pole City Council supports legislative action to approve the royalty oil contract between Flint Hills Resources LLC and the Alaska Department of Natural Resources during the 28th legislative session.

PASSED AND APPROVED by a duly constituted quorum of the North Pole City Council this 4th day of March, 2013

Bryce J Ward, Mayor

THE CITY OF NORTH POLE INCORPORATED ON SEAL JANUARY 16, 1953 ALASKA

ATTEST:

Kathryn M. Weber, MMC, City Clerk
North Pole City Clerk

PASSED
YES: 7 - Hunter, Sikma, Holm, Smith, Nelson, McGhee, Ward
NO: 0
ABSENT: 0

Fairbanks North Star Borough Office of the Mayor
809 Pioneer Road • PO Box 71267 • Fairbanks, AK 99707 (907) 459-1300 FAX 459-1102

Department of Natural Resources
Division of Oil & Gas
Attn.: Kevin Banks
550 West 7th Avenue, Suite 200
Anchorage, Alaska 99701-3560

March 12, 2013

Dear Mr. Banks:

The Fairbanks North Star Borough (FNSB) wholly supports the Department of Natural Resources proposal to sell North Slope royalty oil to Flint Hills Resources Alaska, LLC.

If Flint Hills is allowed to purchase royalty oil and refine it, this can and will create a more competitive market to see the product throughout the state. We have already seen the decline in refining at Flint Hills due to the high operating costs we face here in the Interior. This, in turn, has caused a reduction in force which harms our local economy.

The FNSB is putting the pieces in place so we can deliver low cost gas to our community. We have created the Interior Alaska Natural Gas Utility. Not only will the utility benefit borough residents, it also reduces the costs at our refineries. This long term proposal for Flint Hills to purchase the royalty oil is very important to everyone here.

As Mayor of the FNSB, I believe entering a long term contract with Flint Hills is in the best interest of the State, the refinery and the residents of the borough. I look forward to a positive finding in this endeavor and seeing legislation move forward as we all do our part of bolster the economy.

Please do not hesitate to contact me if you have any questions.

Sincerely,

Luke Hopkins,
Borough Mayor

GREATER FAIRBANKS
CHAMBER OF COMMERCE

Interior Alaska – The "Place" To Do Business
100 Cushman St., Suite 102 | Fairbanks, Alaska 99701-4665
ph (907) 452-1105 | fax (907) 456-6968 | www.FairbanksChamber.org

March 15, 2013

Alaska State Legislature
State Capitol Building
Juneau, AK 99501

Dear Alaska State Legislature,

The Greater Fairbanks Chamber of Commerce represents over 700 businesses and organizations in the greater Fairbanks area and our mission is to ensure a healthy economic environment. The Flint Hills Refinery is an important contributor to the success of our Interior economies. For several decades, the refinery has provided market priced fuels. Their impact on jobs in our community was recently made clear as changes at the refinery led to significant layoffs at the Alaska Railroad Corporation. Flint Hills Resources also has a major impact through their support of the many organizations and programs throughout the State.

The negotiations that generated the proposed contract and the draft Best Interest Finding resulted in an agreement designed to meet both the letter and the spirit of the laws and regulations governing royalty oil sales. The proposed contract also provides incentives of extended length for purchase of North Slope natural gas – and action that could also benefit efforts to bring North Slope gas to the Interior.

For Flint Hills Resources to efficiently operate in the State, they need a predictable supply of crude oil. With the current contract expiring on April 1, 2014, Flint Hills Resources and the Alaska State Department of Natural Resources have negotiated a new contract. This new contract has been approved by the Alaska Royalty Oil & Gas Development Advisory Board and needs to be approved by the State Legislature.

In order for Flint Hills Resources to continue operations, plan and make future investments, and for the refinery to negotiate new sales contracts with their customers in a timely manner, legislative approval must be made before the Legislature adjourns in April of 2013. We ask that this action be done expeditiously.

Sincerely,

Lisa Herbert
Executive Director

Terri Froese
Board of Directors, Chair

Bob Shefchik
Energy Committee, Chair

Cc: Governor Sean Parnell
Lieutenant Governor Mead Treadwell
Bryan Butcher, Commissioner of Revenue
Dan Sullivan, Commissioner of Natural Resources
Joe Balash, Deputy Commissioner of Natural Resources
Alaska State Legislature
Alaska State Chamber of Commerce
Membership of the Greater Fairbanks Chamber of Commerce

Alaska Royalty Oil and Gas Development Advisory Board

Transcript of Oral Public Comments

Noel Wien Library
Fairbanks, Alaska
February 26, 2013

Comment from Bob Shefchik, Chamber Energy Committee

MR. SHEFCHIK: Bob Shefchik. 557 Grandview. I'm representing the Chamber Energy Committee and I have a Chamber Energy Committee at 2:30, so I will be necessarily brief. Welcome home, Mr. Pruhs (Board Member).

You know, I am representing the Chamber Energy Committee. I'm here to support the Preliminary Best Interest Finding and ask the board to take actions necessary to get the proposed Royalty Oil contract acted on by the legislature this session. You know, authorization of a successor oil contract with Flint Hills and the state has been a Chamber of Commerce legislative priority since we started working on our priorities last summer. We understand the value to our community and the value to Flint Hills. We also understand the value to the state and believe that putting this off to 2014 would cause problems for all of us.

Flint Hills, you know, is a valuable asset in our community. They're a corporate citizen. They're a large employer. They're a local taxpayer and they are one of two anchors of our energy economy here in the Interior. The chamber understands the high cost of energy is a critical problem in the community; it's another of our priorities. But we also recognize that the royalty oil is a world commodity. And so we -- you know, we appreciate the give and take between the two. When parties negotiate, from the outside all you can do is assume and trust that both sides worked hard and the end balance in pricing and terms reflects, you know, a good balance to both, and we appreciate that. You know, we know that there is a, you know, slight change from the last contract, but, you know, 50 cents on a 42-gallon barrel of oil is not a big change if you, you know, do the math.

You know, we appreciate the time that you put into studying the details of these complex transactions. You know, each of us can only spend so much time drilling it on to so many things and so particularly for the citizen members, you know, we thank you for spending the time to do that for us. You know, and we urge the support for this Preliminary Best Interest Finding and movement of that contract this year. And with that, I'll thank you and close.

MR. ROSES (Board Chairman): Any questions? Dana [PRUHS]?

MR. PRUHS (Board Member): Yeah, I just have one question and it may not be directly related to the refinery, but it has to do with the fuel. Could you -- do you have a sense of the number of homes that burn home heating fuel versus wood in the community?

MR. SHEFCHIK: I could tell you the number of homes that are heated, and there's 26,000 structures in the community off the borough database. I would put it in the 10 to 20 percent range on the residential that you're looking at, at a wood supply now and it's predominant in the North Pole area.

MR. PRUHS: Okay.

MR. SHEFCHIK: But it's really -- since 2008 with the spike of oil, it's throughout the community.

MR. PRUHS: And then what percentage of the typical home, average home if there is such a thing, are they spending on fossil fuels versus something else?

MR. SHEFCHIK: Versus something else? I have seen statistics and I believe they were out of AEA that talked about the Anchorage homes spending 3 to 5 percent of their disposable income on live electricity and oil. And in Fairbanks, you'd see 10 to 15 percent, a combination of higher kinds of oil products and degree days and -- is how they come up with that.

Comment from Bryce Ward, Mayor, City of North Pole

MR. ROSES: And the next up would be Bryce Ward. Thank you, Mr. Mayor. Please state your name and why you're here.

MAYOR WARD: Definitely. Bryce Ward, City of North Pole mayor. 606 East 5th Avenue, North Pole, Alaska.

I come here today to represent at least the mayor's office, the City of North Pole. We do have a resolution in for our next council meeting this next week in support of this action that you're looking at before you [CONTAINED IN THIS EXHIBIT]; however, it has not gone before our council at this time. I'd like to speak in favor of the royalty contract before you right now. As you have read, it fulfills the state requirements and it is in the best interest of the state's citizens of Alaska and also of the local Interior residents.

To give you a little bit of history and -- of the effects that the refinery has in the City of North Pole, they are a large portion of our property tax. Within I would say probably about a third of the property tax that we derive comes from the Flint Hills Refinery. Our utility department, water and sewer utility department in the last five years has seen approximately $6 to $7 million in donations to the City of North Pole on behalf of Flint Hills Refinery from a force sewer main which was put in this last year, a value of about 3 million, to our new city wells that we have of approximately 3 to 4 million that were put in approximately five years ago. They are a huge contributor to the City of North Pole and the residents. The high-paying jobs that they -- that were referred to earlier in this meeting are a huge benefit to the City of North Pole. We want to see these local jobs stay here and if the -- if Flint Hills Refinery cannot remain competitive by securing a long-term contract, the effects of them not being in this community are huge, not only to the City of North Pole, but also to the surrounding community of North Pole and the greater area.

Again, just to let you know, these are a few of the things that we look at when we talk about the City of North Pole and Flint Hills Refinery. I believe it's a productive and a good relationship that we have. If you were to look at our overall budget and the portion of property tax, we also – our income is property tax and also sales tax. The property tax is probably -- the amount that Flint Hills Resources contributes to the City of North Pole in property tax is equivalent to approximately 15 to 20 percent of our overall budget. And so if we were to take a hit of that size, it would mean substantial loss of employment to the City of North Pole and also services to the residents of our area. So, again, we speak in favor. I, from the mayor's office, speak in favor of this and I'm hoping that within the next week we can have a resolution from our council to this board in support of action by this legislature this year on this contract. Thank you.

MR. ROSES: May I make a suggestion? You may want to address your resolution -- if it's going to be more than a week, you may want to address it to the legislature because I would anticipate that this board will make a decision either today or Thursday when we have our next meeting.

MAYOR WARD: Definitely.

MR. ROSES: So if you wait a week, it will be too late for us. So if you address it to the legislature.....

MAYOR WARD: And that is our intent, to go basically to the body making the decision.

MR. ROSES: Any questions of the mayor? Seeing none. Thank you very much for your testimony.

MAYOR WARD: Thank you.