



March 2, 2014

The Honorable Governor Sean Parnell  
Alaska State Capitol Building  
P.O. Box 110001  
Juneau, AK 99811-0001

Dear Governor Parnell:

I am writing to you with deep concern about the continued viability of the refining industry in Alaska. Petro Star Inc. (PSI), a wholly owned subsidiary of Arctic Slope Regional Corporation (ASRC), owns and operates refineries in North Pole and in Valdez.

The recent announcement by Flint Hills Resources to shut down its refinery in June has sent shock-waves throughout the state, but Flint Hills' economic problems are not unique. Alaska refineries that are dependent upon drawing ANS crude from TAPS are fighting to remain in business in this state. ASRC is asking for your assistance to help this vital industry ensure that petroleum products Alaskans need are refined here in Alaska, from Alaska crude oil.

By way of background, PSI's North Pole and Valdez refineries were commissioned in 1985 and 1993, and have a combined crude processing capacity of 82,000 barrels per day – equal to the capacity Flint Hills is now shutting down. Refined products from PSI's refineries can be found in consumer fuel tanks and equipment across the state. In addition to refining, much of PSI's production is sold through company owned marine terminals and heating oil distributorships located in Valdez, Kodiak, Unalaska, and the Interior. Currently, 100% of the Alaska military jet fuel demand at JBER, Eielson AFB, Ft. Wainwright, and Coast Guard Air Station Kodiak is produced and delivered by Petro Star. In 2013 alone, PSI worked with 750 in state vendors, generated 282 million gallons in fuel sales, and provided products and services to over 14,000 customers.

Petro Star thus plays an important role throughout Alaska, especially within the communities in which it does business.

ASRC was one of the original investors in Petro Star Inc., and ASRC's support has been crucial to making PSI a viable refiner in Alaska. Since 2007, ASRC has reinvested over \$280 million in Petro Star's operations. This includes the ASRC Board of Directors' 2008 decision to invest over \$150 million to build the facilities necessary for the PSI Valdez Refinery to produce EPA-mandated ultra-low sulfur diesel fuel (ULSD). This was, and remains, the single largest investment in ASRC's history and established PSI as one of only two instate refiners capable of producing that essential fuel.

These investments in Alaska's future were not made because they qualified for State subsidies, tax credits or financing, but rather were grounded in ASRC's commitment to this State and its residents. Further, these investments were also based on the reasonable premise that ASRC should be able to achieve a fair return on its capital and the considerable efforts of its employees.

The stark economic realities that face the Alaska refining industry have required ASRC to suspend major new capital investments in refining and fuel distribution. Even before Flint Hills announced its impending closure, ASRC was compelled to put on hold a significant multi-million dollar capital project that is necessary for the long-term health of both our refineries. These projects would have benefitted Alaskans in South Central and the Interior, as well as the Alaska Railroad.

Unlike Flint Hills, neither PSI nor ASRC are looking for an exit strategy. We are seeking the stability that is necessary to justify long-term investment and maintain a viable refining industry in Alaska. Last year my staff sat down with numerous legislators and the Department of Natural Resources and explained the challenges that now face the industry. We indicated then that long-term changes in crude oil prices, TAPS tariff rates, and Quality Bank put refiners that are dependent on TAPS and ANS crude oil at risk. The Flint Hills announcement underscores that we did not exaggerate; sadly, the warning we issued then holds just as true today. If these challenges are left unaddressed, it very well could result in a further contraction of instate refining capacity and more refinery closures.

ASRC has deep roots in Alaska. By the nature of our mission and structure, we will continue to be an economic driver in this state and a strong advocate for fair and meaningful business development policy. We have grown from very humble beginnings into Alaska's largest locally-owned company and an employer of choice for thousands of Alaskans. We make disciplined business decisions focused on our mission. While we will continue to operate in Alaska with the long-term on the horizon, uncertainties surrounding the continued viability of refining in Alaska makes us question whether we should employ our assets elsewhere.

Enclosed you will find a copy of the white paper presented to members of your cabinet last year, as well as a power point that addresses the challenges faced by Alaska refiners and potential solutions.

I extend my hand in partnership with a commitment to finding a solution that constitutes a win for all of Alaska.

Thank you for your leadership on this issue and many others that advance Alaska's positive business and investment climate.

Respectfully,  
ARCTIC SLOPE REGIONAL CORPORATION

A handwritten signature in black ink, reading "Rex A. Rock, Sr." in a cursive style.

Rex A. Rock, Sr.  
President & CEO