

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 16, 2014

1:06 p.m.

**MEMBERS PRESENT**

Representative Eric Feige, Co-Chair  
Representative Dan Saddler, Co-Chair  
Representative Mike Hawker  
Representative Craig Johnson  
Representative Paul Seaton  
Representative Scott Kawasaki  
Representative Geran Tarr

**MEMBERS ABSENT**

Representative Peggy Wilson, Vice Chair  
Representative Kurt Olson

**OTHER LEGISLATORS PRESENT**

Representative Doug Isaacson

**COMMITTEE CALENDAR**

CS FOR HOUSE CONCURRENT RESOLUTION NO. 22(RES)  
Urging the governor, the commissioner of natural resources, and the attorney general to seek resolution of TAPS quality bank disputes before January 1, 2015, in a manner that will provide long-term quality bank stability and reduce the cost of quality bank adjustments paid by in-state refiners of Alaska North Slope crude oil.

- MOVED CSHCR 22(RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HCR 22

SHORT TITLE: IN-STATE REFINERIES

SPONSOR(S): REPRESENTATIVE(S) T.WILSON

|          |     |                                 |
|----------|-----|---------------------------------|
| 02/26/14 | (H) | READ THE FIRST TIME - REFERRALS |
| 02/26/14 | (H) | RES                             |
| 03/17/14 | (H) | RES AT 1:00 PM BARNES 124       |
| 03/17/14 | (H) | Heard & Held                    |
| 03/17/14 | (H) | MINUTE(RES)                     |

04/16/14

(H)

RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

REPRESENTATIVE T. WILSON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** As sponsor of HCR 22, explained the changes made in the proposed committee substitute, Version C.

JOE BALASH, Commissioner  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** During the hearing on HCR 22, provided information and answered questions.

DOUG CHAPADOS, President/CEO  
Petro Star Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Testified regarding HCR 22.

MERRICK PEIRCE  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified regarding HCR 22.

**ACTION NARRATIVE**

[1:06:30 PM](#)

**CO-CHAIR DAN SADDLER** called the House Resources Standing Committee meeting to order at 1:06 p.m. Representatives Hawker, Tarr, Seaton, Feige, and Seaton were present at the call to order. Representatives Johnson and Kawasaki arrived as the meeting was in progress. Representative Isaacson was also present.

**HCR 22-IN-STATE REFINERIES**

[1:06:53 PM](#)

**CO-CHAIR SADDLER** announced that the only order of business is HOUSE CONCURRENT RESOLUTION NO. 22, Urging the governor to take all action necessary to keep in-state oil refiners in operation and to keep oil refining operations in the state competitive.

[1:07:24 PM](#)

CO-CHAIR FEIGE moved to adopt the proposed committee substitute (CS), Version 28-LS1536\C, Bullock, 4/16/14, as the working document.

REPRESENTATIVE SEATON objected for explanation of the changes.

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REPRESENTATIVE T. WILSON, Alaska State Legislature, as sponsor of HCR 22, explained the changes made in the proposed committee substitute. She said Version C removes the sulfolane provision because the legal appeal of this issue has changed since the committee last heard HCR 22. While the resolution mentions the problems of the Flint Hills and Petro Star refineries, Version C speaks more to it being an in-state refinery issue rather than an Interior refinery issue. The resolution would direct some of the major issues being faced right now, the quality bank being one of those. Although the quality bank is run by the federal government, the State of Alaska receives some of those funds. Alaska North Slope (ANS) oil is about \$6 a barrel more than the [West Texas Intermediate (WTI)] price. This big gap results in Alaska's crude starting out higher, so for some facilities there is a very high energy cost for refining. Version C addresses more of what the administration needs to do so that during the interim a look can be taken at what other things can be done.

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REPRESENTATIVE SEATON removed his objection. There being no further objection, Version C was before the committee.

1:10:30 PM

JOE BALASH, Commissioner, Department of Natural Resources (DNR), noted that some of the issues have been worked on since Flint Hills announced last February that it is closing its doors. In particular, a subset of the governor's cabinet has been very actively working the sulfolane issues with regard to cleanup standards of the Department of Environment Conservation (DEC) and the issues associated with the responsibility for cleanup. Some of the issues identified in the original version of the resolution have therefore fallen away. The administration would like to see expeditious handling of the quality bank dispute that is ongoing at the Federal Energy Regulatory Commission (FERC) because it is a critical step to keeping Petro Star operating. A pair of pipelines runs from the Trans-Alaska

Pipeline System (TAPS) to both the Flint Hills and the Petro Star facilities. The revenue requirement for that pipeline system in 2013 was about \$4.5 million. The split in the load between the two facilities was 85 percent Flint Hills and 15 percent Petro Star. This year that revenue requirement is very likely to be much larger for Petro Star and will be even larger in 2015 when Petro Star is the sole customer of that pipeline.

COMMISSIONER BALASH said the administration's approach on the quality bank dispute is one where the state has an interest in ensuring that the value of the crude oil that goes into the system at the top is accurately reflected in the royalty payments received by the state. However, an imbalance in these in-state charges would cause the state to be benefitting disproportionately than any other party, so the state has the most to gain or lose in such a resolution. He said HCR 22 has been redrafted with key points to: 1) address the statewide perspective that the co-chairs had expressed interest in during the first hearing; and 2) give some very specific direction to the administration on seeking resolution of the quality bank matters in front of FERC by the first of next year. Given that this is a communication from the legislature to the executive branch, a concurrent resolution is the appropriate vehicle. He said he feels a little conspicuous in that this message urges the governor and the attorney general to seek resolution, so he would be happy to have DNR added if the committee thinks it appropriate because of the royalty interest affected.

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REPRESENTATIVE SEATON drew attention to the whereas clause on page 2, lines 9-11, of the CS regarding the higher cost in Alaska of obtaining crude. Noting there has been talk about the price differential between Brent Crude and WTI, he asked whether adopting something that says "we are going to sell some of our oil at WTI" would cause problems in negotiating prices for selling the rest of Alaska's crude. He inquired how selling in-state at one price and selling out of state at another price can be handled so it does not become a liability for lowering the price of all Alaska crude.

COMMISSIONER BALASH replied this point was considered earlier this year. When the closing of Flint Hills was announced, [the administration] began conversations with Petro Star and gave hard consideration to selling royalty oil to Petro Star at a discounted price, but federal constitutional concerns kept [the administration] from exercising that option. So, Version C does

not urge the administration to sell royalty oil at a discounted price. Currently, imported jet fuel is effectively competing against Alaska's in-state refined products, which is putting a lot of the negative pressure on overall cash flow and balance sheets in this state. This Whereas clause calls out that the price differential and the quality bank charges are causing competitive problems for in-state refineries and is substantiation for the resolve clause on page 2, lines 22-25.

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CO-CHAIR FEIGE asked whether the competing import is coming from the US West Coast or Asia. While the [current] WTI price is about \$6 below ANS crude, that difference has been narrowing, he related. At one point the WTI was significantly lower than ANS crude, but the WTI price has been gradually coming up.

COMMISSIONER BALASH responded correct, saying the differential at one point was in excess of \$15 per barrel, but more recently it was in the range of \$10 per barrel, and right now it is in the single digits, which is good. In the long run it is believed there will be a return to normalcy wherein ANS crude will price similar to WTI. It is thought that will occur as infrastructure moves more mid-continent oil to the west and east coasts and becomes part of the fungible liquid market that crude oil trades in. Regarding the sources of jet fuel that are competing in Alaska, he said some is from the West Coast and some from overseas refineries. Those overseas refineries get to bring in their product on non-Jones Act vessels and West Coast refineries come in on Jones Act vessels, so Alaska is primarily seeing stronger competition from those overseas outlets.

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REPRESENTATIVE TARR related an article in Petroleum News for the week of 2/16/14 reports that the Flint Hills complaint was dismissed and an independent investigation is being done. She understood the goal in passing HCR 22 is to send a message regarding the independent investigation.

COMMISSIONER BALASH believed this correct. He understood that the specific complaint and remedy sought by Flint Hills was dismissed by an administrative law judge (ALJ) and an investigation was underway, potentially an action. Exactly what happens next depends on the full commission, he said, not the ALJ decision. Procedurally this will spin out for many months if not years. Since waiting years cannot be afforded, seeking a

settlement by the parties is one way to circumvent that clock and hopefully get a fair resolution sooner rather than later.

[1:21:13 PM](#)

REPRESENTATIVE KAWASAKI inquired what the sponsor means by "settlement and resolution" as stated on page 2, line 23.

REPRESENTATIVE T. WILSON replied she wants to ensure [the state] is sitting at the table and being proactive, whether it is a settlement or a resolution. While she is unsure what the state can do at this point, she does know the state benefits from the quality bank and can therefore be part of the conversation that is currently ongoing. So, it leaves the options open.

REPRESENTATIVE KAWASAKI asked what Commissioner Balash thinks a "settlement and resolution" is, as defined in the resolution.

COMMISSIONER BALASH responded settlement suggests a conclusion will be reached on this matter sooner than would the process. Procedurally, something like this could take upwards of another 18 months. [The administration] does not think that is the right timeframe in which to get a decision and ultimately a resolution of this matter. A methodology is being sought to be employed in the quality bank for points south of Pump Station 1, so that Alaska's in-state refineries are not paying more than they ought to for the degradation of the crude oil stream that results from their refining processes.

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REPRESENTATIVE KAWASAKI inquired whether the state has argued to the point at which there is a number in place or a type of valuation system in place from which to go forward. He said he is unsure about the process at FERC and how that works and is therefore confused with what the resolution does.

COMMISSIONER BALASH replied the quality bank is a complicated system intended to keep all parties economically whole. Production on the North Slope includes multiple fields that have multiple varieties and qualities of crude. For example, the crude produced at Alpine is extremely high quality and is the most valuable crude produced on the North Slope. However, to get to market, that oil must go into TAPS where it joins the slop from Milne, which has a much lower American Petroleum Institute (API) gravity. The idea is that everybody is getting the same quality crude down at the Valdez Marine Terminal.

Those who bring higher quality crude to the table at Pump Station 1 are being harmed economically and those bringing the lower quality crude are benefitting. The quality bank is supposed to be a system where the low quality players pay in and the high quality payers take out, keeping everything even. Taking that a step further, when the refineries in Alaska pull the crude off of TAPS, take out the high-end products of diesel, home heating fuel, and gasoline, and put the residual back into TAPS, they have degraded that stream further, only they have degraded it for all of the other players in the system. So, the bank system uses a formula that looks at the specific components of the crude stream and the market values associated with each of those components. The refineries contend that the specific formula and pricing mechanisms are out of balance and do not reflect the market realities, especially on the West Coast in which these particular barrels are being traded; that they have been contaminated, if you will, by pricing metrics and formulas that are more relevant to the mid-continent where the glut is taking place. The administration's goal is to see that a fair system be in place. The administration wants to protect the state's interest, the state's value, in the crude that is put in at the North Slope. To the extent that the quality bank is extracting more than it should from the refineries, the state treasury is benefitting to the tune of 40 or 50 percent of those overcharges into the quality bank. That is caused by two things. First is the state's royalty interest at 12.5 percent and second is the state's marginal tax rate on production tax value, which is 35 percent of the remaining 87.5 percent. Altogether, [the state] is somewhere between 45 and 50 percent of the benefit that might be paid into the quality bank by these refineries. [The administration] pegs that total impact at around \$50 million for 2013.

[1:27:52 PM](#)

CO-CHAIR SADDLER observed Version C states on page 1, line 12, that the refineries change the temperature of the crude in TAPS by adding heat. He asked whether the quality bank or another factor accounts for that differential in temperature and the benefit to the state.

COMMISSIONER BALASH answered he does not believe the quality bank specifically recognizes that value, but he understood there is a least one commercial agreement in which the TAPS owners compensate a refinery for the heat returned to the pipeline.

[1:28:27 PM](#)

REPRESENTATIVE SEATON, regarding the \$4.5 million [cost for getting oil to the Petro Star refinery], inquired who owns the pipeline and who gets that money.

COMMISSIONER BALASH responded Golden Valley Electric Association owns that pipeline. Because it is a regulated facility, the association receives a return on its original cost plus a little bit of profit.

REPRESENTATIVE SEATON asked whether that is calculated on a per-barrel basis or on the investment and costs.

COMMISSIONER BALASH understood there is a revenue requirement, meaning there is an annual allocation for depreciation of the original investment made by Golden Valley, plus a return and the variable operating costs, which adds up to \$4.5 million. That \$4.5 million is recovered as the cost of service. The number of barrels going through can vary, so the charge might be a little higher or lower in any given year depending upon the demand of the refineries. With Flint Hills going from a very large number to zero in the second half of 2014, the per-barrel charge to Petro Star is going to go up by a rather large percentage.

[1:30:22 PM](#)

CO-CHAIR FEIGE inquired whether the formula for the quality bank is a national formula or an Alaska-specific formula.

COMMISSIONER BALASH understood there are various components of the formula, or products. Pricing for some of those products relies on national indices as opposed to West Coast indices.

CO-CHAIR FEIGE asked what the cost would be for the state to purchase the pipeline from Golden Valley Electric Association.

COMMISSIONER BALASH responded he has not inquired.

CO-CHAIR FEIGE remarked it was just a random thought.

[1:31:24 PM](#)

REPRESENTATIVE TARR understood the original resolution was more specific to resolving the issue at Flint Hills whereas Version C addresses things in a more comprehensive way by focusing on how the quality bank methodology impacts in-state refineries.



REPRESENTATIVE T. WILSON replied it was two things. One was reacting to the closure of Flint Hills and whether there were more actions that could be taken immediately to find someone to buy the refinery sooner rather than later. The refinery portion of the facility is currently set to close June 1, 2014. Since then, it has come to light that Flint Hills is not seeking a buyer for the refinery and will instead be importing refined product and selling it through the refinery for the Interior. The refinery also supplies the Anchorage airport and will now import that fuel directly to the airport, which cuts down on the refinery's transportation costs. How Petro Star is reacting to this was also looked at. Normally when a competitor closes there is opportunity for that other entity, but here there is not because [Flint Hills] plans on meeting its obligation. Thus, there have been no new contracts for Petro Star to be able to take advantage of and now it is being asked to compete with an import business. The question is what the problem really is and why there is this unevenness as far as competition goes. The quality bank rose to the top because it is one of the biggest payments, as is the payment for the two [Golden Valley] pipelines. Another payment is the railroad since Flint Hills was the major entity. Thus, Version C is not as broad as the original resolution and is saying [for the state] to be at the table and to do something now to prevent closing.

[1:34:59 PM](#)

REPRESENTATIVE SEATON recalled that in the TAPS settlement the state got stuck losing about \$6 billion because it was a settlement and therefore the state could not change it. As was stated by the commissioner, the situation has changed because the Brent crude and WTI "are quite different the other way." When prior administrations were thinking about making a settlement they were not trying to create a large windfall for other companies at a loss to the state. If the state pursues a settlement in this issue, the legislature will not have any impact on it and will be unable to change the settlement. He inquired how the long-term financial health of the state will be protected given the resolution is open ended.

COMMISSIONER BALASH observed the language in Version C, page 2, lines 23-24, states "to seek a settlement and resolution ... in a manner that will provide long-term quality bank stability". For something to be stable over the long term, he said, it must be fair to all parties and may require adjustment from time to time. Adjustment could be a broad re-opener or simply a re-calibration of some of the indices or pricing mechanisms within

the quality bank itself. He imagined it could work similar to how the state's royalty settlement agreements function, which have big broad re-openers every 10 years or so, but specific re-openers every couple of years on things like marine transportation. These agreements are on a three-year rotation so only one per year is dealt with. He said the aforementioned is how he would interpret the direction being given here.

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REPRESENTATIVE SEATON noted the language also states "before January 1, 2015". He expressed concern that there will be no involvement by the legislature for ratification or agreement. The resolution calls for the administration to negotiate something to keep somebody in business. He said this is almost a legislative appropriation because it is talking about money that the state is not going to have, given the \$50 million in the quality bank may possibly be reduced by an unknown amount for a long time or perhaps permanently. Plus, it is not just one refinery, it is all refineries. He requested Commissioner Balash to address whether legislative approval should be requested.

COMMISSIONER BALASH answered if the two remaining refineries on TAPS were to shut down the state would not receive that monetary benefit anymore anyway. He pointed out that the nature of state government settlements is that they generally do not come back to the legislature for approval or ratification. If there is a transfer of value or payment required by the state, then typically those require an appropriation to support them and he cannot imagine a scenario where that would be the case. January 1, 2015, would be taken by the administration as a very strong suggestion but not a requirement. Many other parties are being dealt with in this case, so even if the state has some urgency those parties will not necessarily have the same urgency. The overarching message in the resolution is "to get with it and try to get done because of the impact it is having on the remaining refineries." He believed the cycle for annual renewal of purchase contracts for crude oil occurs at the end of the first quarter each year, so trying to target that timeframe in the calendar would be most helpful for the decisions that those operations would need to make.

[1:42:02 PM](#)

CO-CHAIR SADDLER expressed his support for the goals of this resolution. He said there is a compelling interest to ensure

that there is refining capacity for providing jet fuel to supply the military bases, as well as to supply the Interior.

[1:42:37 PM](#)

CO-CHAIR SADDLER moved to adopt Amendment 1 as follows:

Page 1, line 1, after "governor":

Insert "commissioner of the department of natural resources"

Page 2, line 22, after "governor"

Insert "commissioner of the department of natural resources"

There being no objection, Amendment 1 was adopted.

CO-CHAIR SADDLER passed the gavel to Co-Chair Feige.

[1:43:19 PM](#)

REPRESENTATIVE T. WILSON, addressing Representative Seaton's earlier question, agreed the monies that come to the state are important. However, in her opinion, the reason legislators are sitting here today is due to the state's actions to ensure that the biggest bang for the buck comes to the state. A royalty oil contract ended up not being the best for the entity it went to; it did not keep that entity economical so that entity then found a different way to be able to still get contracts and therefore closed [its refinery]. The question is how important an in-state refinery is to the State of Alaska. Given military bases and security reasons, does Alaska really want to be an import state? Does Alaska want to export all of its resources just to import the rest of it? She understood not wanting to give money away, but said the state is losing in the meantime because it is so focused on that bottom dollar for state government at the expense of others. If both refineries stay open, the state will be good. If one closes and there is just the import, prices will stay low for a while but eventually the price will rise because there is only "one game in town." It is unknown whether the state will get back this lost industry and it must be ensured that no more is lost.

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REPRESENTATIVE SEATON said he wants to ensure this is looked at holistically. The railroad has had a hard problem because of

the lack of refining and the fuel being imported for Anchorage. Care must be taken by the legislature to not get inside businesses to make them profitable only to have them turn around and import outside fuel anyway because it is cheaper than retooling the refinery. He emphasized he is not against in-state refining, he is always for in-state value-added products, but the question here is how to get there. As he stated earlier, he is worried about settlements and the state being stuck for years. The TAPs settlement was a loss to the state of at least \$6 [billion]. He suggested that "settlement and" be deleted from page 2, line 23, and that only a resolution be sought to avoid possible problems with seeking a settlement in which the legislature is not involved. He inquired whether the sponsor and commissioner would be comfortable with including re-openers for a settlement or leaving out the settlement and just calling for a resolution.

The committee took an at-ease from 1:47 p.m. to 1:49 p.m.

[1:49:27 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 2 as follows:

Page 2, line 23, after "a":  
Delete "settlement and"

There being no objection, Amendment 2 was adopted.

[1:50:00 PM](#)

REPRESENTATIVE JOHNSON suggested the word "a" be removed from page 2, line 23, because there may be more than one resolution.

REPRESENTATIVE T. WILSON agreed this suggestion makes sense because tying the hands of DNR or the governor is not wanted and the date of 1/1/15 is included because it needs to be sooner rather than later since later may not make a difference.

[1:50:45 PM](#)

REPRESENTATIVE JOHNSON moved to adopt Amendment 3 as follows:

Page 2, line 23, after "seek":  
Delete "a"

There being no objection, Amendment 3 was adopted.

1:51:05 PM

REPRESENTATIVE HAWKER stated that in accepting Amendments 2 and 3, the word "seek" has no connotation of finding a conclusion; "seek" is to look for. The language "seek resolution" does not preclude resolving and settling the issues that are in play.

CO-CHAIR FEIGE observed committee members nodding their heads. He invited a representative of Petro Star [an in-state refiner] to provide testimony.

1:52:45 PM

DOUG CHAPADOS, President/CEO, Petro Star Inc., testified that while Petro Star has made payments to the quality bank prior to nine years ago, it has paid over half a billion dollars to the quality bank during the past nine years, and half of that amount was paid in the last three years. He said he is pointing this out to identify that the quality bank is getting worse at the same time that Petro Star's market conditions are also getting worse. The quality bank is currently taking a larger and larger portion of the gross margins between the products that Petro Star refines and sells and the raw materials it purchases to produce those. For example, during the month of March there were times when Petro Star's raw material cost for Alaska North Slope (ANS) crude oil, plus quality bank, exceeded the delivered cost of jet fuel to the Port of Anchorage. This suggests to him that jet fuel has more value mixed in with the crude oil stream than it does after Petro Star has refined it and moved it to the ultimate end user. This situation is strangling Petro Star's business. Petro Star used to be able to make a very small profit on very large volumes of jet fuel, but today that is no longer the case and every gallon is typically selling at a loss. The quality bank is one reason for that and the other is the very high cost of ANS crude oil; HCR 22 addresses only the quality bank.

MR. CHAPADOS noted committee members are recognizing that this is not just a single impact to a single refiner; it has a ripple effect throughout the economy. The railroad is experiencing some difficulties given the smaller volumes that are moving from North Pole to the Anchorage market. Given its current economic circumstance, Petro Star has put a project on hold that would ship product by railroad from both its North Pole and Valdez refineries. The quality bank getting worse at the same that Petro Star's market is getting worse is something that Petro Star cannot control. The complaint filed by Flint Hills goes a

long way toward addressing what Petro Star sees as the flaws in the current quality bank methodology and is something Petro Star believes forms the basis of what might be a settlement position in the future.

[1:56:23 PM](#)

REPRESENTATIVE SEATON reiterated his concern about the past settlement that occurred for a certain set of circumstances, but then the circumstances changed and caused a loss for many years. He inquired whether Mr. Chapados will be looking at a system that is self-correcting for variables or that has a re-opener.

MR. CHAPADOS replied the quality bank is intended to have a self-correcting process; it values the various components within the crude oil or values according to market conditions and pricings in many cases. The basis of the Flint Hills complaint addresses the valuation for one of those components that does not have a market price index and so uses a very complex formula for a determination. Petro Star supports the Flint Hills complaint which sought to change that and which has now been turned into an investigation by FERC. He said he thinks a settlement can be struck that is equitable to all parties and that corrects what Petro Star sees as a flaw in the existing quality bank methodology and that would, at the same time, preserve Petro Star's ability to make a profit on the gallons it refines as well as appropriately compensate shippers for Petro Star degrading their crude oil by re-injecting streams from the refinery after the processing.

[1:59:09 PM](#)

REPRESENTATIVE SEATON asked how this would impact the other refineries in the state.

MR. CHAPADOS answered the other refinery similarly situated to Petro Star is Flint Hills, so the three refineries are all treated in the same fashion with respect to the return oil streams that the refineries send back to TAPS. Tesoro's Nikiski refinery is not subject to the quality bank, but the quality bank is reflected in the sales price of royalty crude oil, both at the wellhead and in terms of royalty-in-kind (RIK) sales to in-state refineries.

[2:00:16 PM](#)

CO-CHAIR FEIGE, in an effort to conform to the previous amendments, moved to adopt Amendment 4 as follows:

Page 1, line 1, after "seek":  
Delete "a settlement and"

There being no objection, Amendment 4 was adopted.

2:01:00 PM

CO-CHAIR FEIGE opened public testimony on HCR 22.

MERRICK PEIRCE testified regarding his concerns with the original version of HCR 22. He said his concern is the sulfolane issue and that something is still missing from the resolution. He drew attention to the "Whereas" on page 2, lines 1-4, of the original resolution, which states:

WHEREAS, if the Department of Environmental Conservation expeditiously set a reasonable cleanup standard supported by science for the Flint Hills Refinery and appropriately allocated the costs of cleanup to all potentially responsible parties, it is possible that a new buyer for the refinery could be found;

MR. PEIRCE said there are two problems with the clause. First, the governor has already said he would indemnify a future purchaser of the refinery for the responsibility for the contamination issue, making the aforementioned statement illogical. Second, the conclusion by DEC's Division of Water regarding acceptable contamination levels of an industrial solvent in drinking water is in error and there is no evidence to support that conclusion. Of main concern, he said, is creation of an economic dead zone in this area of contamination. When two homes are identical in price and size, but one has contaminated drinking water and the other does not, which one gets sold? Further, which home can be financed through a bank mortgage? New homes will not be built here and the owners of existing homes will find it very difficult to sell and over time this area will look like Detroit with abandoned homes. This final "Whereas" is without merit and he is glad it was pulled.

MR. PEIRCE said he also has concern with what is missing from the CS, which is discussion about what can and should be done to improve the economics of these refineries. So far the Parnell Administration has said it wants to engage in corporate welfare

by throwing hundreds of millions of dollars at these private companies to prop them up at a time with the administration has created multi-billion-dollar deficits. Rational discussion would instead place attention on trying to route a gasline around Fairbanks. Not routing the gasline down the TAPS corridor means it never gets to Valdez or the Valdez refinery. The cost of energy is a huge concern for any refiner or any large energy user. Flint Hills has publically described its cost of operation as three times higher than other refineries. All refiners, except Petro Star's North Pole and Valdez refineries and Flint Hills' North Pole refinery, use natural gas to run process equipment that heats crude to the requisite temperatures. A refinery running on expensive ANS crude has an extreme disadvantage against refineries that run on cheap natural gas; the difference is roughly \$4 per million British Thermal Units (BTUs) for heat versus \$30 per million BTUS. To address this requires a large-diameter gasline with an economy of scale that can deliver natural gas with distance-sensitive rates of around \$4 per million BTUs. What is happening with these refineries illustrates that Alaska competes within the world markets. The US has three trade agreements with twenty nations, so Alaska does not look viable long term when manufacturers can access both cheaper energy and labor overseas without tariff restrictions. If Alaska's refiners, mines, manufacturing businesses, and military bases are to compete in the world markets, then a final whereas would be inserted that makes note of the benefit of ensuring that these entities have proximate access to a large-diameter gasline that parallels the TAPS corridor and delivers the lowest possible cost energy.

[2:05:19 PM](#)

CO-CHAIR FEIGE closed public testimony after ascertaining no one else wished to testify.

REPRESENTATIVE TARR noted she does not disagree with the contents or problems stated in Version C, but said it is a vast departure from the original measure and it would have been more appropriate to do a new resolution.

[2:06:12 PM](#)

CO-CHAIR FEIGE opined that keeping a refining industry running in Alaska has security and strategic benefits to the state. For example, Russian tanks surprised Crimean citizens, and while he does not know that that could happen in Alaska, it is a consideration to always keep in mind. If the sea-borne supply



routes to Alaska are threatened, either up the West Coast of North America or across the northern Pacific, not having refineries could be an extreme disadvantage to Alaska as well as impacting its economy. The economic benefit of refineries in the state is significant, especially in the Fairbanks area. The arguments regarding the quality bank are valid issues that can be resolved and this resolution will go a long ways towards helping the state, industry, and FERC come to an agreement on how better to apply the concept of a quality bank.

[2:07:55 PM](#)

REPRESENTATIVE SEATON agreed that value-added industry for the state's raw resources is very beneficial; however, he continued, it is a world economy and it needs to be ensured that Alaska is competitive. He said he is happy the resolution does not seek a cost differential for in-state because he believes that would be a huge liability for sales of the state's crude to out-of-state refiners. The quality bank issues are a good portion of resolving the problems. If Petro Star does not have a heat contract with Alyeska Pipeline Service Company it should be another element in addition to the quality bank because adding heat to the pipeline to keep TAPS running during the winter is a huge issue and has value and ought to be recognized in commercial agreements. Otherwise, in-state refineries are being asked to subsidize Alyeska, although the state does pay part of that. He said he will be supporting the resolution but does not think it is the only mechanism for getting greater value for in-state refineries.

[2:10:21 PM](#)

REPRESENTATIVE HAWKER moved to report the proposed committee substitute (CS), Version 28-LS1536\C, Bullock, 4/16/14, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHCR 22(RES) was reported from the House Resources Standing Committee.

The committee took an at-ease from 2:10 p.m. to 2:12 p.m.

[2:12:31 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:13 p.m.