

SCOMM

107:2

MAPCO COMMENTS ON GASOLINE PRICES

April 8, 1998

There have been several articles recently in Alaska newspapers which expressed concerns about gasoline prices in Alaska. On behalf of MAPCO, I am pleased to respond to some of those concerns.

First, I need to note that crude oil is not the only component or cost involved with refining gasoline. Crude cost accounts for less than half of the retail price of gasoline. MAPCO and other Alaska refiners pay fair market value for the crude we purchase and we pay a pro-rated tariff to get it to our refinery. For one of our crude contracts with the State of Alaska, MAPCO pays a \$.15 per barrel premium for the crude oil.

The other costs of refining product in Alaska are all higher than at lower 48 refineries. Electricity is an ingredient of refining and we pay several million dollars per year to GVEA for electricity. We pay twice the cost for electricity here compared to our Memphis refinery. And electricity costs are two to three times higher here than for refineries in the Pacific Northwest. The chemicals, fuel, labor and transportation components of refining and distributing our refined product are all considerably higher here than in the lower 48 states. The average rate of pay at our North Pole Refinery is about \$10.00 per hour higher than for comparable positions at our Memphis refinery. This is a 50% higher cost for labor at our Alaska refinery. Alaska has some of the most stringent environmental standards that impact costs at the refining, wholesale and retail levels. In addition, MAPCO paid a \$30 million quality bank penalty in 1997 for the 600 million gallons of refined product sold, which equates to \$.05 per gallon. Or you can look at the quality bank penalty as adding \$2.10 to the cost of each barrel of crude we refine. The \$70 million jet fuel expansion we are currently doing at our refinery would cost in the \$45 to \$50 million range in Memphis. So it follows that refined product prices will also be higher in Alaska than elsewhere in the Country.

But the prices in Alaska are much lower than they would be without the presence of the Alaska refiners. When I left for college at the University of Oregon driving down the Alcan Highway with Jim Dodson in the fall of 1963, the price of gasoline in Fairbanks was around \$.55 per gallon. We arrived in Eugene, Oregon, and paid about \$.26 per gallon. It was after 1969 when Tesoro started refining in Alaska that prices dropped. In 1978 gasoline was \$.859 in Fairbanks and it was \$.609 in Eugene. The percentage price difference had dropped considerably by 1978. MAPCO started refining gasoline in 1985 and prices dropped again. Today the price of gasoline in Fairbanks is \$1.209 and in Eugene, Oregon it is \$1.109. The gap has narrowed considerably. I should note that today the price of the Fairbanks Daily News-Miner is \$.75 and the cost of the Eugene Register Guard is \$.50. The news paper here costs 50% more than in Eugene, while the gasoline is only 9% more in Fairbanks. I should comment that I think the price of the Fairbanks Daily News-Miner is a bargain and is very reasonable in view of the costs associated with publishing the news paper here in Fairbanks.

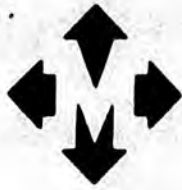
I also wanted to point out that some of the data used in analyzing gasoline prices was not correct as pertains to the Fairbanks and Anchorage markets. The data provided to Senator Frank Murkowski by AAA that was quoted in some news articles appeared to show a price of \$1.269 for Alaska. The Fairbanks price is \$1.209 and the Anchorage price is about \$1.159. So the after tax price of Alaska gasoline is in the \$.89 to \$.94 per gallon range as opposed to \$1.00 per gallon. The price of gasoline in the bush areas is really not relevant to the analysis in my opinion since they can only receive fuel once or twice a year in relatively small volumes.

MAPCO is proud of our refining activity and the positive influence we have had on fuel prices over the 20 years we have operated at our North Pole Refinery. We are proud that in 1998 we supported 688 Alaskan vendors with \$450 million in spending. We spent more with everyone of those vendors than we would have for comparable goods or services in the lower 48 States. But that is a fact of life in Alaska. Our presence here means that \$450 million multiplies around the Alaska economy a number of times and helps thousands of Alaskans directly or indirectly. As an example, we pay approximately \$1.8 million in property taxes that are shared between the Fairbanks North Star Borough and the City of North Pole. Our refining and retail operations employ about 500 Alaskans with a total for payroll and benefits of approximately \$20 million per year. This payroll amount is in addition to the total paid to vendors in 1997.

Attached are three graphs showing that our price of gasoline, jet fuel and diesel fuel have fallen as fast, and in some cases faster, than crude oil prices have fallen since a year ago. We feel we have been very fair and sensitive to the Alaskan consumer, and we pledge to maintain that sensitivity and fairness in the future.

For additional information contact:

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MAPCO ALASKA PETROLEUM INC.

APRIL 9, 1998

Jeffrey J. Cook
VICE PRESIDENT
EXTERNAL AFFAIRS & ADMINISTRATION

Gasoline Price Comparisons in Selected U S Cities

(Price per gallon of regular, unleaded motor gasoline at self-service pump)
ACCRA Cost of Living Index - Second Quarter 1997

SELECTED CITIES-Price w/tax

Anchorage, AK	\$1.32
Fairbanks, AK	\$1.42
Juneau, AK	\$1.44
Kodiak, AK	\$1.66
Bakersfield, CA	\$1.37
Los Angeles, CA	\$1.38
San Francisco, CA	\$1.53
Boise, ID	\$1.35
Billings, MT	\$1.40
Reno, NV	\$1.44

OIL PRICES

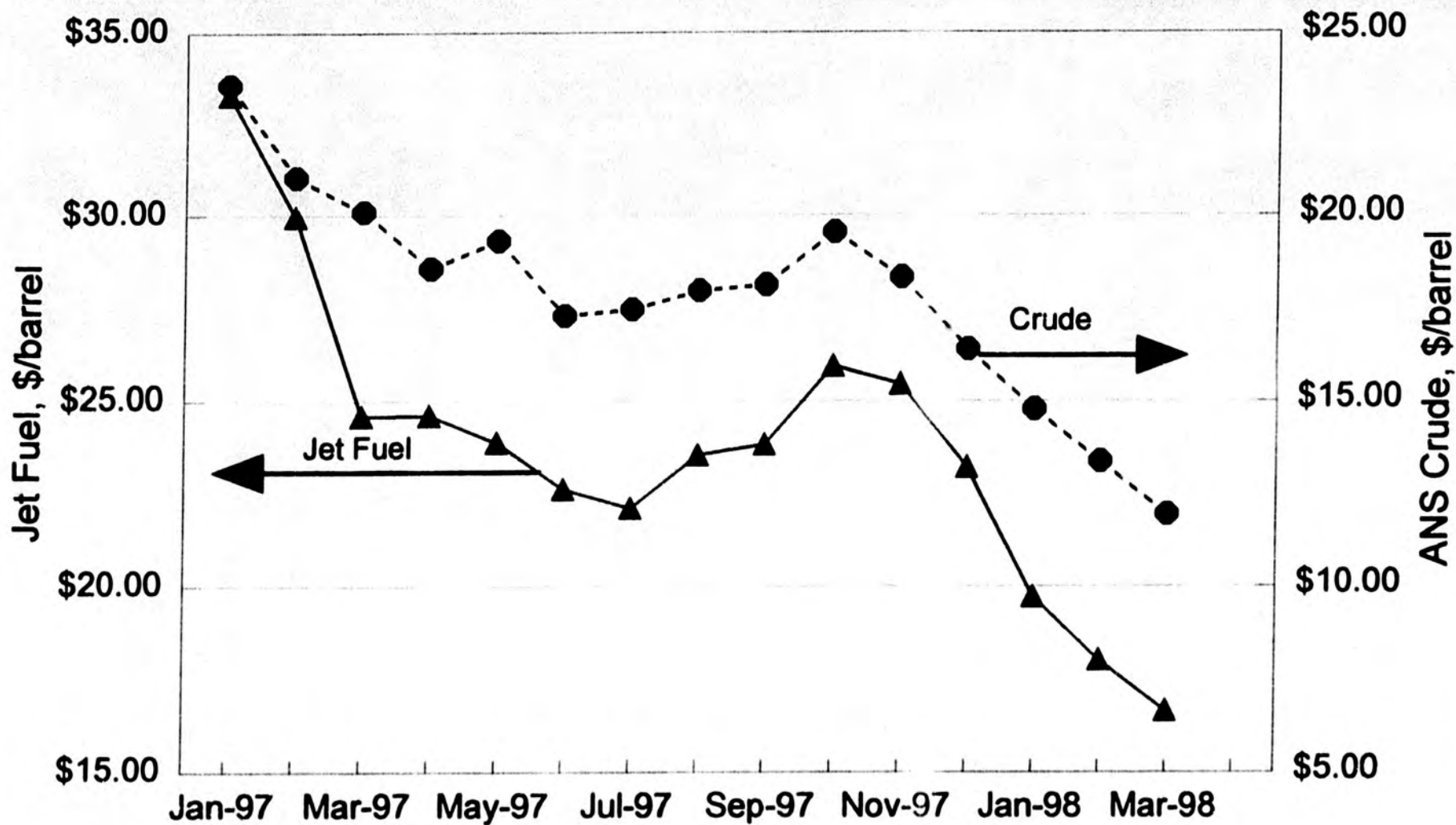
Wednesday, April 8, 1998			
CRUDE GRADES	Wed	Tue	Yr. Ago
OFFSHORE-d			
European "spot" or free market prices			
Arao 1%	10.75	10.66	15.15
Arao 0%	8.75	8.66	13.10
Iran 1%	11.33	11.39	15.85
Forties	13.05	12.98	17.45
Brent	12.80	12.71	17.40
Bonny 1%	12.83	12.77	17.55
Urals-Vladiv.	11.90	11.73	16.15
DOMESTIC-f			
Spot market			
WTI	15.55	15.55	17.75
WTI Sour, Mid. (100-122) ..	13.20	12.93	16.72
LA SW 37.28 (100-149) ..	14.85	14.53	18.99
NY 38.00 Pacific Del	12.72	12.62	13.00
Open market crude oil values in Northwest Europe around 17.50 GMT in dollars per barrel, for main loading ports in country of origin for prompt loading, except as indicated.			
REFINED PRODUCTS			
Fuel Oil, No. 2 N.Y. gal.	4233	4214	5044
Diesel Fuel, 2.1% S	4423	4359	5890
1% S Harbor Low Sulfur			
Gasoline, Unleaded, premium			
NY 24.10 non-oxygenated	5027	4956	5245
Gasoline, Unleaded, premium			
NY 24.10 oxygenated	5172	5095	5418
Gasoline, Unleaded, reg.			
NY 24.10 non-oxygenated	4522	4456	5150
Gasoline, Unleaded, reg.			
NY 24.10 oxygenated	4757	4683	5052
Propane, non-eth. Mont. Belvieu,			
Texas, 241	2828	2828	3481
Propane, wet, Mont. Belvieu,			
Texas, 24	2813	2813	3102

PRICE OF GASOLINE IN FAIRBANKS ONE YEAR AGO PER AMERICAN CHAMBER OF COMMERCE RESEARCH ANALYSIS SURVEY WAS \$1.42 per gallon. PRICE TODAY IS \$1.21 per gallon. THAT IS A DROP OF \$.21 per gallon.

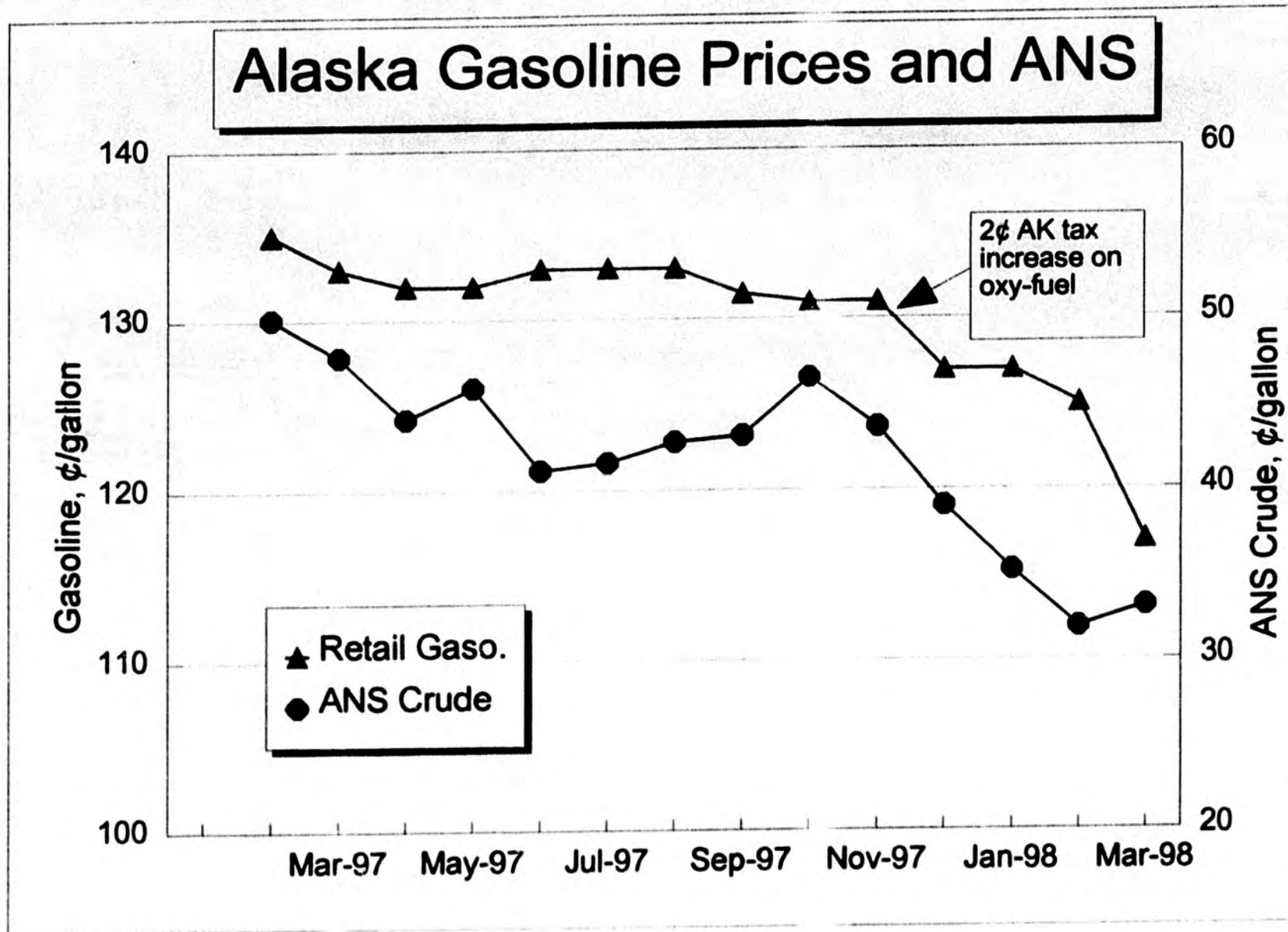
PER WALL STREET JOURNAL OIL PRICES, PRICE OF NORTH SLOPE CRUDE ONE YEAR AGO WAS \$18.20 per barrel. PRICE AT CLOSING 4-8-98 WAS \$12.72 per barrel. THAT IS A DROP OF \$5.48 PER BARREL IN ONE YEAR. IF ONE WERE TO ASSUME CRUDE OIL WAS THE ONLY COMPONENT OF GASOLINE AND THERE WAS A LINEAR DROP IN PRICE, GASOLINE SHOULD HAVE DROPPED BY \$.13 per gallon (\$5.48 per barrel drop divided by 42 gallons per barrel).

ACTUAL DROP IS \$.21 per gallon. PROJECTED DROP FROM CRUDE PRICE IS \$.13 per gallon. RETAIL PRICE HAD ACTUALLY DROPPED FASTER THAN THE CORRESPONDING DROP IN CRUDE PRICE.

Jet Fuel Price at Anchorage International Vs. ANS

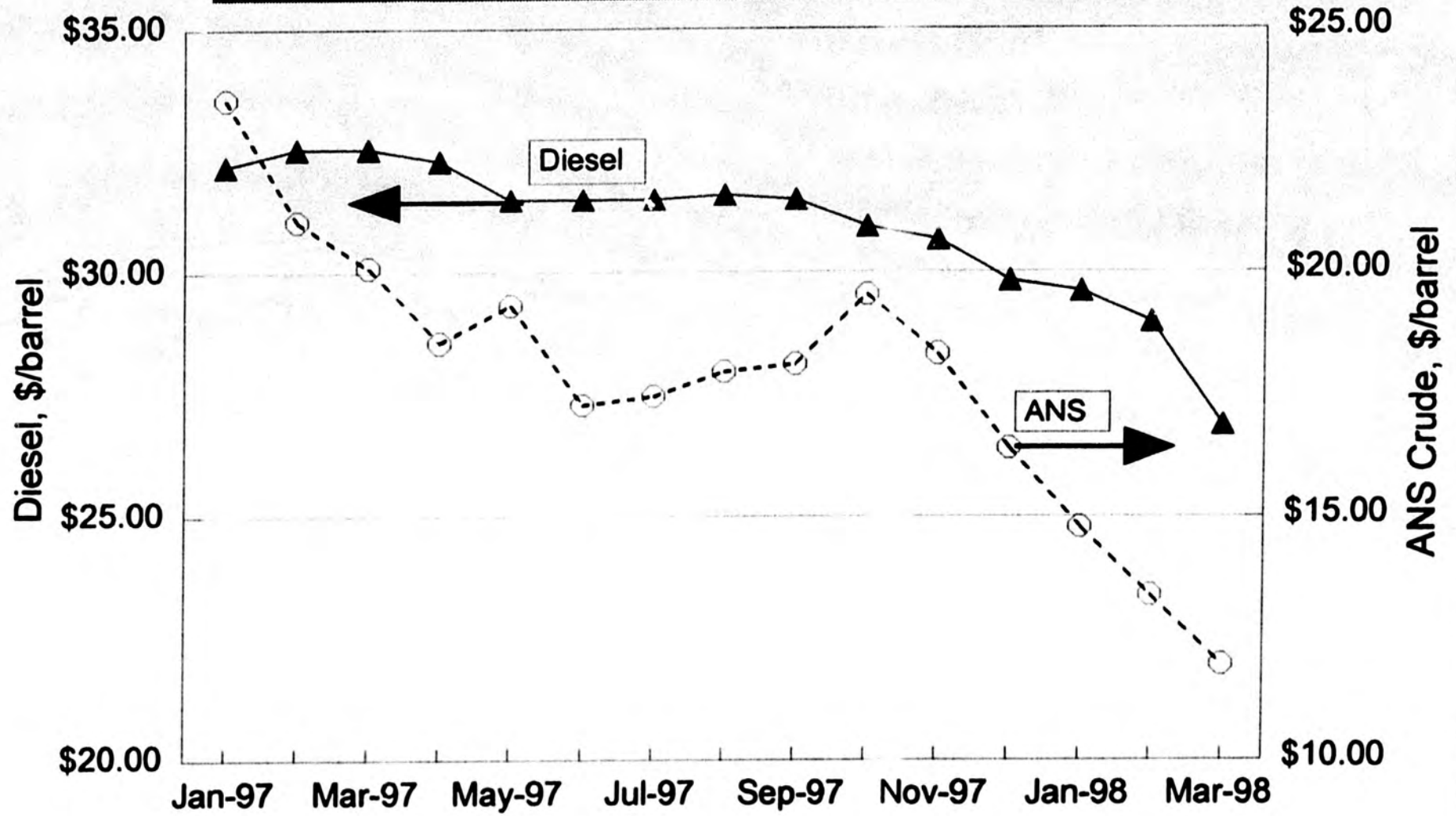


Alaska Gasoline Prices and ANS



03/27/98

Anchorage Rack Diesel Vs. ANS



MAPCO ALASKA PETROLEUM Inc. POSITION PAPER

FIVE YEAR ROYALTY OIL CONTRACT WITH STATE OF ALASKA

April 2, 1998

MAPCO ALASKA PETROLEUM Inc. (MAPI) is seeking ratification of a new five year royalty oil contract from the Alaska State legislature. The contract was unanimously recommended for legislative approval by the Alaska Royalty Oil and Gas Development Advisory Board at their February 17, 1998, meeting. Approval of the contract is now before the legislature in the form of SB 329 and HB 469. -

The contract has been signed by the Alaska Commissioner of Natural Resources and the President of MAPI. The contract calls for the sale of approximately 28,000 barrels per day (bpd) of North Slope royalty crude to MAPI. The contract will be effective December 1, 1998, and calls for MAPI to pay the State Royalty-in-Value price for the royalty oil plus a \$.15 per barrel premium. Over the five years of the contract, the State could receive an additional \$7.665 million in gross revenues over what they would receive from other Prudhoe Bay lessees for the royalty oil.

The effective date of December 1, 1998, coincides with the expiration of a current one year contract MAPI now has with the State for 13,000 bpd of royalty oil. The new contract will replace the volume in the one year contract and add the additional volume to provide feed-stock for the \$70 million refinery expansion currently underway at MAPI. The cornerstone of this expansion is the addition of a third crude unit to the refinery. The new crude unit will begin shipping the additional production approximately December 1, 1998.

The \$70 million expansion project currently has 50 Alaska workers on site. Construction employment will peak at about 375 workers this summer. Over 30 Alaskan vendors and contractors will be working on the refinery expansion. Once completed, the new crude unit will produce an additional 14,000 bpd of jet fuel for Alaska's growing air cargo and air passenger business. An additional 25 rail cars of jet fuel will be shipped daily on the Alaska Railroad from Fairbanks to Anchorage when the project is completed. Local property tax payments by MAPI will increase, revenues to GVEA and ARRC will increase, and vendors and contractors will benefit from both the construction and the ongoing operation of the third crude unit. Also, a total of 19 permanent new employees will be hired at the refinery and the Anchorage terminal to support the production expansion.

MAPCO has refining, marketing and retail activities throughout Alaska. MAPI employs 155 people in the refining and marketing business and about 350 workers at the 28 MAPCO Express retail stores in Alaska. MAPI spent approximately \$450 million with over 680 Alaskan vendors and contractors in 1997. In addition, MAPI provided approximately \$500,000 in funding to educational institutions, non profit organizations and for event sponsorships in 1997. MAPI has its refining headquarters at North Pole near Fairbanks and its marketing headquarters in Anchorage.

For more information contact Jeff Cook at (907) 488-5104