2009 HOUSE FINANCE AND TAXATION

HB 1261

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1261

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: 01/27/09

Recorder Job Number: 7937

Committee Clerk Signature Lori Englesor

Minutes:

Vice Chairman Drovdol: We will open the hearing on HB 1261.

Rep. Shirley Meyer, District 36, offered testimony in support of HB 1261. See Testimony 1, attached.

Rep. Froseth: How broad is the definition of facilities of an oil or gas refinery? How broad is the definition of oil and gas because we had a proposal to build a coal to gas conversion plant and also the biodiesel plants. Does this definition include those also?

Rep. Meyer: I believe that it would. It's very much of an incentive for a company to come in, to expand.

Rep. Froseth: Would that also include natural gas facilities?

Rep. Meyer: I believe that it would. This first section of the bill is a big incentive to get private industry. We need more gas plants. They may be built anyway, but our economy has changed a lot since last fall.

Rep. Headland: Who makes up the oil and gas research council?

Rep. Meyer: I don't have the list on me. I know Mr. Harms could give you that.

Rep. Drovdol: In your testimony you stated that there are two new refineries being proposed in the United States. I thought there was a refinery being proposed by the Three Affiliated Tribes and also a refinery in the Williston area. Am I incorrect in that.

Rep. Meyer: You are correct. Those have been proposed.

Rep. Onstad: I just want to stand in support of the bill. Reality is we do not have the infrastructure in our oil market. The second thing is the discount. It's not only a discount to the landowners, but to the royalty owners that isn't even included in that amount of money. The second thing you do is try to add value and the fact is most of the exports, rather than export a crude product, let's export a refined product. It creates additional businesses.

Chairman Belter: Further testimony in support of HB 1261?

Mel Falcon offered testimony in support of HB 1261. See Testimony 2, attached. My name is Mel Falcon. I am the CEO of Northwest Refining. We have done feasibility studies and are doing preliminary work-up right now (inaudible) 100,000 barrels a day refinery in western North Dakota. We are also looking at the possibility of incorporating other energy entities. Right now we are sharing a facility with Yellowstone Ethanol. We hope to in the future or start right now to incorporate a biodiesel plant and also a wind generation plant that will actually provide some of the supplemental energy for these entities. We are establishing an entity in northwest North Dakota called MonDak Alliance. MonDak Alliance incorporates people from eastern Montana and North Dakota. What we are trying to do is get a group of people together to do a little bit more brainstorming and get more people involved. Right now we're in the process of getting our business plan in place. The packet I gave you has a brief description of what we're doing and some basic costs. We've got a budget in there on what it's going to take to get this off the ground. Yellowstone Ethanol are in the process of getting their funding for their project now. They have provided 175,000 acres of land which they have already secured to the refinery.

We've been able to get a chance of optioning another 400 acres in that area. What we'll do is continue on with the project as far as the $100,000 barrels a day refinery. In the meantime, what we've done is we've plotted out a small diesel refinery. We have a permit application right now. That should have been completed this last week. We had some deficiencies in it which needed to be corrected. I believe the health department should be notifying us shortly if that has been finalized and whatever deficiencies we might have and to further correct those. That's the first step in getting this thing off the ground. We want to provide diesel because that seems to be the commodity right now that's lacking in western North Dakota. A diesel plant wouldn't take much to get into operations. A couple of refineries in Colorado and one in Texas look pretty decent. We've been able to get a cost on those and our engineers have looked at it. They say they are in good enough shape to start a small refinery in this area as a temporary refinery. It's not going to last forever, but we don't intend it to last forever. We actually wanted to see the starting point for the 100,000 barrels a day. We know we've got plenty of crude in this area. Montana's got crude. There's a new 36 inch pipeline being planned for central Montana. It's 40 miles from where we propose the plant will be located. One of the things we are looking at is the flex type of a crude. You can take any kind of crude and refine it. Now, that's going to be a little expensive to start with. North Dakota does have crudes that are not moving right now. According to the information I received from the Industrial Commission's web site, there's 28 formations in North Dakota that are producing formations. One of the things we're looking at in simulation is CO2. We're looking at the refinery not being able to provide that. But if we combine this with biodiesel and ethanol plant, we'd have enough CO2 to actually stimulate some of the fields in western North Dakota. We have some people that are willing to come in and take a look at it and actually run lines and gather the CO2 and give us a small price on it which they would in turn sell. So it will actually help stimulate the oil

economy. I think our oil formations are not presently being utilized to their fullest extent. I think there has been a lot of information that has been provided to the state already on the taxation benefits to the state and/or the crude being able to be processed here. We've been working with Mr. Kringstad, North Dakota Pipeline Authority. Right now what we are looking at is a pipeline from Williston to Spearfish, South Dakota, with terminals along the way. That won't get rid of all the product so we want to try to at least talk to Cenex . One of the plans is to try to upgrade or add more tankage in capacity to Minot. Mr. Kringstad thinks we should build a line from Minot to Grand Forks and tie into the Magellan line. The Magellan line ha 8500 miles of production lines in 22 states I believe. Those give us a market in the eastern part of the country. This bill would actually help us if we get some funding that we need to do the preliminary things. We've got several different entities that are willing to take a look at financing. We're trying to get a site draft and a permitting draft from an existing site that we had in the plan. We will continue with our business plan, and when we have our business plan established, Wells Fargo said they would take a look at it. It doesn't mean they will finance it, but they will take a good look at it. We have been approached by some very legitimate people that are interested in looking at the products and helping us move some of the products. Right now we are in the process of mainly doing the background, trying to establish some contact with some of the others. The reason we're looking at this complex is because they compliment each other. The refinery will provide the products needed for ethanol. Right now most of the ethanol plants are importing the fuels and biodiesel plants are importing their fuels. They don't actually blend it. They put 7% in the product. Blending is done somewhere else. All of this can be done in one spot, one location. It doesn't have to be the exact location but within the vicinity. We're working with Montana right now. They are very interested in helping us out.

Vice Chairman Drovdol: I guess we're not here to see if you have a good plan or not but we want to know if the bill is there to give you a tax break on building the facility. Somebody told us that this was going to help you.

Rep. Froseth: The bill gives a tax exemption for up-front capital costs of the project until capital costs of the product have been recovered. On your proposed 100,000 barrel a day plan, how long do you expect it would take to recover the costs of that.

Mel Falcon: We've got different scenarios on that. Our engineers down in Houston are telling us with a 100,000 barrel a day plan, the basic capitalization can be recovered in 2.4 years. That's just on capitalization. It doesn't include operating costs or anything else. Now they've spelled it out in their feasibility study. That was based on Cushing, Oklahoma. It probably isn't feasible here because we do have the oil here. We don't have to ship it to Cushing, Oklahoma. That's a value added to a refinery in North Dakota.

Vice Chairman Drovdal: Currently you've been working with the city of Williston on your plans. Have they indicated or are you including study any exemptions that they may be willing to give you at the present time.

Mel Falcon: They have asked to be part of this, and they are going to do everything possible to help us because it benefits Williston drastically. The plant is not going to be built right in Williston city limits. It will be 23 miles away.

Vice Chairman Drovdal: You responded to a question that it would take you 2 ½ to 3 years to recover costs on building the facility.

Mel Falcon: This is a preliminary feasibility study. It's not the actual total package. When we get the total package, we could probably give you a better idea. Right now it's a little hard to do when we don't have any basis from any refinery being built in the United States in the last 30 years.

Vice Chairman Drovdol: A lot of times local entities are willing to give a five-year tax exemptions so it should actually be a shorter period of time.

Mel Falcon: It's just a basic recovery of the capital. Obviously you are going to have operating costs. Our operating costs alone are going to be $300 some million a month.

Rep. Brandenburg: You mentioned in your testimony you talked to Cenex. Are you looking at something along the Minot area? I'm just trying to piece together the relationship.

Mel Falcon: We don't know what the relationship is going to be. Our engineers have asked Cenex if they would entertain the idea of sharing their line if we would help them expand the terminal in Minot. We haven't had a response yet.

Vice Chairman Drovdol: Any other testimony in favor of HB 1261.

Horace Pipe, Clean Fuels Refinery Project Manager and petroleum geologist, offered testimony in support of HB 1261. See Testimony 3, attached.

Vice Chairman Drovdol: For the benefit of the committee, this bill is to give a property tax exemption to the refinery. We know that the Three Affiliated Tribes products on the reservation are all property tax exempt. Will you tell us where the location of this proposed refinery is and how it relates to the bill.

Horace Pipe: At this time, the refinery is going to be located two miles west of Makoti on Highway 23, right on the Ward County and Mountrail County line. We've got the completed draft of the environmental impact statement. It's a 500 page document. At this time the tribe purchased 470 acres. So if the refinery was built today, the tribe would pay taxes on it.

Rep. Froseth: It's not tribal property yet?

Horace Pipe: The tribe does own it, but they pay taxes on it. It's considered fee land. You've got fee land, trust land, and tribal land.

Rep. Froseth: But does it stay fee land forever then?

Horace Pipe: No, the Bureau of Indian Affairs can take it back in to trust. And at this time, that's what they're looking at. If it's built, it gets taxed by the state of North Dakota.

Rep. Headland: Can you give us a quick answer on how long this process to get from where you started to where you are right now?

Horace Pipe: On November 7, 2003 the project was introduced to the United States. Our draft FEIS appeared in the register June 2006.

Vice Chairman Drovdol: What is the proposed completion date.

Horace Pipe: Once in the federal register, we can start construction 60 days later, and it will take a 24-month construction schedule.

Vice Chairman Drovdol: Any more questions for Mr. Pipe? Thank you.

Roger White Owl: My name is Roger White Owl. I am the legislative assistant for Chairman Marcus Wells. Chairman Marcus Wells wanted me to convey to all of you we look forward to working with you in order to help bring economic prosperity to northwestern North Dakota, and we look forward to being able to work on anything that can enhance the lives of not only the people of the Three Affiliated Tribes but also in the surrounding community.

Larry Stockert: My name is Larry Stockert. I work with Native Americans on new development throughout North Dakota on the reservations to increase their marketing. I'm here on HB 1261 because I'm the fellow who created the financial statements in the portfolio. All the costs involved in the crude oil purchase assuming we are paying market rates, not discounts. We're talking about buying this oil at market rates. The question that came to my mind is whether or not a refinery in the state of North Dakota could be operated in a profitable basis. The numbers actually start with the inventory section. It projects what the plants can produce. This unique plant, based on feasibility studies, takes all kinds of different crude oils in the state of North Dakota, not just the sweet crude oils. That's important because right now

those crude oils are in the ground. The state of North Dakota makes no money until it is pumped out. We're looking at additional state revenue, not only 100,000 barrels of oil but an increase also in the crude oil that are now not being pumped. This cash flow plant shows that we can do that in combination of equity investments as well as traditional bank financing.

Vice Chairman Drovdol: We're looking at how this bill would help that plant. It will reduce the property tax. Will this bill assist in developing that plant?

Larry Stockert: It certainly will. It will make it possible for the plant to become a reality.

Rep. Weiler: Your last statement, you said it makes it possible for this plant to become a reality, and you guys have been working on this for 5 ½ years. If this bill fails, will you continue on with your project.

Larry Stockert: I believe we will. It may take a lot longer.

Vice Chairman Drovdol: Any other testimony in favor of HB 1261? Any testimony in opposition to HB 1261?

Rep. Froseth: Before we close the hearing, can someone explain exactly why there's a fiscal note for $750,000? In section 3, "The oil and gas research council shall develop a request for a proposal to develop and construct an oil or gas refinery and pipeline in North Dakota. I think we're already paying that. Can anybody explain what it's exactly for?

Vice Chairman Drovdol: Is there any neutral testimony on HB 1261?

Justin Kringstad, Director, North Dakota Pipeline Authority offered neutral testimony on HB 1261. See Testimony 4, attached. I would like to pass out a study the Pipeline Authority did last year on pipelines.

Vice Chairman Drovdol: Any other testimony neutral on HB 1261?

Myles Vosberg: My name is Myles Vosberg, Director, Tax Administration, Office of the State Tax Commissioner. We are neutral on this bill, but I do have some questions on the language

where it talks about the up-front capital costs have been recovered, and I'm not exactly sure what that means. If you could give clarification?

Rep. Weiler: On Page 1 line 11 of the bill, 10 and 11 says that they are exempt from taxation etc. Is that pretty broad or would that be standard language. Taxation at the local level? Does it basically blanket all taxation?

Myles Vosberg: It's only propriety tax.

Vice Chairman closed the hearing on HB 1261.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1261**

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: January 28, 2009

Recorder Job Number: 8068

Committee Clerk Signature

Minutes:

Chairman Belter: This is Representative Meyer's oil refinery.

Representative Weiler: I move a "do not pass". We already have two refineries in the works and I don't see any need for the bill because they are going to go through with this anyway. I have concerns about language on page 1, line 19-21 where it talks about a request for a proposal for an oil and gas refinery. There is no language that excludes the state and I don't want the state involved in an oil and gas refinery. There are no taxes up front until all capital costs are covered. These are some of the reasons I oppose this bill.

Representative Headland: I support the "do not pass". I think it is also somewhat unfair to our existing refinery in that they are constantly upgrading and rebuilding and adding on and there is nothing in it for them.

Representative Froelich: I am going to resist the "do not pass". Yesterday after the committee, I met with Mr. Falcon and the two engineers for the tribe. What I found out is that they are meeting with state officials from Montana, who are willing to go the extra mile. I think we need to do something and I don't think that this is a lot to do. I would like to see a fiscal note. I would like to see development no matter where it is at.

Representative Winrich: I would just point out that the existing oil refinery did receive some major tax considerations a few years ago when they were upgrading and I think they did get benefits from the state.

Representative Pinkerton: I think the people from Williston received $100,000 worth of funding from something I read in the paper. I think it is an unlikely thing to come to fruition; but listening to the remarks from the group developing Makoti, which has been going on for some time, their idea is to start out with just a diesel refinery with bio-diesel added to it. We are looking at two different animals here. The one at Williston seems far remote and like a daydream, but the one for bio-diesel refinery to be connected to a diesel refinery. I know the Minot Air Force Base is under some mandate to have a biodegradable fuel in their mix. I think it is all tied together and that is what they are seeking. I would support that we leave that door open.

Representative Froseth: We gave a $450,000 sales tax exemption to purchase equipment and materials to Tesoro, but that was the state. This calls for a tax exemption on buildings, fixtures and improvements and pipelines, which would be a county loss. The $750,000 fiscal note on here is to develop an Oil and Gas Research Council proposal and that is what the appropriation in this bill is for. This would be a direct property tax reduction to counties and cities, not to the state. Even during the construction period of the facility, the county has quite a bit of expense with cost of infrastructure to get a facility like this up and running. I was surprised there weren't any county commissioners here to object to this bill. The fellow in Williston indicated they were proceeding with their refinery and the one in Makoti basically said that as soon as all the negotiations were completed, that the federal government would take over.

Representative Weiler: This whole thing needs an appropriation of $750,000 to try to come up with a request or proposal when we already have two of them that have been going on for four or five years. Why should we spend the money? These people have put in an enormous amount of time and effort. The information they have is very impressive as is the work they have done. I don't see any reason to spend $750,000.

Representative Schmidt: I thought it was funny as well that nobody opposed this. I think it is a chance to get something going.

Chairman Belter: The guy testified that they can buy a used oil refinery in Colorado. Let me tell you it is a lot cheaper to run a pipeline from here to Colorado than it is to dismantle a refinery and bring it back here and put it into play. The fact of the matter is that Tesoro has lost millions of dollars in the refinery business here this past year. Even though there has been profit in the oil industry, the refinery business has been a real gut-wrenching business venture. Getting into the refinery business is not a good deal right now. I don't think if I were Tesoro that I would want to come in and spend state money to have a competitor. Any other discussion?

Representative Froelich: We could argue back and forth about the economics of the refinery. Tesoro has been working with them as well. The reason I support this even though the refinery may not make much, the state is not getting involved in that part of it. The $750,000 is not only for a refinery, but for a pipeline as well. That has a huge impact. Whether you build a refinery or not, we all know the state can't get rid of the oil. If we can develop a pipeline, I think that is beneficial to the oil industry, the state, the Tax Department, everything. I don't think it is our job to determine whether or not they can make money. If we can give an incentive, that's what I am in favor of.

Chairman Belter: We already have a pipeline authority which costs the taxpayers money. It seems to me we are going to duplicate it with another organization not created by the legislature nor do we have legislative authority over it. To me, we are just making duplication here. If we are going to put out $750,000, then we should probably shift the allocation to the pipeline authority. Any other discussion? If not, will the clerk read the roll for a **"do not pass" on HB 1261. A roll call vote was taken, resulting in 8 ayes, 5 nays, and 0 absent/not voting. Representative Weiler will carry the bill.**

FISCAL NOTE

Requested by Legislative Council
01/13/2009

Bill/Resolution No.: HB 1261

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations			$750,000			

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1261 creates a property tax exemption for an oil and gas refinery and pipeline.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of HB 1261 exempts an oil or gas refinery and any associated pipeline facilities from property taxation until the tax commissioner determines that the up-front capital costs of the project have been recovered by the facility operator. These provisions would ensure that no new property tax would be generated by such a facility for several biennia, should a facility be built in the State. It is unknown if the project would be built in the foreseeable future.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Section 2 authorizes an appropriation of $750,000 from the state general fund to the industrial commission for purposes of facilitating a RFP for a refineray project.

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/25/2009

Date: January 28, 2009

Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1261

House **FINANCE AND TAXATION** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken ☐ Do Pass ☒ Do Not Pass ☐ Amended

Motion Made By Weiler Seconded By Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	✓		Representative Froelich		✓
Vice Chairman David Drovdal	✓		Representative Kelsh		✓
Representative Brandenburg	✓		Representative Pinkerton		✓
Representative Froseth	✓		Representative Schmidt		✓
Representative Grande	✓		Representative Winrich		✓
Representative Headland	✓				
Representative Weiler	✓				
Representative Wrangham	✓				

Total (Yes) 8 No 5

Absent 0

Floor Assignment Representative Weiler

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1261: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **DO NOT PASS** (8 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). HB 1261 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

HB 1261

Testimony 1
January 27, 2009

Testimony of Representative Shirley Meyer
HB 1261
Finance and Taxation Wes Belter, Chairman

Representative Kenton Onstad and I have served as Co-Chairman of the North Dakota Oil Refinery Task Force for the past year. After trying unsuccessfully to pass a study resolution in the 2007 session to look at the feasibility of building a ND oil refinery, we decided that the idea had enough merit to form a task force. What we have learned over the past twelve months was the need for a refinery in North Dakota and the desire of its citizens to make it happen. That is why HB 1261 is before you today.

The main purpose of this task force was to add economic value to North Dakota crude oil by refining it in North Dakota. Oil producers and royalty owners had approached us concerned with the discounts they had been receiving and continue to receive. Because of transportation cost, generally, the price of ND crude oil averages approximately 90% of the NYMEX price of West Texas Intermediate (WTI) crude oil. In addition to that 10% discount we had months with additional discounts as high as $11.43 per barrel which equates to a loss of tax revenue to the state of $3,030,336.94 for just that one month. The estimated impact on state revenues of a $1 increase or decrease in the price of a barrel of oil is approximately $11 million per biennium.

Our production rate continues to set new records and increased in November to over 200,000 barrels per day. At

this rate of production any discounts whatsoever amounts to huge losses of revenue to the producers, the royalty owners, and the state. As legislators we are approached on a weekly basis and asked to come up with answers on dealing with the problems associated with the bottleneck and subsequent discounts of our crude oil; especially the Bakken crude that is a premium crude and should be bringing a bonus instead of being discounted. We are told, "The pipelines are full, the trucks are full, the trains are full, and we are going to have to shut down production of our wells."

Building a refinery seemed like the obvious solution and we have significant community support that continues to grow. North Dakota, because of our sparse population and large agrarian population, burn tremendous amounts of fuel. According to 2004 statistics at the U.S. Energy Information Administration, North Dakota was the fourth highest energy consuming state on a per capita basis. In late 2007, there were significant price hikes and shortages due to multiple regional refineries being down at the same time creating problems for our fall harvest, and again in December with a shortage of number one diesel with the first cold snap. Once again with the bitter cold in 2009, Western North Dakota is finding many towns completely out of number one diesel, or with restricted supply. Dickinson, Newtown, Watford City, Parshall, Tioga, and Stanley are just a few towns that couldn't send school buses out on the roads or were experiencing rationing.

With every hiccup in our current energy supply, albeit it hurricane, pipeline explosion, refinery shut down, saber rattling, or actual war, our prices take huge spikes. North

Dakota is last on the pipeline so subsequently we will be the first state to suffer from price hikes and short supplies of fuel. With our vast supplies of oil and gas reserves and increasing production this is not an acceptable situation for our citizens. The question posed to us most often is "Why are we paying the highest gas and diesel prices in the nation when we are producing record amounts of crude right here in western North Dakota?"

North Dakota has seen a steady increase in production from 30 million barrels in 2003, to 45 million barrels in 2007. Current production growth will put us well over 50 million barrels in 2008.

The two new refineries being proposed in the United States (Arizona and South Dakota) will process Mexican and Canadian Crude. This will not ease the demand for refining capacity for our domestic production. There are currently 149 refineries in the U.S. Four are inactive at this time for repairs or maintenance. Since most refineries are operating at about 90% capacity, any disruption at a refinery causes a spike in prices. With most refineries in the nation operating at, or near capacity, as the Bakken, Sanish, and Three Forks fields are developed; we will find our pipeline and refining capacity stretched even farther.

Because of our limited refining capacity in the U.S., besides importing crude oil, we import 66,000,000 gallons of gasoline per day to meet our daily needs above our refining capacity (2004 figures).

Our task force over the course of the year has developed four objectives. Our first objective was to educate policy makers for the implementation of State

Legislative Policies that will advance the construction of a state-of-the-art refinery in North Dakota.
As policy makers we need to develop and expedite permit and siting rules for development and decide if a new refinery should have private ownership, public ownership, or a combination of both.

Our second objective was to articulate to the citizens of North Dakota the need to further develop our infrastructure to strengthen our energy security making us less dependent on foreign sources of oil. A refinery and adequate pipeline capacity will ensure more equitable pricing of North Dakota crude oil. In addition, we need to reassure citizens they are receiving full benefits from our oil reserves.

Our third objective was to ensure any future developments and decisions for increasing refining capacity was economically sound, environmentally friendly, and provide plans for a ND Strategic Oil Reserve. In order to guarantee our agriculture producers have a continuous supply of diesel fuel especially during spring planting and fall harvesting, our task force has determined we need to utilize the storage facilities on virtually every farm and ranch.

Our forth objective was to create an energy center to develop technical and educational support for the oil, gas, and refining industries. Because no new refineries have been built in the United States for over thirty years, refinery expertise and knowledge of this industry is negligible.

To reach these objectives, we have discussed several options, including state ownership of a refinery, a

state/private partnership, or state participation in the permitting and siting process.

Even as we have discussed these issues, the amount of crude being produced in North Dakota continues to grow, far beyond what we envisioned a year ago. We must have the foresight to be proactive on energy. We cannot look at where we are now.

The great hockey player, Wayne Gretzky, when asked, "what made him such a great hockey player", replied, "I don't skate to where the puck is, I skate to where the puck is going to be!"

Mr. Chairman and members of the committee HB 1261 is an attempt to get North Dakota moving in the right direction toward energy independence. Section one of the bill encourages private companies to start looking at North Dakota to build a refinery or pipeline by giving them tax free status until all of their up-front capital costs are covered. Section two of the bill is an appropriation of $750,000 to the Industrial Commission. Section three of the bill instructs the oil and gas research council to develop a request for proposal for the construction of an oil or gas refinery and pipeline and select a proposal and submit a report including the recommendation to a committee designated by the legislative council.

I'm hoping the Finance and Tax Committee gives HB 1261 a favorable recommendation and I stand for any questions you may have.

New CO Hub Moves 2.5 Bcf/d

The White River Hub in Rio Blanco County, CO, which connects four interstate natural gas pipelines, went into operation this month and is moving more than 2.5 billion cubic feet of gas per day.

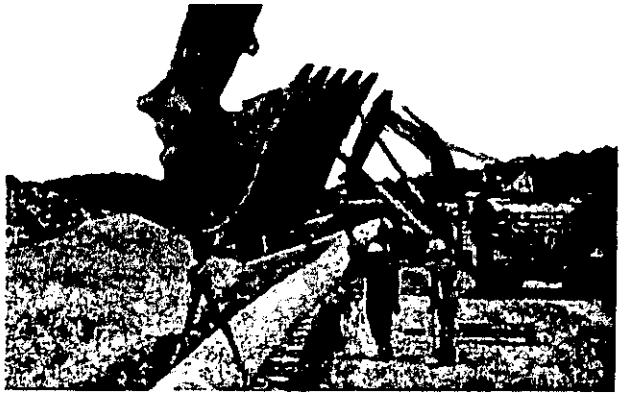
Most of the gas coming through the system comes from the Piceance Basin.

The White River Hub connects with the natural gas processing plant at Meeker operated by Enterprise Products Operating LLC and the four pipelines: Rockies Express Pipeline LLC, Questar Pipeline, Northwest Pipeline GP and TransColorado Gas Transmission Co. Two additional pipelines, Wyoming Interstate Co and Colorado Interstate Gas will also be connected to the hub in the first quarter, 2009.

The new hub was a joint venture between Questar and Enterprise and consists of four miles of 36-inch pipe and seven miles of 30-inch pipe as well as the tie-in and metering facilities.

"White River Hub provides Rockies producers with greater access to markets served by pipelines in the Piceance and Uinta Basins, said Questar President and CEO Allan Bradley. "We hope to further enhance market liquidity by working with the appropriate parties to establish a new, published regional pricing point designed White River Hub."

Michael A. Creel, president and CEO for Enterprise, said the White River Hub will be followed its Meeker II project late in December and "further enhance our capabilities to provide shippers with midstream services they need to access the most attractive markets".



Pipeline crews in Colorado install the seven miles of 30-inch pipeline as part of the new White River Hub. Installation of all the pipelines and metering facilities at the Hub near Meeker, CO took less than three months.

BREAKING NEWS

Barclays Predicts $76 Oil

Crude oil prices could reach as high as $76 a barrel this year, according to Barclays Capital but the consensus of most analysts is that it will only go as high $58.48. "We'll stick to our $76 per barrel for the moment on the basis that demand will look better over time than is embedded in current perceptions, and that supply-side dynamics will look dramatically worse," said Barclay's analyst Paul Horsnell. "Consensus is way, way wrong in terms of supply, demand and price." The US Energy Information Administration sees the price averaging near $60 a barrel this year and rising as the global economy rebounds and global demand increases. However, the EIA predicts that there will be "virtually no growth in US oil consumption" this year. The agency predicts that liquid fuel demand will only grow by 1 million barrels per day in the US between now and 2030. "The so-called forward curve of futures contracts traded on the New York Mercantile Exchange suggests oil

Latest Prices

CRUDE OIL: $45.56

(NYMEX futures price)

Colorado SE: $36.50

CO Western: $26.58

N.D. Sweet: $28.08

WY Sweet: $28.33

SW WY Sweet: $26.58

CO, ND and WY prices updated January 23

NATURAL GAS: $4.73

(Henry Hub spot price)

Chicago CG: $4.93

Malin, OR: $4.62

Opal Hub: $3.05

Ventura, IA: $4.83

Regional hub prices updated January 23

U.S. Rig Count

1515 as of 1/23/09

-53 from **1/16/09**

-232 from **1/25/08**

(Courtesy Baker Hughes)

Hess Seeks Flaring on Four Wells

Hess Corporation this month asked approval to allow flaring from four new Mountrail County oil wells.

At a hearing earlier this month before the ND Industrial Commission Oil & Gas Division in Bismarck, Hess for an exemption approval of flaring the Nelson Farms #11-19H well in Sec. 19, T156N-R91W; the RS-Vedaa 156-91 #0336H-1 well in Sec. 3, T156N-R91W; the RS-State A 156-90 #1609H-1 well in Sec. 16, T156N-R94; and the EN-Hegland 156-94 #3229H-1 well in Sec. 32, T156N-R94W.

In addition, Hess sought expansion of the Robinson Lake Field in Mountrail County with 1280-acre spacing to include sections 15 and 22, T154N-R93W.

Hess also wants approval to expand the Big Butte Field in Mountrail County to include sections 5, 8, 13 and 24, T156N-R94W based on 1280-acre spacing. Hess asked the commission to approve including sections 9 and 16, T155N-R93W in Mountrail County within Zone 11 of the Alger-Bakken Pool.

At the hearing, the company sought orders for forced pooling in Mountrail County in Sections 26 and 35, T156N-R92W; in Sec. 1, T156N-R92W and the E/2 of Sec. 32 and W/2 of Sec. 33, T157N-R91W; and sections 27 and 34, T156N-R91W; and sections 13 and 24, T156N-R91W.

will rise 28% to $60.10 a barrel by December," according to Bloomberg. Some traders believe that oil prices will accelerate when the US economy and those of other countries such as China show signs of recovery. "Once these economies kick in again with the money supply pouring into these economies, everybody is going to be caught short with no inventory of these commodities and then commodity prices will move up again," said Mark Mobius, executive chairman of Templeton Asset Management Ltd.

— Rilie R. Morgan
Nov. 7, 1923

Oil infrastructure is needed in state

A lot was made at the beginning of the year in regards to the state's half a billion dollar surplus during the legislative session.

The Walsh County Record advocated the building of an oil refinery to be run by the state's Industrial Commission made up of the governor, attorney general and agriculture commissioner.

The consideration of a state owned oil refinery is based on history of the Industrial Commission's success in running these types of enterprises like the State Mill and Elevator and the Bank of North Dakota. Both of these entities turn a healthy profit for the state, contributing greatly to state coffers over the last 70 some years.

Also, a state owned enterprise like a state owned oil refinery makes North Dakota more self-sufficient and less dependant on the supply and demand of a volatile marketplace. It was recently reported North Dakota spends more on a gallon of gas than any state in the lower 48 states. This in itself wouldn't have such a nasty rub to it if we didn't have large deposits of oil in the state along with an oil refinery in Mandan. The fact the state has the ability to access and refine oil within its own borders and its residents continue to pay the highest cost per gallon, in the lower 48 states leaves a nasty taste in our mouths due to the effect it has on the pocketbook. As citizens of North Dakota, we can do better. We should let the state manage an oil refinery in the same capacity it does with the State Mill and Elevator.

By building a state owned elevator North Dakota will be better prepared to, for lack of a better phrase, take better care of itself and hence, its citizens in the future. North Dakota already can feed itself, and has an ample supply of electrical energy whether from coal or hydro-dams, not too mentioned two air force bases. It is safe to say that North Dakota has the basics of providing the necessary infrastructure to run its own affairs. This doesn't take into account the state owned bank. North Dakota can manage its affairs down to the finances.

The nation's oil crisis isn't going to go away. It's getting to be a precious commodity. We have the oil patch in western North Dakota — no different than having the Red River Valley in the eastern part of the state. The State Mill and Elevator helps the agricultural infrastructure not just of the Red River Valley, but also the whole state. The Bank of North Dakota allows the state to control and maintain its finances without the shots being called from an out-of-state banking institution.

Oil is as precious of a commodity to the well-being of North Dakota as small grains were to the state back in the 1920s when the idea of state institutions took hold. For the most part North Dakotans don't trust outside interests when it comes to managing its affairs. It's the nature of the marketplace. If profits are going to made on North Dakota oil, North Dakotans should be able to reap the majority of the benefits. These benefits are going to out of state interests. If that wasn't the case North Dakota wouldn't be paying the highest cost per gallon of gas in the nation's lower 48 states.

The thought that state legislators may use a big part of the state's surplus money — generated largely by the increased value of petroleum — on building a prison seems like throwing good money and a golden opportunity to the wind.

The State of North Dakota has the resources, both in raw materials (oil) and capitol (half a billion dollar surplus). North Dakota's economy is going to continue to grow. At principal of government is to provide for its citizenry, what better way for government to help its people than to provide a reliable source of oil and gas to its citizenry. In our opinion, the best government is accomplished through the empowerment of the individual, not government handouts. In other words, give the individual every possible opportunity to succeed.

Controlling oil production in the state is a big investment. Choosing to spend money on a prison, which helps rehabilitate a small percentage of the state's worst citizens is a bad investment. While investing in an oil refinery has the potential to return huge benefits. There's potential to empower not just the majority of the state's residents, but also hammer home another nail in the state's economic infrastructure.

— W. Todd Morgan

OIL REFINERY TASK FORCE

1) Because of transportation cost, normally North Dakota producers and royalty owners receive about 90% of the price West Texas Crude. Often times, such as now, the discounts run several dollars below that 90% basis. At production of 155,000 barrels/day, this amounts to huge losses of revenue to the producers, the royalty owners, and the state.

2) We are often times the highest priced gasoline and diesel in the continental U.S. because of limited competition. Larger population density generally equates to lower prices than here.

3) North Dakota, because of our sparse population and large agrarian population, burn tremendous amounts of fuel.

4) The two new refineries being proposed in the United States (Arizona and South Dakota) will process Mexican and Canadian crude. This will not ease the demand for refining capacity for our domestic production. The SD project is currently working on zoning issues. The Arizona plant has its EPA permit and is dealing with financing and other issues.

5) With most refineries in the nation operating at, or near capacity, as the Bakken formation is developed, we will find our pipeline and refining capacity stretched even farther.

6) With every hiccup in our current energy supply, albeit it hurricane, pipeline explosion, refinery shut down, saber rattling, or actual war, our prices take huge spikes.

7) Because of our limited refining capacity in the U.S., besides importing crude oil, we import 66,000,000 gallons of

gasoline per day to meet our daily needs above our refining capacity (2004 figures).

8) One barrel (42 gallons) of crude oil makes about 19 ½ gallons of gasoline, 9 gallons of diesel fuel, 4 gallons of jet fuel, and the remaining gallons are a mixture of kerosene, lubricants, asphalt, and petrochemical feedstocks for plastics.

9) There are currently 149 refineries in the U.S. Four are inactive at this time for repairs or maintenance. Since most refineries are operating at about 90% capacity, any disruption at a refinery causes a spike in prices.

10) While most states are seeing a decline in oil production, North Dakota has seen an steady increase in production from 30 million barrels in 2003, to 45 million barrels in 2007. Current production growth would put us over 50 million barrels in 2008.

These figures were obtained from the Energy Information Administration (U.S. Gov.), the ND Industrial Commission Oil and Gas Division, and Gibson Consulting.

"Discounting" of Nor[redacted]a Crude Oil

Period	Taxable Barrels	90% of NYMEX Posting (1)	Actual Average Price per Barrel for ND Crude	Average Discount Per Barrel (2)	Average Tax Rate	Estimated Total Tax Revenue Impact of "discount"
200507	3,015,182	$53.12	$54.42	No Discount	7.94%	
200508	3,087,385	$58.49	$60.46	No Discount	7.90%	
200509	2,991,460	$59.00	$60.27	No Discount	7.89%	
200510	3,137,326	$56.04	$57.50	No Discount	7.82%	
200511	3,111,399	$52.51	$53.42	No Discount	7.83%	
200512	3,180,454	$53.50	$52.82	($0.68)	7.81%	($170,088.65)
200601	3,015,986	$58.98	$56.60	($2.39)	7.96%	($573,347.83)
200602	2,871,909	$55.82	$49.81	($6.00)	7.94%	($1,368,880.03)
200603	3,302,965	$56.60	$45.17	($11.43)	8.03%	($3,030,336.94)
200604	3,080,670	$63.09	$56.63	($6.47)	7.86%	($1,566,950.25)
200605	3,325,107	$63.78	$60.59	($3.19)	7.68%	($815,260.35)
200606	3,312,199	$63.92	$61.75	($2.17)	7.71%	($554,496.86)
200607	3,389,118	$67.01	$65.86	($1.15)	7.64%	($296,516.92)
200608	3,440,636	$65.80	$64.71	($1.09)	7.62%	($285,470.43)
200609	3,353,332	$57.86	$55.93	($1.93)	7.73%	($498,952.84)
200610	3,467,670	$53.30	$48.81	($4.48)	7.83%	($1,217,034.67)
200611	3,436,275	$53.22	$47.97	($5.25)	7.85%	($1,416,380.47)
200612	3,503,041	$56.00	$50.60	($5.40)	7.85%	($1,484,109.28)
200701	3,591,508	$49.23	$44.65	($4.58)	7.85%	($1,291,649.40)
200702	3,175,016	$53.57	$50.01	($3.56)	7.83%	($884,849.22)
200703	3,636,530	$54.71	$52.10	($2.60)	7.87%	($744,128.43)
200704	3,538,662	$57.79	$56.24	($1.55)	7.86%	($431,956.76)
200705	3,682,143	$57.24	$57.68	No Discount	7.97%	
200706	3,607,198	$60.68	$62.94	No Discount	7.88%	
200707	3,788,283	$66.71	$69.61	No Discount	9.91%	
200708	3,838,319	$65.16	$67.40	No Discount	9.90%	
200709	3,779,655	$71.20	$71.38	No Discount	9.87%	
200710	3,961,124	$77.25	$75.71	($1.55)	9.91%	($606,392.31)
200711	3,875,193	$85.67	$84.24	($1.42)	9.89%	($545,702.28)
200712	4,181,563	$82.57	$79.37	($3.21)	9.81%	($1,315,700.58)
200801	4,227,739	$83.67	$83.68	No Discount	9.76%	
200802	3,963,408	$85.42	$86.08	No Discount	9.77%	
200803	4,410,675	$94.63	$98.29	No Discount	9.73%	
200804	4,493,849	$101.32	$107.02	No Discount	9.38%	
200805	4,723,445	$113.10	$118.57	No Discount	9.52%	
200806	4,872,808	$121.14	$126.75	No Discount	9.53%	
200807	5,245,147	$120.98	$125.90	No Discount	9.29%	
200808	5,361,880	$105.06	$105.46	No Discount	9.48%	
200809	5,663,439	$93.97	$91.83	($2.13)	9.59%	($1,157,777.00)
200810	6,237,609	$69.09	$62.90	($6.19)	9.68%	($3,738,672.63)
200811	6,204,777	$51.79	$42.46	($9.33)	9.80%	($5,675,039.20)

(1) Generally, the price of ND crude oil averages approx. 90% of the NYMEX price of West Texas Intermediate (WTI)
(2) The discount is the amount by which the actual price of ND crude is less than 90% of WTI price

Testimony 2
HB 1261

Northwest Refining, Inc
Feasibility Study
Proforma Statements & Cash Flows
Background Information for Energy Complex

For

North Dakota

House Finance and Taxation

Committee Meeting

January 27, 2009

By

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CEO
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Northwest Refining, Inc is a for-profit corporation in the State of North Dakota. This entity was established to plan, permit, and construct a 100,000 barrel per day oil refinery in western North Dakota. A feasibility study was conducted for NWR by ENGlobal Engineering of Houston, Texas.

According to the Feasibility Study conducted by NWR, and ENGlobal Engineering, construction of a 100,000 barrel refinery in the Williston ND is totally feasible. There is enough crude oil in the approximately 28 producing zones that can be accessed by horizontal drilling to support a refinery for the next 75 to 100 years. The pipelines from the existing wells from the Williston Basin are at capacity. Wells that have heavier crude are being shut in and others drilled and completed are limiting production. There have been several rail spurs installed to provide some production to travel by train to refineries several states away from the Williston Basin, however, this method is costly and time consuming. The need for a new refinery in the Williston Basin is a very high priority for local and state officials.

During the construction of the refinery, there will be approximately 1,000 jobs created. There will be approximately 350 new jobs for the refinery and 400 indirect jobs associated with this entity.

Plans are in effect to establish an Energy Complex associated with the Refinery and will encompass an Ethanol plant, a Biodiesel plant and will have a Wind Generator

complex to supplement power for the other three entities. All the mentioned plants are totally compatible and complement each other.

The construction of a new refinery in the Williston Basin will alleviate the backlog of crude from the old and new wells from having to wait for pipeline capacity before being shipped to refineries out of state. New and old wells can be operated more efficiently and produce more revenue for the producer, landowners, state and local governments. The spin offs from the refinery will provide additional jobs and revenues to the area.

A product pipeline will also need to be installed. NWR has addressed this in the feasibility study and has identified the corridors and costs that will be associated with terminals and pipeline. This will also create another industry apart from the refinery, and bio-fuels system. It is anticipated that the pipeline and terminals could be operated by other parties. NWR has spoken to entities that are interested in the product pipelines and terminals, however, it is premature to decide who or which companies would operate a product pipeline. There has been interest in the recovery of the carbon dioxide from the refinery, ethanol plan, and biodiesel plant that will be utilized for tertiary oil recovery in the old oil fields of ND and Eastern Montana. The above Energy Complex would be a model for the Nation and would be the most environmental friendly facility in the US.

Background/Qualifications:

Mel Falcon, the CEO of Northwest Refining, Inc is the present owner of Aqua-Envirotech Mfg., Inc, a construction, water treatment, an oilfield service company, and specialized in water and waste water treatment. AEM, Inc has provided municipal, commercial, residential, and industrial system to communities, plants, oilfield applications, and specialized systems for recovery of oilfield pits, drilling and completion

fluids for the oil industry. Mr. Falcon has experience as an oil rig hand, roustabout,oilfield supervisor for NatCo, and was Regional Manager for Fluids Control, Inc for 14 years. Mr. Falcon was manager of operations for Fluids Control, Inc and was responsible for operations in ND, SD, Montana, Alaska, Canada and exported equipment while manager to Russia, Indonesia, Scotland, South America, and Kuwait.

Mr. Falcon has a Bachelor of Science degree in Business Administration and Accounting from the University of Mary in Bismarck, ND.

Other stock holders of NWR include Leroy Gregory, president of NWR, and owner of Gregory Water & Energy, Larry Gregory, owner of Gregory Drilling, Inc. The fourth owner is Les Bergh, a former supervisor of Dresser Industries (now Halliburton) and has extensive oilfield experience.

NWR has employed the Services of ENGlobal Engineering of Houston, Texas that specializes in oil refining projects, management of oilfield facilities, and many multi-disciplinary engineering services to the oil and bio-fuels industry. ENGlobal will conduct the Title V air quality permitting process, design the plant, order the construction of the machinery, provide cost of the system, engineer construction and startup phase of the refinery. A subsidiary of ENGlobal will provide the training and management of the refinery until proper personnel has been trained to manage the facility. Local engineering firms will be contracted to provide the services not provided by ENGlobal.

ENGlobal Engineering, Inc has over 2200 employees and has completed projects in the billions of dollars for Shell, Motiva Enterprises, Valero, Catalyst Recovery, Coffeyville Resources, Huntsman Corporation and many others in the petroleum industry.

Gary Reeves is the principal lead engineer of ENGlobal. He specializes in process engineering and will provide the guidance for establishing permits, design, and implementation for NWR.

Timetable:

The permitting and platting of land has started. It will take at least 6 to 8 months to complete the process and will be governed by state officials. ND officials have expressed a desire to help expedite this project and will be very instrumental in implementing the permits in a timely manner. Financing and construction can add another three to five years. There are fairly long time spans from the ordering point of equipment and the delivery of the equipment required to complete a 100,000 bbl per day refinery. Scheduled steps of this project would consist of the following:

- Land acquisition
- Permitting process
- Design of facilities
- Platting of land
- Financing
- Establishing water and drainage facilities
- Identifying manufactures, ordering components
- Foundations and earthwork
- Construction of facilities
- Start up and commissioning of system

These are basic steps and are not necessarily the sequence of the process. The actual timetable of events will depend on the structuring of the financing, market analysis of

potential products, pipeline and transportation facilities, availability of manufacturing facilities that can produce the equipment needed. Cooperation by state, federal and local officials for permitting, planning, and zoning, will be essential to the timely implementation of this project.

Several stockholders of NWR have established another firm that will implement a "topping plant", which is a small refining system that will produce off road diesel. The permitting process is almost complete and will be constructed as soon as possible. The small topping plant will be the pilot for the 100,000 bbl refinery and will provide the guideline for the complex. Construction is tentatively scheduled to start in June, 2009.

Estimated Budget For Complex:

1. 100,000 bbl refinery utilizing the "Flex method"	$2,700,000,000
2. 70,000 gallon per day Ethanol Plant with/coal fired gen.	350,000,000
3. 100,000 gallon per day Biodiesel Plant	300,000,000
4. 50 Megawatt wind farm to supply complex	100,000,000
5. 20,000 bbl per day "diesel topping plant"	75,000,000

The participants of this venture have established a joint alliance between Eastern Montana and Western ND local officials and management of the various business ventures. NWR is in the process of establishing a Business Plan and Pro Forma Statements and will have them available in early 2009.

Northwest Refining, Inc
Estimated Budget
Permitting & Business Plan

1. Title V Air Permits	$ 650,000.00
2. Waste Water Permits	50,000.00
3. Solid Wastes Permits	50,000.00
4. Hazardous Waste Permits	75,000.00
5. NPEDS Permits	150,000.00
6. Public Meetings	25,000.00
7. Land Surveys, Refinery	50,000.00
8. Land Acquisitions (Options, refinery)	600,000.00
9. Architectural	350,000.00
10. Legal	150,000.00
11. Pipe line surveys, tank farms, staking	300,000.00
12. Business Plan Development	50,000.00
Total Expected Costs of Project	$ 2,500,000.00

(main categories only, more specific budget as project progresses)

PROFORMA BALANCE SHEET
After 2009 Projected Changes

Fiscal Year Ending Statement Type	12/31/2008 Beginning Amounts	Ref	Debit	Credit	Ref	12/31/2009 Projected Amounts
ASSETS						
Current Assets						
Cash	0.00		3,468,343,552.02	2,666,035,648.07		802,307,903.96
Accounts Receivable	0.00		0.00	0.00		0.00
Crude Oil Inventory	0.00		114,414,000.00	0.00		114,414,000.00
Finished Goods Inventory	0.00		38138000.00	0.00		38,138,000.00
Other Current Assets	0.00		0.00	0.00		0.00
Total Current Assets	**0.00**					**954,859,903.96**
Fixed Assets						
Plant Equipment	0.00		2,016,900,000.00	0.00		2,016,900,000.00
Less: Accumulated Depreciation	0.00		0.00	126,056,250.00		126,056,250.00
Net Plant Equipment	**0.00**					**1,890,843,750.00**
Oil Pipeline Equipment	0.00		233,000,000.00	0.00		233,000,000.00
Less: Accumulated Depreciation	0.00		0.00	10,590,909.09		10,590,909.09
Net Pipeline Equipment	**0.00**					**222,409,090.91**
Land	**0.00**		1,430,000.00	0.00		1,430,000.00
Total Land	**0.00**					**1,430,000.00**
Total Fixed Assets	**0.00**					**2,114,682,840.91**
TOTAL ASSETS	**0.00**					**3,069,542,744.87**
LIABILITIES						
Current Liabilities						
Accounts Payable - General Creditors	0.00		0.00	0.00		0.00
Bank Debt - Short Term Credit Line	0.00		0.00	0.00		0.00
Current Portion - Long term Debt	0.00		0.00	0.00		0.00
Total Current Liabilities	**0.00**					**0.00**
Long Term Debt						
Long Term Bank Debt	0.00		0.00	2,700,000,000.00		2,700,000,000.00
Total Long Term Debt	**0.00**					**2,700,000,000.00**
TOTAL LIABILITIES	**0.00**					**2,700,000,000.00**
CAPITAL						
Capital Stock	0.00		0.00	0.00		0.00
Retained Earnings	0.00		262,153,648.07	631,696,392.93		369,542,744.87
TOTAL CAPITAL	**0.00**					**369,542,744.87**
TOTAL LIABILITIES AND CAPITAL	**0.00**					**3,069,542,744.87**
Balancing Totals			**6,134,379,200.09**	**6,134,379,200.09**		
INCOME STATEMENT						
Fiscal Year Ending						**12/31/2009**
Statement Type						**Projection**
Total Revenue						**3,615,317,552.02**
Cost of Goods Sold						**2,784,074,000.00**
Gross Profit						**831,243,552.02**
Total Operating Costs						**62,900,000.00**
Depreciation						**136,647,159.09**
Total Costs						**199,547,159.09**
Net Profit Before Tax						**631,696,392.93**
Income Taxes						**262,153,648.07**
Net Profit After Tax						**369,542,744.87**
STATISTICAL SUMMARIES	**Amounts**					**Amounts**
Profitability						
Gross Profit	0.00					831,243,552.02
Total Costs of Goods and Operations	0.00					199,547,159.09
Net Pre Tax Profit	0.00					631,696,392.93
Leverage						
Current Assets	0.00					954,859,903.96
Current Liabilities	0.00					0.00
Working Capital Amount	0.00					954,859,903.96
Working Capital Ratio	0.00					1.00
Debt to Net Worth	0.00					7.31
Return on Equity	0.00%					100.00%
Return on Assets	0.00%					20.58%
DEBT SERVICE ABILITY						
Net Pretax Profit	0.00					631,696,392.93
Interest	0.00					0.00
Depreciation	0.00					136,647,159.09
Total Funds Available for Debt Service	**0.00**					**768,343,552.02**
Less: Dividends	0.00					0.00
Less: Working Capital Growth	0.00					0.00
Less: Equipment Purchases and Expansions	0.00					0.00
Less: Federal & State Taxes	0.00					262,153,648.07
Total Deductions	**0.00**					**262,153,648.07**
Net Available Funds	**0**					**506,189,903.96**
Minimum Operating Reserve Amount	0					437,571,333.33
Amount Available for Debt Service	**0**					**68,618,570.62**
Total Debt Burden						**2,700,000,000.00**
Amount Available for Debt Service						**68,618,570.62**
Investor Return on Investment						**5,082,352.94**
Principal Payment						**63,536,217.68**
Projected Years in Repayment						**42.50**

Projected three Year Cash Flow Plan	Year One (Base Yr)	Year Two	Year Three
Anticipated Inflation Rate	Base	3.50%	3.50%
Net Actual Growth Rate Planned	Base	10.00%	10.00%
For the 5 Years 2006-2010	2009	2010	2011
Projected Growth Rate	Base	113.5% of Base	119.5% of Base
Plant Capacity	88.30%	91.60%	100%
Barrels per Day	100000	110000	120000
[redacted]POSITION			
[redacted] Checking	0.00	733689333.33	1066449783.70
[redacted] - Savings	0.00	0.00	0.00
Total Cash	0.00	733689333.33	1066449783.70
Total Beginning Cash	0.00	733689333.33	1066449783.70
ADD:			
Sales Revenues			
Refinery Gas	972,652.73	1,103,960.85	1,319,233.21
Liquified Petroleum Gas	48,979,376.06	55,591,591.83	66,431,952.24
Gasoline	698,942,200.54	793,299,397.61	947,992,780.15
Jet Fuel	1,336,872,287.19	1,517,350,045.96	1,813,233,304.92
Diesel Fuel	1,184,322,223.23	1,344,205,723.36	1,606,325,839.42
Fuel Oil	244,965,533.47	278,035,880.48	332,252,877.18
Asphalt	92,992,248.86	105,546,202.46	126,127,711.94
Sulfuric Acid	7,271,029.95	8,252,618.99	9,861,879.70
Other	0.00	0.00	0.00
Total Cash Sales	3,615,317,552.02	4,103,385,421.55	4,903,545,578.75
Accounts Receivable Collections & Credit Sales			
Trade Debtors Name	0.00	0.00	0.00
Trade Debtors Name	0.00	0.00	0.00
Total Accounts Receivable Collections	0.00	0.00	0.00
Total Operating Revenues	3,615,317,552.02	4,837,074,754.88	5,969,995,362.45
Cash from Financing Activities:			
Investment Group Funding	2,700,000,000.00	0.00	0.00
Other Investors	0.00	0.00	0.00
Equity Contributions	0.00	0.00	0.00
[redacted]ash from Financing Activities	2,700,000,000.00	0.00	0.00
TOTAL FUNDS AVAILABLE	6,315,317,552.02	4,837,074,754.88	5,969,995,362.45
PLANNED DISBURSEMENTS			
LESS:			
Cash Purchases:			
Total Crude Oil Purchases	2,936,626,000.00	3,333,070,510.00	3,783,035,028.85
Total Cash Purchases	2,936,626,000.00	3,333,070,510.00	3,783,035,028.85
Debt Servicing			
Investor Return on Investment	5,082,352.94	5,082,352.94	5,082,352.94
Principal Reduction	63,536,217.68	63,536,217.68	63,536,217.68
Total Debt Service	68,618,570.62	68,618,570.62	68,618,570.62
Fixed Asset Purchases:			
ISBL Unit	751,000,000.00	0.00	0.0
OSBL	751,000,000.00	0.00	0.0
Tankage	54,000,000.00	0.00	0.0
Resid Hydrocracker	459,000,000.00	0.00	0.0
Plant Development Costs	1,900,000.00	0.00	0.0
Pipeline	233,000,000.00	0.00	0.0
Land	1,430,000.00	0.00	0.0
Total Fixed Asset Purchases	2,251,330,000.00	0.00	0.0
Operating Costs:			
Operations Costs	62,900,000.00	71,391,500.00	81,029,352.5
Total Operating Costs	62,900,000.00	71,391,500.00	81,029,352.5
Federal and State Taxes			
Federal Income taxes	221,093,737.53	250,941,392.09	284,818,480.0
[redacted] Income taxes	41,059,910.54	46,602,998.46	52,894,403.2
[redacted]axes (4-15, 6-15,9-15,1-15)	262,153,648.07	297,544,390.56	337,712,883.2
TOTAL PLANNED DISBURSEMENTS	5,581,628,218.69	3,770,624,971.18	4,270,395,835.2
ENDING CASH POSITION (After Tax & Debt Service)	733,689,333.33	1,066,449,783.70	1,699,599,527.1

Northwest Refining, Inc.
Projected Cash Flow Plan
For the Year

Periods	1/1/2009	2/1/2009	3/1/2009	4/1/2009	5/1/2009	6/1/2009	7/1/2009	8/1/2009	9/1/2009	10/1/2009	11/1/2009	12/1/2009	Total 2009	Balance Sheet	Income statement
CASH POSITION															
Cash - Checking	0.00	360,596,767.43	419,603,396.08	484,932,163.51	482,615,139.33	547,943,906.77	545,626,882.59	610,955,650.02	676,284,417.45	673,967,393.27	739,296,160.70	802,617,548.54	0.00		
Cash - Savings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Total Cash	0.00	360,596,767.43	419,603,396.08	484,932,163.51	482,615,139.33	547,943,906.77	545,626,882.59	610,955,650.02	676,284,417.45	673,967,393.27	739,296,160.70	802,617,548.54	0.00		
Total Beginning Cash	0.00	360,596,767.43	419,603,396.08	484,932,163.51	482,615,139.33	547,943,906.77	545,626,882.59	610,955,650.02	676,284,417.45	673,967,393.27	739,296,160.70	802,617,548.54	0.00	0.00	
ADD															
Sales Revenues															
Refinery Gas	82,608.86	74,614.46	82,608.86	79,944.06	82,608.86	79,944.06	82,608.86	82,608.86	79,944.06	82,608.86	79,944.06	82,608.86	972,662.73		
Liquified Petroleum Gas	4,159,892.21	3,757,322.00	4,159,892.21	4,025,702.14	4,159,892.21	4,025,702.14	4,159,892.21	4,159,892.21	4,025,702.14	4,159,892.21	4,025,702.14	4,159,892.21	48,979,376.06		
Gasoline	59,362,214.29	53,617,483.86	59,362,214.29	57,447,304.15	59,362,214.29	57,447,304.15	59,362,214.29	59,362,214.29	57,447,304.15	59,362,214.29	57,447,304.15	59,362,214.29	696,942,200.54		
Jet Fuel	113,542,577.82	102,554,586.41	113,542,577.82	109,879,914.02	113,542,577.82	109,879,914.02	113,542,577.82	113,542,577.82	109,879,914.02	113,542,577.82	109,879,914.02	113,542,577.82	1,336,872,287.19		
Diesel Fuel	100,586,271.01	90,852,115.75	100,586,271.01	97,341,552.59	100,586,271.01	97,341,552.59	100,586,271.01	100,586,271.01	97,341,552.59	100,586,271.01	97,341,552.59	100,586,271.01	1,184,322,223.23		
Fuel Oil	20,805,291.88	18,791,876.54	20,805,291.88	20,134,153.44	20,805,291.88	20,134,153.44	20,805,291.88	20,805,291.88	20,134,153.44	20,805,291.88	20,134,153.44	20,805,291.88	244,968,833.47		
Asphalt	7,897,971.82	7,133,651.97	7,897,971.82	7,643,198.54	7,897,971.82	7,643,198.54	7,897,971.82	7,897,971.82	7,643,198.54	7,897,971.82	7,643,198.54	7,897,971.82	92,992,248.86		
Sulfric Acid	617,539.53	557,777.64	617,539.53	597,618.90	617,539.53	597,618.90	617,539.53	617,539.53	597,618.90	617,539.53	597,618.90	617,539.53	7,271,029.95		
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Total Cash Sales	307,054,367.43	277,339,428.65	307,054,367.43	297,149,387.84	307,054,367.43	297,149,387.84	307,054,367.43	307,054,367.43	297,149,387.84	307,054,367.43	297,149,387.84	307,054,367.43	3,615,317,552.02		3,615,317,552.02
Accounts Receivable Collections & Credit Sales															
Trade Debtors Name	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Trade Debtors Name	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Total Accounts Receivable Collections	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Total Operating Revenues	307,054,367.43	637,936,196.08	726,657,763.51	782,881,561.35	789,669,506.77	845,993,294.60	852,681,250.02	918,010,017.45	973,433,805.29	981,821,760.70	1,036,445,548.54	1,109,671,915.97	3,615,317,552.02		
Cash from Financing Activities:															
Investment Group Funding	2,700,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,700,000,000.00		
Other Investors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Equity Contributions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Total Cash from Financing Activities	2,700,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,700,000,000.00	2,700,000,000.00	
TOTAL FUNDS AVAILABLE	3,007,054,367.43	637,936,196.08	726,657,763.51	782,881,561.35	789,669,506.77	845,993,294.60	852,681,250.02	918,010,017.45	973,433,805.29	981,821,760.70	1,036,445,548.54	1,109,671,915.97	6,315,317,552.02		
PLANNED DISBURSEMENTS															
LESS:															
Cash Purchases:															
Total Crude Oil Purchases	389,007,600.00	213,572,800.00	236,455,600.00	228,828,000.00	236,455,600.00	228,828,000.00	236,455,600.00	236,455,600.00	228,828,000.00	236,455,600.00	228,828,000.00	236,455,600.00	2,936,628,800.00		
Total Cash Purchases	389,007,600.00	213,572,800.00	236,455,600.00	228,828,000.00	236,455,600.00	228,828,000.00	236,455,600.00	236,455,600.00	228,828,000.00	236,455,600.00	228,828,000.00	236,455,600.00	2,936,628,800.00	152,552,000.00	2,784,074,000.00
Fixed Asset Purchases:															
ISBL Unit	751,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	751,000,000.00		
OSBL	751,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	751,000,000.00		
Tankage	54,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	54,000,000.00		
Resid Hydrocracker	459,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	459,000,000.00		
Plant Development Costs	1,900,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,900,000.00	2,016,900,000.00	
Pipeline	233,000,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	233,000,000.00	233,000,000.00	
Land	1,430,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	1,430,000.00	1,430,000.00	
Total Fixed Asset Purchases	2,251,330,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,251,330,000.00		
Operating Costs:															
Operations Costs	6,120,000.00	4,760,000.00	5,270,000.00	5,100,000.00	5,270,000.00	5,100,000.00	5,270,000.00	5,270,000.00	5,100,000.00	5,270,000.00	5,100,000.00	5,270,000.00	62,900,000.00		62,900,000.00
Total Operating Costs	6,120,000.00	4,760,000.00	5,270,000.00	5,100,000.00	5,270,000.00	5,100,000.00	5,270,000.00	5,270,000.00	5,100,000.00	5,270,000.00	5,100,000.00	5,270,000.00	62,900,000.00		
Federal and State Taxes															
Federal Income taxes	0.00	0.00	0.00	55,273,434.38	0.00	55,273,434.38	0.00	0.00	55,273,434.38	0.00	0.00	55,273,434.38	221,093,737.53		221,093,737.53
State Income taxes	0.00	0.00	0.00	10,264,977.64	0.00	10,264,977.64	0.00	0.00	10,264,977.64	0.00	0.00	10,264,977.64	41,059,910.54		41,059,910.54
Total Taxes (4-15, 5-15,9-15,1-16)	0.00	0.00	0.00	65,538,412.02	0.00	65,538,412.02	0.00	0.00	65,538,412.02	0.00	0.00	65,538,412.02	262,153,648.07		
TOTAL PLANNED DISBURSEMENTS	2,646,457,600.00	218,332,800.00	241,725,600.00	299,466,412.02	241,725,600.00	299,466,412.02	241,725,600.00	241,725,600.00	299,466,412.02	241,725,600.00	233,928,000.00	307,264,012.02	5,613,009,648.07		
ENDING CASH POSITION (After Tax & Before Debt Servic	360,596,767.43	419,603,396.08	484,932,163.51	482,615,139.33	547,943,906.77	545,626,882.59	610,955,650.02	676,284,417.45	673,967,393.27	739,296,160.70	802,617,548.54	802,307,903.96	802,307,903.96		

	Revenue	3,615,317,552.02
	Costs	2,846,974,000.00
	Depreciation-Plant (16 Yrs)	126,056,250.00
	Depreciation - Pipeline (22 Yrs	10,590,909.09
	Total Costs	2,983,621,159.09
	Pretax Profit	631,696,392.93
	Fed Taxes (35%)	221,093,737.53
	State Taxes (1529+6.5%	41,059,910.54
	Total Tax	262,153,648.07
	Net After Tax	369,542,744.87

FINISHED GOOD INVENTORY

[redacted]ys in Production

	January 31	February 28	March 31	April 30	[redacted]	June 30	July 31	August 31	September 30	October 31	Novem[redacted]	December 31	Total 365
Pr[redacted]	Daily Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	[redacted] per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels	Yield per 100,000 Barrels
Refinery Gas	524	524	524	524	524	524	524	524	524	524	524	524	6288
Liquified Petroleum Gas	5997	5997	5997	5997	5997	5997	5997	5997	5997	5997	5997	5997	71964
Gasoline	22534	22534	22534	22534	22534	22534	22534	22534	22534	22534	22534	22534	270408
Jet Fuel	37141	37141	37141	37141	37141	37141	37141	37141	37141	37141	37141	37141	445692
Diesel Fuel	33682	33682	33682	33682	33682	33682	33682	33682	33682	33682	33682	33682	404184
Fuel Oil	7641	7641	7641	7641	7641	7641	7641	7641	7641	7641	7641	7641	91692
Asphalt	3963	3963	3963	3963	3963	3963	3963	3963	3963	3963	3963	3963	47556
Sulfuric Acid	457	457	457	457	457	457	457	457	457	457	457	457	5484
Products (Quantity)	Actual 31 Day Production Yield	Actual 28 Day Production Yield	Actual 31 Day Production Yield	Actual 30 Day Production Yield	Actual 31 Day Production Yield	Actual 30 Day Production Yield	Actual 31 Day Production Yield	Actual 31 Day Production Yield	Actual 30 Day Production Yield	Actual 31 Day Production Yield	Actual 30 Day Production Yield	Actual 31 Day Production Yield	Actual Annual Production Yield
Refinery Gas	18864	14672	16244	15720	16244	15720	16244	16244	15720	16244	15720	16244	193880
Liquified Petroleum Gas	215892	167916	185907	179910	185907	179910	185907	185907	179910	185907	179910	185907	2218890
Gasoline	811224	630952	698554	676020	698554	676020	698554	698554	676020	698554	676020	698554	8337580
Jet Fuel	1337076	1039948	1151371	1114230	1151371	1114230	1151371	1151371	1114230	1151371	1114230	1151371	13742170
Diesel Fuel	1212552	943096	1044142	1010460	1044142	1010460	1044142	1044142	1010460	1044142	1010460	1044142	12462340
Fuel Oil	275076	213948	236871	229230	236871	229230	236871	236871	229230	236871	229230	236871	2827170
Asphalt	142668	110964	122853	118890	122853	118890	122853	122853	118890	122853	118890	122853	1466310
Sulfuric Acid	16452	12796	14167	13710	14167	13710	14167	14167	13710	14167	13710	14167	169090
Products (Pricing)	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel	Price/Barrel
Refinery Gas	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09	5.09
Liquified Petroleum Gas	22.38	22.38	22.38	22.38	22.38	22.38	22.38	22.38	22.38	22.38	22.38	22.38	22.38
Gasoline	84.98	84.98	84.98	84.98	84.98	84.98	84.98	84.98	84.98	84.98	84.98	84.98	84.98
Jet Fuel	98.62	98.62	98.62	98.62	98.62	98.62	98.62	98.62	98.62	98.62	98.62	98.62	98.62
Diesel Fuel	96.33	96.33	96.33	96.33	96.33	96.33	96.33	96.33	96.33	96.33	96.33	96.33	96.33
Fuel Oil	87.83	87.83	87.83	87.83	87.83	87.83	87.83	87.83	87.83	87.83	87.83	87.83	87.83
Asphalt	64.29	64.29	64.29	64.29	64.29	64.29	64.29	64.29	64.29	64.29	64.29	64.29	64.29
Sulfuric Acid	43.59	43.59	43.59	43.59	43.59	43.59	43.59	43.59	43.59	43.59	43.59	43.59	43.59
Products (Revenues)	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales	Total Sales
Refinery Gas	$ 82,608.86	$ 74,614.46	$ 82,608.86	$ 79,944.06	$ 82,608.86	$ 79,944.06	$ 82,608.86	$ 82,608.86	$ 79,944.06	$ 82,608.86	$ 79,944.06	$ 82,608.86	$ 972,652.73
Liquified Petroleum Gas	$ 4,159,892.21	$ 3,757,322.00	$ 4,159,892.21	$ 4,025,702.14	$ 4,159,892.21	$ 4,025,702.14	$ 4,159,892.21	$ 4,159,892.21	$ 4,025,702.14	$ 4,159,892.21	$ 4,025,702.14	$ 4,159,892.21	$ 48,979,376.06
Gasoline	$ 59,362,214.29	$ 53,617,483.88	$ 59,362,214.29	$ 57,447,304.15	$ 59,362,214.29	$ 57,447,304.15	$ 59,362,214.29	$ 59,362,214.29	$ 57,447,304.15	$ 59,362,214.29	$ 57,447,304.15	$ 59,362,214.29	$ 698,942,200.54
Jet Fuel	$ 113,542,577.82	$ 102,584,586.41	$ 113,542,577.82	$ 109,879,914.02	$ 113,542,577.82	$ 109,879,914.02	$ 113,542,577.82	$ 113,542,577.82	$ 109,879,914.02	$ 113,542,577.82	$ 109,879,914.02	$ 113,542,577.82	$ 1,336,872,287.19
Diesel Fuel	$ 100,586,271.01	$ 90,852,115.75	$ 100,586,271.01	$ 97,341,552.59	$ 100,586,271.01	$ 97,341,552.59	$ 100,586,271.01	$ 100,586,271.01	$ 97,341,552.59	$ 100,586,271.01	$ 97,341,552.59	$ 100,586,271.01	$ 1,184,322,723.23
Fuel Oil	$ 20,805,291.88	$ 18,791,876.54	$ 20,805,291.88	$ 20,134,153.44	$ 20,805,291.88	$ 20,134,153.44	$ 20,805,291.88	$ 20,805,291.88	$ 20,134,153.44	$ 20,805,291.88	$ 20,134,153.44	$ 20,805,291.88	$ 244,965,533.47
Asphalt	$ 7,897,971.82	$ 7,133,551.97	$ 7,897,971.82	$ 7,643,198.54	$ 7,897,971.82	$ 7,643,198.54	$ 7,897,971.82	$ 7,897,971.82	$ 7,643,198.54	$ 7,897,971.82	$ 7,643,198.54	$ 7,897,971.82	$ 92,992,248.86
Sulfuric Acid	$ 617,539.53	$ 557,777.64	$ 617,539.53	$ 597,618.90	$ 617,539.53	$ 597,618.90	$ 617,539.53	$ 617,539.53	$ 597,618.90	$ 617,539.53	$ 597,618.90	$ 617,539.53	$ 7,271,029.95
Total Sales	$ 307,054,367.43	$ 277,339,428.65	$ 307,054,367.43	$ 297,149,387.84	$ 307,054,367.43	$ 297,149,387.84	$ 307,054,367.43	$ 307,054,367.43	$ 297,149,387.84	$ 307,054,367.43	$ 297,149,387.84	$ 307,054,367.43	$ 3,615,317,552.02
Total Crude Oil Costs	$ 236,455,600.00	$ 213,572,800.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 2,784,074,000.00
Gross Margin	$ 70,598,767.43	$ 63,766,628.65	$ 70,598,767.43	$ 68,321,387.84	$ 70,598,767.43	$ 68,321,387.84	$ 70,598,767.43	$ 70,598,767.43	$ 68,321,387.84	$ 70,598,767.43	$ 68,321,387.84	$ 70,598,767.43	$ 831,243,552.02
Gross Margin Percentage	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%	22.99%

Finished Goods Reserve (Barrells)	Reserve	Finished Inventory at projected Cost	Finished Inventory at Projected Price	Cost/Revenue %
Refinery Gas	2620	$ 10,260.52	$ 13,324.01	0.03%
Liquified Petroleum Gas	29985	$ 516,683.64	$ 670,950.36	1.35%
Gasoline	112670	$ 7,373,144.29	$ 9,574,550.69	19.33%
Jet Fuel	185705	$ 14,102,671.36	$ 18,313,319.00	36.98%
Diesel Fuel	168410	$ 12,493,420.09	$ 16,223,592.10	32.76%
Fuel Oil	38205	$ 2,584,142.44	$ 3,355,692.24	6.78%
Asphalt	19815	$ 980,975.62	$ 1,273,866.42	2.57%
Sulfuric Acid	2285	$ 76,702.13	$ 99,603.15	0.20%
Total Finished Goods Reserve		$ 38,138,000.00	$ 49,524,897.97	100.00%

MATERIAL INVENTORIES

Month Number of Days in Production	January 31	February 28	March 31	April 30	[redacted] 31	June 30	July 31	August 31	September 30	October 31	November 30	December 31	Total 365
Inventory In Process (Barrels)													
Daily Planned Work in Process Inventory - Light Crude	62760	62760	62760	62760	62760	62760	62760	62760	62760	62760	62760	62760	
Daily Planned Work in Process Inventory Heavy Crude	37240	37240	37240	37240	37240	37240	37240	37240	37240	37240	37240	37240	
Total Daily Processing Capability (120,000 BPD)	100000	100000	100000	100000	100000	100000	100000	100000	100000	100000	100000	100000	
Plant Operating Efficiency	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	
Crude Oil Reserves (15 Day Supply) (Barrels)													
ND Light Crude Oils	941400	941400	941400	941400	941400	941400	941400	941400	941400	941400	941400	941400	11296800
ND Heavy Crude Oils	558600	558600	558600	558600	558600	558600	558600	558600	558600	558600	558600	558600	6703200
Total Crude Oil Inventory in Reserve	1500000	1500000	1500000	1500000	1500000	1500000	1500000	1500000	1500000	1500000	1500000	1500000	18000000
Finished Goods Reserve (5 Days Supply) Barrels													
ND Light Crude Crude Oil In Process	313800	0	0	0	0	0	0	0	0	0	0	0	313800
ND Heavy Crude Oil In Process	186200	0	0	0	0	0	0	0	0	0	0	0	186200
Total Finished Goods Reserve	500000	0	0	0	0	0	0	0	0	0	0	0	500000
Finished Goods For Sale													
ND Light Crude Crude Oil In Process	1945560	1757280	1945560	1882800	1945560	1882800	1945560	1945560	1882800	1945560	1882800	1945560	22907400
ND Heavy Crude Oil In Process	1154440	1042720	1154440	1117200	1154440	1117200	1154440	1154440	1117200	1154440	1117200	1154440	13592600
Total Finished Goods	3100000	2800000	3100000	3000000	3100000	3000000	3100000	3100000	3000000	3100000	3000000	3100000	36500000
Total Crude Oil in Process	3600000	2800000	3100000	3000000	3100000	3000000	3100000	3100000	3000000	3100000	3000000	3100000	37000000
Plant Efficiency	96.8%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	84.6%
Total Crude Oil Requirements	5100000	4300000	4600000	4500000	4600000	4500000	4600000	4600000	4500000	4600000	4500000	4600000	55800000
Light Crude Oil Costs per Barrel	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	$ 80.00	
Heavy Crude Oil Costs per Barrel	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	$ 70.00	
Crude Oil Reserves													
Total Light Crude Inventory Reserve Cost	$ 75,312,000.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 75,312,000.00
Total Heavy Crude Inventory Reserve Costs	$ 39,102,000.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 39,102,000.00
Total Crude Oil Reservas Costs	$ 114,414,000.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 114,414,000.00
Crude Oil in Process for Finished Goods Reserve													
ND Light Crude Oil Work in Process	$ 25,104,000.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 25,104,000.00
ND Heavy Crude Oil Work in Process	$ 13,034,000.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,034,000.00
Total Crude Oil in Process for Finished Goods	$ 38,138,000.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 38,138,000.00
Crude Oil In Process for Sale													
ND Light Crude Oil Work in Process	$ 155,644,800.00	$ 140,582,400.00	$ 155,644,800.00	$ 150,624,000.00	$ 155,644,800.00	$ 150,624,000.00	$ 155,644,800.00	$ 155,644,800.00	$ 150,624,000.00	$ 155,644,800.00	$ 150,624,000.00	$ 155,644,800.00	$ 1,832,592,000.00
ND Heavy Crude Oil Work in Process	$ 80,810,800.00	$ 72,990,400.00	$ 80,810,800.00	$ 78,204,000.00	$ 80,810,800.00	$ 78,204,000.00	$ 80,810,800.00	$ 80,810,800.00	$ 78,204,000.00	$ 80,810,800.00	$ 78,204,000.00	$ 80,810,800.00	$ 951,482,000.00
Total Work in Process Inventory Costs	$ 236,455,600.00	$ 213,572,800.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 2,784,074,000.00
Total Crude Inventory Costs	$ 389,007,600.00	$ 213,572,800.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 228,828,000.00	$ 236,455,600.00	$ 2,936,626,800.00
Average Cost per Barrel	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 76.28	$ 79.37

Northwest Refining
Preliminary Feasibility Study

Northwest Refining Feasibility

- Table of Contents
  - Market for Refined Products
  - Current Availability of Refined Products in ND
  - Proposed Pipelines
  - Stranded Crude Supply
  - Location
  - Environmental
  - Refinery Design
  - Cost
  - Economics

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Northwest Refining Feasibility

- Market For Refined Products in ND
  - Region Consumption Statistics
    - Dakotas – 132 Mbbls/Day (2005)
    - Montana – 96 Mbbls/Day (2005)
  - 117 Mbbls/Day shortfall between North and South Dakota (2005)
  - Primarily Two Fuels Markets
    1. Jet Fuel – Air Force Bases
    2. Diesel – Agriculture Use Cross Country Trucking and Oil Field Operations

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Northwest Refining Feasibility

- Market For Refined Products in ND
  - Gasoline minimized
  - LPG possibly transported to market by rail or used as fuel for refinery
  - Region expected to require approximately 1.3 million tons of asphalt by 2011

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Northwest Refining Feasibility

- Current Availability of Refined Products in North Dakota
  - Area Refining Capacity
    - South Dakota – None
    - North Dakota – 60 Mbbls/Day
      - 75% of refined products exported to Minnesota
    - Montana – 183 Mbbls/Day

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Northwest Refining Feasibility

Asset Portfolio

Source http://www.magellanlp.com/assetmap.asp

Northwest Refining, Inc.

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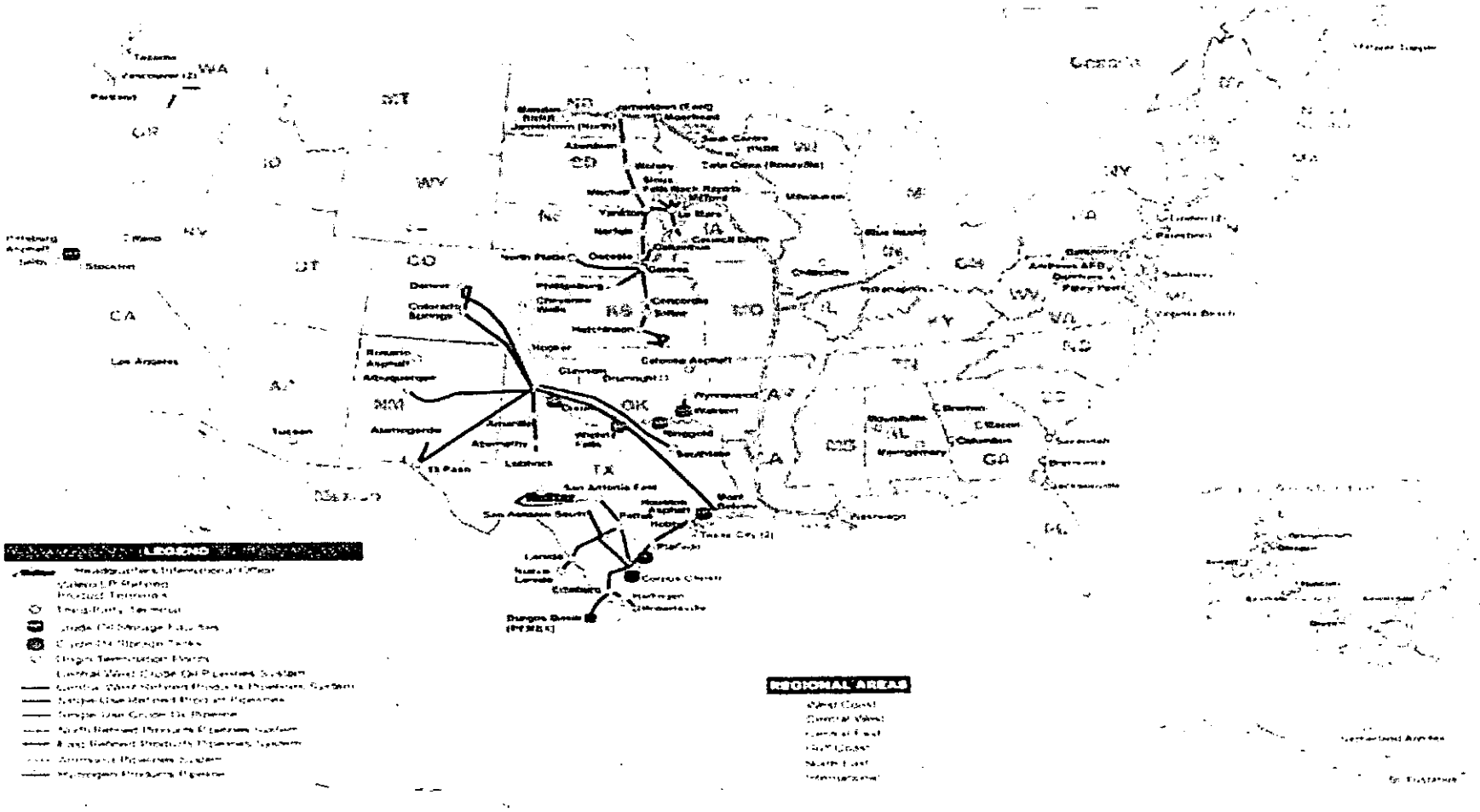
Northwest Refining Feasibility



Source http://www.nustarenergy.com/company/Pages/MapofOperations.aspx

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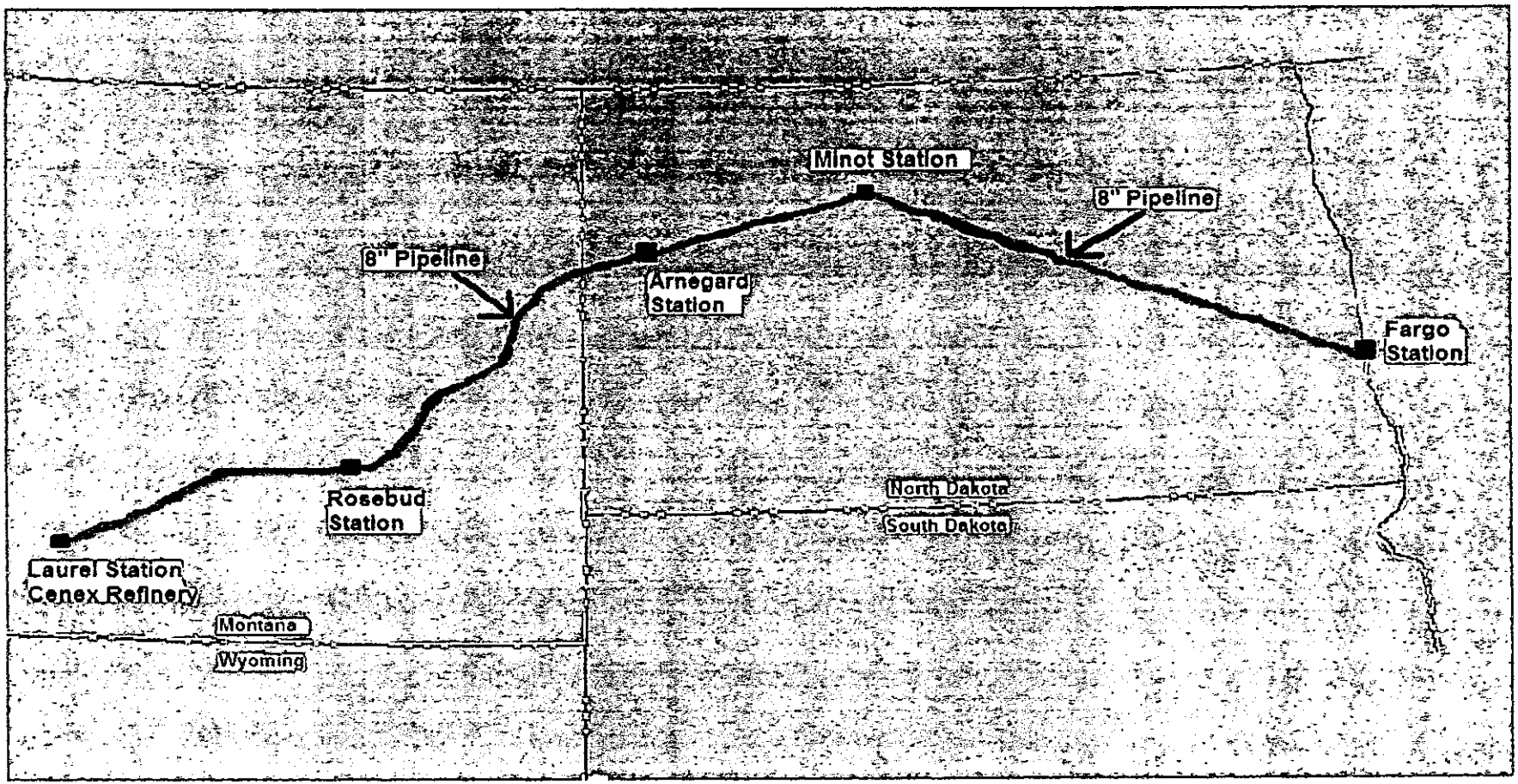
Northwest Refining Feasibility



Source http://www.cenexpipeline.com

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Northwest Refining Feasibility

- Proposed Pipelines
  - Two cases evaluated
    - Case 1: 50 Mbbls/Day
      - Two segments recommended
        - » First segment – 8" line from refinery west of Williston, ND to a terminal in Minot, ND.
        - » Second segment – 12" line from refinery west of Williston, ND to a new terminal in Belfield, ND. I-94
    - Case 2: 100 Mbbls/Day
      - Three segments recommended
        - » Third segment – Line from Belfield, ND to a new terminal in Spearfish, SD. I-90

Northwest Refining, Inc.

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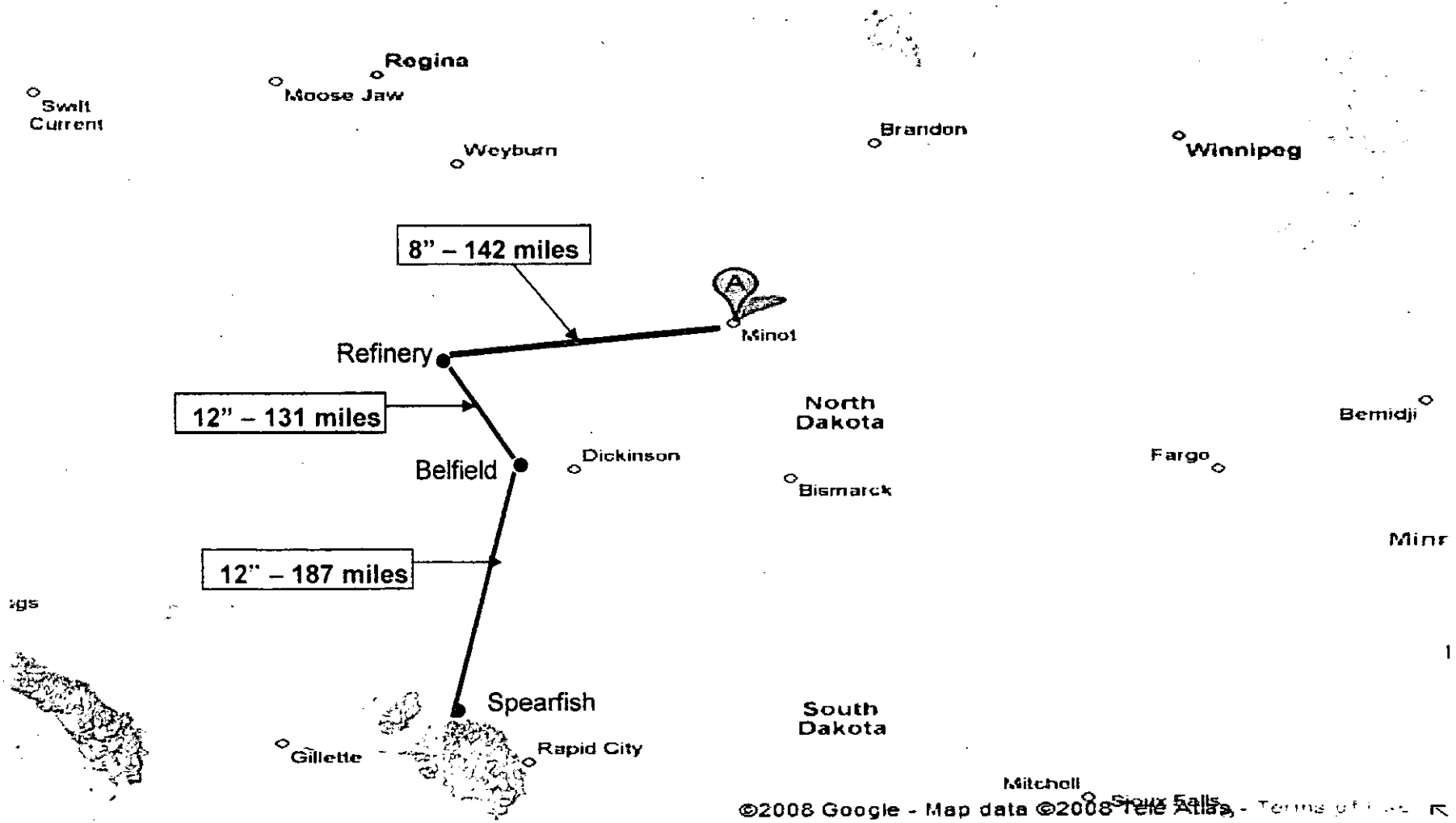
Northwest Refining Feasibility



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Northwest Refining Feasibility

- Stranded Crude Supply
  - Traditional ND crudes are heavy sour crudes
    - Not currently being produced and sold
  - Refinery in area would provide an outlet for this oil and encourage greater production of additional oil reserves

Northwest Refining Feasibility

Location

- Water
- Power
- Rail - BNSF
- Road
- Land
- Zoning

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Northwest Refining Feasibility

- Environmental
  - Permitting
  - Byproducts
  - Green
  - Future

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Northwest Refining Feasibility

- Environmental
  - Basis: 100 Mbbl/day refinery
    - Pollutants can be controlled to less than 250 tons/year (preliminary assessment)
    - Control includes use of:
      - Internal floating roofs with double seals on crude and gasoline tanks
      - Heaters and possibly gas turbine designed to burn low sulfur fuels using low or ultra low NOx burners
    - Permit for refinery, local distribution and pipeline origination activities only
    - Separate air permit application will be prepared for pipeline and terminating operations

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Northwest Refining Feasibility

- Refinery Design
  - Case 1: Red River C Crude
    - Crude currently being produced; Very light and sweet; Minimum capital case; Would be most expensive to modify later to accept other crudes
  - Case 2: North Dakota Sour Crude
    - Not currently being produced; Requires extensive hydroprocessing; Maximum capital case
  - Case 3: Blend Case
    - Blend of heavy sour and light sweet; Produces 15000 bpd of asphaltic resid; No resid hydrocracker
  - Case 4: Blend Case – HC
    - Same as Case 3 except utilizes resid hydrocracker

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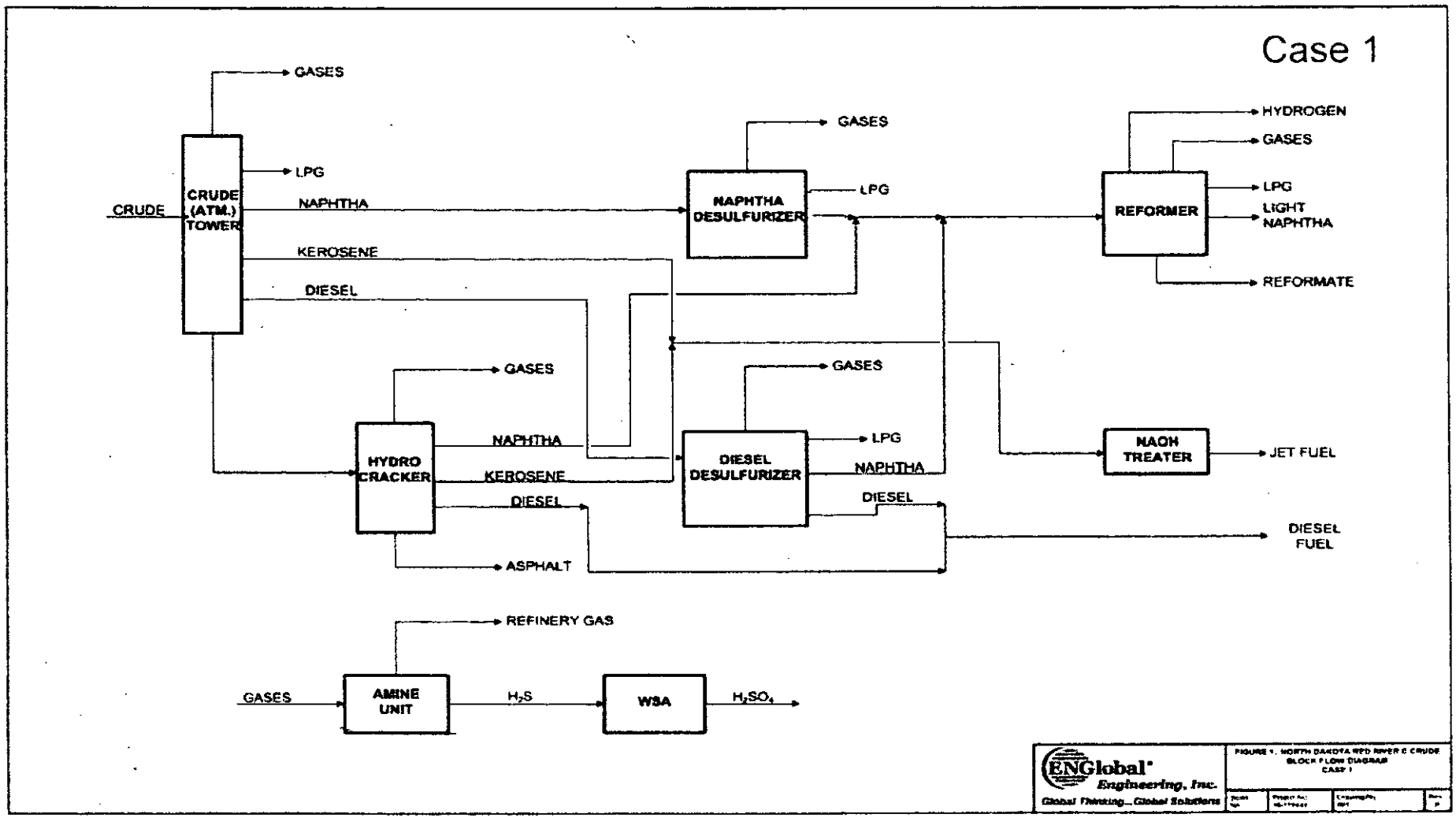
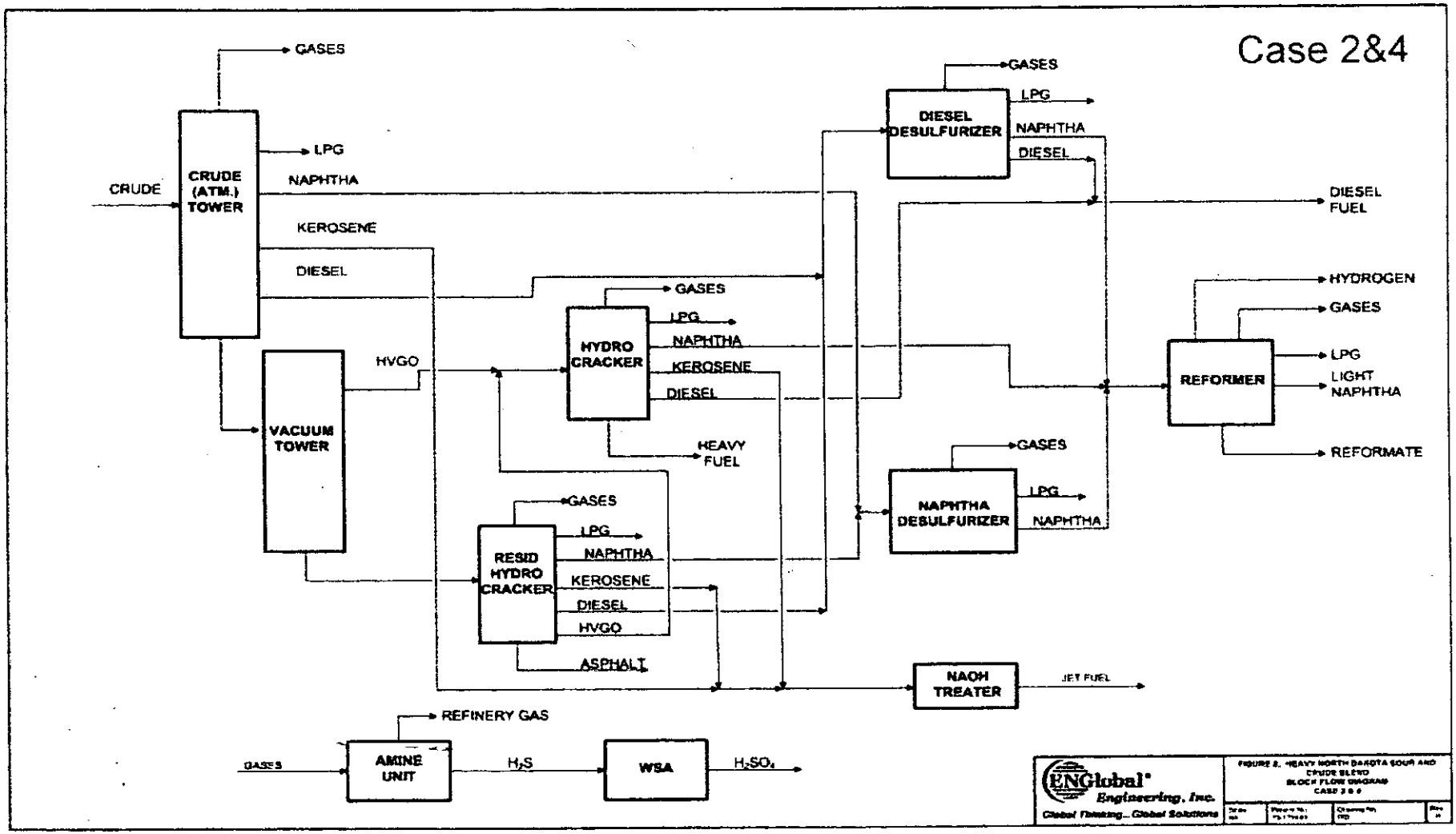
Northwest Refining Feasibility

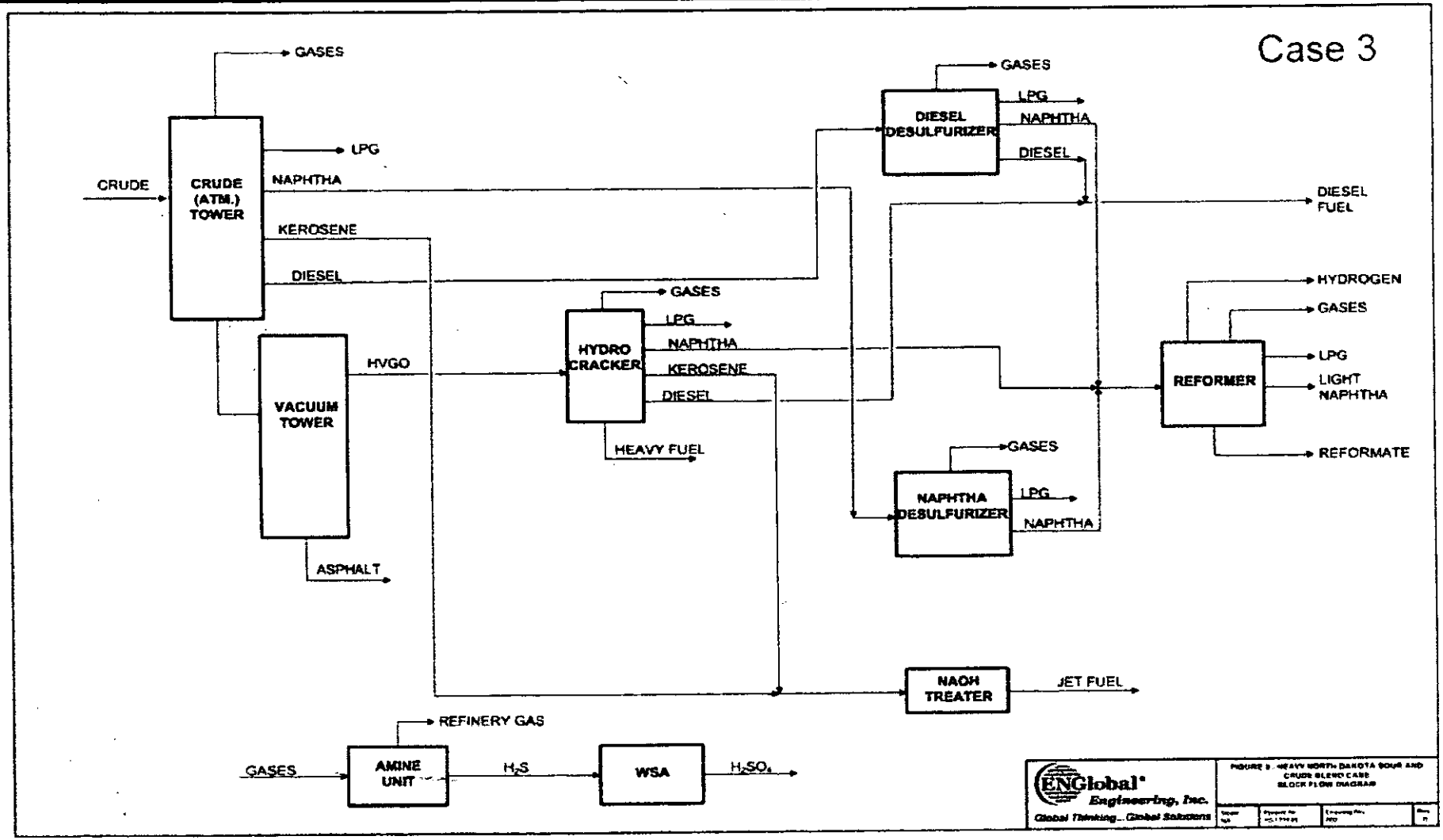


Northwest Refining, Inc.

Northwest Refining Feasibility



Northwest Refining Feasibility



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Northwest Refining Feasibility

- Capital ISBL Cost
  - Case 1 (Red River Crude): $436MM
  - Case 2 (ND Sour Crude): $920MM
  - Case 3 (Blended Crude): $438MM
  - Case 4 (Blended with Resid Hydrocracker): $751MM
  - Flex Case
    - Without Hydrocracker $497MM
    - With Hydrocracker $956MM

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Northwest Refining Feasibility

- Capital ISBL Cost
  - Flex Case
    - All units sized to 100 Mbbls/day
    - Resid Hydrocracker not initially provided
    - Enables either light sweet or heavy sour crudes to be run as available
    - Avoids big expenditure until enough heavy sour crude becomes available in future to make it economically viable

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Northwest Refining Feasibility

- Total Project Cost
  - ISBL capital costs converted to project capital costs by adding 100% of ISBL for OSBL
    - Excludes pipeline cost, 3,000,000 barrels of tankage, and a 20% contingency
  - Estimates are probably high (next slide)

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Northwest Refining Feasibility

Table 4

Northwest Refining

Total Project Costs

in Millions of Dollars

			Case 1	**Case 2**	**Case 3**	**Case 4**
ISBL			436	920	438	751
OSBL	@ 100% of ISBL		436	920	438	751
Tankage	@ $18/bbl		54	54	54	54
Pipeline			233	233	233	233
Total Project Capital			**$1,159**	**$2,127**	**$1,163**	**$1,789**

Northwest Refining, Inc.

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Northwest Refining Feasibility

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Northwest Refining Feasibility

- Economics
  - Cost of Red River Crude taken as price of WTI at Cushing, OK
  - Cost of ND Heavy Sour Crude taken at $10/bbl below price of WTI at Cushing.
  - Product pricing taken as price in Los Angeles
  - Exceptions
    - LPG - $7.00/MM BTU
      - Assumes no market for LPG
    - Asphaltic resid valued as fuel oil
    - Resid from Hydrocracker valued as gas oil

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Northwest Refining Feasibility

- Economics
  - Payouts
    - Case 1 (Red River Crude): 1.4 yrs
    - Case 2 (ND Heavy Sour Crude): 2.1 yrs
    - Case 3 (Blend): 1.6 yrs
    - Case 4 (Blend with hydrocracker): 2.2 yrs
    - Flexible Case:
      - Without hydrocracker 1.4 yrs
      - With hydrocracker 3.7 yrs

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Northwest Refining Feasibility

- Economics
  - Other factors that may affect economics
    - Crude oil price:
      - Red River Crude priced much higher
      - ND Heavy Sour Crude priced lower than $10/bbl discount from WTI Product Prices:
      - Assumed prices at Los Angeles for products
    - Capital Estimate:
      - OSBL estimate for Residual Hydrocracker cases probably high
    - Operating Costs:
      - Estimated cost ($1.70/bbl) for average refinery was assumed

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Northwest Refining Feasibility

Conclusion

- Market
- Raw Material
- Economics
- Logistics
- Site
- Proceed

Northwest Refining Feasibility

Thank You

Questions?

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www.ENGlobal.com

Testimony 3
January 27, 2009

COMMENTS FOR HOUSE BILL 1261

The Three Affiliated Tribes Clean Fuels Refinery near the town of Makoti, Ward County North Dakota will have tremendous benefits for not only the Tribe, but also the surrounding communities and the State of North Dakota. Some of these benefits are as follows:

- Provide an economic opportunity base for the Members of the Three Affiliated Tribes to become self-sufficient.
- Provide opportunities for the rising local generation, regardless of race, to secure good paying technical jobs in their own community.
- Local community college offered training for both Tribal Members and non Tribal members to earn an Associates Degree in Refinery Process Technology.
- Create a source of local business development and economic growth.
- Diversify local industry.
- Provide a source of "Clean Fuels" for consumers in the North and South Dakota, eastern Montana and Saskatchewan, Canada area.
- Enhance the market for soybean production in the immediate North Dakota area by blending Bio-Diesel with refinery produced ultra low sulfur diesel.
- The current refining capacity in the United States in not keeping up with the country's demand for refined fuel products. The Three Affiliated Tribe's Refinery would contribute locally produced high quality "clean fuels" that would have a stabilized affect on fuel supply for the immediate North and South Dakota, eastern Montana and Saskatchewan, Canada area.

At this time the Three Affiliated Tribes are currently waiting for the Final Environmental Impact Statement (FEIS) to be put into the Federal Register. The Department of Interior's Office of the Secretary is currently reviewing this document. This document not only has the environmental impacts from the refinery, but also contains the marketing area that will be serviced. A feed study and market analysis has been prepared for the confidential use by the Three Affiliated Tribe is for proprietary use of this information.

Once the FEIS appears in the Federal Register, construction can start within sixty days.

Thank you for your help and support on this project that will not only benefit the Three Affiliated Tribes, but the local surrounding communities and ultimately the great state of North Dakota.

Testimony 4

FINANCE AND TAXATION COMMITTEE

HB 1261
Tuesday, January 27, 2009
Bismarck, North Dakota

Justin J. Kringstad, Director
North Dakota Pipeline Authority

Overview

- The North Dakota Industrial Commission has not taken a position on this bill.
- The Industrial Commission acting as the Pipeline Authority was created in 2007 "for the purpose of diversifying and expanding the North Dakota economy by facilitating development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities..." N.D.C.C. § 54-17.7-03
- Attached is a 2008 report by the Pipeline Authority covering refined products and refined products pipelines. Additional refined products information can be found on the Pipeline Authority website: www.pipeline.nd.gov.

INDUSTRIAL COMMISSION OF NORTH DAKOTA
NORTH DAKOTA PIPELINE AUTHORITY

Governor
John Hoeven
Attorney General
Wayne Stenehjem
Agriculture Commissioner
Roger Johnson

Pipelines and Refined Products Report

Mark Makelky, Director North Dakota Pipeline Authority

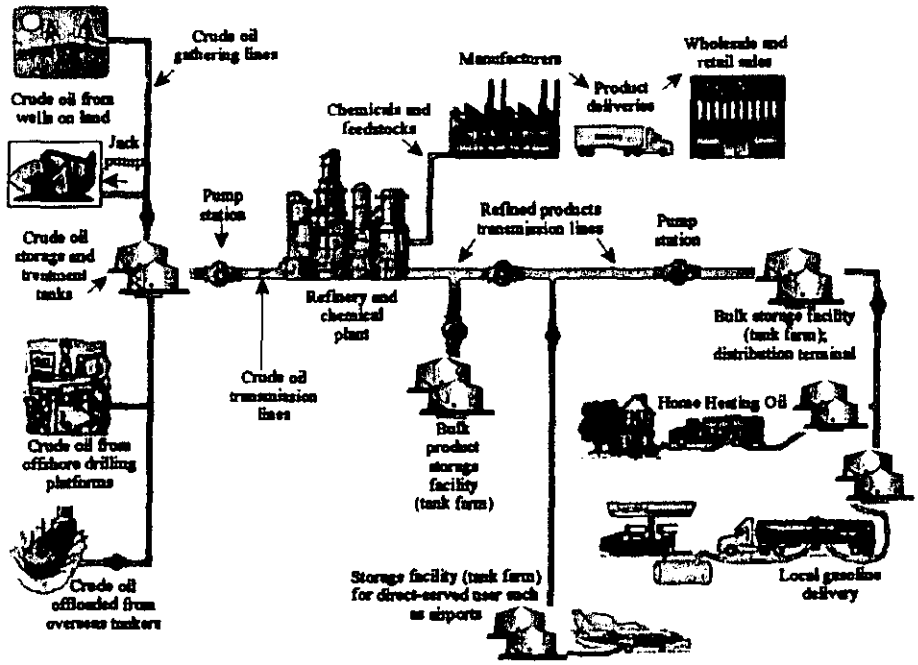
April 22, 2008

This report is the third in a series of whitepapers. One of the targeted objectives of the Pipeline Authority was to report on North Dakota's pipeline infrastructure needs as they pertain to refined products. The North Dakota Pipeline Authority was authorized by the Legislature to promote the development of pipeline facilities that support the production, transportation and utilization of North Dakota energy related commodities. Previous reports on crude oil and natural gas pipelines can be found on the North Dakota Pipeline Authority website at: http://www.nd.gov/ndic/pipeline.htm

Americans have a serious thirst for petroleum fuels - the largest in the world. The United States gulps almost 21 million barrels of petroleum products every day. Almost 143 billion gallons of gasoline and 66 billion gallons of diesel fuel were used in 2007.

North Dakotans are no exception. According to records at the State Tax Commissioner's office, we used 362 million gallons of gasoline and 466 million gallons of diesel fuel for all purposes in 2007. Gasoline and diesel fuel consumption has been fairly constant in North Dakota until last year when diesel usage took a noticeable jump. According to 2004 statistics at the U.S. Energy Information Administration, North Dakota was the fourth highest energy consuming state on a per capita basis.

We all depend on an expansive network of underground pipelines to efficiently and safely deliver those petroleum products. The energy transportation network of the United States consists of over two million miles of pipelines. About 170,000 miles of those pipelines carry petroleum or petroleum products. Refined products pipeline systems transport gasoline, diesel fuel and many other products from refineries to distribution or storage terminals and to end users.



Source: PHMSA Stakeholder Communications: Petroleum Pipeline Systems: From the Wellhead to the Consumer

Mark Makelky, Director
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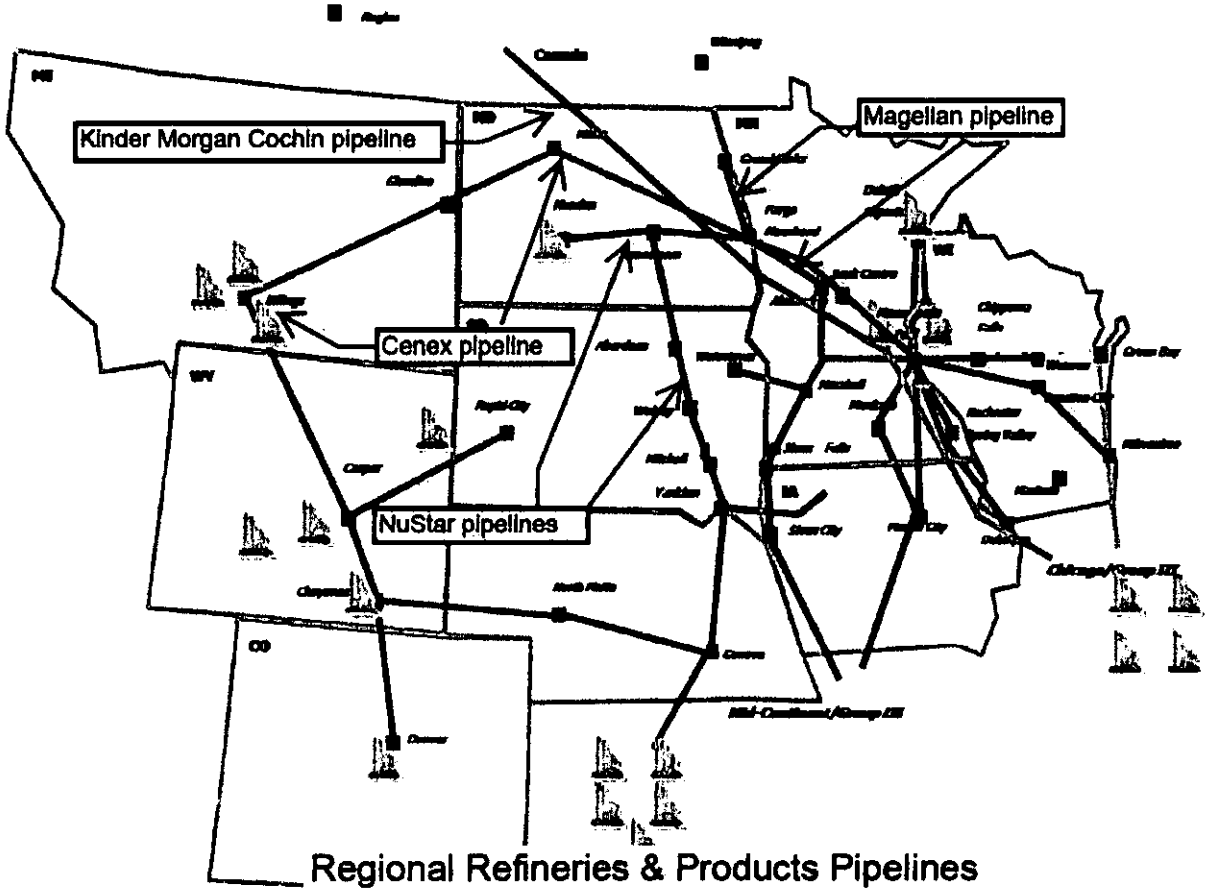
"Your Gateway to North Dakota":www.nd.gov

Where do North Dakota's refined products come from?



Regional Refineries & Products Pipelines

Cenex serves a large portion of North Dakota's retail market from their products pipeline which begins at their Laurel, Montana refinery, runs to a tank terminal near Minot, and ends at their terminal in Fargo. This pipeline serves much of the western and northern parts of the state.

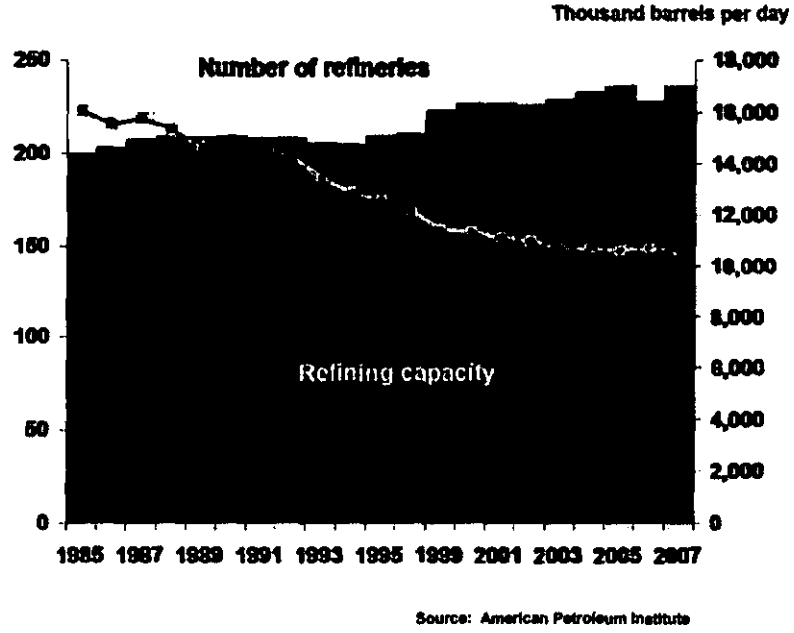
A NuStar pipeline carries product from Tesoro's Mandan refinery east to Roseville, Minnesota. A second NuStar line carries product from the Mid-continent refining areas of Group III north to the terminal near Jamestown.

Magellan Midstream's pipeline delivers product from Group III refiners in both the mid-continent and Chicago areas to eastern North Dakota at Fargo and Grand Forks.

It is estimated that Tesoro Mandan refinery annually produces about 881 million gallons of gasoline and diesel products. About 75% of Tesoro's diesel output and 40% of its gasoline output is used in North Dakota. Tesoro's product is trucked to its distributors from terminals in Mandan, Jamestown, and Moorhead, Minnesota. North Dakota consumers have several branded and unbranded options from which to purchase their fuel. Therefore, North Dakota doesn't use all Tesoro's refined product output. The remainder is shipped via NuStar's pipeline to Minnesota. It would be difficult for Tesoro to compete for additional business with the Cenex-served customers in the northern parts of North Dakota because they have to truck their product to this area while Cenex delivers by pipeline.

How do we meet growing U.S. demand for refined products?

While there hasn't been a new refinery constructed in the last 30 years there has been an increase in U.S. refining capacity. This has been done through expansions of existing refineries. It is estimated refinery expansions cost $15,000 per daily barrel of oil processed. That's about two-thirds what new construction would likely cost.



Source: American Petroleum Institute

Several U.S. refineries have already expanded or are planning significant expansions to their facilities. However, public acceptance of these expansions as well as competition from alternative or renewable fuels has made refiners cautious in their approach to plant expansions. Refinery expansions coupled with renewable fuel standards is estimated by some to cut U.S. gasoline imports in half by 2010 and completely eliminate those imports by 2020.

While U.S. refining capacity hasn't entirely kept pace with Americans ever-increasing consumption, there is adequate global capacity. U.S. refined product imports have increased from 1.6 million barrels per day in 1995 to 3.6 million barrels in 2007. New refineries are being constructed elsewhere in the world. However political instability in oil producing areas of the world and U.S. dependence on foreign sources creates several other issues. The U.S. imports over 60% of its petroleum requirements. Canada is the largest exporter of petroleum and petroleum products to the U.S., providing about 17% of those imports.

What refinery expansions have happened or are planned in our region?

Refineries serving our region have been expanding facilities and those improvements should directly affect supplies to North Dakota. Coffeyville (part of the Mid-Continent Group III) added 15,000 barrels per day to their Kansas refinery in 2007 bringing their capacity to 115,000 per day. The Flint Hills refinery in Rosemount, Minnesota added 50,000 barrels per day to its process capacity in late 2007 bringing their total up to 330,000 barrels per day. The Gary Williams refinery in Wynnewood, Oklahoma added 15,000 barrels per day in 2007 bringing their capacity to 65,000 per day. Murphy Oil is considering a 200,000 barrel per day expansion of its present 35,000 barrel refinery in Superior, Wisconsin. The Sinclair refinery is proposing to add 30,000 barrels per day to their Tulsa, Oklahoma facility in 2009. Conoco-Phillips is considering a 10,000 barrel per day expansion to their Billings, Montana refinery which would bring their capacity up to 71,000 barrels per day by 2011. Tesoro is using sales tax incentives to improve their reliability and increase low sulfur diesel fuel production at their Mandan refinery.

Why is building a refinery so difficult?

Construction of a new refinery is a significant undertaking. The last one built in the U.S. was the Garyville, Louisiana refinery constructed by Marathon Oil Company in 1976. The permitting and regulatory process for a brand new facility are estimated to take years. Environmental issues and public opposition to new refineries are also significant factors.

Cost is a big issue. Last year the American Petroleum Institute (API) estimated a new refinery would cost at least $24,000 per daily barrel of oil processed. In a March 19, 2002 letter to The Honorable Thomas Daschle, the U.S. Small Business Administration explained that a small refinery, one that processes less than 125,000 barrels per day, would not have the production volumes over which to spread its cost of regulatory compliance. A single small refiner wouldn't have the buying power or ready access to capital that their large, multinational competitors enjoy. Applying API's cost estimate to this would mean a refinery of that size would likely cost at least $3 billion.

Pipeline infrastructure is needed to provide a reliable cost efficient supply of crude oil to a refinery and to carry refined products to market centers. Any new pipeline project will face significant hurdles. Pipelines are very expensive. Steel and other equipment costs are at an all time high. According to industry representatives, pipeline construction costs can range from $35,000 to $50,000 per inch diameter per mile of length. That means a 10" pipeline might run a half million dollars per mile. A worldwide boom in pipeline construction activities has placed a squeeze on the availability of contractors and pipe.

Because North Dakota already produces more refined product than it uses, additional refined product would likely have to be shipped to a metropolitan center. To get the refined product from Bismarck to Fargo it would cost approximately $100 million for a 10 inch pipe. Because Fargo is already served by three pipelines, the pipeline may have to extend to Minneapolis. In which case the pipeline could cost approximately $225 million. Entering the market in Minneapolis also presents problems because any new product from a North Dakota refinery would be competing with the 330,000 barrels per day output of refineries located in the Minneapolis area. All these factors make the attraction of new investment capital into the refining business difficult.

What about new refinery prospects in our region?

Hyperion, a Texas energy group, is considering an $8 billion combined refining/electric generation facility near Sioux Falls, South Dakota. Hyperion is proposing to process 400,000 barrels per day of crude oil. Hyperion is currently working on final selection of the project site and obtaining environmental permits for that project.

In North Dakota, the Three Affiliated Tribes of the Fort Berthold Indian Reservation have been considering the construction of a 15,000 barrels per day facility to process Canadian syncrude. EPA air and water permits are pending on that project.

A Williston group is considering a refinery located adjacent to a proposed ethanol facility there. The North Dakota Industrial Commission, through the Oil and Gas Research Council, has provided funding to study the viability of that project. That study is currently underway and results are expected in September.

American Lignite Energy is exploring a coal-to-liquids plant in North Dakota that could produce 1.4 million gallons of fuel per day.

It may be useful to note that a company called Arizona Clean Fuels has been working unsuccessfully to construct a new 150,000 barrel per day refinery near Yuma, Arizona for almost 10 years. That facility was estimated to cost over $3 billion.

Didn't we previously have more refineries in North Dakota?

Yes. There were two other refineries in North Dakota, one at Williston and the other at Dickinson. Many small U.S. refineries shut down operations when stricter environmental regulations would have required them to make large investments in facilities and their economies of scale made it impossible to compete. Nearly 75 of them have been idled in the last 20 years. Most of those were small inland refineries processing sweet crude oil. A new or reactivated refinery would have to comply with all modern fuel standards and other environmental requirements and face those same market conditions.

Wouldn't a new refinery decrease the price of fuel in the state?

To evaluate the economics of a new refinery one must consider how often North Dakota's retail prices will exceed national averages in the future and whether a multi-billion dollar facility should be constructed to address those shortfalls. A new refinery will have to compete for market share with present supplies from the Mandan refinery and the three product pipelines which already carry product into the state.

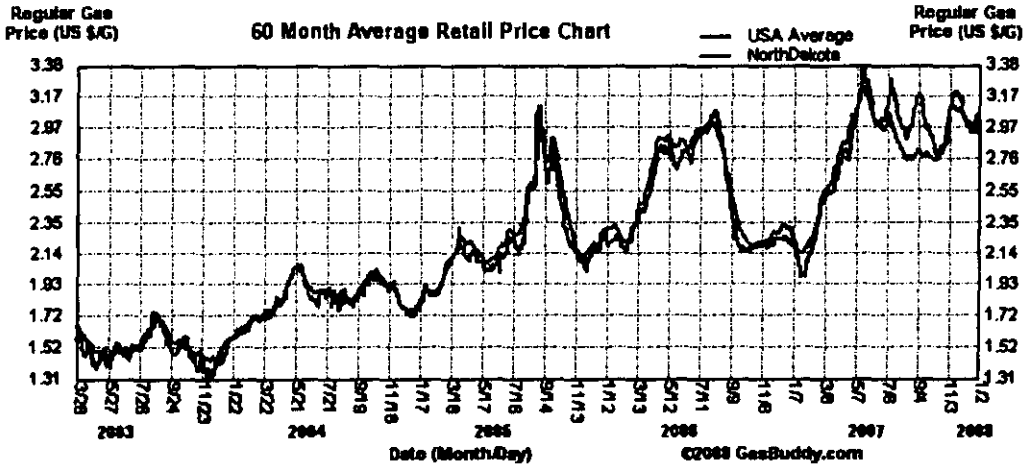
Refining is a complex and risky business. That's a large part of the reason existing refiners have elected to expand rather than build new. It's impossible to predict what the petroleum market will look like in the future. Looking back five years – the price of crude oil was about $30 per barrel and the price of gasoline was about $1.65 per gallon. Today crude oil costs over $110 per barrel and gasoline runs about $3.50 per gallon. Expecting it would take at least five years before a new refinery would come on line; one must guess what market conditions will look like at that time.

Predicting future consumption of Americans is another difficult proposition. The U.S. government has recently increased the mileage requirements for new vehicles. Americans may be starting to change their driving habits. These factors might soften U.S. demand for gasoline and diesel fuel. Thus far however, our thirst for energy seems to grow each year.

There is no evidence that a local refinery reduces the local fuel costs paid by the consumer. According to AAA, retail gasoline prices in Bismarck/Mandan are consistently three to eight cents higher than Fargo, where there is no refinery. Similarly at the time of this writing, Montana, which has four refineries, has higher retail fuel prices than North Dakota or South Dakota.

Why are our fuel prices high when we have a refinery in North Dakota?

North Dakota gasoline prices traditionally track the national average. This chart, available at GasBuddy.com, illustrates the number and duration of times that North Dakota's gasoline prices exceeded the national average since 2003.



While at times it may seem North Dakota prices are high, it's only during interruptions in supply that our prices have actually exceeded the national average. Except for late 2007, when there was significant and unusual disruptions due to multiple regional refineries being down at the same time, there were only a couple of brief times that North Dakota's prices exceeded the national average.

Why did North Dakota's prices exceed the national average in late 2007?

Supply and demand. Refinery problems during 2007 prevented replenishment of normal inventories. The Coffeyville refinery in Kansas was forced to stop production due to storm flooding. This limited fuel deliveries to North Dakota via the NuStar pipeline terminal at Jamestown. The Cenex refinery at Laurel, Montana had a fire immediately following its planned maintenance shutdown and was unable to come back online as quickly as expected. This resulted in virtually no shipments to their Minot and Fargo terminals. Refineries in Minnesota were also down for reconstruction and maintenance activities. The Flint Hills' Rosemount refinery was completing a 50,000 barrel per day expansion. Marathon's St. Paul refinery was down for routine maintenance. These outages forced Magellan to decrease or stop deliveries to their terminals in Fargo and Grand Forks. Normal summer driving and fall harvesting activities depleted already low inventories.

What's the difference between branded and unbranded gas stations?

Americans drive over 200 million motor vehicles more than 7 billion miles per day. They refill their vehicles at one of the 167,000 service stations across the country. Products are delivered to these stations via tank trucks. These tank trucks are filled at terminals located along pipeline routes. There are basically four types of service stations that market gasoline and diesel fuel to consumers.

1. Oil company owned-and-operated retail outlets – These are branded retail locations that provide one brand of products from one company. They account for the smallest segment of the marketplace, representing less than 10 percent of the service stations in the United States. Keeping these stations supplied with product is the first priority of the owner oil company.

2. Independent, but franchise-branded retail outlets – These retailers pay the oil company a fee and have a contractual relationship with them to buy their branded products. They are allowed to use the oil company's brand name. They also constitute less than 10 percent of U.S. service stations. These operators are next on the supply priority chain.

3. Independent, jobber operated or jobber franchised outlets – A jobber or distributor is an independent operator who owns and operates service stations and enters into an agreement to sell branded products. A jobber also might franchise that brand to other dealers. Jobbers represent the largest percentage of the stations in the United States comprising more than two-thirds of the outlets. These stations are third on the supply priority chain.

4. Independent, unbranded retail outlets – This group represents retailers who buy unbranded products without long-term contracts or who buy products under contract at the wholesale level. These retailers may pay lower spot market prices and buy their product anywhere when supplies are plentiful, but could risk losing that supply during times of shortage.

According to estimates from the North Dakota Petroleum Marketers Association, about 75% of North Dakota's retail gas stations are branded, while about 40% of the wholesale jobbers are branded.

What about propane supplies and prices?

Propane is produced from both the processing of natural gas and refining of crude oil. Since propane fuel typically competes with crude oil-based fuels, its price is influenced mainly by the cost of crude oil. Propane prices are affected by several factors, some common to all petroleum products, and others unique to propane. Because propane is portable, it can serve many different markets, from fueling barbecue grills to producing

petrochemicals. The price of propane in these markets is influenced by many factors, including the prices of competing fuels in each market; the distance propane has to travel to reach a customer; and the volumes used by a customer.

Propane supply and demand is subject to changes in domestic production, weather, and inventory levels, among other factors. While propane production is not seasonal, residential demand is highly seasonal. This imbalance causes inventories to be built up during the summer months when consumption is low and for them to be drawn down during the winter months when consumption is much higher. When inventories of propane at the start of the winter heating season are low, chances increase that higher propane prices may occur during the winter season. Colder-than-normal weather can put extra pressure on propane prices during the high demand winter season because there are no readily available sources of increased supply except for imports. Imports may take several weeks to arrive, during which time larger-than-normal withdrawals from inventories may occur, sending prices upward. Cold weather early in the heating season can cause higher prices sooner rather than later, since early inventory withdrawals affect supply availability for the rest of the winter.

North Dakota's propane supply comes from several sources. The Kinder Morgan Cochin pipeline (see map above) is a significant source of propane to the state with several terminals located along its route. The Hess gas plant at Tioga supplies a fair amount and the Tesoro refinery at Mandan contributes some. Other supplies are shipped into the state from adjoining states by trucks. Consumption of propane in North Dakota has remained fairly level at about 95 million gallons per year for the last several years.

Conclusion

Crude oil and its products such as gasoline and diesel fuel are global commodities. Like it or not, what happens to these commodities on the world market affects the supply and therefore the price of them here in North Dakota.

Pipeline infrastructure is needed to provide a reliable cost-efficient supply of crude oil to a refinery and to carry refined products to market centers. Any new pipeline project will face significant hurdles. The North Dakota Pipeline Authority was authorized by the Legislature to promote the development of all pipeline facilities that support the production, transportation and utilization of North Dakota energy related commodities. The Authority is committed to assisting with the development of pipeline infrastructure needed to distribute all petroleum and fossil fuel products, whether that is crude oil, refined products, or natural gas. The Authority will facilitate third party discussions and provide information to interested stakeholders on the development of the state's pipeline infrastructure.

It is also important to the developer of any pipeline project that they deal with a reasonable regulatory process. Obtaining construction permits and rights-of-way in a timely fashion and at reasonable cost is crucial to the success of the project. The North Dakota Pipeline Authority will continue working to facilitate all these objectives.

Sources used in the preparation of this paper:

U.S. Department of Energy Information Administration (EIA) website: www.eia.doe.gov/

American Auto Association (AAA) website: www.fuelgaugereport.com

American Petroleum Institute (API) website: www.api.org/

Pipeline and Hazardous Material Safety Administration (PHMSA) website: www.phmsa.dot.gov/

Gas Buddy website: www.gasbuddy.com

Oil & Gas Journal website: www.ogj.com/index.cfm

If the reader is interested in learning more about refined products, additional information can be found under the "Publications" link on the Pipeline Authority's website at: www.nd.gov/ndic/pipeline.htm Some additional topics we have explored there are:

Refining basics
Environmental requirements for gasoline and diesel fuels
Ultra low sulfur diesel fuel (ULSD)
Price components of gasoline and diesel fuels
Regional affects on fuel prices
Regulatory jurisdiction over refined products pipelines