

Cooperative Refining LLC

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Cooperatives:

- What are they?
 - ◆ A form of business organization
 - ☞ Marketing, Production, Electrical, Insurance, College
 - ◆ Been around for ages:
 - ☞ Farmer Cooperatives include: Sunkist, Farmland Industries. Cenex Harvest States
- Their Purpose? Earn a profit for the patrons or users, not investors. Our Customers are our owners

Cooperative Refining Owners

- Diversified Agribusiness operating on all sides of the food chain
- Basic in Fertilizer Production
 - ◆ Both Phosphate and Nitrogen
- AG Inputs: Petroleum, Feed, Fertilizer & Crop Protection
- AG outputs: “Brands”
 - ◆ Butter, and Dairy Products
 - ◆ Pork and Meat Processing
 - ◆ Grain Processing

Cooperative Refiners:

- U.S. History: Indiana Farm Bureau, Midland, Land of Lakes, Farmers Union Central Exchange (Cenex) Consumers Cooperative Association (Farmland) ECI, F.S. Services (Growmark) and others..
- First Refinery constructed in 1939 in Phillipsburg, Kansas
- Some Canadian Refiners are Cooperatives
- Oil Production

Cooperative Refining LLC

- Formed September 1, 1999;
Headquarters: McPherson, KS
 - ◆ Owners include: MFA OIL,
Farmland, Cenex Harvest States
and Growmark
- Consolidated the management and operations of:
 - ◆ Farmland Industries Refinery at
Coffeyville, Kansas (100,000 BPD)
 - ◆ NCRA Refinery at McPherson,
Kansas (80,000 BPD)

Crude Oil Interests:

- Purchases and Transports over 200,000 BPD of Crude Oil
 - ◆ Both Domestic and Foreign
- Manages Jayhawk Pipeline
- Ownership Interests in:
 - ◆ Kaw Pipeline
 - ◆ Osage Pipeline
- Owns large crude gathering truck fleet and crude gathering pipeline system

Crude Oil Quality Questions:

- Is Crude Oil Quality Deteriorating?
 - ◆ “WTI” @ McPherson has been as high as 1.09% Sulfur
 - ◆ Foreign Crude Assays are “unpredictable”
- What do Pipeline Common Carrier Tariffs say about Quality?
- Implications of the Interstate Commerce Act for this group?
 - ◆ Should we research this?

Why is Crude Quality Important?

- Landlocked Inland Refiners are large “Tariff Payers”
- Receiving a lower quality crude oil drives up refining costs
- Prediction:
 - ◆ Eventually Refiners will stop paying full tariffs for inferior quality deliveries
 - ◆ Pipelines lose long haul customers

Staying in Business Depends on Quality

- Planning crude slates for the new low sulfur gasoline fuel required in 2004/5
 - ◆ 30 PPM sulfur compared to an average of 350 ppm today.
 - ☞ No room for error in crude selection/purchase/delivery
- Distillates will follow in 2007
 - ◆ 50 ppm being discussed now
- Need to prepare for this future now

Next Steps

- Develop a bias for action!
- Adopt Capline type Specifications for all crude oil pipelines and terminals
- Publish quality data to inform industry of pipelines and companies not willing to conform
- Study published pipeline tariffs and Interstate Commerce Act