FLINT HILLS resources®

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January 25, 2013

Via Electronic Mail

Mr. Cameron M. Leonard
Senior Assistant Attorney General
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Fairbanks, AK 99701-4679

RE: COBC Discussion & Off-site Work

Dear Mr. Leonard,

I am in receipt of your January 16, 2013, letter to me and Ms. Laura Hill at Williams (a copy of which is attached for your ease of reference). I am also in receipt of Williams' response dated January 22, 2013. In your letter, you indicate the State of Alaska ("State") is concerned that neither company, Flint Hills Resources Alaska, LLC ("FHRA") or Williams, has yet committed to completing an off-site characterization work plan and conducting certain specified field work. Your letter also sets forth a listing of eleven areas of on-site and off-site work the State desires be completed in 2013, and you indicate if the State "undertakes the site characterization work with its own resources it will seek to recover its costs from either or both of your companies."

As a preliminary matter, it should be noted that FHRA continues to work with the State regarding the on-site work, its scope and its timing, just as FHRA has done for the past several years. FHRA sees no change going forward in that regard, and looks forward to continuing work scoping and execution satisfactory to both the State and FHRA. Further, as laid out in FHRA's Transition Plan submitted to the State on January 2, 2013, FHRA indicated it is willing to continue and complete many specific off-site work activities in order to facilitate the transition of the remaining off-site work activities to Williams by the end of 2013. Several items on your list of eleven include items FHRA committed in its Transition Plan to do. Of course, chief among such off-site work FHRA committed to continue is the work concerning the provision of water supply solutions to affected residents and associated sampling, testing and O&M, in order to ensure all affected and potentially affected residents continue to be properly protected. There will be no gap in this important work between FHRA's three year-long stewardship of the project and Williams' assumption of its responsibilities under the transition plan.

As you are aware, from the first moment the State and FHRA learned there was a sulfolane plume off-site (a fact previously unknown to both the State and FHRA), FHRA, working with State and local authorities, undertook a massive project to ensure the residents' drinking water supplies were protected. This effort included the drilling of two new water wells for the city, construction of the necessary tie-ins for those wells, the build-out of the city water system to additional residents within city limits, the invention, design, development, water quality certification and installation of in-home treatment systems, the installation of bulk water tanks for drinking water and garden supply water (for those residents who preferred such over the treatment system), and the provision

of bottled water. This work paralleled substantial monitoring well installations, plume delineation efforts, testing protocols, and the development of a groundwater model to understand plume dynamics on-site and off-site.

The chart below sets forth some, but not all, of the work undertaken by FHRA in the last three-plus years:

Date	Description
Oct-09	First detection of sulfolane off-site
Oct-09	Drinking water well search and sampling initiated. FHRA providing bottled water to affected homes, within and slightly beyond plume (ongoing). FHRA also installed bulk water tank systems to five commercial locations as an immediate response.
Oct-09	Site characterization - groundwater, soil, LNAPL initiated (ongoing)
Oct-09	Quarterly groundwater monitoring initiated (periodic monitoring ongoing since 1988)
Jan-10	Initial Treatment Screening Bench Testing
Mar-10	Completed Phase I delineation of off-site sulfolane
Mar-10	Draft Site Characterization Work Plan submitted by FHRA
Apr-10	Interim Removal Action Plan submitted by FHRA
Apr-10	Technical Project Team (TPT) Developed (meetings ongoing)
May-10	FHRA initiates Ford Subdivision Project
Jun-10	95% Municipal Well Design submitted by FHRA
Jul-10	FHRA initiated construction of replacement City Wells
Jul-10	Revised Draft FINAL Site Characterization Work Plan submitted by FHRA
Jul-10	Interim Removal Action Plan submitted by FHRA
Jul-10	Technical Memorandum: Groundwater Flow Modeling for the North Pole Water Supply Evaluation submitted by FHRA
Jul-10	Revisions to Municipal Well Design submitted by FHRA
Jul-10	Response to Comments on 95% Well Design submitted by FHRA
Sep-10	Well Design/Construction Modifications submitted by FHRA
Sep-10	Garden Sampling Project completed
Sep-10	Site Characterization Work Plan (revised) submitted by FHRA
Sep-10	Interim Removal Action Plan (revised) submitted by FHRA
Oct-10	Point-of-Entry Treatment (POE) System Bench Testing initiated
Nov-10	In-home (POE) treatment system pilot study initiated
Nov-10	Phase II delineation of sulfolane complete
Dec-10	GPR survey completed
Dec-10	Technical Memorandum: Updated Groundwater Flow Modeling for the North Pole Water Supply Evaluation submitted by FHRA
Dec-10	FHRA replaces North Pole water supply system with new municipal wells
Jan-11	Garden Sampling Report submitted by FHRA
Feb-11	North Pole City Council approves and accepts new municipal wells

Feb-11	Point-of-Entry Treatment System Feasibility Study and Design Report submitted by FHRA
Feb-11	Carbon Treatment System Design package submitted by FHRA
Mar-11	FHRA installation and maintenance of permanent in-home treatment systems and alternate water supplies initiated
May-11	Site Characterization and First Quarter 2011 Groundwater Monitoring Report submitted by FHRA
May-11	Carbon System Monitoring plan submitted by FHRA
Jun-11	Sand filtration and carbon treatment added to groundwater treatment system
Jun-11	On-site GAC Treatment System Pilot Test initiated (ongoing)
Jun-11	Ecological CSM submitted by FHRA
Jun-11	FHRA and DEC hold scoping meeting for Human Health Risk Assessment
Jul-11	Fifth recovery well on-line for groundwater treatment system (R-42)
Jul-11	Second Quarter 2011 Groundwater Monitoring Report submitted by FHRA
Aug-11	Draft Site Characterization Work Plan Addendum submitted by FHRA
Sep-11	Draft HHRA Work Plan submitted by FHRA
Sep-11	Phase III delineation of sulfolane completed
Sep-11	Draft HHRA Work Plan submitted by FHRA
Oct-11	Revised Draft HHRA Work Plan submitted by FHRA
Oct-11	Phase IV delineation of sulfolane completed
Oct-11	Garden Soil Sampling completed
Nov-11	Phase V delineation of sulfolane completed
Nov-11	Scope of Work for Additional Site Characterization Activities submitted by FHRA
Nov-11	2011 Revised SCWP Addendum submitted by FHRA
Nov-11	Third Quarter 2011 Groundwater Monitoring Report submitted by FHRA
Nov-11	FHRA Natural Attenuation Study initiated (ongoing)
Dec-11	Draft Revised Site Characterization Report submitted by FHRA
Dec-11	Draft Human Health Risk Assessment submitted by FHRA
Dec-11	Phase VI delineation of sulfolane completed
Dec-11	Final HHRA Work Plan submitted by FHRA
Dec-11	FHRA Completed installation of 230 permanent alternative water solutions since March 2011
Jan-12	Air Sparge pilot testing work plan submitted by FHRA
Mar-12	Degradation mechanism bench testing completed
Mar-12	Pore Water Evaluation completed
Mar-12	Air sparge pilot testing initiated (ongoing)
Mar-12	Revised Site Characterization Report and Fourth Quarter Groundwater Monitoring report submitted by FHRA
Apr-12	Draft Final Human Health Risk Assessment
Apr-12	Draft On-Site FS submitted by FHRA

May-12	2012 Site Characterization Work Plan submitted by FHRA
May-12	Draft Final On-site FS submitted by FHRA
May-12	Revised Draft Final Human Health Risk Assessment submitted by FHRA
Jun-12	Injection testing and tracer testing completed
Jun-12	First Quarter 2012 Groundwater Monitoring Report submitted by FHRA
Jul-12	Second Quarter 2012 Groundwater Monitoring Report submitted by FHRA
Aug-12	Phase VII delineation of sulfolane completed
Aug-12	Work Plan for Evaluation of Perfluorinated Compounds in the Fire Training Area submitted by FHRA
Aug-12	Draft Off-site FS submitted by FHRA
Sep-12	Proposed Replacement Recovery Wells Technical Memo submitted by FHRA
Oct-12	Third Quarter 2012 Groundwater Monitoring Report submitted by FHRA
Dec-12	Work Plan for Evaluation of Perfluorinated Compounds– Phase II submitted by FHRA
Dec-12	Phase II PFC sampling completed
Dec-12	Site Characterization Report - Through 2011 submitted by FHRA
Jan-13	Final Garden Sampling Project Report submitted by FHRA
Jan-13	Interim Remedial Action Plan Addendum submitted by FHRA
Jan-13	Planned - Site Characterization Report - 2012 Addendum to be submitted by FHRA
Jan-13	Planned - OMM, Performance Monitoring, Quarterly Monitoring
Feb-13	Planned – 2013 On-site Site Characterization Work Plan to be submitted by FHRA

To date, Williams has done nothing to address the off-site contamination that it caused.

FHRA was not legally obligated to undertake this off-site work. FHRA undertook the off-site work, not because at the end of the day it believed it would ultimately shoulder the legal liability for it under Alaska law. It did so because FHRA did not want its neighbors to be drinking water contaminated with sulfolane while Williams pondered its responsibility for the mess it caused. We firmly believe this was the right decision.

In Williams' response to your letter they criticize the groundwater model and yet again waste time discussing the contract dispute between FHRA and Williams. Williams' statements regarding the parties' obligations under the contract are false and/or misleading. In its contract with Williams, FHRA assumed responsibility for a small, defined sulfolane plume that was located well away from the boundaries of the refinery property. FHRA did not assume responsibility for any other sulfolane on-site and none of the sulfolane off-site (which Williams and FHRA didn't even know about at the time). Williams expressly retained responsibility for environmental liabilities that were not disclosed. Yet, for purposes of trying to reach a workable three-way agreement with the State and Williams, FHRA has stated it is willing to take on all the on-site work as such is simply more practical to do.

More important to the discussion, Williams' reliance on the contract is entirely irrelevant. The responsibilities of FHRA and Williams to the State of Alaska are governed by Alaska law, not a purchase and sale contract. Williams is the party responsible to the State because it put large amounts of sulfolane into the groundwater for nearly 20 years, and that is what is driving today's response costs.

In addition, the statements by Williams that no agreement between the parties can occur until total on-site hydraulic control of all sulfolane migration is achieved are completely irrelevant and false. First, ADEC's draft COBC set 14 ppb as the groundwater cleanup level and not zero. Second, at our December 19th meeting, we

discussed that the agreement would include provisions acknowledging the remediation measures will need time to take effect. Third, and most importantly, as discussed great detail above, FHRA has already taken aggressive steps to protect downgradient receptors such that any movement of sulfolane over the next couple of years will not result in any additional response costs to protect receptors. Williams' concerns have already been addressed by FHRA. This is not an issue that precludes Williams from being responsible for the off-site plume and conducting the off-site work being requested by ADEC.

With regard to the groundwater model, in our meeting of January 9, 2013, in Fairbanks, Geomega demonstrated to ADEC, Williams, and both of their consultants that the Williams sulfolane molecules in groundwater are definable and the damages created by those same sulfolane molecules are the direct result of Williams' operations and not FHRA's. It is notable that there were no challenges to the model or its conclusions from Williams or its technical consultants during the meeting, even after questions were solicited at multiple points during and at the conclusion of the presentation. Further, ADEC's primary groundwater modeling consultant, Dr. David Barnes from the University of Alaska, asked numerous questions throughout the presentation and at the conclusion of the presentation was very complimentary and supportive of the work that Geomega has performed, noting that it was the best effort put forth to understand the problems associated with the Site. The State's own model experts have stated the model is well designed, well calibrated and is using appropriate inputs.

Williams now wants to take over the groundwater model and continue to shirk its responsibility for other off-site activities. Williams has had over three years to develop its own groundwater model. Instead, it has attended multiple technical meetings as a silent observer, never contributing to the discussion by asking questions or challenging conclusions. While there might be some plausible reason for Williams to want its own groundwater model if it were assuming responsibility for all of the off-site work, in this context it appears that the offer to do modeling is just another delay tactic. FHRA refuses to participate in that effort. FHRA's model was designed to be used as a tool to ensure affected and potentially affected residents are protected and provided clean water solutions, not as a litigation gambit. Such is why FHRA has been working with ADEC to develop it, rather than keeping it secret, as it would do if the model was just a litigation tool. That model took years to develop and cost well more than two million dollars. Given the stakes involved for the residents of North Pole, we do not think that it is advisable for FHRA and the State of Alaska to be guided by a groundwater model thrown together at the last minute on the cheap by a party that refuses to accept any responsibility for its own actions.

All of the off-site work the State desires to be done is work resulting solely from the off-site presence of Williams' sulfolane. All of it. All of the damages and response costs off-site to date and projected into the future result solely from the off-site presence of Williams' sulfolane. All of them. Such stands eminently provable by FHRA in any forum. Under the known science, facts and law, FHRA does not wear the liability for the Williams-caused off-site impact. If the State is in possession of facts or a properly constructed groundwater model that suggest the contrary, I'm not aware of it.

FHRA has been working with the State of Alaska for over three years to protect the residents of North Pole from sulfolane contamination that inarguably was caused by Williams and not FHRA. Williams has done nothing in this time period. With Williams' January 22, 2013, response to you, they make it clear they are still refusing to step up and deal with the mess they have caused. FHRA appreciates that Williams' refusal to accept responsibility has put the State in a tough spot relative to the off-site work the State desires be done this spring/summer. In order to aid the State in collecting additional off-site data and information, and to aid in the continued protection of the community and residents of North Pole, FHRA, subject to agreement with the State on scope and timing, will conduct the appropriate off-site work during this spring/summer field season.

This leaves open the question of who should take responsibility for off-site work after this summer work is completed. We respectfully submit that it is time for Williams to assume its responsibilities to the residents of North Pole and to the State of Alaska. This transfer of responsibility can occur in an orderly manner under the timeline we proposed in the transition plan we presented to the State of Alaska and Williams on January 2, 2013, which we can adjust to account for this season's field work that FHRA will do. But, it will require Williams to step up and assume its obligations or for the State to compel Williams to assume those obligations. Either way, it is time for this transition to occur. With FHRA conducting agreed upon work off-site for this field season, there should be sufficient time for the State to take appropriate steps to bring Williams to account for its off-site liabilities.

FHRA will continue its on-site remediation and characterization work. And, the company will continue to perform the off-site tasks it described in the transition plan, plus additional, agreed to off-site work for this spring/summer. By the close of 2013, however, Williams must take responsibility for its off-site obligations.

Sincerely,

Travis A. Pearson

TAP/vcr

Attachment

cc: Laura Hill, Esq., Williams Companies (via electronic mail)
Mark Gebbia, Williams Companies (via electronic mail)
Marc Coggeshall, Flint Hills Resources, LP (via electronic mail)
Dave Smith, Koch Remediation & Environmental Services, LLC (via electronic mail)
Tamara Cardona, Alaska Department of Environmental Conservation (via electronic mail)
Steve Bainbridge, Alaska Department of Environmental Conservation (via electronic mail)
Lauri J. Adams, Office of the Attorney General, State of Alaska (via electronic mail)

STATE OF ALASKA

Sean Parnell, Governor

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January 16, 2013

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Laura Hill
Williams
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Tulsa, Oklahoma 74172

RE: Flint Hills Refinery Meeting

Dear Counsel,

Thank you for coming to Anchorage for our December 19, 2012 meeting. The State appreciates your willingness to discuss with us how to coordinate our collective efforts in addressing contamination at the refinery site.

As you will recall, there was considerable discussion about which of your two companies would undertake the measures needed to address the sulfolane plume. We are concerned that neither company appears willing to commit to timely preparation and submission of a site characterization work plan for the "off-site" contamination. Because of our seasonal field conditions, finalizing a work plan by March 29, per the draft COBC schedule, is necessary to allow summer field work.

The table below summarizes the existing off-site site characterization data gaps that need to be completed during the 2013 field season.

	Action Needed	Data Gap
1	Prioritize monitoring locations and establish their optimal monitoring frequencies	Optimize groundwater monitoring offsite to understand and quantify concentration trends for all contaminants of concern.
2	Complete Hydrogeologic Conceptual Site Model	The fate and transport of sulfolane must be understood both onsite and offsite in order to ensure protectiveness and determine appropriate cleanup alternatives. DEC disagrees with the

		current conceptual model and requires additional data collection to either correct or support it.
3	Additional multilevel well transects downgradient of the refinery and offsite Must be coupled with CSIA (compound specific isotope analysis), microbial fingerprinting or sequencing for (2).	(1) Understanding vertical and horizontal sulfolane flow pathways (including permafrost effects). (2) Determine sulfolane degradation rates along suspected flow pathways.
4	Additional wells in areas with currently poor resolution	Understanding sulfolane flow pathways, including how sulfolane has migrated to aquifer depths of 300 feet.
5	Additional pressure transducers	Understanding sulfolane flow pathways and vertical flow.
6	Stable isotope analysis for subpermafrost and suprapermafrost groundwater	Understanding sulfolane flow pathways, including how sulfolane has migrated to aquifer depths of 300 feet.
7	Sampling for sulfolane intermediates Sampling of point of entry systems GAC	Are the carbon filters (GAC) in point of entry systems causing secondary contamination that could be harmful to humans? Evaluate formation of intermediates in GAC filters.
8	Subpermafrost well sampling (both private wells and monitoring wells)	Understanding subpermafrost sulfolane transport pathways. Why is there an increasing sulfolane concentration in a drinking water well that is over 150 feet deep? We cannot ensure protectiveness of the drinking water supply if we do not understand this dynamic.
9	Periodic sampling of selected private wells	Track trends in private wells.
10	Downhole camera assessment	Determine depths of selected private wells to use as deep (subpermafrost) monitoring wells.
11	Surface water sampling	Complete evaluation of the surface water exposure pathway.

Please note that at this point we don't yet have the benefit of the final report with the site characterization data from the 2012 field season. Once we have the chance to

review that data, our requirements for additional site characterization in 2013 may be augmented.

Understanding that this letter will be transmitted through electronic mail, followed by a hardcopy, please respond in writing by January 25th with a list of the site characterization data gaps listed above that your company will complete in 2013. Please be advised that if ADEC undertakes the site characterization work with its own resources, it will seek to recover its costs from either or both of your companies. If you wish to avoid this result, please let us know before January 25, 2013 of your company's intentions with regard to this issue.

Thank you again, and we look forward to continued discussions about this site.

Sincerely,

MICHAEL C. GERAGHTY
ATTORNEY GENERAL

By:
Cameron M. Leonard
Senior Assistant Attorney General

cc. David Smith, FHR
Mark Gebbia, Williams Company
Tamara Cardona, DEC
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CML/bj