



May 3, 2011

Dear Council Member:

The minutes from the April 12 CAC meeting are attached. The next CAC meeting will be on **Tuesday, MAY 10, 2011**, beginning with dinner at 5:00 p.m. The meeting will run from 5:30 to 7:30 p.m.

Sincerely,

Ann L. Clancy, Ph.D.
Meeting Facilitator

Meeting Location: ConocoPhillips Learning Center
415 South 24th Street

CONOCOPHILLIPS BILLINGS REFINERY
CITIZENS ADVISORY COUNCIL
April 12, 2011

MEETING MINUTES

Present: Council members: Ken Ard, Bob Carr, Paul Dextras, Hillary Harris, Shirley McDermott, Paul Miller, Linda Pettengill, John Pulasky, Jim Ronquillo, Emily Schaffer, Gladys Stahl, Dolores Terpstra, Richard Wilson, Stella Ziegler
ConocoPhillips management: Steve Steach, Reed Marton, Mark Hilbert
Facilitator: Ann Clancy

Absent: Steve Arveschoug, Keith BearTusk, Brittany Blood, Mike Kautzman, Elizabeth Stears, Ernie Woods

Guests: Candi Beaudry, Director of Planning & Community Services, Billings\
Tony Canape, Student at Process Plant Tech Program, MSU-B COT

AGENDA

- Welcome/Introductions/Announcements
- TIF Legislation Update
- Global ConocoPhillips Strategy
- Workforce Diversity Team Report
- Neighborhood Eat & Meet Update
- Refinery & Transportation Updates including Update on Coke Drum Transportation
- Next Meeting: May 10

WELCOME/INTRODUCTIONS

Richard Wilson, Director of the Process Plant Technology Program at MSU-B College of Technology, introduced his guest, Tony Canape, a student in the program who is attending to learn more about the CAC. Richard is inviting a COT student to each of the CAC meetings in 2011.

A Cinco de Mayo celebration will be at Our Lady of Guadalupe Church, 29th Street South and Sixth Avenue South, on Thursday, May 5. The event is co-sponsored by the Billings Human Relations Commissions and the Montana Migrant Council. At 6 p.m., there will be a pig roast and potluck, followed by speakers on Hispanic contributions to the city, past and present and immigration reform at 6:30 p.m. The Montana Migrant Council will be on hand to register agricultural workers for health clinics across the state. Latin dancing will start at 7:30 p.m.

TIF LEGISLATION UPDATE

Candi Beaudry, Director of Planning and Community Services with the City of Billings and former CAC member, highlighted the bills before the 2011 Legislature that dealt with tax increment finance (TIF) districts. She began by providing some background on the genesis of the bills. State Representative Elsie Arntzen from District 53 submitted three bills on the formation of TIFs and level of public involvement. Dialogue was also around the disadvantages school and county districts experience in relation to the fact that TIFs can only be established by city governments. A misperception was that taxes were being taken away from school districts by TIFs. There was also confusion about the word “blight” which some legislators felt had a negative connotation implying crime, dirt and deteriorating structures. Beaudry clarified that the term refers to underutilized property that has not achieved the value it could. An example is land that is worth more than the residence on it. One of the bills addressed the term blight and the other criteria used to create TIF districts.

There were three House bills related to TIF districts – 560, 561, and 562. The intent of HB 560 was to ensure that TIFs are created with public involvement and that reports are published on the City website. HB 561 was focused on defining “blight” and ensuring that blighted areas exist in potential TIFs. HB 562 ensured that counties and schools are notified about the creation of TIFs and that annual reports be made available upon request. There was one Senate Bill that was ultimately 90 percent struck out. SB 358 ensured the ability to create targeted economic development districts within county districts. Counties would have to go through a similar process as cities to designate a targeted economic development district which, instead of blight, would be focused on infrastructure deficiency. Counties in Montana are not considered to have enough population density to qualify for urban renewal districts.

In response to questions, Beaudry explained there were three types of districts that can be designated in industrial areas: aerospace transportation, technology, and industrial districts. The new targeted economic development districts approved in SB 358 are more general than the three defined types of districts in industrial areas. These targeted economic development districts can be developed to promote business and industrial parks. She stated there was some concern that counties may abuse their new economic development district privileges, such as declaring an entire county a district which would then freeze all taxes in the area. Beaudry pointed out, however, that it would be difficult for a county to show infrastructure deficiency around refinery property.

The youngest TIF is in the East Billings Urban Renewal District (EBURD). This area has been targeted for federal government sites such as the GSA which will be leasing space in a private office building designated for that area. The district has adopted a new parking policy that is more flexible and uses on street parking. There is also a new form-based zoning code which allows for mixed use and ensures a coherent look to the buildings. The area will include green work-related businesses and a hospitality area.

Another new district is the South West Billings urban renewal district. This area already includes increments from new businesses such as Cabela’s and Intermountain Distributing. A master plan is being developed for the area which will incorporate public input and which will identify issues in the area and desired outcomes. One of the results of the planning process will be a list of infrastructure projects to be completed. Newman

School already has an improvement project involving paving, curbs and gutters and improving school crossings.

The following questions/comments by CAC members were recorded:

- *Aren't all three refineries on county property and pay the counties a lot of taxes?* If a county were to declare that property an economic development district, it could take all the taxes and disadvantage school districts.
- *How effective have TIFs been in attracting new business?* The City of Billings claims that the downtown TIF has generated up to \$10 million in development. A recent study by MSU-B indicates that TIFs bring resources to bear in areas that the municipalities cannot generate on their own. New property value is generated including a rise in community value ("tide that raises all boats").
- *Are all TIF funds collected in sales taxes?* No, they are collected in property taxes.
- *What, if any, impact will the EBURD and South West Billings TIFs have on the ConocoPhillips refinery?* The refinery can benefit from the improvements on both sides. Employee housing close to the refinery will become available as well as opportunities for businesses associated with the refinery to relocate closer.
- *What are the differences between the EBURD and South West Billings TIFs?* The South West Billings TIF district is 90% residential and only 10% commercial whereas the EBURD district is primarily commercial. The South West district is looking at workforce affordable housing.

GLOBAL CONOCOPHILLIPS STRATEGY – ANALYSTS MEETING

Steve Steach reported on the ConocoPhillips Analyst Meeting held in New York on March 23, 2011. The report included updates on executing the company's strategic plan:

Delivering Shareholder Value

- The ROCE (return on capital employed) increased from 7% to 10%.
- Delivered a constrained capital program
- Executed □ \$7 billion in asset sales
- Sold □ \$9 billion in LUKOIL shares
- Debt reduced by □ \$5 billion
- On track to deliver per share growth
- E&P organic reserve replacement 138%
- Share repurchases □ \$4 billion
- Increased dividend 20%

Key 2011/2012 Initiatives

- Spent \$28 billion on capital program
- Sold an additional \$5-10 billion in assets and \$10+ billion in share repurchases
- 100%+ reserve replacement
- Reduced refining capacity

Strategy Implementation

- Refining & marketing capital employed shows a projected decrease from 25% in 2010 to 20% in 2013 with a long term expectation of 15%

- Refining crude capacity (MMBPD) shows a projected decrease from 2.7 in 2010 to 1.8-2.0 in 2013 with a long term expectation of less than 1.8

Business Environment

- Long term hydrocarbon demand expected to increase, challenging supply
- Strong near-term oil demand growth expected with economic recovery
- Improved international natural gas markets with near-term surplus in North America
- Increased refining margins but difficult political environment

Global Energy Demand

- Renewable increasing as well as nuclear
- Gas and coal projected to remain strong as well as liquids
- Fossil fuels projected to meet 80% of energy demand in 2035

US Natural Gas Supply Sources

- Existing production in decline; shale will fill the gap
- Unconventional natural gas will dominate new US supply

North America Business Overview

- Canadian and Bakken proven reserves
- Oil and gas property under lease due to production from the property – acreage with significant upside potential
- Low-cost operations
- Competitive unconventional opportunities
- Significant shale position acquired at low cost

2011 Drilling Activity

- 109 wells drilling in Bakken area
- Focus on horizontal drilling for shale gas
- Bakken has 460 thousand acres in high-liquids play and shows continued performance improvements
- Investing \$0.3 billion in 2011

Canadian Steam-Assisted Gravity Drainage (SAGD) Portfolio

- Steam melts oil off sand; not so environmentally harsh; nothing above ground
- CoP has some of the lowest steam injections and lower production cost – key source of low cost energy
- CoP has 3 active projects: Foster Creek, Christina Lake, Surmount
- Expect to quadruple SAGD over next 10 years

Downstream Strategic Objectives

- Drive operational excellence
- Improve ROCE (return on capital employed)
- Reduce refining capacity
- Maximize upstream integration value
- Improve utilization
- Increase clean product yield
- Create value through improved ROCE and strong free cash flow

- Billings refinery profitable
- Global refining capacity expected to decline from 2.7 MMBD in 2010 to 1.9 MMBD in 2013
- Downstream ROCE expected to increase from 5% in 2010 to 13% in 2013

2010 CoP Peer Comparison

- CoP showing strong relative performance in all cycles
- Reliable operations, advantaged crude
- Low-cost, integrated value chains
- Money being made upstream; in a down refining cycle
- Sources of improved returns: optimization initiatives, portfolio restructuring, market improvements

Downstream Portfolio Restructuring

- Reduce 500 MBD refining capacity using the following criteria: upstream integration, financial performance, competitive position
- Out of 15 CoP refineries, 6 are below the ROCE threshold
- Billings refinery is in a strong competitive and strategic position

WORKFORCE DIVERSITY TEAM REPORT

Steve Steach reported that the Workforce Diversity Team met and identified a number of action items for 2011. As background information, he noted that the refinery has a diversity effort to attract and retain diverse workers and last year the refinery visited high schools on the Indian reservations but without significant results. The Workforce Diversity team agreed that focusing only on high schools was not adequate and that attention should be paid to educating middle school children as well. The following action items were identified:

1. Select 4 local middle schools in addition to the 2 local reservation middle schools (Crow/Cheyenne Reservations) and implement a refinery tour program for science/math students targeting a September 2011 start. The focus will also include Hispanic students. (Travis Sloan)
2. Assemble a list of local outreach events (job fairs, cultural clubs/events, etc.) and schedule ConocoPhillips employees to attend and present information on the company, the refinery and job opportunities, training/experience requirements and the application process. (Ellen Fulton)
3. Prepare professional quality presentation materials and handouts for action items #1 and 2. Ellen Fulton to bring copies of the materials to the CAC for feedback.
4. Conduct a ConocoPhillips diversity employee meeting to solicit input and volunteers to assist with action items #1 and 2. (Ellen Fulton)
5. Consider starting a summer refinery internship program for diversity candidates.

Two potential areas of interest with workforce diversity that were identified at the CAC retreat but have not yet been addressed in the team meeting:

- Invite members of the Bridging Cultures group to talk about their mission at a CAC meeting. (Steve Arveschoug)
- Develop opportunities at Garfield School where the refinery is already helping to sponsor some programs. (Bob Carr)

The following comments/questions by CAC members were recorded:

- Idea for action item #2: Present information at the Laurel Aviation & Technology Week which occurs in May 2011.
- MSU-B also has difficulty in fulfilling its diversity expectations due to the rural and homogeneous nature of the population in Montana
- Two national finance companies in Billings also have difficulty fulfilling their diversity expectations due to the limited population in Montana
- Women in the craft industries are continually underrepresented
- South Side schools should be included in any educational efforts that the refinery offers to the community
- *What jobs could high school students do?* They could provide administrative and drafting support.

Team members include: Shirley McDermott, Keith Bear Tusk, Steve Arveschoug, Mark Hilbert, Steve Steach, Travis Sloan (CoP) and Ellen Futon (CoP). Bob Carr was added to the team.

Action item:

The Workforce Diversity Team will provide an update on these action steps at the November 8 CAC meeting.

NEIGHBORHOOD EAT & MEET UPDATE

Hillary Harris reported that RiverStone Health was happy to be hosting the Neighborhood Eat & Meet. She has been talking with Jim Ronquillo about healthy food options for the event. It has been approved to have 26th Street closed to accommodate participants. The biggest concern for RiverStone Health is that the Clinic remains open till 7:00 p.m. and those visitors/patients need to be able to gain access to the Clinic. There will be tours of the building offered and Hillary will check into the possibility of health screenings being offered.

TRANSPORTATION UPDATE

Safety and environmental: There have been no recordable injuries or environmental incidences.

Operations: Calls for digging are picking up as the weather warms up and they will continue to increase through the summer. Four short tool “pigs” are being run in pipelines in the Billings area. No immediate repairs have been reported as needed for three refinery pipelines and one crude pipeline.

Richard Wilson, Director of the COT Process Plant Technology Program at MSU-B, thanked Mark Hilbert for coming to the class and making a presentation on Transportation 101, a presentation done earlier in the year for CAC members.

REFINERY UPDATE

Safety and Environmental: The refinery has seen no reported injuries or environmental incidences.

Operations: A small 10-day spring shutdown will occur in April to perform inspection on repairs on equipment, including the existing coke drums, to allow the major turnaround and coke drum replacement to be moved to the spring of 2012.

Montana Legislative Update: Steve Steach reported that the Montana Petroleum Association (MPA) has been tracking bills related to the energy industry which have passed in the House and Senate as well as some resolutions. A report on the results of the Montana Legislature will be presented at the May 10 CAC meeting.

Property Tax Local Hearing: There will be a local property tax hearing in April regarding ConocoPhillips' dispute of its county tax assessment. ConocoPhillips did an appraisal using three different methods to assess the value of refinery property and arrived at a cost of \$245 million. The Montana Department of Revenue used only a cost methodology without adequate depreciation and arrived at \$485 million, valuing the refinery at 40% above the previously assessed value. ConocoPhillips is requesting that a value of \$370 be accepted, which the company considers to be a reasonable compromise position. The company continues to contest the high property assessment but is sensitive to the needs of the local government and schools.

Coke Drum Project: Steve Steach reported that two of the coke drums arrived at the Rims in Billings on April 5 and there was a welcome ceremony early in the morning sponsored by Big Sky Economic Development with public officials attending. On April 6, the ConocoPhillips refinery hosted a celebration lunch open to the public on the grounds of the refinery where the coke drums were displayed along with the transportation and rigging equipment used to transport them. More than 800 people were served lunch and viewed the coke drums. The president of Emmert International, the company responsible for the transport of the drums, was present as well. Media coverage was positive. Emmert International will be removing the transport beams and lowering the drums onto cribbing or blocks of wood while they take the transportation and rigging equipment back to Idaho to load the remaining two drums. It is expected that those drums will set off from Idaho at the end of April. Newspaper ads will be run before the drums are moved. Jim Ronquillo reported that he heard positive comments from city council members about the refinery's ability to move the coke drums from Idaho to Billings without incidence. They thanked ConocoPhillips for its business in the community.

Next Meeting Agenda: May 10, 2011

- 2011 Montana Legislative Session Update
- Refinery Beautification Update
- Local Sustainable Development Scorecard
- Refinery & Transportation Updates
- Next Meeting: June 14