



January 17, 2011

Dear Council Member:

The minutes from the December 7 CAC meeting are attached. The next CAC meeting will be our annual retreat session on **JANUARY 29, 2011**. We will meet at The Rex Restaurant at 2401 Montana Ave. beginning with a continental breakfast at 8:00 a.m. The meeting will run from 8:30 till 1:30 and include lunch.

Sincerely,

Ann L. Clancy, Ph.D.  
Meeting Facilitator

January Retreat Meeting Location:  
The Rex Restaurant  
2401 Montana Ave.

CONOCOPHILLIPS BILLINGS REFINERY  
CITIZENS ADVISORY COUNCIL  
December 7, 2010

MEETING MINUTES

- Present:** Council members: Ken Ard, Keith Bear Tusk, Brittany Blood, Bob Carr, Paul Dextras, Hillary Harris, Shirley McDermott, Paul Miller, Linda Pettengill, John Pulasky, Jim Ronquillo, Emily Schaffer, Gladys Stahl, Elizabeth Stears, Richard Wilson, Stella Ziegler  
ConocoPhillips management: Reed Marton  
Facilitator: Ann Clancy
- Absent:** Steve Arveschoug, Mark Hilbert, Alice Stears, Steve Steach, Ernie Woods
- Guests:** Mike Kautzman, Billings Overhead Door Company  
Eric Whitford, Student, Process Plant Technology Program, COT

**AGENDA**

- Welcome/Introductions/Announcements
- Update on Legislative Issues Relating to the Oil Industry
- Update on Billings Refinery Turnaround & Coke Drum Project
- Review of 2010 & Preparation for 2011 Retreat
- Refinery & Transportation Updates
- Meeting agenda for January 29 Retreat Session

**WELCOME/INTRODUCTIONS/ANNOUNCEMENTS**

There were two guests attending the meeting. Richard Wilson, Director of the Process Plant Technology program at COT, introduced Eric Whitford, a student currently participating in the program, who accompanied Richard to the meeting. Mike Kautzman, owner of Billings Overhead Door Company, attended as a potential new member representing small Southside business. In terms of full disclosure, Mike Kautzman wished the CAC to know that his business was not located in the Southside area but rather in the East Billings Urban Renewal District and that the refinery was a major client of his company. CAC members indicated they saw no conflict of interest with either of those aspects of his business should he choose to accept the Small Southside business constituency.

Reed Marton announced that Steve Steach was called to attend a two-day hearing in Boise, Idaho regarding the Coke Drums awaiting release for transportation to Montana.

Hillary Harris announced that RiverStone Health was hosting the Chamber of Commerce After Hours event this week in their newly constructed building. Gladys Stahl asked CAC

members to keep her 3-month old great granddaughter, Arianne, in their thoughts and prayers as the baby undergoes heart surgery.

## UPDATE ON LEGISLATIVE ISSUES RELATING TO THE OIL INDUSTRY

Dave Galt, Executive Director of the Montana Petroleum Association (MPA), presented an update on the impact of Montana oil and gas production and refining on Montana and the Billings economy and reviewed the legislative issues relating to the oil industry that could be part of the Legislative agenda in 2011. Dave handed out a packet of materials and a copy of the 2010 Treasure State Journal, the official publication of the MPA. He referred to an article beginning on p.36 of the Journal by Scott Rickard, Ph.D., Center for Applied Economic Research, MSU-Billings entitled: *Economic and fiscal impacts of Montana's oil and gas industry*. He also distributed a handout entitled, *Freeing Up Energy*, which explains hydraulic fracturing, a technology that uses water pressure to create fissures in deep underground shale formations that then allow oil and natural gas to flow. He went over the following slides in his presentation:

- **Montana production & penetrations:** There have been approximately 45,000 wells drilled in Montana since 1916 with about 4400 oil wells and 6500 gas wells currently producing. He explained that coal bed methane development is not natural gas extraction. About 1000 wells have been disposed of and the rest have been plugged.
- **MSU-Billings economic study:** Total impact of oil and gas production is about \$9 billion. Total job creation is around 12,000 of which 4500 are direct jobs and 7500 are indirectly supported jobs. The economic impact of an additional one million barrels of oil produced translates to 86 full-time positions and \$18.5 million in labor income. The impact of the industry in 2009 on Montana's economy included: 0.7% of Montana's jobs; three-times Montana's average annual wage with benefits; one-eighth of Montana's total value added; 4600 employees in exploration, production or refining; average annual refining wage of \$91,000; and \$1.7 billion upstream and \$8.1 billion refining. The average wage in Montana is about \$34,000.
- **Oil and natural gas production tax revenue collections:** Since 1999, revenue collected has steadily increased up to a peak in 2008. In 2009, the total state share of the revenue collection was \$754,490,290 and the total local share was \$730,403,908 for a total of \$1,484,894,198. Of the local share, some of the funds go into the school district and others go into general revenue sharing.
- **State & federal lands oil & gas revenue by fiscal year:** Since 2004, revenue collected has steadily increased with peaks in 2006 and 2008. In 2009, revenue exceeded \$80 million. The state revenue, about one-third of the total collected any given year, stays in Montana and supports the school trust. Of the federal revenue remaining, one-half goes to Montana and one-half goes to the federal level.
- **Monthly oil production from vertical vs. horizontal wells:** Vertical drilling yields greater volume of barrels per month than horizontal drilling. There has been some horizontal re-drilling in specific areas. Vertical oil production peaked in 1987 at 2,500,000 barrels per month and has gradually declined to about 500,000 barrels per month in 2010. Horizontal drilling peaked in 2006-2007 at 3,000,000 barrels per month and has decreased to a little less than 2,000,000 barrels per month in 2010.

- **Montana statewide oil production by completion year:** From a high of almost 2,500,000 barrels per month in 1986, well production decreased until 1994 when it began to rise again with a peak in 2006 of more than 3,000,000 barrels per month. Current production is around 2,000,000 barrels per month.
- **Montana statewide gas production by completion year:** From 1986 till 1994, gas production peaked and troughed with a high of 6 billion cubic feet of gas per month in 1989. Production has steadily increased to a high of 10 billion cubic feet of gas per month in 2008. Current production is around 8 billion cubic feet. The number of rigs drilling has decreased from 40 to 4.
- **State acres leased & producing:** Number of state acres leased has steadily increased from 1,000,000 in 2000 to 2,000,000 in 2009 but production has remained at less than 250,000 over that same period of time.
- **Federal leasing activity in Montana:** Leases in effect remained between 5000-6000 from 1997 to 2007 then dipped in 2008 to 4000. New leases issued remained less than 250 from 1997 to 2008. There were no new leases in 2010. Dave is not sure where federal leasing is headed in Montana.
- **Montana oil production by county:** The two counties with the greatest production are Richland and Fallon.
- **Total monthly oil production with estimated contribution from hydraulic fracturing:** Since 2002, hydraulic fracturing has contributed to greater oil production with peaks from 2006-2008. This technology opens up reservoirs of shale oil found in the rock.
- **Gas production by county:** The major counties are Phillips, Hill, Fallon, Blaine and big Horn.
- **Total monthly gas production with estimated contribution from hydraulic fracturing:** Hydraulic fracturing has increased since 1986 from 4,000,000 cubic feet per month to a peak of 10,000,000 cubic feet in 2008.
- **Royalty structure changes in Alberta:** In 2007, the provincial government increased royalties which has resulted in a decrease in oil and gas capital investment, new well completions, and mineral production. The increase in royalty rate was 43% for oil and 67% for gas. The changes eliminated the “grandfathering” of existing wells with the goal of reaching a net increase in royalty revenues of 20%. Net exploration and development investment in Alberta has declined by 40% whereas exploration and development investment in British Columbia (BC) and Saskatchewan (SK) increased twofold. There has also been a decline in value of land at Alberta auctions whereas BC and SK have seen a sharp increase in land values. Alberta revised its royalty policy in 2010 and reduced maximum royalties on oil by 20% and gas by 39%. As a result, in July 2010, the largest land sale in Alberta in five years took place with a value of \$451 million Canadian. Alberta is now seeing an increase in oil and gas investment and beginning to recover lost revenues.
- **Refinery production:** There are 8.2 million gallons of products per day: 40% distributed in Montana and 60% exported to seven other states. The value of oil and gas extraction is \$1.9 billion.
- **Fuels production:** The value of refined products produced is \$7.3 billion, 50% of the total manufacturing production and 10% of the total industrial production.
- **Return on Investment:** First quarter 2010 earnings by industry (net income/sales) puts oil and natural gas in 9<sup>th</sup> place at 7.3. Pharmaceuticals and medicines are first at

## **Montana Legislative Issues Impacting Refinery Downstream Operations**

- Changes to air quality regulations
- Production tax policy
- Numeric nutrient standards for discharge permits

## **CAC Member Questions/Comments**

- There do not seem to be many wells drilled in south western Montana. Why is that? *Some of it is the terrain and some of it is the result of leasing rights in the area no longer being available. A lot of leases that were sold in the Flathead Valley in the 1970's have been suspended since the early 1980's. Organizations like Trout Unlimited have been protesting leasing in areas around those protected in the Wilderness Bill. Currently there is more interest in drilling in western Montana.*
- Why has there been a decline in natural gas production? *The demand is up for crude oil and is projected to increase across the U.S. and the price of oil has dropped. It's a matter of timing.*
- What is hydraulic fracturing? *It is using water pressure to create fissures in deep underground shale formations that allow oil and natural gas to flow. It is done by drilling down horizontally and then laterally. The water pressure fractures the rock and leaves sand which then allows oil to be brought to the surface. Dave recommended that CAC members go to the MPA website ([www.mtpetroleum.org](http://www.mtpetroleum.org)) and view an animated drilling video.*
- What does hydraulic fracturing do to ground water? *It has no impact as it occurs below the ground water aquifers which are at about 3000 feet. Dave reports there have been no incidents with any well fracturing. The drilling occurs at 10,000 feet under a thick shale layer of about 15 to 30 feet.*
- What about environmental concerns that chemicals are being pumped down horizontally and that there have been spills on the surface and down below? What about the issue of disclosing chemicals? *Operators will reveal which chemicals they use in the process but not their particular "recipe." Montana has the most access to public information about the process. EPA has been permitting for the process over many years. Most of the environmental concerns are around groundwater protection and exploitation of resources.*

## UPDATE ON COKE DRUM PROJECT, BILLINGS REFINERY TURNAROUND, PROPERTY TAXES

### **Coke Drum Project**

Reed Marton reported that the four coke drums held in Idaho still have not been released. Thirteen individuals have sued to prevent transport. Steve Steach is at a "contested hearing" where arguments and testimony will be heard from representatives of the plaintiffs, ConocoPhillips and Emmert International, the coke drum transporter.

Steve is expected to give testimony. The Billings refinery has encouraged community members, contractors, and volunteers to show their support by attending the hearing. Reed thanked CAC members and groups such as the nearby neighborhood task forces and City Council for sending letters of support to the Governor on the refinery's behalf. Once Idaho's Dept. of Transportation (DOT) issues the permits, Montana's DOT can issue theirs. Whenever the drums are released, it will take around 14 days to bring them to Billings.

**Note:** *As of December 28, a hearing officer recommended that the Idaho Transportation Department issue four permits to allow ConocoPhillips to ship oversized oil-refinery equipment from Idaho to Montana. In his 57-page recommendation, Boise attorney Merlyn Clark said evidence shows the four loads could be transported safely and with minimum inconvenience to the general public along north central Idaho's U.S. Highway 12, which parallels the Lochsa and Clearwater rivers. He said foes of the shipments provided no "reliable evidence" that the loads would damage tourism, hurt the highway's scenic values or hamper businesses in the mountainous region, as they had argued at hearings this month. Clark argued that the evidence clearly established that the Idaho Transportation Dept. performed its duties and exercised its discretion in processing the application and should issue the over legal permits to allow ConocoPhillips to transport four oversize loads of equipment from Lewiston, Idaho to the Montana border over U.S. Highway 12. Clark's recommended order won't become final until it's acted on by the transportation department. [The Spokesman-Review, posted Dec. 28, 2010]*

### **Billings Refinery Turnaround**

Reed Marton reported concerns about whether the 2011 refinery turnaround start date in March will need to be changed given that the coke drums will not arrive in time. Once the drums arrive, they must undergo some procedures before being set in place. Refinery leadership is debating whether to continue with the original timing of the turnaround which would leave the coke drums to be installed at a later date.

### **CAC Comments/Questions**

- What is ExxonMobil attempting to do with their shipments? *They would like to ship about 200 modules through the Port of Lewiston along the same route in Idaho that ConocoPhillips needs to use in order to transport these modules north to Canada. The plaintiffs fear if they let ConocoPhillips ship their 4 loads that it will endanger their case against ExxonMobil.*
- Is ConocoPhillips getting any support from ExxonMobil? *There has been some dialogue but no support has been requested by either.*
- Is there a place in Montana where the refinery could store the drums? *Yes, there are locations identified.*
- What happens if the Idaho Transportation Dept. does not issue permits? *Legally they can't restrict ConocoPhillips's shipments. The worst case scenario would be the need to cut the drums into smaller pieces.*
- Is ConocoPhillips considering a counter suit? *That is not likely. The big issue for the Idaho Transportation Dept. is that it usually issues only about 10 permits a year for loads over the legal limit. Loads above 80,000*

- Is rail transport an option? *No.*
- Is transport through Canada an option? *No. Highway restrictions prevent loads of this size from being transported.*
- Where is the funding coming from for the plaintiffs? *They have support from national organizations.*

### **Property Taxes**

Reed informed the CAC that the Billings refinery received a reassessment of its 2010 property taxes that is 30% higher than previous years—from \$5 million to \$7 million. This same increase was also assessed for Cenex. ExxonMobil was assessed at \$5 million. ExxonMobil refinery after initially protesting the tax increase has now withdrawn its protest. The ConocoPhillips Billings refinery leadership is questioning the method the Montana Dept. of Revenue used to appraise the properties. Next week refinery leadership will meet with the School District 2 Superintendent and county commissioners to listen to their concerns. Reed stated that the refinery is not looking to pay less taxes but to pay reasonable taxes.

**Note:** *As of December 15, ConocoPhillips protested its taxes. The Yellowstone County Treasurer received half of the refinery's 2010 tax payment of about \$3.35 million. The refinery will protest about \$807,000 of that payment, which means the money would go into an interest bearing account. After one year, schools could file to collect the funds from the account while the issue is being resolved. The Billings School District is concerned about the loss of tax revenue for its budget. [KBZK.com, posted Dec. 15, 2010]*

### **CAC Member Questions/Comments**

- What is ConocoPhillips's property tax calculation? *It would be lower than the current estimate. The refinery is willing to pay an increase in taxes but not 30%.*
- What is the time frame of the 30% increase? *From last year to this year.*

## REVIEW OF CAC 2010 GOALS AND PREPARATION FOR 2011 RETREAT SESSION

### **Update on City/County Fire Training Facility Project**

Paul Dextras provided an update on the City/County Fire Training Facility project that was a topic for the CAC in 2010. Students at the MSU-B College of Business developed a business plan that would grow the project into a regional training center that would be self-sustaining and draw from 3-4 neighboring states. The project has been put on the City's top 10 list to be earmarked for federal funding. It is currently in the #8 position. The intent is to incrementally develop the regional training center which has received some support from the state's congressional representatives. Paul expressed appreciation to

the Billings City Council for placing it on the top 10 list of potential projects to be federally funded. Meanwhile, steps are being taken to build a collaborative partnership for the project among local providers of emergency services. For example, a visit was made to Seattle in 2010 to review the training center in that city and incident command training will be offered in 2011. The best location for such a training center is being discussed. Considering that the project could be a 10-year planning process, some interim location might be found.

### 2010 Goals & 2011 Annual Retreat

Ann Clancy distributed a handout summarizing the CAC's 2010 projects and goals. A brief summary is below. The 2011 annual retreat will be on January 29 at the Rex Restaurant. Agenda to be developed and sent out in January.

Projects for 2010	Action Completed
<p><b>Neighborhood Eat &amp; Meet</b></p> <ul style="list-style-type: none"> <li>• Theme: <i>Working Together to Educate Our Youth</i></li> </ul>	<p><b><u>STATUS:</u> COMPLETED</b></p>
<p><b>Workforce Diversity</b></p> <ul style="list-style-type: none"> <li>• CoP developed a strategy &amp; tools</li> <li>• CAC provided feedback &amp; input on strategy</li> <li>• Strategy to include new &amp; creative ways of reaching out to Native American population, people of color, women</li> <li>• Outcomes: Education &amp; training, connect to community</li> <li>• Hold a CAC meeting at Garfield and have a presentation about community activities at Garfield School</li> </ul>	<p><b><u>STATUS:</u></b>  <b>March 9 Meeting – COMPLETED</b>  <b>Workforce Diversity Team plan for 2010 – FUTURE ACTION?</b></p>
<p><b>Coke Drum Journey as Educational Opportunity</b></p> <ul style="list-style-type: none"> <li>• Decided against involving link to schools as the anticipated timing of the journey would be in the summer</li> <li>• opposition in Idaho – as a result have had monthly updates on progress</li> </ul>	<p><b>STATUS:</b>  <b>Team Report &amp; Communication Plans: COMPLETED</b></p> <p><b>Regular updates: COMPLETED</b>  <b>ANY FUTURE ACTION?</b></p>
<p><b>Community Survey</b></p> <ul style="list-style-type: none"> <li>• Used 1990 survey as a base</li> <li>• Phone survey done in February</li> </ul>	<p><b>STATUS: COMPLETED</b>  <b>ANY FUTURE ACTION?</b></p>
<p><b>Update of Local Sustainable Development Scorecard</b></p> <ul style="list-style-type: none"> <li>• Updated and shared scorecard results</li> <li>• Solicited CAC input</li> </ul>	<p><b>STATUS: COMPLETED</b>  <b>WHAT FUTURE ACTION? (invited to present to Montana Conservation Roundtable)</b></p>
<p><b>Tour of Refinery</b></p> <ul style="list-style-type: none"> <li>• After coker drums are in place</li> </ul>	<p><b>STATUS: NOT COMPLETED</b></p>

<b>Topics for CAC Meetings</b>	Action Completed
<b>Transportation 101</b> <ul style="list-style-type: none"> <li>Update by Mark Hilbert</li> </ul>	<b>STATUS: COMPLETED</b>
<b>ConocoPhillips, US Refining &amp; Billings Refinery Update</b>	<b>STATUS: COMPLETED</b>
<b>Petroleum Geology Presentation</b> <ul style="list-style-type: none"> <li>Dave Galt, Executive Director of the Montana Petroleum Institute, and Ken Powers, CoP Billings Refinery</li> </ul>	<b>STATUS: COMPLETED</b> <b>ANY FUTURE ACTION? (CoP taking lead in developing a conservation plan for MT)</b>
<b>Update on City/County Fire Training Facility Project</b> <ul style="list-style-type: none"> <li>Collaborative effort, e.g., joint drills, etc.</li> </ul>	<b>STATUS: UPDATE GIVEN</b> <b>ANY FUTURE ACTION?</b>
<b>Refinery Security Regulations</b> <ul style="list-style-type: none"> <li>Homeland Security regulations regarding refinery site security plan</li> </ul>	<b>STATUS: COMPLETED</b>
<b>Billings Refinery – Update on Philanthropic &amp; Community Support</b>	<b>STATUS: COMPLETED</b>
<b>Information on 2011 Refinery Turnaround</b> <ul style="list-style-type: none"> <li>Connection to local businesses (Steve A. with BSEDA)</li> </ul>	<b>STATUS: COMPLETED</b> <b>ANY FUTURE ACTION WITH BSEDA?</b>
<b>Legislative Issues Update</b> <ul style="list-style-type: none"> <li>Idea: Invite local legislators</li> </ul>	<b>STATUS: COMPLETED</b> <b>ANY FUTURE ACTION? (inviting local legislators)</b>
<b>Update of East Billings Urban Renewal District – Steve Arveschoug</b>	<b>STATUS: COMPLETED</b> <b>ANY FUTURE ACTION?</b>
<b>Gateway Business Park Update</b> <ul style="list-style-type: none"> <li>Contact Chamber about what’s happening in the area</li> <li>What to do with existing Montana Business Incubator? Refocus with energy sector focus. Need industry partners to talk to: MSU-B, Chamber, Beartooth RC&amp;D &amp; Big Sky EDA.</li> </ul>	<b>STATUS: NOT COMPLETED</b> <b>ANY FUTURE ACTION? (MT business incubator)</b>

## REFINERY UPDATE

**Safety and environmental:** The refinery has seen no significant injuries or incidents. In terms of environmental performance, this has been one of the strongest years for the Billings refinery with the lowest ever SO2 emissions.

**Operations:** The refinery has been operating well and it's been a successful year for the Billings refinery despite the national economy.

### **Billings Refinery Website**

Reed encouraged CAC members to browse through the Billings refinery CAC page which is located on the ConocoPhillips website. He provided the following instructions on how to find the Billings refinery CAC page.

- Get on website ([www.conocophillips.com](http://www.conocophillips.com))
- Click on Sustainable Development
- Click on Communities
- Click on Transparency & Accountability
- Click on Stakeholder Engagement
- Click on Community Advisory Committees
- Click on Billings Refinery

Reed pointed out that the page on the Billings Refinery CAC includes information about the Council as well as access to copies of the CAC Handbook, the Gateway Business Plan, the updated Sustainable Development Score Card, and a project schedule for refinery beautification plans. He noted that the Score Card now includes a new metric that was brought up by members at the November 2010 meeting: Refinery Hiring from 2006 – 2010.

Next Meeting Agenda: January 29, 2011 Retreat Session  
**8:00 a.m. to 1:30 p.m., Rex Restaurant, 2401 Montana Ave.**  
**Agenda to be sent to CAC members**