



April 9, 2012

Dear Council Member:

The minutes from our March 13, 2012 CAC meeting are attached. The next meeting will be held on **TUESDAY, APRIL 10, 2012** 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 24<sup>th</sup> Street

CONOCOPHILLIPS BILLINGS REFINERY  
 CITIZENS ADVISORY COUNCIL  
 March 13, 2012

MEETING MINUTES

Present: Council members: Ken Ard, Steve Arveschoug, Keith BearTusk, Bob Carr, Paul Dextras, Joshua Juarez, Shirley McDermott, Paul Miller, Linda Pettengill, John Pulasky, Jim Ronquillo, Emily Schaffer, Gladys Stahl, Dolores Terpstra, Stella Ziegler  
ConocoPhillips management: Julian Stoll, Mark Hilbert, Randall Richert  
Facilitator: Ann Clancy

Absent: Brittany Blood, Elizabeth Stears, Richard Wilson

Guests: CAC members invited guests to attend (see below)

AGENDA

- Welcome/ Introductions
- Community Updates
- Refinery & Transportation Updates
- Update on US & Global Refining & Corporate Business Strategy
- Meeting agenda for April 10 CAC meeting

WELCOME/INTRODUCTIONS

The following guests were invited by CAC members to listen to the update on US and global refining and ConocoPhillips corporate business strategy.

CAC Members	Guests
Bob Carr	Chancellor Rolf Groseth Dr. Marsha Riley, Dean COT David Pals
Dolores Terpstra	Joy Stevens
Ken Ard	Boris Krizek
Gladys Stahl	Margo Cook Mary Ahern
Paul Miller	Olivia Stockman, NPRC Josh Gardner Adela Awner
Stella Ziegler	"Ziggy" Ziegler

Julian Stoll introduced Randall Richert, Consultant-Air Environmental, at the Billings Refinery. He will be representing Safety, Health & Environmental on the Council until Reed Marton's replacement has been hired.

## COMMUNITY UPDATES

Steve Arveschoug reported on the Montana Energy 2012 conference being held on April 3-4 at MetraPark Expo Center. It is a 2-day comprehensive energy conference and tradeshow that will focus on opportunities for energy development throughout Montana. Topics will include fossil fuels, the future of alternative energy resources and the impact of energy development in Montana. Over 200 have registered so far. The conference is hosted by Big Sky Economic Development, Montana Contractors' Association, Montana Petroleum Association, and Kadmas, Lee & Jackson.

Shirley McDermott announced a PowPow on April 13-14 at MSU-B. Joy Stevens announced the Science Expo to be held at MSU-B on March 23-24. She thanked ConocoPhillips for its sponsorship this year. Bob Carr reported on the success of the Chicks & Science event at MSU-B for the fifth year. More than 2000 participated in the introduction of girls to math and science. Linda Pettengill announced the South Side Neighbor Task Force's annual egg hunt to be held on April 7 at South Park.

## REFINERY UPDATE

**Operations:** Julian Stoll reported that the refinery is approaching a major turnaround that includes maintenance and capital improvements. There won't be another turnaround for five years. The turnaround should extend from March to early May. A postcard was sent out to residences and businesses in the area around the refinery. They expect up to 2000 workers to assist with the turnaround. The economy has been reasonably favorable and the refinery will be concluding a long run.

**Safety:** There was one recordable injury about 10 days ago. A contract worker stepped into a hole. There will be a full investigation and a meeting with the contract company to determine whether the worker was following regulations. ConocoPhillips stresses that "practice must match procedure."

**Environmental:** There has been a fourth reportable event so far this year. There was a malfunction of a control on the cracker unit. It was a mistake but not too significant. Despite that, the refinery has a goal of not more than five reportable events a year. The refinery will be very busy with the turnaround from March through May.

**People:** Julian passed on a greeting from Reed Marton, former CAC member, who is now at the Sweeney refinery. Julian does not expect to be bringing in a replacement for Reed until mid-year.

## TRANSPORTATION UPDATE

**Safety:** Mark Hilbert reported great performance this year; still "0" incidents for employees and contractors.

**Environmental:** There was a crude oil release of one pint which was discovered on a walkabout and then scooped up. A "pig" had been inserted into a pipeline in Wyoming and got caught on a valve.

**Operations:** Year to date operations are running very well and preparation is being made for the refinery turnaround. The right of way calls have been slow but greater in number than last year due to the mild winter – about 148 a month. HollyFrontier Corp., the operator of a 31,000 barrel-per-day crude oil refinery in Woods Cross, is expected to start sending gasoline and

diesel fuel to the Las Vegas area over its newly completed UNEV pipeline. The 12-inch petroleum products pipeline UNEV runs 399 miles, originating in Woods Cross, Utah, with terminals near Cedar City, Utah and Las Vegas, Nevada. ConocoPhillips pipeline will be connecting assets to that pipeline, installing a pump station and metering system.

## UPDATE ON US & GLOBAL REFINING & CORPORATE BUSINESS STRATEGY

Travis Sloan, Refinery Finance and Public Relations Manager, reported on the state of American energy, presented a case for a strong domestic refining industry, and discussed the oil and gasoline global commodity market.

### **Oil & Gas Industry: Economic Engine for the Nation**

- Salaries in the oil & gas industry between 2008-2009 were double the national standards
- The industry pays taxes in excess of \$35 billion a year
- The industry is at the forefront of developing advanced energy technology (get more resources out more cheaply); increasing energy efficiency (Star awards), diversifying energy resources and creating jobs (research & development around alternatives). Restrictions in terms of regulations can stifle job creation in the industry. If the country opens new areas for development, it can create new jobs.
- Who owns oil companies? 29.5% mutual funds, other firms; 27% pension funds, 23% individual investors, 14% IRAs, 5% other institutional investors, and 1.5% corporate management of oil companies. If you have a 401K or IRA, you likely own oil stocks and benefit from the returns.
- Future energy security depends on: increasing energy production including opening up areas currently closed like the Alaskan or Gulf reserves; encouraging new energy investment; rejecting new energy taxes that create an uneven playing field, taking a balanced and cost effective approach to climate change regulations.

### **State of the US Refining Industry**

- Refining industry & US jobs: 108,124 direct jobs; 431,115 indirect & induced jobs.
- It is one of the largest manufacturing sectors in the US. Billions of taxes are paid to federal, state & local tax authorities.
- The refining industry makes a significant capital investment to the US economy of over \$28 billion in the last 3 years.
- US refining has seen a reduction in total number of refineries and an increase in capacity. As a result of the Clean Air Act regulations, 70-75 refineries have closed. It is now easier to upgrade or expand existing refineries to handle heavier Canadian crudes than it is to build new ones.
- Regulatory expenditures by medium: air \$83.2 billion, 74%; water \$16.4, 15%; wastes, \$6.6, 6%; and other \$5.7, 5%. There are significant and costly regulations under development. Since 1990, US refiners have invested over \$110 billion in environmental improvements. Policy makers need to understand the implications of these costly regulations. Some are necessary to stay in business and some are due to increased capacity.
- A viable refining industry is integral to: ensuring a strong US job base, meeting US demand in the future, providing cost effective fuel & energy to US industries, providing secure source of fuels to the military, and ensuring a considerable tax basis for national, state & local governments

## **Crude Oil & Gasoline: A Global Commodity**

- Gasoline & crude oil are traded as global commodities like wheat, orange juice & other goods. Prices are set on the open market, not by any single company or organization and are based on a number of factors.
- If you see an increase in crude oil, there will be an increase in gasoline.
- Since US demand far exceed domestic production, US refining industry must compete in the world market for a share of both the world's available crude oil and refined products like gasoline.
- Breakdown in retail price of gasoline: 70% of the pump price goes to ensuring a crude oil supply. The remainder goes for excise taxes and for refining transportation and retail profit.
- A host of factors (many of them uncertain) affect the price of crude oil: geopolitical risks; spare production capacity; OPEC production decisions; non-OPEC supply growth; weather; inventories; global economic growth; speculation, hedging & investment; and exchange rates & inflation. The main driver continues to be supply and demand.
- World oil consumption is expected to grow as the global economy rebounds.
- Surplus crude oil is expected to increase over the next 2 years.
- US energy security could be enhanced by diversifying the sources of supply within the US. US produces 51% of the crude oil we consume. The rest is purchased on the open market.
- There are significant challenges to meeting the projected energy demand in the US. Restricted access to US resources is further challenged by geopolitical instability in other regions.
- The historical retail price of gasoline has increased with the increase in the cost of crude oil and taxes. The refining cost/profit has decreased.
- Gasoline taxes vary by state in the US. Local taxes impact gasoline prices at the pump. Montana is at 46.2 cents per gallon as of January 2012.

## **Conclusion**

- Crude oil is a globally traded commodity and the single biggest component in the price of gasoline. Supply disruptions play a big role in the price of gasoline.
- Federal/state/local taxes impact the price of gasoline paid at the pump.
- Refining margins have been shrinking over time which results in a direct impact on investment.

### Next Meeting Agenda: April 10, 2012

- Refinery Philanthropy Presentation
- History of YVCC & Relationship to ConocoPhillips
- Refinery & Transportation Updates

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