



February 3, 2011

Dear Council Member:

The minutes from our January 29, 2011 **ANNUAL RETREAT SESSION** are attached. The next CAC meeting will be on **TUESDAY, FEBRUARY 8** 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

BILLINGS CONOCOPHILLIPS
CITIZENS ADVISORY COUNCIL
ANNUAL RETREAT SESSION
JANUARY 29, 2011

MEETING MINUTES

Present: Council members: Steve Arveschoug, Keith BearTusk, Bob Carr, Paul Dextras, Hillary Harris, Mike Kautzman, Shirley McDermott, Paul Miller, Linda Pettengill, Jim Ronquillo, Emily Schaffer, Dolores Terpstra, Richard Wilson, Stella Ziegler
ConocoPhillips management: Steve Steach, Reed Marton, Mark Hilbert
Facilitator: Ann Clancy

Absent: Ken Ard, John Pulasky, Elizabeth Stears, Ernie Woods

Purpose

To develop a plan and timeline for 2011 activities as well as create a shared sense of purpose and commitment to our mission.

Outcomes

- Agree on and prioritize topics, projects for 2011.
- Draft calendar for 2011.
- Get to know one another better.

Agenda

- Sharing Expectations for 2011
- Review of ConocoPhillips Global Refining Strategy
- Review of Best Practices: Ideas for 2011
- Generating Proposed Topics & Projects for 2011
- Developing Draft Calendar for 2011
- Summary of Evaluations

SHARING EXPECTATIONS

Four groups discussed and recorded their responses to the following items:

Motivation for joining & remaining with the CAC

- Area development: roads, trees, vegetation
- Bringing students to the CAC meetings
- To tell own story/educate
- Learning opportunity to share with others
- Environmental
- To take information back to others – correct information
- To figure out ways to work with community

- Economic development and benefit
- Networking
- Health
- Helping me decide what I want to do after school
- Opportunity to return support given by CoP to the Senior Center
- Needed a North Park representative; although a lifelong resident, didn't know much about the refinery.

What needs to happen to make 2011 an engaging year?

- Protecting citizen interests: partnerships, needs of community, education, Eat & Meet
- Passion for giving to community and understanding value of CoP
- City and ConocoPhillips vested interest
- Impact of product that is transported in and out of the refinery
- Promote the 811 system: safe operations, call before you dig
- Reach out with diversity: bridging cultures, different areas of community development (Heights, Southside, West end, business); CoP's EE's more engaged in community (professional/blue collar)
- Blow your own horn (\$\$ contributed in community), appreciation of community notes, visit of CEO to Billings so view support from citizens of Billings
- Legislative session
- Eat & Meet
- Refinery beautification
- Expand applicant pool for jobs
- Coke drums – next year's shutdown (topic)
- National energy plan
- Education funding
- More active in taking information back to others
- Complete streets – link to other projects
- Montana Public Health Association, Montana Environmental Health Association – Billings conference in Sept.
- Talk to Southside about alarms again
- Interest in beautification efforts
- Interest in school board activities: Lincoln Center closure, etc.; CoP protest of property tax increase

What do you want to carry forward into 2011?

- Free gas for the CAC!
- Eat & Meet
- Theme of Eat & Meet – going beyond event
- Planting more berms
- Beautification
- Beautification in Southside
- Safety – learn about amateur radio presence
- Transportation presentation
- Transportation 102 – want to see PIG
- Oil and gas overview – maybe more detail
- Refinery updates
- Refinery tour

- Meet with other CACs within ConocoPhillips
- Meet with other local CACs
- Table top drill – use CAC members for mock drill
- Garfield School collaboration

REVIEW OF CONOCOPHILLIPS GLOBAL REFINING STRATEGY

2011 Business Environment for ConocoPhillips & US Refining

- Company adjusted earnings: 4Q09 (\$1,803MM) vs. 4Q10 (\$1,929MM); reflects selling assets such as LUKOIL, Russian oil company
- Exploration & Production (E&P) per BOE (barrels of oil equivalent) Metrics: E&P income steadily increased from 1Q09 (4.04) to 4Q10 (11.66); E&P cash contribution steadily increased from 1Q09 (15.55) to 4Q10 (24.07)
- Refinery & Marketing (R&M) adjusted earnings: 4Q09 (-\$204MM) vs. 4Q10 (+\$207MM); this reflects earnings from 12 US refineries and 3 overseas; international R&M contributed \$178MM vs. \$29MM from US refineries
- Sources & Uses of Cash 2010 from a total of \$32.8 billion: sources of cash were LUKOIL sale (8.3), asset sales (7.1), and cash from operations (17.0); uses of cash were capital program (10.7), cash & ST investment (9.9), debt reduction (5.1), CoP shares (3.9), and dividends (3.2); the company is looking for investments
- Capital structure: equity increased from \$56B in 2008 to \$69B in 2010; balance sheet debt dropped from \$27B in 2008 to \$24B in 2010; debt-to-capital ratio % dropped from \$33B in 2008 to \$25B in 2010
- Return on capital employed: 18% in 2008 to 10% in 2010
- Cash return on capital employed: 28% in 2008 to 20% in 2010

Oil Market Key Messages

This is based on information presented in November 2010 by IHS Cambridge Energy Research Associates, Inc. (IHS CERA), a company advising international energy companies, governments, financial institutions, and technology providers.

- Record oil demand of 88.2 MM barrels per day expected in 2011
- Belief in high long-term cost of oil supports high crude oil price: \$60-80 oil price is needed to incentivize adequate supply
- Brent crude oil projected to average \$81 in 2011, assuming moderation in Chinese demand growth and no steep decline in value of US \$
- Organisation for Economic Co-operation and Development (OECD), a forum of high income economies: industry stocks are high for developed countries & includes crude, natural gas liquids, feedstock & products
- OPEC spare capacity remains above levels of 2003-08; IHS CERA projects excesses from 2011-2014
- IHS CERA upstream capital cost index: shows a peak (230) in 2008 followed by a drop and then a slight upswing in 2010 - 2Q2010 (205) vs. 3Q2010 (207)
- Cost of oil: 3Q 2010 prices show US GOM (deepwater) at 57.46 US\$ per barrel and Canadian Oil Sands at 61.00 US\$ per barrel compared to Saudi Arabia at 20.50 US\$ per barrel and Venezuelan Heavy Oil at 79.79 US\$ per barrel

- Events that could break the oil market out of range-bound prices: increased oil coming out of Iraq, tightening of oil supplies, Iran nuclear issue, China's oil demand growth, rising oil inventories, and currency chaos
- US\$ volatility conceals relative price stability in Euro terms

Downstream Oil Key Messages

- Lighter supply spells lasting trouble: the changing composition of liquid supply will prolong poor market environment & generate more refining closures
- Organisation for Economic Co-operation and Development (OECD) refineries suffer more: poor outlook for oil refineries in developed countries & competition from new emerging market refineries
- Persistent overcapacity keeps margins under pressure
- The distillate market is expected to tighten: the imbalance between demand & supply of distillates is to grow over time
- US gasoline market: limited demand growth & high inventory pressure
- Global spare refining capacity: little change expected, projection for 2010-2013 to stay around 17 million barrels per day (compared to 12 million barrels per day in 2004-2007, the "Golden Age" of refining)
- Refining overcapacity concentrated in mature markets
- Impact of Jamnagar refinery in India: Atlantic basin fuels market faces competition from Indian gasoline and gasoil exports
- Weak margin outlook has reduced refining valuations: there has been a steady decline from 2006 to 2010
- Surge in non-crude liquids exacerbates oil products imbalance: incremental supply (including incremental natural gas liquids & biofuels production) is larger than incremental demand from 2007-2014
- Decreasing demand could generate a surplus of refined products unless more refinery shutdowns occur

Billings Refinery 2011 Goals

- Continuously improve health, safety & environmental performance: no significant incidents, 10% reduction of emissions, OSHA VPP Star certification, complete company operations excellence audit
- Achieve operating & capital plan performance targets
- Continue required standards implementation & improvements: environmental limits, tank management, inspection, testing & preventative maintenance
- Implement new/revised standards: alloy piping, pump safe guards, fatigue cracking
- Develop compliance plans for new regulatory limits: selenium in refinery wastewater, lower sulfur and vapor pressure in gasoline, higher cetane in diesel
- Focused training & development of supervisors, engineers, operators & maintenance crafts
- Complete spring refinery shutdown & small crude tower replacement safely, on schedule & within budget
- Progress plans for 2012 refinery turnaround including major projects: coke drum replacement, etc.
- Prepare for labor contract negotiations

Coke Drum & Turnaround Updates

The first coke drum shipment will leave Lewiston, Idaho on Tuesday, February 1 for Billings. Steve will send Ann updates to be forwarded to CAC members. The refinery turnaround in 2011 will be limited to a short shutdown for inspection, minor maintenance and repairs. A lengthier turnaround is scheduled for spring 2012 to include replacing the coke drums. The coke drum delay will cost ConocoPhillips about \$3 million in legal and increased transportation costs in addition to having to schedule an extra refinery shutdown.

REVIEWING BEST PRACTICE IDEAS FOR 2011

Executive Report: Saybrook Graduate School & Rodeo Refinery Community Advisory Panel (November 2008)

Process & Scope: promote qualitative values, such as trust, communication, transparency, independence, 3rd party facilitation, maintaining tension, taking action & follow through; identify priorities in response to changing environmental & social pressures

Mission & Goals: maintain healthy skepticism of company & its activities; evaluate & adopt new “matrices” by which industrial operations can be evaluated; incorporate changing needs of communities around refinery; evaluate role of CAC within company, among other CACs and across industry

Leadership: clarify formal & informal leadership roles; consider co-leadership (community & company) in identifying issues, setting agendas, performing evaluations, membership & maintaining tension

Relationships: maintain proper “tension” and avoid becoming too comfortable; ensure channels of communication are always open to healthy skepticism & critical concerns; CAC members communicate what they are hearing in the community whether they concur with what is being said; issues of concern can be communicated confidentially to the facilitator

Expectations & Feedback: appropriate level of tension through honest feedback in open, frank discussion around expectations and outcomes; initiate a facilitated discussion around what constitutes an appropriate level of tension & how to maintain it; initiate a discussion around expectations, outcomes & support between CAC and CoP; create a vehicle for ongoing discussion, such as a blog or posing a question in the local media or the company newsletter

Membership: ensure all chairs are filled with diverse, multi-community representative membership; review major stakeholders and identify anyone missing from the table; determine why some members are less engaged than others; bring guests; have CAC members make reports in their areas of representation; invite media to selected CAC meetings for balanced press

Engagement: schedule reality checks, perhaps a closed session of CAC community members; talk about future community support & funding

Community Outreach: use CAC to conduct a survey of community priorities; volunteer at community events; recognize actions of CoP in areas of sustainability and social responsibility; participate in fund raising for community needs; connect with local & regional organizations; host a CAC “best practices” event with other CACs in the area or within CoP

Emergency Preparedness & Response: ensure community is prepared in the event of any environmental, health & safety issues; review & enhance community specific communication strategies, engage in scenario planning, invite participation in drills, educate community on refinery operations

Sharing Best Practices within Company or across Industry: document CAC processes and practices across an industry; hold a bi-annual multi-day or offsite retreat focusing on team-

building; advocate CoP support industry-wide CAC formation through its trade associations; create a CAC manual; encourage trade organizations to conduct research; educate the CAC on decision-making practices & priorities within a corporate environment; support efforts of refinery manager and leadership team to communicate the benefits of CAC interactions “up the chain”; educate CAC and CoP regarding Dow Jones Sustainability Index and conduct an evaluation of which sustainability measures are effective and under what circumstances, which could be maintained and by whom

Wood River CAC Ideas

- Meets monthly all year - sometimes offsite, 4:00-6:00 p.m., 19 community members & 5 refinery members
- Planning session in January – set goals & create sub teams
- Annual projects:
 - ER response open house that CAC helps sponsor and run
 - Town hall meeting: panel of speakers, update on projects & economy, local professors talk about refining impact on local economy, HR people talk about job opportunities
 - Community Leader Dinner: government & business leaders, popular event, pick theme, tour, brief CAC presentation, refinery manager update, & external speaker (e.g., Rayola Dougher, API), invite about 120 and 90 to 100 show up (school board members, library board, legislators)
 - CAC members write down questions they hear from community anonymously on cards and present to refinery leadership for response

GENERATING PROJECTS & TOPICS FOR 2011

Potential Topics

- Transportation 201 presentation that includes ethanol, sample of PIG, where pipelines are located
- Global strategy update: best presented after analyst meeting on March 23
- Legislative issues: Have Perry or Dave speak to this; include issue of school funding
- Coke drums update
- National energy plan
- Education funding – CoP tax, interest in school board activities
- Oil and gas overview in Montana
- Disaster Preparedness Conference in May – some tie with refinery?
- Conferences – Montana Public Health Association/Montana Environmental Health Association

Potential Projects

- ConocoPhillips CEO visits and is featured speaker in Billings at Big Sky EDA annual meeting in October – CAC help to make that happen
- Overview of future of TIF districts (urban renewal concept) in Billings area and impact on refinery: EBURD, SW Corridor, link to Gateway Business Park. Could bring in Scott Rickard, MSU-B. Maybe do a report at end of Legislative session where the concept is being discussed in March or April and again in November. The refinery is located between the districts and could discuss any impact on the refinery. With Gateway

- Diversity – expanding application pool for CoP. Reach out for more diversity. Native American kids in school – invite to a meeting. Invite members of the Bridging Cultures group to talk about their mission.
- Update refinery beautification plan – can CAC get involved, e.g., with berms? (May)
- Neighborhood Eat & Meet at RiverStone Health (Sept). Expand on Eat & Meet? Ask or invite more community leaders (e.g., Planning board members). Partner with others for Eat & Meet. Get survey information back more effectively
- Add a community leader event and reach different audience that way?
- Off site meetings: COT and meet students (October); Garfield School – update on educational activities on Southside
- Have COT students visit CAC meetings during the year
- Refinery tour – invite guests, government officials (June)
- Meet with other CACs locally and within CoP: Cenex, sugar factory, 7 major pollutant sources in Billings area
- Refinery impact on community; blow own horn. Look for opportunities in community to present. Greater visibility.
- Talk to Southside about sirens & safety
- Coke drum arrival – have a ribbon cutting when first come into Billings (March); invite CAC and government officials. Do something when final coke drum arrives – something with employees?
- Mock disaster drill – CAC participation and talk about community safety – and groups that play a role (e.g. Amateur Radio), Fire Dept. plans **HOLD FOR 2012**

DEVELOPING DRAFT CALENDAR FOR 2011

The following items were noted on the draft calendar for 2011:

Month	Activities
February 8	<ul style="list-style-type: none"> • Coke Drum Project & Refinery 2011 Shutdown • Finalize CAC goals & timeline for 2010 • Neighborhood Eat & Meet Planning
March 8	<ul style="list-style-type: none"> • Transportation 201 • Coke Drum Ribbon Cutting
April 12	<ul style="list-style-type: none"> • Global ConocoPhillips Strategy
May 10	<ul style="list-style-type: none"> • Beautification update
June 14	<ul style="list-style-type: none"> • Refinery tour
July & August	<ul style="list-style-type: none"> ▪ <i>No CAC meetings</i>
Sept. TBD	<ul style="list-style-type: none"> • Neighborhood Eat & Meet • Meeting Location: RiverStone Health
October 11	<ul style="list-style-type: none"> • MSU-B COT visit • ConocoPhillips CEO visit?
November 8	
December 13	<ul style="list-style-type: none"> • Review of 2011 Goals

SUMMARY OF EVALUATIONS

1. What did you most appreciate about today's planning session?

- The common goals of the group
- Good exchange of ideas. Plenty of new projects and initiatives opened up. I enjoyed the breakfast and lunch – great food!
- Information and getting to know each other better.
- Information! Love to hear what's going on.
- The time to discuss issues past and present.
- Well organized.
- Good review of why we're here. Nice to have a vision and direction.
- Open communication. Educational.
- Open communication. Getting to know CAC members – personally and professionally. Participation.
- Pleasant people and good meeting place.
- A logical exchange of ideas.
- It is great for pulling together items of interest from diverse perspectives of members.
- How well we moved through with the planning.

2. What would you have changed or done differently?

- Balance out the breaks. Instead of just prodding for new ideas, please consider brainstorming sessions to get a better volume of input
- Shut down noisy machinery if possible.
- I know there are a lot of things to cover but any “cut to the chase” opportunities are appreciated.
- Nothing (4x)
- Nothing – well done.
- Nothing – well planned and on time.
- Nothing – good job, Ann.
- Nothing – well organized and delivered. We had good participation from all.
- Well organization and kept on task. Liked the small group concept.

3. What unanswered questions, comments or concerns do you have about the CAC framework for 2011?

- None. (5x)
- None. Thorough discussion!
- I had all my questions answered. Good meeting.
- TIFs & workforce diversity are my two priorities.
- Good to hear Steve talk about goals, programs and activities of the refinery.
- I may have when the plan becomes final.
- From prior year I am confident all items are addressed if not for full meeting coverage but topic is discussed in some manner.

4. Any other comments? Any suggestions for the facilitator? Any suggestions for ConocoPhillips?

- Nothing.
- Location?

- Steve is sometimes hard to hear.
- I suggest meeting at a different location. The noise of the kitchen equipment drowns out the speaker when you are at the back of the room. The temperature was cold all day.
- Good open discussion from the ConocoPhillips representatives at the session.
- I'm very satisfied with the session – it went very well.
- It's a privilege to be part of the CAC. Well run and very informative. Thanks.
- Being quite new to the CAC, I am still short on ideas.
- Well orchestrated.
- I like the open talk that we all get to do.

Next Meeting Agenda – February 8, 2011

- Welcome/Introductions/Announcements
- Honoring Gladys Stahl
- Update on Coke Drum Project & Refinery 2011 Shutdown
- Finalizing 2011 CAC Goals & Calendar
- Planning for Neighborhood Eat & Meet
- Refinery & Transportation Updates
- Next meeting: March 8, 2010