



Billings Refinery

June 19, 2015

Dear Council Member:

Please find attached the minutes from our June 9, 2015 CAC meeting. The next CAC meeting will be the Meet in the Park event on **THURSDAY, SEPTEMBER 10, 2015** at South Park gazebo. The event will run from 5:00-7:00 and there will be a brief CAC meeting from 7:00-7:30.

Sincerely,

Ann L. Clancy, Ph.D.
Meeting Facilitator

**September CAC Meeting Location:
MEET IN THE PARK EVENT
South Park Gazebo**

**PHILLIPS 66 BILLINGS REFINERY
CITIZENS ADVISORY COUNCIL
June 9, 2015**

MEETING MINUTES

- Present:** Council members: Keith Beartusk, Bob Carr, Paul Dextras, Shirley McDermott, Bruce MacIntyre, Eileen Morris, Gregory Neill, John Pulasky, Jim Ronquillo, Michelle Zahn, Mike Yakawich, Stella Ziegler
Phillips 66 management: Ray Rigdon, Colin Franks, Randall Richert, Mark Hilbert
Facilitator: Ann Clancy
- Absent:** Ralph Hanser, Travis Harris, Lance Johnson, Melissa Patton, Katey Plymesser, Melanie Schwarz, Emily Shaffer, Andrew Sullivan,
- Guests:** CAC Member Guest: Regina Griemsman, Executive Director, Big Brothers Big Sisters
City College Process Plant Technology students: Austin Pickering

AGENDA

- Welcome/Introductions
- Honoring Randall Richert
- Legislative Updates
 - Montana Petroleum Association Activity & Production Summary & Legislative Report by Dave Galt, Executive Director, Montana Petroleum Association
 - Summary of Montana Legislative Activities Affecting Billings by Bruce MacIntyre, Billings Chamber of Commerce
- Mid-Year Refinery Philanthropy Report
- Community, Refinery & Transportation Updates
- Next Meeting: September 10, Meet in Park event

WELCOME/INTRODUCTIONS

Bob Carr introduced his guest, Regina Griemsman, Executive Director of Big Brothers Big Sisters. City College Process Plant Technology student Austin Pickering also attended.

Colin Franks shared how Shelby Eckart, a Process Plant Technology student who attended the May CAC meeting, wrote an email to CAC member Andy Sullivan indicating she was inspired by the Phillips 66 women professionals who presented at the May meeting to go on to obtain a mining or mechanical engineering degree for herself.

Honoring Randall Richert

Ray Rigdon presented Randall Richert, Consultant-Air Environment with the refinery, for his three years of dedicated service as a CAC member. Over the 22 years he has been working at the Billings refinery, Randall was a frequent speaker on issues related to air quality and air compliance. He was considered an expert in his field within the company overall and has been very involved in company and local groups and technical organizations focused on air quality

control such as the Environmental and Safety Communication Committee. Randall is retiring from Phillips 66 at the end of June.

LEGISLATIVE UPDATES

Montana Petroleum Association Activity & Production Summary 2014

Dave Galt, Executive Director of MPA, presented on Montana oil and gas productivity over the past year. He showed a map which highlighted oil and gas wells around the state. Over the years in Montana, there have been more than 47,000 wells dug with only 11,000 active wells left in production. The remaining wells have been plugged and/or abandoned. Currently there are some wells producing minimally in Shelby County, gas fields near Chinook County, and functioning wells in Richland County and Elm Cooley. Enhanced oil recovery using CO2 injection technology is underway in the area around Bell Creek by Danbury Resources. The second and third phases of enhanced oil recovery can yield another 16 to 20% more product from old wells.

Dave showed slides indicating oil and gas production history by completion year. Pre-1994 oil wells using vertical drilling showed a steady decline throughout the 1980s and early 1990s. Horizontal drilling started in 1993 which resulted in some production peaks in the early to mid-2000s. He noted that prices held moderately stable until the first part of the 2000s which resulted in a dip in production followed by a small uptick which has held stable through 2014. Pre-1994 natural gas wells showed steady production followed by peak production in the mid-2000s and then a drop in the late 2000s to present time. Dave pointed out that if you are not drilling wells, your production slides.

In another slide, Dave showed oil and natural gas production tax revenue from 1999 through 2014. Revenue collection indicated a steady rise from 1999 through a peak in 2008 and then a drop in the following years. He quoted \$250 million in revenue for FY 2014 or about \$60 million a quarter. However, in fourth quarter 2014, revenues were only at \$36 million. If the price of oil does not go up, the state will eventually feel the impact. Montana's oil production has declined from its 2006 high as producers shifted to take the thicker North Dakota Bakken shale oil. The U.S. Energy Information Administration (EIA) forecasts a continued decline in WTI crude (\$97.98 in 2013 - projected \$65.57 in 2016) and Brent crude prices (\$108.56 in 2013 to \$70.49 in 2016). Natural gas and electricity are forecasted to hold steady through 2016.

Dave showed the trending of oil and gas drilling permits from 1990 through April 2014. There was a steady rise in permits from 1997 through 2008 and then a significant drop in 2009. The peak of permitting was around 2006-2007, especially coal bed methane which spiked in 2005. There have been no permits for coalbed methane since 2009 and most of the wells have been plugged and abandoned. While natural gas drilling permits have virtually stopped since 2011, oil drilling permits have held steady. Right now there are no drilling rigs operating in Montana. There are still 90 operating in North Dakota.

The governor's sage grouse management plan, modeled after a similar program in Wyoming, passed the Legislature with \$10 million in funding approved. Throughout the session, the program and funding had broad bipartisan support and both passed giving Montana the lead in sage grouse conservation in the state with the goal of preventing a threatened or endangered listing by the U.S. Fish and Wildlife Service. This legislation, according to Dave, allows the state to take a proactive position to implement a plan. The BLM has produced four resource management plans in the state which address sage-grouse habitat which is considered a significant development.

In terms of hydraulic fracturing, Dave reported that the BLM issued a final rule in March 2015 to support responsible and safe hydraulic fracturing activities on public and tribal lands. The Dept. of Interior followed a transparent public process that included more than 1.5 million public comments. The standards are designed to improve safety and help protect ground water by updating requirements for well-bore integrity, wastewater disposal and public disclosure of chemicals. There are more than 100,000 oil and gas wells on federally managed lands and of the wells currently being drilled, over 90% use hydraulic fracturing. The key components of the rule include increased transparency requiring companies to publicly disclose chemicals used in hydraulic fracturing to the BLM, higher standards for interim storage of recovered waste fluids, and measures to lower the risk of cross-well contamination with chemicals and fluids used in fracturing.

Dave pointed out that four refineries in the state produce 60% of the manufacturing capacity in Montana and most of those are in Yellowstone County. These refineries make a significant impact in taxes, jobs and the average wage (now over \$100,00). The 2015 session passed HB 156 which eliminates property taxes on pollution control equipment for a 10-year period. Dave stated that while the primary beneficiary of the legislation is the downstream sector, there are benefits to midstream and upstream companies, including tax benefits for carbon dioxide capture and sequestration equipment as well as pipelines used to carry CO2 for enhanced oil recovery.

Dave summarized the current industry issues below:

- Zero rigs operating in Montana at this time.
- Some shallow well activity in the Shelby- Cut Bank Area
- BLM Hydraulic Fracturing Rule
- BLM Resource Management Plans-Sage Grouse-State Plan
- Environmental requests for additional oil and gas regulations

The following questions/comments from CAC members and guests were recorded:

- *Once a well has been plugged, can any part of it be reused?* Don't know, but you can re-enter a well with the right technology.
- *How fare the U.S. refineries with the lower oil prices?* The U.S. refineries are at a small advantage in terms of the price for WTI crude and Brent crude and are still making money in the global economy.
- *Isn't the Bakken oil discounted?* The oil from the Williston Basin is discounted because it has to use rail transportation and there is a quality difference.
- *Does Phillips 66 bring in oil by rail in Billings?* We don't.
- *How many drilling permits have been issued this year?* There have been 13 permits issued since January 2015 but still no drilling rigs in operation. A higher oil price is needed to bring back the drilling.
- *What is the breakeven point to be profitable to drill?* Probably it needs to be about \$75 a barrel in Montana to get the drillers back.
- *If oil prices do go up, what would the cost of gasoline be?* Probably in the \$2.50 to \$3.00 range but it is hard to stay in that "sweet spot" because of the global economy and the impact of demand on prices.
- *Is the Keystone Pipeline important to Montana?* Initially it may have a negative impact locally as crude oil costs go up, but in terms of location the Montana refineries will eventually have an advantage. It's good for the country as a whole as Canada is going to transport its oil in any case. MPA supports the Keystone Pipeline.

Summary of Montana Legislative Activities Affecting Billings

Bruce MacIntyre, Director of Business Advocacy & Government Affairs with the Billings Chamber of Commerce, reported on Legislative activities and decisions that affect the Billings area. The Chamber represents about 1200 businesses and had 300 bills it was following in the Legislature, focusing more intensely on 120 of them. Bruce provided information on the following activities:

- The 2015 Legislature ratified the Confederated Salish and Kootenai Tribes (CSKT) Montana Compact after more than a decade of negotiations to resolve the Tribes claims to reserved water rights within the State. The Compact will make new water available for commercial and irrigation use, end the water administration void on the Flathead Reservation, allow for economic development under conditions of legal certainty on and off the Reservation, and facilitate the completion of the statewide general stream adjudication. In addition, the Compact establishes a technical team with irrigator representation to implement irrigation project upgrades to protect historic irrigation use and meet Tribal in-stream flow targets.
- Public intoxication legislation to deal with the serial inebriates in downtown Billings was an emotional issue that passed the Senate but was tabled in House Judiciary. A motion to reconsider died on a tie vote. There are about 75 inebriates that cost the city roughly \$2.2 million/year.
- Medicaid expansion was another priority which ended up as a compromise bill that made it through the Legislature with the support of Democrats and with “responsible” Republicans passing it by narrow margins.
- A crime lab in Eastern Montana to deal with the backlog of work was successfully passed after being heavily amended. To test evidence now, it must be sent to Missoula where there is a backlog of up to six months.
- A bill to revise taxation of pollution control equipment was vetoed. It would have exempted such equipment placed in service after December 31, 2012.
- Another bill to lower business equipment tax passed. Equipment valued at under \$6 million will be taxed at 1.5%. If that threshold is exceeded, the rate is 3%. The Chamber has successfully lobbied to lower the business equipment tax from a high of 12% in the 1980s to the current 3%. The Chamber hopes to eliminate it entirely.
- The Legislature voted to increase funding for career technical education. The proposed bill to increase mill allocation to pay for Votech schooling failed.
- Late last year, the Bullock administration negotiated a deal with public-employee unions that would raise state employee pay 50 cents an hour this year and next. This was not passed.
- The Chamber supported infrastructure development for Eastern Montana to help energy-impacted cities and counties to get funding to make repairs and upgrades. This did not pass.

Bruce noted that this was his sixth Legislative session representing the Chamber and he found it to be one of the most contentious he’s ever seen. He was sad to see politics get in the way of practicality and to see skillful negotiation go by the wayside.

The following questions/comments from CAC members and guests were recorded:

- *Is the State adjusting for a shortfall on income revenue from oil, business taxes, etc.?* Each income projection is sliding downward and we don’t see much potential for upward movement. A bad fire season could have a significant impact.
- *Was there a property value tax increase proposal?* While being beneficial to municipalities, it would be a shock to business owners. We are completing a six-year cycle and are in the sixth year so we will be getting property tax assessments in the next month.

- *Will water rights go to the original boundaries of the reservations?* The Salish and Kootenai tribes have senior water rights over all other users including the Crow tribe. Billings' water rights are junior to those of the tribes. There will be lawsuits and this still has to go through Congress and probably through the federal court system.

MID-YEAR REFINERY PHILANTHROPY REPORT

Colin Franks reported on the refinery philanthropy activities in the first half of 2015. He named the top recipients of funding such as the School District, Police Department, Fire Department, Audubon Society, American Cancer Society, and individual schools which totaled \$337,000. Another \$40,000 has been distributed among many other organizations ranging from Big Sky Economic Development to ZooMontana and the Southside Neighborhood Task Force. So far, the distribution is similar to 2014. This year completes the cycle of three large installments to the school district. Added to this philanthropy would be the multitude of volunteer hours on the part of refinery employees, matching grants, and the funding of Meet in the Park community event.

COMMUNITY UPDATES

CAC members reported the following:

- The Gardener's market has started up again in South Park on Thursdays at 4:30 p.m. A new opportunity this year is that the value of food stamps will be doubled. There will also be cooking demonstrations.
- Saturday the 13th there will be a competition at the Skate Park from 10:00 – 8:00 p.m. with food and games.
- The City Council has passed a budget. The waste water treatment plant has been upgraded and Phillips 66 is paying to become part of the system. Tours are now available. A new water spray feature will be installed at South Park this summer. A new drainage system is being updated around North Park and the Yegen Drain.
- The East End industrial area storm drainage project is underway with the purpose of reducing flooding in the downtown area. Phase I of the project will clean out and expand the Yegen Drain and give it the capacity for upstream expansion of the storm drain piping. The City will be rebuilding Calhoun and Orchard streets next year. There was a bid opening today on 8-10 projects that included some out of state contractors. There's a lot of work to be done.
- The Fire Department is awaiting arrival of a 100-foot platform fire truck. The Department is building a training facility at the airport constructed out of 11 cargo containers into a two-story structure to do fire suppression training. Companies like Phillips 66 will have access to do their own specialized training in the structure and/or partner with the Fire Department. This facility is beneficial for the community at large as municipal insurance services look for improvements such as these that help with emergency services for the whole area. A new 911 center is being planned and some property has been donated that is currently undergoing environmental studies for some minor contamination.

REFINERY UPDATE

Ray Rigdon reported the following:

Operations: The refinery is running well and setting production records every month and making as much gasoline as possible. The \$260 million crude and vacuum improvement project is moving ahead with initial civil work and permitting. It will be the biggest project currently undertaken in the company. Planning

is already underway for the anticipated 2017 turnaround, which may be the biggest such effort to date for the refinery. Turnarounds used to be scheduled for every 5 years but with new regulations that schedule may change to doing partial turnarounds every 2.5 years.

Safety: It's been a good year with no recordable injuries.

Environmental: There was one reportable environmental event early in the year involving the H2S fuel system that has been resolved.

Corporate: Phillips 66 CEO and Executive Vice President are coming to town next week to do an annual Stewardship Review to examine the state of the refinery. Last week the refinery was visited by Homeland Security which has a program for regulating refining facilities against terrorist attacks. The refinery was given a clean bill of health in terms of security practices and the audit was completed in half the time.

TRANSPORTATION UPDATE

Mark Hilbert reported the following:

Operations: Pipelines are running well. There have been 287 calls in May in Yellowstone County alone. The U.S. Department of Transportation, Pipeline Hazardous Materials Safety Administration (PHSMA) is conducting an audit looking at the Pioneer pipeline system.

Community: Mark related a story about someone doing drilling in the Post Falls, ID area with no signs or indication that they had checked about pipeline locations. A concerned neighbor called the call center and upon investigation it was found that the drilling augur was as close as two-feet from a pipeline. Mark sees this as confirming the growing reputation of the call center in the community as to the importance of ensuring pipeline safety from such incidents. The center has a program to reward concerned individuals who call in with information about drilling around pipelines. They are rewarded with a gas card

Safety: Nothing to report.

Environmental: No environmental incidences to report.

NEXT MEETING: SEPTEMBER 10

MEET IN PARK EVENT

SOUTHSIDE PARK – GAZEBO

5:00-7:00 p.m.

Brief CAC Meeting from 7:00-7:30 p.m.