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HOUSTON | BY KRISTEN HAYS

Phillips 66 says a long-proposed crude-by-rail project at one of its California refineries is more critical to supply because of the extended shutdown of an oil pipeline that ruptured last year.

Jim Anderson, manager of the project proposed at its Santa Maria refinery in Arroyo Grande, California, said on Thursday that last May's shutdown of a Plains All American Pipeline LP line has made the rail facility "more urgent."

Plains' Line 901 moved oil produced in Exxon Mobil Corp's Santa Ynez offshore oilfield, and production ceased when the pipeline burst.

Both "were key to maintaining the viability of the refinery," Anderson said during a webcast of a San Obispo County planning commission hearing on Phillips' request to build the rail facility.

Phillips 66 proposed the project in 2013 to widen supply options as California heavy crude output shrinks. The facility would handle just heavy crude because the Santa Maria plant is not built to run light oil.

The Phillips proposal and others in California have faced strong opposition and lengthy environmental reviews after multiple fiery crude train crashes since mid-2013.

The county's planning staff last week recommended squashing it.

"Our 46,000 residents are not happy about the extreme risks," San Luis Obispo Mayor Jan Marx said.

Anderson said Phillips 66 now aims to bring in three trains per week rather than five. That would reduce incoming crude to about 25,000 barrels per day from more than 41,000 bpd.

Jocelyn Thompson, an attorney representing Phillips, said that fewer trains would ensure the project met diesel emissions limits.

Last week Phillips 66 President Tim Taylor told analysts that the refinery has increased trucking crude to the plant, but "until we get that pipe back in service, or an alternate, it's harder to get the full volume that we need."

The hearing is slated to continue on Friday.

Exxon Mobil Corp will soon start trucking crude from two Los Flores Canyon storage tanks to the Phillips plant and a Plains pipeline hub. The tanks contain 425,000 barrels and the company has no means other than trucks to cut those stocks as a safety precaution with Line 901 shut.



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The Santa Maria plant provides initial crude processing, and its output moves via pipeline more than 200 miles north to the company's refinery in Rodeo near San Francisco to turn into fuels. The combined capacity of both plants is 120,200 bpd.

(Reporting By Kristen Hays; Editing by Chizu Nomiya)

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