PHILLIPS 66
Santa Maria Refinery
2555 Willow Road
Arroyo Grande, CA 93420
805-343-1776

October 4, 2016

Via Electronic Delivery
RHedges@co.slo.ca.us

Members of the Planning Commission
San Luis Obispo County
County Government Center
976 Osos Street, Room 200
San Luis Obispo, CA 93408

Attention: Ramona Hedges, Planning Commission Secretary

Re: Phillips 66 Rail Spur Extension Project /
Coastal Development Permit DRC2012-00095

Dear Commissioners:

This letter provides information supporting the proposed statement of overriding considerations found in Section 4 of Exhibit C to the staff report dated September 22, 2016. We had previously provided some of this information in a draft statement of overriding considerations submitted to Ryan Hostetter on August 15, 2016 by Jocelyn Thompson on behalf of Phillips 66. The draft statement of overriding considerations was based on my knowledge and expertise, and the facts presented below. This letter also provides information responsive to the Mesa Refinery Watch issue paper entitled Regional Economic Effects (September 6, 2016) and its Rebuttal of Phillips 66's Suggested Statement of Overriding Considerations (September 7, 2016).

Economic Benefits Associated With the Existing Refinery

The proposed statement of overriding considerations states that the Refinery currently employs approximately 200 workers, including approximately 130 permanent, full-time workers directly employed by Phillips 66, and approximately 70 regular employees of Phillips 66's contractors. These numbers vary from time to time. As I testified before the Planning Commission on September 22, 2016, the shutdown of the Plains All American Pipeline from Las Flores Canyon to Sisquoc interrupted the Refinery's crude supply, and the Refinery has been running at approximately 2/3 capacity since May 2015. The Santa Maria Refinery relies on contractors to perform maintenance, accounting, administrative, engineering and other services. When the Refinery is undergoing a major maintenance turnaround, which occurs every 3 to 5 years, even more contract employees are employed at the refinery. Due to our current reduced refining rates, we have also cut back on work performed by contractors.

The proposed statement of overriding considerations estimates that, for 2013, the local payroll associated with full-time employment at the Refinery totaled $44,299,000, consisting of approximately $17,879,000 in compensation paid to Phillips 66 employees, and a contractor payroll of approximately $26,420,000. These figures come from Phillips 66 Finance and Accounting department. I personally know nearly all of the full-time employees of the Refinery, and I am aware that the vast majority live in San Luis Obispo County or in the immediately adjacent counties along the Central Coast. Contractor employees also live in the region.

The proposed statement of overriding considerations states that Phillips 66 paid approximately $2,236,000 in state and local taxes associated with the operation of the Santa Maria Refinery in 2013, and presented a summary of taxes paid.

The proposed statement of overriding considerations also presents information regarding purchases of goods and services from in-state vendors in 2013. These goods and services include materials such as process equipment, piping, pumps, motors, towers, heat exchangers, valves and flanges, as well as services such as welding, machining, electrical, landscape, janitorial and others. I am familiar with these vendors as I approve purchase requisitions, service orders and invoices. I also provide specifications for the solicitation of material bids and services proposals. Many of these vendors are located in San Luis Obispo County or the immediately adjacent counties along the Central Coast.

Economic Benefits Associated With Construction and Operation of the Project

Construction and operation of the Rail Spur Extension Project will sustain and increase the above economic benefits in a number of ways.

The proposed statement of overriding considerations estimates that construction of the Project will require a capital investment of approximately $40,000,000 to $60,000,000. Given the extended period of time required to prepare permit applications, complete environmental review, and obtain project approval, in my experience it would be highly unusual for a project applicant to have obtained firm contractor bids for a project of this nature at this stage. I prepared the cost estimate, applying my experience and standard practices for estimating the cost of major construction projects in the refining sector. I have been working in the refining sector for 26 years. In my current position as maintenance superintendent for the Phillips 66 Santa Maria Refinery, I am responsible for the maintenance of all refinery equipment and facilities to include welding, machining, electrical, instrumentation, buildings, grounds and fences. In addition I also manage major construction projects at the refinery. In this role, as well as in prior positions, I have had substantial responsibility for and am experienced in developing project concepts and managing projects through design, permitting and construction. Over the years, I have been involved in more than $150 million of construction projects, including responsibility for costs estimation and cost management.

The execution of a project this size requires a series of steps and internal approvals to ensure that only those projects that are economically viable proceed. Initially, a rough cost estimate is developed to see if the project concept is even viable. If so, additional resources are committed to further develop the project, along with the cost estimate. There are usually three or four internal stages of Phillips 66 management's review and approval of a development a project, with each stage being more detailed. At each stage, the cost estimates become more precise. This way, management can continually evaluate the viability of a project several times before actual construction to ensure that the project meets the requirements and that its costs are known. In the case of the Rail Spur Extension Project, an extensive amount of engineering, design, environmental study and planning had to be completed in order to provide an adequate project description for the permit application and for the EIR. This detailed preliminary work allowed Phillips 66 to prepare a very detailed and accurate cost estimate for the project. In my experienced view, the cost estimate of $40-60 million is accurate within approximately +/- 20%.

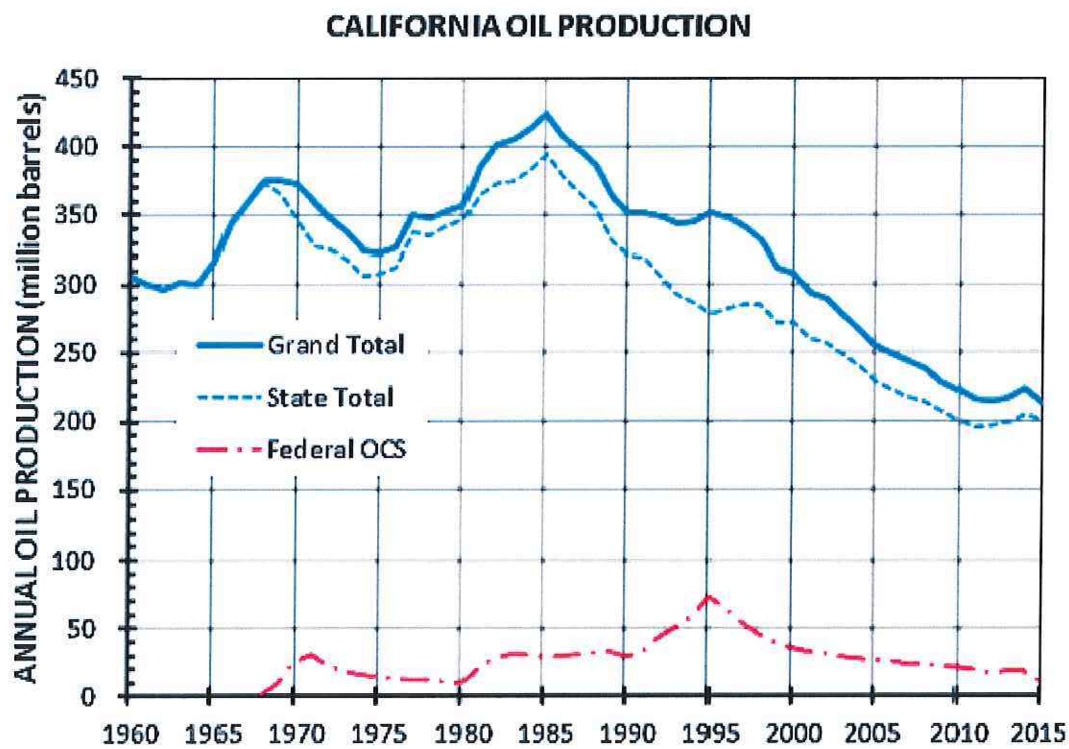
The proposed statement of overriding considerations estimates the workforce needed for project construction and operation. While construction jobs are often referred to as short-term jobs, workers in the construction trades depend on a continuous succession of short term assignments in order to sustain full-time employment to support themselves and their families. I estimated the total number of construction workers required for the project (up to 200 jobs) by estimating the number of workers from different construction trades needed to complete the various steps of construction, from demolition to grading, etc. Similarly, the estimate of 8 to 12 new permanent jobs is based on my analysis of the skills required to operate the proposed equipment safely and efficiently, and reflects my consultation with managers at other, similar terminals operated by Phillips 66 and other companies.

As described in the proposed statement of overriding considerations, after completion of project construction, the Refinery will be reassessed for purposes of calculating property tax. The final reassessment will be determined by the County Assessor. Based on my past experience in San Luis Obispo County, I estimate that property taxes will increase approximately $400,000 to $600,000 as a result of the Project, but this number cannot be known for certain until determined by the County Assessor.

The Phillips 66 Project Will Not Cause a Reduction in Local Crude Production

The Mesa Refinery Watch issue paper entitled Regional Economic Effects (September 6, 2016) and its Rebuttal of Phillips 66's Suggested Statement of Overriding Considerations (September 7, 2016) speculate that the Rail Spur Extension Project will cause a reduction in regional GDP, employment and payroll earnings. But the paper and rebuttal are based on two erroneous assumptions. The first erroneous assumption is that regional crude production is growing, and that the additional crude is available to Phillips 66. The second erroneous assumption is that crude delivered to the Santa Maria Refinery by rail will displace an equivalent amount of crude that could be produced locally but will not be produced because of the Project. The report and rebuttal are premised on the assumption that the Project will cause local crude production to be shut-in (i.e., production suspended or terminated).

The assumptions are contrary to crude production trends and the marketplace. Overall, production of crude in California has been declining steadily. This can be seen in the figure below, which shows production statistics from 1960 to 2015.



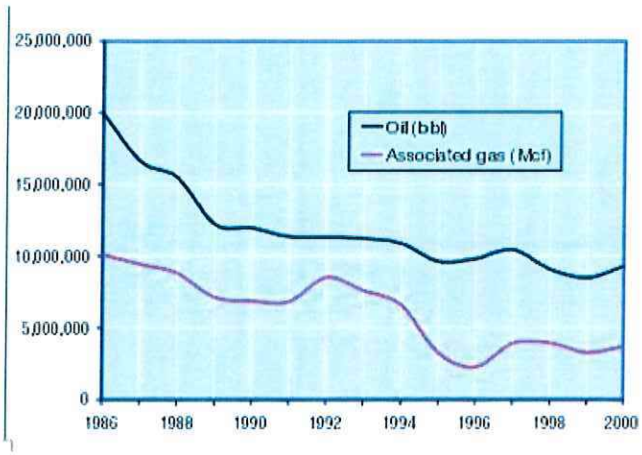
Source: California Department of Conservation, Division of Oil, Gas and Geothermal Resources, *2015 Report of California Oil and Gas Production Statistics*, posted May 3, 2016, at ftp://ftp.consrv.ca.gov/pub/oil/annual_reports/2015/PR03_2015.pdf .

Against this backdrop, Mesa Refinery Watch asserts that production from the Central Coast has been stable, or even has increased. To create this impression, Mesa Refinery Watch compares the District 3[1] production data from 2005 to the data from 2014. (See page 6 of the rebuttal.) These two years represent among the lowest and highest production numbers over the past 30 years, so rather than showing a growth trend, this is actually just a comparison of the extreme high to the extreme low of this 30 year period. At the high end, only 1986-1988 had production higher than 2014, and at the low end, only 2006 had lower production than 2005. It is well known that crude oil production overall is cyclical, often tied to larger economic forces. Yet even with the cyclical nature of production, the Central Coast, as with the rest of California,

[1] District 3 includes San Luis Obispo County, as well as Santa Barbara, Monterrey, Santa Cruz and Santa Clara Counties.

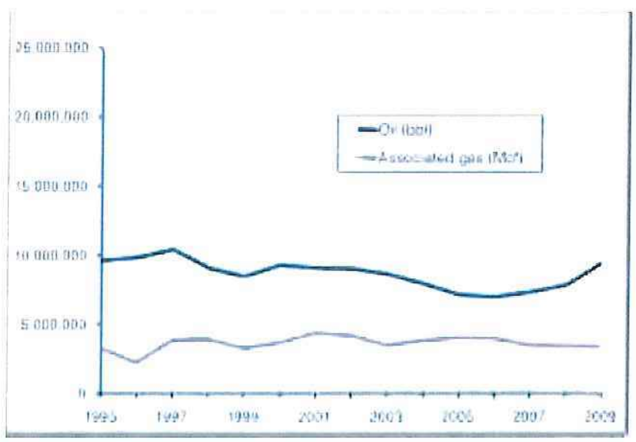
continues to decline. Below are two figures prepared by the California Department of Oil, Gas and Geothermal Resources showing the District 3 trend.

<u>Excerpt from Oil and Gas Production Report for District 3 – Year 2000</u>



Year	Oil (bbl)
1986	19,922,838
1987	16,618,605
1988	15,456,324
1989	12,224,738
1990	11,966,697
1991	11,378,372
1992	11,322,533
1993	11,249,140
1994	10,876,032
1995	9,643,629
1996	9,831,477
1997	10,436,594
1998	9,075,994
1999	8,484,617
2000	9,292,443

<u>Excerpt from Oil and Gas Production Report for District 3 – Year 2009</u>



Year	Oil (bbl)
1995	9,643,629
1996	9,831,477
1997	10,436,594
1998	9,075,994
1999	8,484,617
2000	9,292,443
2001	9,106,681
2002	9,014,677
2003	8,618,162
2004	7,926,479
2005	7,156,609
2006	6,976,164
2007	7,330,526
2008	7,848,844
2009	9,436,332

DOGGR did not issue production reports for 2010 or 2011, and more recent production reports do not contain graphs for each district, however the annual production data from 2012 through 2015 is summarized below:

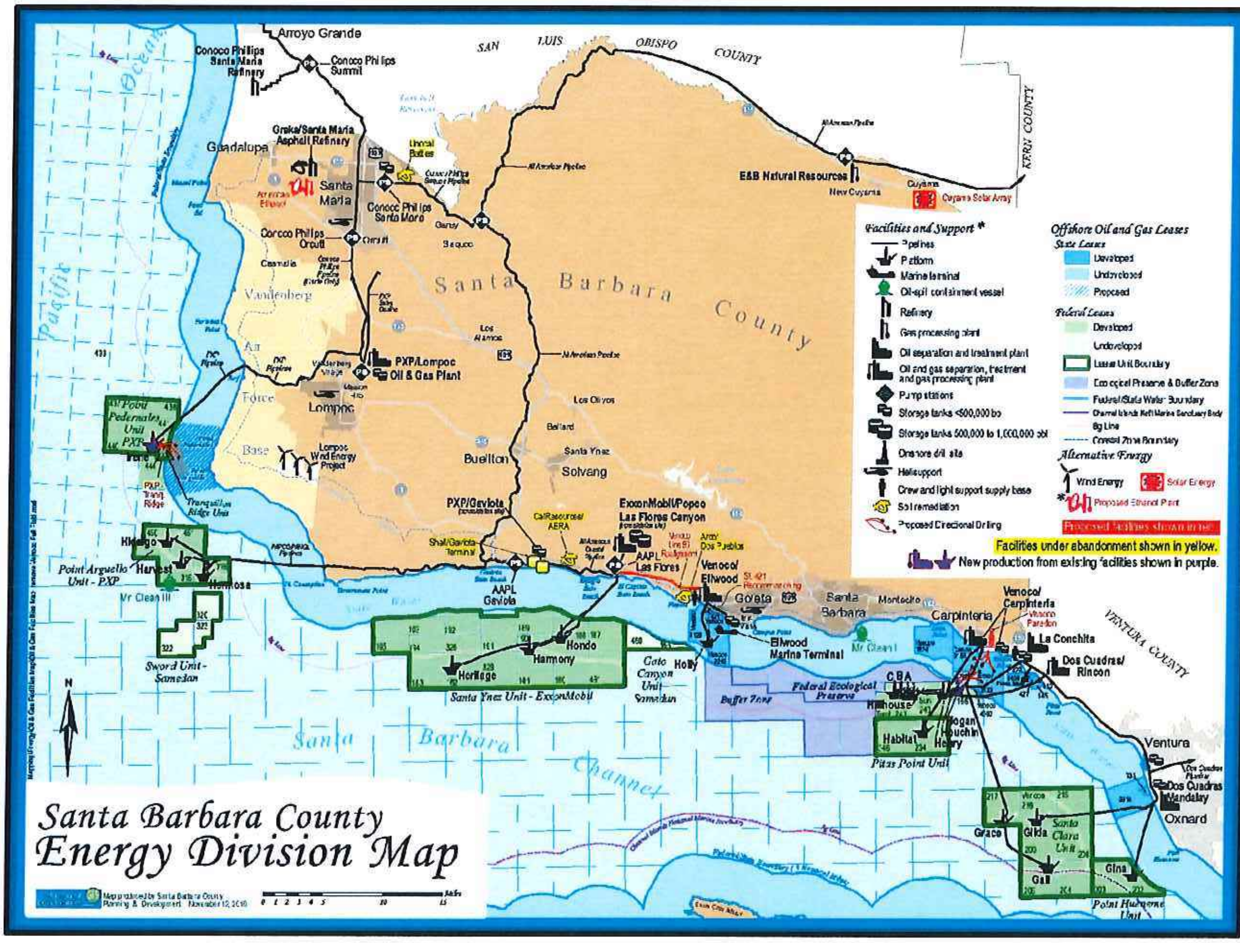
District 3 Crude Oil Production, 2012-2015

Year	Oil (bbl)
2012	12,389,260
2013	13,869,348
2014	14,230,255
2015	12,995,723

The data shows that the overall trend is downward, albeit with an upward tick from approximately 2010 to 2014. District 3 production in 2014 was only just over half the amount produced 30 years ago, and production has again declined following 2014. The complete production reports, as well as the supporting production data are at http://www.conservation.ca.gov/dog/pubs_stats/annual_reports/Pages/annual_reports.aspx .

The District 3 data includes production from the San Ardo field, which the 2015 production report lists as the 8th largest producing field in California. The annual production reports show that over the past 20 years, the San Ardo field has consistently accounted for 45% to 55% of crude oil production from District 3. In 2015, it accounted for nearly 60% of the District 3 production (7,796,469 barrels out of a total District 3 production of 12,995.723 barrels). This is important because of the second erroneous assumption made by Mesa Refinery Watch, i.e., that Central Coast crude oil production cannot get to market and therefore will be "stranded" or shut-in if Phillips 66 receives crude by rail. Mesa Refinery Watch assumes that additional infrastructure would be required to move crude to refineries other than the Santa Maria Refinery, and that such infrastructure is uncertain due to the high capital investments and permitting hurdles. But crude oil from the San Ardo field currently moves to other refineries. San Ardo crude is shipped to refineries in the San Francisco Bay Area by truck, and it is shipped to refineries in the Los Angeles area via rail. There is no reason to think that new infrastructure would be required to continue movement of this crude to the Los Angeles and Bay Areas.

It is also important to note that the data presented by Mesa Refinery Watch excludes offshore production from the Outer Continental Shelf. (See note on page 6 of the rebuttal: "Excludes Federal OCS offshore leases.") As I testified on September 22, prior to the spill from the Plains All American Pipeline in May 2015, crude from the Outer Continental Shelf made up approximately 56% of the crude oil refined at the Santa Maria Refinery. The pipeline remains out of service, and no date has been announced for it to resume operations. OCS platforms that used to be the primary source of crude to the Santa Maria Refinery have been shut in due to the pipeline closure, and the Santa Maria Refinery is current operating at about 2/3 capacity. If the All American Pipeline does not resume operations, the loss of production from the OCS cannot be attributed to the Rail Spur Extension Project. Alternatively, if pipeline operations resume, the operators producing from the OCS platforms will continue to enjoy a number of market options without the need to permit or construct new infrastructure. The All American Pipeline travels north to the Sisquoc pump station, and then east to Kern County, where it connects to the larger pipeline network serving other refining centers in California. Thus, the existing pipeline can be used to access not only the Santa Maria Refinery, but the larger California market. The figure below shows the route of the Plains All American pipeline.



Finally, even operating at maximum 150 trains per year, the Rail Spur Extension Project will be able to supply only approximately 36% of the Refinery's crude capacity. Therefore, even with the project, the Refinery will continue to purchase crude oil from producers in the region.

Thank you for your consideration.

Sincerely,

J.O. Anderson

James O. Anderson, P.E.
Maintenance Superintendent
Phillips 66 Santa Maria Refinery

JOA:sm
M-16-007
EF04

cc: Ryan Hostetter (via Email)