

SENATE TRANSPORTATION COMMITTEE
SENATE ENVIRONMENTAL RESOURCES & ENERGY COMMITTEE

JUNE 9, 2015 JOINT HEARING ON

SAFE TRANSPORTATION OF CRUDE OIL (AND OTHER ENERGY PRODUCTS) BY RAIL IN PENNSYLVANIA

TESTIMONY OF

PHILIP L RINALDI
CHAIRMAN & CHIEF EXECUTIVE OFFICER
PHILADELPHIA ENERGY SOLUTIONS

Senator Rafferty, Senator Wozniak, Senator Yaw, and Senator Yudichak – thank you for inviting me to discuss the benefits and economic impacts of the transportation of crude oil by rail through the Commonwealth of Pennsylvania. It is my intention to read these short prepared remarks into the record, and to then be available to answer questions or provide elaboration as the joint committee might require.

My name is Philip Rinaldi and I am the Chairman and Chief Executive Officer of Philadelphia Energy Solutions, a company organized to acquire, modify and operate the Philadelphia oil refining assets of what was then Sunoco's Philadelphia based oil refining business. PES is a business owned by certain management founders partnered with The Carlyle Group private equity firm and Energy Transfer Partners, the successor in interest to Sunoco. I also have the privilege of Chairing the Greater Philadelphia Energy Action Team; a regional coalition dedicated to greatly expanding the market for Marcellus gas by creating a natural gas based Energy Hub in Philadelphia that will stimulate a rebirth of manufacturing industry in the region.

Formation of Philadelphia Energy Solutions

On September 8th, 2012 PES closed the acquisition of the Point Breeze and Girard Point refineries sited on the 1,500 acre oil refining complex that spans the Schuylkill River

between the airport and center city. PES has now been in business for more than 2 ½ years. I am making this point because those two refineries were literally weeks away from being permanently closed with the loss of nearly 900 great union and professional jobs and the jobs of approximately 300 building trades contractors that work at the complex day in and day out. We not only saved those jobs, but we have increased the PES workforce to approximately 1,240 full time employees and we continue to employ about 300 contractors on a daily basis bringing our effective standing employment to over 1,500 people.

We are the single largest oil refining complex on the Eastern Seaboard of North America. We have materially improved the complex's operating envelope. We are the single largest consumer of Bakken crude consuming upwards of 20% of the total production of North Dakota. And in a matter of weeks from now, Philadelphia Energy Solutions expects to become publically traded on the New York Stock Exchange. ***That amazing economic vitality is fully due to the advent of moving crude oil to Philadelphia by rail.***

When my partners and I were first assessing the viability of Sunoco's Philadelphia based refining business, we were able to identify focused capital investments that would produce quick and sustaining financial results, and we were able to identify two key business model changes that would make all the difference in the world. Since we acquired these assets:

- PES has invested approximately \$500 Million of capital making the business more reliable, more efficient, more profitable and more sustainable;
- We have converted the business from one that was inefficiently operated as it was used predominantly to support Sunoco's retail brand, to a high volume, highly-efficient merchant refiner modality; and
- Most importantly, we have materially improved refining margins by cost effectively accessing the burgeoning supply of mid-continent crude oil driven by the shale revolution – especially crude produced in the Bakken formation in North Dakota.

PES built from scratch what we believe to be the largest, fastest and most cost effective crude by rail unloading system in the country. We bring in well over 200,000 barrels of Bakken crude oil every day by rail from North Dakota directly to our Philadelphia refining complex. ***Without this advantaged crude supply, PES would have never come to fruition, and would be at grave risk of obsolescence.***

Economic Impact

One cannot separate the economic advantages that crude by rail brings to Pennsylvania without the greater connection of what does PES and the rest of the regional refining activity bring to the economy overall.

We began our investigation into the viability of the refining business that was so troubling to Sunoco in 2011. You might recall that at that time, the then Sunoco CEO frequently and publically would say “these refineries are losing \$1 Million per day and have done so every day for the last 3 years ... and we intend to close them down, bulldoze the site and build condominiums”

To assess what the regional consequences would be of such closure, Dr. William Latham and Dr. Kenneth Lewis at the Center for Applied Business and Economic Research at the Alfred Lerner College of Business and Economics at the University of Delaware prepared an evaluation of the regional economic impact that the Point Breeze and Girard Point refineries had. They concluded that these two refineries had a direct economic impact of \$9 Billion/Year supporting 10,500 jobs in the region generating \$900 Million/Year of salaries and wages. Scaling those numbers up to today to reflect our much higher level of operations, throughput and employment, I believe that those jobs figures would scale up to more like \$12 billion per year of direct impact, with approximately 15,000 jobs sustained in the region generating payroll in excess of \$1.5 Billion/Year.

And keep in mind, this reflects the impact of only Philadelphia Energy Solutions – it doesn’t include Delta Airline’s Monroe Energy Refinery in Marcus Hook, which is about 60% of the

size of PES so one would expect reasonably proportional impact from their operation. *Without the benefits that crude by rail brings, PES and Monroe would be in jeopardy of closing and the region would stand to lose in the range of \$15 Billion to \$20 Billion of direct economic impact and the loss of approximately 24,000 great, high paying regional jobs dropping nearly \$2.5 Billion per year of wage and salary income.*

And there is more. Econsult Solutions has estimated that the regional reinvigoration of the oil refining sector in Pennsylvania, driven by the crude by rail revolution, has resulted in approximately \$1.2 Billion of new capital spending in the sector during the past 2 ½ years. That high level of capital investment not only supported thousands of construction jobs, but the betterments that the projects bring will continue to support strong manufacturing jobs going forward into the future.

A Bullet Dodged

Contemporaneous with the University of Delaware Report, the Department of Energy became nervous, facing what seemed to be a groundswell concept that East Coast refineries could be closed without consequence, that oil refining was unnecessary on the US East Coast because other refiners across the country and around the world would take up the slack and supply the market with the fuels it needed. The DOE studied that proposition and concluded that such a mode of market supply would raise prices dramatically on the East Coast further hurting the region's ability to compete in economic markets. And they concluded that it would be a national energy security nightmare to lose self-help capability. Outside supply might work under calm conditions, but not if there was a disturbance like a war, or a natural disaster, or political action. They urged the White House to intercede, which helped galvanize the political will that allowed PES to form and move forward.

And in what could only be described as incredibly good fortune, a mere 7 weeks after PES acquired the business, Super Storm Sandy rattled through New Jersey and New York taking out a great deal of regional refining capacity and the ability of the region to receive products by transcontinental pipeline or by sea. During the month following the storm, PES

was supplying about 50% of all the fuel in the region and the DOE was in nearly daily contact working with us to allow production increases.

Imagine what the situation would have been like had the Point Breeze and Girard Point Refineries not been operating. ***It is tempting to borrow the Mastercard line – having that refining capability was priceless!***

Energy Drives Industry

At the beginning of my testimony this morning I alluded to my role as Chair of the coalition that is driving what has become known as “the Energy Hub”. What is the Energy Hub? Why does it matter? And what on earth does it have to do with crude by rail?

The natural gas reserves in the Marcellus are now measured in centuries, not years. It is a good thing to have so much resource. On the other hand, that ultra long reserve life is really a reflection of the present market for the gas being saturated. But if new uses could be developed for the gas, new consumers, production and the surrounding economic activity in the Marcellus could expand dramatically.

We can wait for new factories to be built in the Gulf Coast petrochemical center and ship Pennsylvania gas to serve them. Or we could cause that gas to become widely available in Philadelphia – a place with fantastic industrial infrastructure and proximity to markets, a place where new manufacturing can root and grow.

I was not invited here today to testify about all the benefits that would inure to an Energy Hub – but rather to say that it can happen if and only if there is already a thriving oil refining activity to anchor the commercial exploitation of the resource – ***and that happens as a direct consequence of crude by rail.***

What kind of plants could be built? Power cogeneration; small scale, regional use LNG and CNG plants; hydrogen plants; ammonia, urea, and urea ammonium nitrate plants;

methanol plants; and many more. What would be the economic impact? I cannot say for certain, but plants like these would cost plus or minus a billion dollars each to build. Imagine the economic power that throws off.

I hope that I was able to shine some light on the enormous, positive impact that crude by rail brings to Pennsylvania. There is much more detail that could be discussed, and even more related topics, but I think that I will conclude my prepared remarks now.

I appreciate the opportunity to have been heard, and I look forward to answering any questions that my testimony might have stimulated.

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