

|  
**Leon Westbrook Testimony  
Sen. Byron Dorgan Meeting  
November 2007**

**Senator Dorgan and members of the audience:**

**I am Leon Westbrook, executive vice president and chief operating officer of the Energy division of CHS Inc., the nation's largest member-owned business and its largest cooperative energy company. Our board consists of 17 full-time farmers, three of whom are from North Dakota.**

**As background, I grew up on a farm near Browns Valley, Minnesota- just south of Fairmount, North Dakota. During my 32-year career with Cenex and now CHS, I spent a year working in North Dakota. I understand well the energy needs of your state's consumers.**

**For nearly 65 years, CHS has owned a petroleum refinery in Laurel, Montana, just west of Billings. Much of the gasoline and diesel fuel produced at Laurel is shipped via our pipeline –**

**beginning at Laurel and ending in Fargo. CHS also owns terminals at Laurel and Glendive, Montana, and Minot, North Dakota.**

**Nearly three years ago, CHS approved a \$325 million upgrade project at Laurel which, when completed early in 2008, will result in the production of up to an additional 150 million gallons of gasoline and diesel fuel from the same number of crude oil barrels we are refining today.**

**Part of the plan two-and-a-half years ago was to schedule a complete shutdown of the refinery in June 2007 to conduct major maintenance and to install all piping and valves essential for the connection to the new coker. We had to do this while the refinery was cold.**

**Earlier this year, we realized that we could not hire enough skilled labor to complete the entire maintenance project in June and had to schedule another unplanned shutdown in August.**

**Despite these challenges, during the late summer and fall of 2007, CHS did its best to deliver. Our Cenex-branded North Dakota customers received 122 percent of August 2006 volumes, 96 percent of September 2006 volumes and 101 percent of October 2006 volumes. In total for those three months, we supplied 6 percent more branded product in North Dakota than the previous year.**

**It was not easy. Oftentimes, these deliveries were not made from preferred terminals closer to the customer, resulting in additional costs to our customers, as well as CHS. However, our staff made extraordinary efforts to supply this volume and no Cenex-branded customers went without product.**

**Much has been or will be said about the combination of events that led to the supply situation just experienced in North Dakota. North Dakota is not alone. We at CHS have experienced the impact that planned and unplanned maintenance problems plaguing the refining industry have had in Kansas, Nebraska, Colorado and Iowa. There is no quick solution to given current**

**U.S. refined capacity given the significant lead times and investment needed to increase production.**

**Multiple efforts are underway in the industry. Refinery projects are in progress, with some coming on stream soon like at our Laurel facility. Capacity increases are being planned and funded like the five-year project at our other in McPherson, Kansas. Renewable energy capacity is under construction by several companies including US BioEnergy of which we own 20 percent. US BioEnergy's 100 million gallon per year ethanol facility in Hankinson, North Dakota, is scheduled for completion in April 2008. These efforts by the industry will help, but these alone will not immediately solve our supply dilemma.**

**I do not pretend to have the complete answer to these supply issues. I trust, however, that a combination of manufacturing expansion, both petroleum-based and renewable-based, along with fuel conservation, and imports will play a role in addressing them. Conservation may happen with higher prices, capacity**

**will grow as demand grows, and imports will respond to the market.**

**I do not expect the supply issues in diesel to heal soon, but I believe they will in time, as the market adjusts to the demand. But new challenges lie around the corner. Specifically, as the immediate need for diesel fuel eases with the approaching winter, the acute need for heating fuel will surface. Just as the industry scrambled to meet the diesel demand, it may be similarly challenged with the heating fuel supply. As demand grows and unplanned interruptions continue, regional supply issues will surface. The market will respond to these outages, as best it can, but seldom in a timely manner.**

**At CHS, we are trying to both provide for the power demand needed now and the heating demand needed soon. CHS will work through these immediate challenges and will meet the needs of our Cenex-branded customers.**

**I can think of no quick additional solutions to these spikes in demand and unplanned interruptions that aren't already being practiced. I believe the industry and those connected to it are trying to safely operate the refineries for maximum production, to increase storage and inventories, to use hedging tools to protect customers, to get customers to carry more inventory, to fund capacity growth, to capture investment in renewable manufacturing, and to import product on a global scale.**

**I'm confident that we at CHS and the overall energy industry will continue these efforts and more. We ask for your understanding as we work through the challenges. I welcome your questions.**

**Thank you.**