

From: Don Parus

Sent: 3/18/2005 9:04 AM

To: Kilgore, William R; Parus, Donald L

Cc:

Bcc:

Attachments:

Subject: FW: Update from Don - March, 2005

From: Link, Dennis
Sent: Friday, March 18, 2005 9:00:24 AM
To: Don Parus
Cc: Sharp, Paula; Kilgore, William R
Subject: RE: Update from Don - March, 2005
Auto forwarded by a Rule

Excellent note Don! Since PAS is every two years now, how are we going to measure TCS improvement in 2005? Many companies are now using the Gallup Q12 survey as a quick, effective way to track progress on ESI on annual or semi-annual basis.

Dennis

From: Don Parus
Sent: Thursday, March 17, 2005 4:45 PM
To: G TCS FLL
Cc: G TCS Mgr/Supv
Subject: Update from Don - March, 2005

I have owed you an update for some time and for that I apologize. We have gotten off to a good start towards winning in 2005 and I want you to know that I appreciate everyone's efforts.

Safety performance so far this year has been the best the Texas City Site has seen in some timeâ€¦maybe the best ever. Our OSHA Recordable Incident Rate to date is 0.43 ! That's better than our '05 target of 0.5 and much better than our number at the end of 2004, 0.66. We must not let up. So far this year 5 of us have been injured seriously enough to be counted as a Recordable Injury, at least one of which could have easily been a fatality.

We recently received the results from the Safety Assessment Survey that was conducted last November. In many cases, seeing the "Brutal Facts" so clearly defined was hard to digest, including the continuing concern around the conflict between production and safety. The evidence was strong and clear and I accept my accountability for the results. The Purpose of the Assessment was to discover the reality of how site safety was perceived in the field. We had an overwhelming response with 1100 Texas City employees responding to the survey and another 112 people agreeing to be interviewed. Both Hourly and Salaried employees participated as well as a few non-BP individuals.

A word you may be hearing that has evolved from this assessment is "protection." We found that we needed a word that sums up our commitment to personnel safety, the environment and process safety, including integrity management. Many of the attitudes and actions that hold true for safe operations also affect how we impact the environment and manage the integrity of our assets. When we talk about Protection from now on, we are talking about this commitment to all of these things.

Among the things we learned from the assessment:

- * A recognition that there has been a greater safety focus over the past 2 years.
- * Accountabilities for protection are unclear and, sometimes, conflicting.
- * Concern over the condition of our assets and infrastructure (CUI, asbestos, piping integrity) and the effects our capital and costs management may have on needed improvements.
- * HSE procedures are perceived as complex, open to interpretation and inconsistently applied.
- * Training quality, quantity and delivery is inadequate.

My point here is that there is no one magical "thing" that has caused our safety lapses nor is there one thing that can fix them. However, we are committed to focusing on these four opportunities. In fact, we recently added 10 new BP inspectors to improve our unit inspection processes; 8 of the new inspectors will be in the field and two will manage the huge amounts of data in our computerized inspection system. We believe this is a needed first step. We will also be holding site-wide classroom training for HSE that will cover some of our most important safety policies so that we can achieve alignment on the purpose and intent of the policy. The training will be face-to-face versus computerized so that we can get the discussion that is needed to really achieve full understanding. This is just a start. We are moving forward and are asking for the support of each of you. Thanks again to those of you who participated in the survey. It was helpful to gain the clarity needed to move forward in the most effective way.

It appears today that Texas City will have another good year financially, if we continue to be able to take advantage of the positive economy in which we are working. Of course we have no control over the market place, but we can control our ability to maximize our profitability when the economy is working in our favor. We do that through good availability, cost control and safe, environmentally sound operations. To understand how this works, it might be good to look at how we did in 2004.

The Texas City Site undoubtedly experienced the best profitability ever in its history last year. The combined assets of the Chemical Plant and the Refinery made well over \$1 billion Replacement Cost Operating Profit (RCOP). The Refinery made \$930 million in RCOP, \$145 million more than any other refinery in the BP system. Some of the Refinery's success is due to outstanding Commercial Performance, or our ability to match the capability and flexibility of the site with supply and demand opportunities throughout the world. In 2004, Commercial Performance came from being able to run lower-cost crudes (largely from PS3A improvements), making more of the most expensive products, or, in the case of UU4, being able to move record volumes of naphtha safely out of the refinery without negatively impacting operations. Last year our commercial performance resulted in our reaping a prize of over \$200mm.

In addition to Commercial Performance, much of the record RCOP we made was due to the Environment, or the differences in our crude and product prices versus plan. Record-high crude prices driven by world demand last year meant that the costs for the crude we bought were much higher than planned. However, the nation's demand for our products (think SUVs and cold winters!), coupled with low US refining growth and governmental product regulations (think cleaner gasoline and diesel specifications) drove the price of our products up even more. We should all be proud of the fact that Texas City was able to take advantage of this terrific environment by keeping our units running - our phenomenal performance couldn't have happened otherwise! Still, as you can tell, this environmental effect on RCOP is largely outside of our control locally, and the analysts who recommend purchases of our stock (or don't!) know it. That's why we focus more on things that we can control, things like the Commercial Performance listed above, making our units more reliable and innovative, and spending our money wisely!

In this first quarter, the Texas City Refinery continued the financial trend we started in 2004 despite a very challenging TAR slate. The Refinery made nearly \$100 million in profit in January alone. In February, RCOP for

our site was over \$51mm. To put this in perspective, our projected plan for the entire first quarter of 2005 was only \$33mm. Most of this improvement was due to spectacular commercial performance, our ability to keep our units available and the current pricing environment that we're operating in. To offset the impact of the RHU TAR, we were able to keep the CFHU and FCCU's at or near planned rates by running VGO through the Pipestills, and we pushed resid through the RDU to also help load the FCCU's. In addition, our new capability to run medium-sour crudes through PS3A continued to provide a great deal of value. Most importantly, each of you contributed to our January/February performance by doing exactly what you do best: turning hydrocarbons into finished products safely and reliably.

One variable that directly affects those positive numbers, and that everyone here impacts, is availability. It is availability that allows us to take advantage of good market conditions. We ended January with a total site availability score of 95.2%, above our plan number of 94.6%. We ended February with an availability score of 97.2%, giving us a number of 96.1% for the site, YTD. Our target for the year is 94.6%, so we are off to an excellent start. Good job !

I also want to update you on our turnarounds. The 1Q outage effort for 2005 included outages on the RHU complex, HRU, SRU, ARU A, ULC, UU3, and ISOM. Besides the TAR effort, projects and supporting infrastructure work are integrated into the outage time frame. All told there is over 1mm man-hours of work being executed during this time. As I'm putting this together, the RHU/HRU TAR is complete with the exception of RHU400. RHU 400 will have to remain down so that integrity issues, including reactor thermowell and pump bolts replacement/repair, that were not planned can be addressed to improve unit integrity. UU3 TAR, that focused on piping integrity/inspection, is completing mechanical work and beginning start up. ULC TAR and Motorization Project are well underway. This very large, complex, outage is behind schedule due to unforeseen corrosion/integrity issues that are being addressed, but the team is continuing to work the plan. Other outages such as the SRU and ISOM have progressed well overall. While 2 persons have been injured severely enough to be classed as OSHA Recordable Injuries (an incident involving a socket coming apart and striking an individual on the back of his head, and an employee cutting a finger), the safety emphasis I have seen is remarkable and delivering ever improving results. Costs continue to be a challenge due to the add-on work, but the improvements in integrity are needed and will pay off dividends in the long term.

The effort of the site to work together on these large and numerous TAR's is tremendous. I am proud, and thankful, for everyone's efforts.

Recently, BP Group Vice President for Refining Mike Hoffman, and US Region Refining VP Pat Gower visited us. Overall, Mike and Pat were both very complimentary of the progress the site has made in all areas, and the progress that we are continuing to make. On the Safety Transformation, it was great to be able to share with Mike and Pat all of the important effort that is going into making TC injury free. They had high praise for our auditing process, our Safety Culture survey response efforts and the other plans that we have around safety face to face training. They asked Joe Barnes to share our safety compliance auditing process with the global HSE network to see if the processes we are using are applicable elsewhere in the BP system. All in all, it was a successful visit that shed a good light on all of the hard work that we have been doing to make Texas City a great place and ensure that we are seen as the "Flagship" of BP R&M. And don't forget that it was your efforts that prompted Mike to raise our VPP score and improve all of our payouts!

You have seen many times references to our determination to win in 2005 and beyond. Key to winning is to stay true to our 5 Stands and our 1000 day goals. I am happy to report to you that we are on track. I have attached a short PowerPoint with three slides that we showed Mike, demonstrating just where we stand at the beginning of 2005:

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The first slide shows our progressive targets through the end of the 1000 days. Slide 2 compares our progress through 2003 and 2004. The third slide is our Report Card. Please note that we have added a goal to the Safety portion, a target for the completion of PSM Action Items. You'll see that we've fallen short in some areas but overall we are moving in the right direction.

Mike's confidence in us and your ability to keep producing has also led him to approve the Finance Memorandum

for the Appraise Stage of the FCC2 Restart/Modernization Project, authorizing moving to the Select Stage. This is a significant project for TCS as it not only will improve our capacity, but will greatly enhance our environmental efforts. In the same vein, Group Managing Director John Manzoni has approved the funding for the FCU3 SOX/NOX project. These approvals are brilliant signs that your efforts have been recognized at the highest levels and reflect their confidence in us to continue our high level of performance.

Some other things to bring you up-to-date on would include developments at NewCo. Even though still a division of BP, on January 1 the Olefins & Derivative assets began running as if they were already a separate company. Meetings are still underway to iron out the many details that remain to be worked out in the relationship between BP and the new company. NewCo is still on-track initiate their legal separation from BP Group on April 1, at which time, although still owned by BP, they will truly stand alone. Prior to that date we will publish some information concerning our interactions with the new company. FYI - they plan to announce the name of the new company on Monday the 21st and, all rumors to the contrary, it will not include the word Amoco.

At Texas City, NewCo has announced the shutting down of the Propylene Concentration Unit (PCU). The PCU has been in operation since 1972 and will be shut down this April. The 9 employees working there will be reassigned on site.

This update is probably long enough. My intent is to get you an update at a minimum of once a month. Obviously there will be more when the situation warrants. Never forget that I am counting on each of you, as leaders, to be at the forefront in achieving all our goals. The safety of everyone here is our number one priority, followed closely by being a good neighbor through care of the environment. If you maintain your efforts to keep our facilities reliable and cost efficient, we will continue to be a success and will continue to get good marks from Mike Hoffman and approval for our large capital projects.

I expect you to share this information with your teams as appropriate. Whenever you have any questions or concerns about what is going on, do not hesitate to contact me. If there is anything else you would like me to cover in these updates, please let me know.

Don