

March 23, 1999

Refining Peer Group 1 Business Unit Leaders

10% Cash Expense Reduction Case for Texas City Business Unit

Consistent with Sir John Browne's recent request, the Texas City Business Unit has prepared a 10% cash expense reduction case to achieve a \$52.6 million reduction in 1999 versus 1998 Year-End actual cash expenses of \$526 million. The attached 10% expense reduction case includes an extra \$4.3 million of identified savings beyond the requested \$52.6 million as contingency to cover any possible shortfall in actual savings on these identified expense reduction items and any unexpected cash expense increases. Two-thirds of the expense reduction is sustainable, while the rest is either one-time savings or expense deferral to year 2000. This 10% cash expense reduction case is summarized in the first attachment across six cash expense categories, and further itemized in subsequent tables for each of the six cash expense categories.

We have prudently selected expense reduction items to minimize risk to net income in year 1999 and beyond. We can implement about 80% of the 10% expense reduction case with low risk to earnings potential. It will require additional refinery salaried employee reductions through involuntary severance, and a hedge on natural gas prices to lock in the current low price on the futures market. Our Commercial Manager will investigate feasibility for capturing the favorable natural gas price. Capturing the remaining 20% of the 10% expense reduction case will require making deep cuts in salaried refinery employee headcount (about 10% reduction of salaried employees), which will have a significant affect on morale and higher risk to revenue/net income. Having achieved significant refinery headcount reduction over the past five years, we would have a major challenge for getting the required work completed with the full 10% less refinery salaried employees.

We are already aggressively proceeding to capture these cash expense reductions, including submittal of an employee severance plan. We also have an implementation plan and schedule in place to track our progress on these expense reductions. Please feel free to call for information, and to share learnings/ideas from your expense reduction efforts.

Tim Scruggs

Attachments

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Overall Summary of 1999 TCBU Cash Expense Reductions

Cash Expense Reduction Category	1999 Cash Expense Savings Vs. 1998 Year-End Actual (M\$)
Salaried Personnel Reduction	\$350M (deferred) \$4575M (sustainable)
Hourly Productivity Improvements	\$0M (deferred) \$530M (sustainable)
Shared Service and Site Integration Efficiencies	\$500M (deferred) \$10526M (sustainable)
Variable Expense Reduction	\$0 (deferred) \$11470M (sustainable) \$10100M (one-time)
Reduced External Supplier and Materials Usage	\$0 (deferred) \$8395M (sustainable)
Deferred Maintenance, Turnaround, and Other	\$8300M (deferred) \$2150M (sustainable)
Total Savings of \$56896M	\$9150M (deferred) \$37646M (sustainable) \$10100M (one-time)

Salaried Personnel Reduction

Number	Item	1999 Cash Expense Savings Vs. 1998 Year-End Actual (M\$)
1	Reduce number of Asset Supervisors by 15 positions	\$1500M (sustainable)
2	Reduce number of Maintenance Supervisors by 10 positions	\$1000M (sustainable)
3	Reduce number of step-up maintenance supervisors by 25	\$750M (sustainable)
4	Eliminate various salaried staff by 8 positions	\$450M (sustainable)
5	Reduce from 25 to 21 reliability engineers and reallocate reliability engineer coverage	\$400M (sustainable)
6	Reduce inspection group by 7 salaried non-exempt positions and one salaried exempt supervisor position	\$350M (sustainable) \$350M (deferred)
7	Reduce Inspection draftsmen from 3 to 1	\$125M (sustainable)
Subtotal		\$350M (deferred) \$4575M (sustainable)

Hourly Productivity Improvements

Number	Item	1999 Cash Expense Savings Vs. 1998 Year-End Actual (M\$)
1	Reduce optimization training budget with no off-shift board operator training	\$200M (sustainable)
2	Negotiate with union to eliminate builder craft classification and further reduce pipefitter classification through normal attrition	\$200M (sustainable)
3	Renegotiate MOA with union to eliminate one hourly training coordinator position and two of the four H&S coordinator positions	\$100M (sustainable)
4	Two other specific items at or less than \$100M each	\$30M (sustainable)
Subtotal		\$0M (deferred) \$530M (sustainable)

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Shared Service and Site Integration Efficiencies

Number	Item	1999 Cash Expense Savings Vs. 1998 Year-End Actual (M\$)
1	Reduced Service Level Agreements for shared services: * Accounting Services \$__ M (sustainable) * Auditing \$__ M (sustainable) * Energy Management \$__ M (sustainable) * Facility & Services \$__ M (sustainable) * HS&E \$__ M (sustainable) * Human Resources \$__ M (sustainable) * Info. Technology \$__ M (sustainable) * Laboratory \$__ M (sustainable) * Legal \$__ M (sustainable) * NGL \$__ M (sustainable) * Pipeline \$__ M (sustainable) * Purchasing \$__ M (sustainable) * Refining Tech Dev \$__ M (sustainable) * Tax \$__ M (sustainable)	\$10000M (sustainable) These are estimated overall SLA savings, which will be updated once final SLA figures are provided by service providers
2	Reduce asset operator and maintenance craft training	\$500M (deferred)
3	Eliminate division safety committee meetings and reduce wellness committee/program services	\$180M (sustainable)
4	Do not backfill current HR openings (HR rep and staff assistant) -- consolidate into other existing roles	\$200M (sustainable)
5	Six other specific items at or less than \$100M each	\$146M (sustainable)
Subtotal		\$500M (deferred) \$10526M (sustainable)

Variable Expense Reduction

Number	Item	1999 Cash Expense Savings Vs. 1998 Year-End Actual (M\$)
1	Hedge on natural gas price to lock in lower natural gas price	\$10,100M (one-time) (\$3,000M of savings already captured year-to-date through Feb. 1999)
2	Implement refinery energy usage efficiency improvements through enhanced plant operation	\$9000M (sustainable)
3	Negotiate reduced expenses on chemical vendor alliance for process and wastewater treating chemicals/services	\$1000M (sustainable)
4	Reduce RHU catalyst consumption by using updated usage criteria	\$800M (sustainable)
5	Reduce gasoline and distillate additive costs	\$570M (sustainable)
6	Reduce moly costs for catalyst manufacturer	\$100M (sustainable)
Subtotal		\$0 (deferred) \$10,100M (one-time) \$11470M (sustainable)

Reduced External Supplier and Materials Usage

Number	Item	1999 Cash Expense Savings Vs. 1998 Year-End Actual (M\$)
1	Implement continuous operational and reliability improvements * East Plant \$2000M (sustainable) * West Plant \$3000M (sustainable) * Utilities Division \$1000M (sustainable)	\$6000M (sustainable)
2	Amoco catastrophic insurance program canceled	\$1100M (sustainable)
3	Reduce Robco contractor expense for lawn and building cleaning/maintenance services	\$600M (sustainable)
4	Reduce Taylor & Hill and Contech contracting services	\$400M (sustainable)
5	Ten other specific items at or less than \$100M each	\$295M (sustainable)
Subtotal		\$0 (deferred) \$8395M (sustainable)

Deferred Maintenance, Turnaround, and Other

Number	Item	1999 Cash Expense Savings Vs. 1998 Year-End Actual (M\$)
1	Defer gas turbine generator turnaround (GTG 410) at Power Station # 4 to year 2000	\$6000M (deferred)
2	Reduce unplanned/unscheduled turnarounds from a typical \$10000M to \$8000M per year	\$2000M (sustainable)
3	Defer steam turbine generator (STG 450) turnaround at Power Station # 4 to year 2000	\$1200M (deferred)
4	Defer steam turbine generator (307B) turnaround at Power Station # 3 to year 2000	\$750M (deferred)
5	Defer road repairs (except those required for safety) to year 2000	\$150M (deferred)
6	Defer T-2 Fuel Gas Scrubber turnaround at Power Station # 3 to year 2000	\$150M (deferred)
7	Four other specific items at or less than \$100M each	\$50M (deferred) \$150M (sustainable)
Subtotal		\$8300M (deferred) \$2150M (sustainable)