
From: Link, Dennis
To: Anderson, G J "Woody"; Cox, Terry W; Dykes, Diane J; Prevost, Clemon P
CC:
BCC:
Sent Date: 2003-11-14 23:56:07:657
Received Date: 2003-11-14 23:56:08:595
Subject: FW: Update - Texas City Repositioning Project
Attachments: TC Competitive Position - Hale Rev 11.ppt

Here's "heads-up" on note that will go out to all TCR employees on Monday afternoon. Key message is TCR is NOT delivering on profitability vs. % of capital investment. This is part of our "sense of urgency" on delivering the first Q TARs and the 1000 day goals. All of BPSH employees have a strong vested interest in TCR meeting or exceeding all 1000 day goal-related. Let's do our part to help TCR be successful!

Please don't forward this email as official note will come out Monday from Rick Hale!

Dennis

-----Original Message-----

From: Stein, Norine A
Sent: Friday, November 14, 2003 12:08 PM
To: Boudreaux, Gary; Decourcy, Susan S; Elsenheimer, Richard T; Gregson, Sam; Harris, Dan (TXCTY Ref); Kerkemeyer, Mark E; Link, Dennis; Morris, Stephen (BPSH Projects); OBrien, Denise Y; Overstreet, June T; Pickell, Frank W; Taggart, Sally B; Valentine, Lee L; Wundrow, Walt
Subject: fyi: Update - Texas City Repositioning Project

All,

fyi - we reviewed a more detailed set of data as a result of the ongoing TC repositioning study yesterday which was very sobering. This is the communications Rick has developed and will be sending out Monday afternoon TC site wide. Between now and then, please talk with any of your front line leaders who you expect may get questions from the field as a result of this note. We held off sending this note out today (Friday) to respect the need of the FLLs to get a chance to ask questions. I feel like most of you who needed to hear the report in person were at the session yesterday and therefore this e-mail note is supplemental info - I don't expect those who were not there to get questions, but

if so and you need additional insight or information, please feel free to stop by with questions. I have the whole of the slide pack and would be happy to go into detail as appropriate.

Norine

-----Original Message-----

From: Morris, Connie M On Behalf Of Hale, Rick D

Sent: Friday, November 14, 2003 11:22 AM

To: Andrus, Ted; Barnes, Joe; Barnes, Kevin M.; Campbell, James E; Carter, Kendra J; Cassidy, George; Cearley, Johnny L; Chapman, Donald J; Choate, Steven C; Christensen, Anean M; Cuadra, Gabriel W; Elgin, Mike; Engel, Greg L; Engelder, Carole L; Fiedler, Andrew T; Frink, William A; Gardner, Larry L; Gibson, Michael M; Green, Chris J; Grimmer, Thomas J; Hagerman, William E; Hale, Rick D; Hansen, Joy M; Harclerode, Terry A; Hawkins, Raymond A; Izarraraz, Alicia I; Jondle, John J; Jones, Evan T; Jordan, Jerry; Kenyon, Mike R; Kirk, Ken P; Kistenmacher, Jack A; Kleiss, Michelle; Kurt, David A; Limmer, Bill W; Longley, David; Mason, Bill E; Mata, Jorge I; Mayes, Mike S.; Mcwilliams, Andy A; Morris, Brad A; Morris, Stephen (BPSH Projects); Nesrsta, Frank; Nowobilski, Peter J; Palermo, Steven P.; Panozzo, Ken P; Peltier, Richard T; Pickell, Frank W; Politte, Mark D.; Price, Rod D.; Putman, Stacy S; Richards, Mark A; Risinger, Martin; Robicheaux, Brian M; Robins, Joel H; Rupe, Mark ; Schilling, Dave M.; Smitherman, John B; Stein, Norine A; Tamborski, Jerry; Uppercue, Joseph L; Vail, Ross T.; Venardos, Dean G; Wiatrowski, Cindy M; Willis, Willie L; Wrobleski, Jay C; Wundrow, Walt; Zarate, Ramiro A

Cc: Parus, Donald L

Subject: Update - Texas City Repositioning Project

As promised at our offsite meeting yesterday, this note is to give you a heads up on what will be distributed to the site Monday.

Connie Morris

Texas City Site

GOB-2-A

Office: 409-945-1312

Fax: 409-942-4083

-----Original Message-----

From: Hale, Rick D

Sent: Friday, November 14, 2003 10:40 AM

To: Morris, Connie M

Subject: FW: Update - Texas City Repositioning Project

Please distribute to Refining ELT as we promised yesterday.

DRAFT

To: All TC Refinery Employees
From: Rick Hale - TCS Performance Unit Leader

In June of this year I wrote a letter to you describing decisions that had been made on several of our assets in the Refinery. As you recall, we had said we would make some decisions, specifically about the future of FCU2 by the end of this year. At that time, I also mentioned to you that we were assembling a team to conduct a strategic repositioning project for Texas City. This team is being led by individuals outside of the Refinery, but we have several people from the Refinery supporting the effort and it includes people from other Streams to assess BP Group value impacts. I also committed to you at that time to keep you abreast of the work of this team. It is the purpose of this note to provide you that update. Though the project is still some months from completion, some key insights are emerging and I want to share those with you. Some of the work of this team can be summarized below:

1. BP as a Corporation has and always will have limited capital(Investment money) to allocate to its businesses.
2. BP has made, and continues to make, a significant resource allocation to the Refining SPU, spending nearly three billion dollars between 1999 and 2002 and projecting capital expenditure of more than \$1 billion per year going forward. Almost 60% of that spend is targeted in the U.S.
3. The US is the best place in the world to have a refinery from a margin standpoint. The Gulf Coast region, however is the most competitive in the US and hence has the lowest profit margins in the US. In order to compete in this environment it is essential to have scale, upgrading capability and excellent operational track record.
4. The Texas City refinery due to its size, complexity and Environmental requirements, has a significant appetite for capital dedicated to maintaining a safe, productive, and compliant facility. As a result, it is projected to consume 18 percent of the SPU's capital over the next five years. This in and of itself would not be a problem but unfortunately the profit contribution for Texas City over that same time period is projected to be only 15 % of the total for all of the Refineries. Clearly the corporation can not continue to invest money in Texas City when it is out of proportion to what the Refinery can generate in profits relative to our other refineries.
5. The Texas City Repositioning Team was organized to find ways to increase the overall earnings per dollar of investment that we make in the refinery. They were given a broad scope to look at refinery configuration, commercial options and technology options that would improve Texas City and return it to alignment with the BP portfolio and improve its competitiveness on the USGC. The team has developed and is employing a variety of competitive and analytical models to examine Texas City performance.
6. At standard price set (projected future refining product prices), Texas City is just above the middle in terms of Gulf Coast Refineries ability to generate profits. This can be seen by the graph below:

7 . Some of the initial results have affirmed what we already knew. Other results are a bit sobering. Some of the key points are as follows:

- Though Texas City is the largest consumer of capital in the Refining SPU, benchmarking data suggests that we have invested less on our facility than much of the competition over the last several years.

- Though we are one of the most complex refineries in the world, many of our USGC competitors are able to extract more value from their less complex facilities.

- Operating and maintaining our level of complexity at Texas City is more costly than our competitors, but that additional complexity has not provided sufficient additional gross margin to overcome the additional costs.

- When looking at our facility in detail, we are reassured by the fact that most of our units are profitable on a fully costed basis. However, there is significant spread between units when measured by profits per dollar of investment required over the next several years.

8 . The team is using this information and other data to examine options to reconfigure the refinery to increase it's competitiveness and reduce the capital spend . The team was asked to approach the problem non-traditionally and so they are exploring many options. No specific recommendations have been made to date as options are still being developed.

We have been quite open with data and interim results with some groups in the refinery as we have progressed this study. I'm sure that the study process has sparked many rumors. What I can honestly tell you is that no decisions have been made to date. We still intend to make a decision on FCU2 at or shortly following the end of the year. Other decisions will likely take some additional time. Texas City continues to make money and will do so in the future. Though we have made \$185 million in pre-tax profit so far this year, our performance continues to haunt us as we have missed almost \$100 million in lost opportunity because of unplanned outages this year. It is critical that we demonstrate improving performance. This is within our immediate control. Texas City is a great refinery and part of a Great Site in BPSH . It was once considered the flagship refinery both inside of Amoco and also on the Gulf Coast. We can rebuild that status and it is our intent to do so. I am confident in our ability to do that. I will provide you updates as more significant information or decisions result from the study.

Rick Hale
Texas City Performance Unit Leader
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Mobile # 409-392-0377
email: halerd@bp.com



BP Texas City ranks 10th out of 29 USGC refineries in return on replacement cost under the BP standard price environment

