From: Neep, Martin A

Sent: 6/14/2001 9:03 AM

To: Cape, Rick R (Australia); Beh, Soo Hee; Fezzani, Reyad; Hauschildt, Frank William FW; Hoffman, Michael P; Jacks, Mick D; Jhawar, Ashok K; Johns, Jeanne M; Lamanna, Jim; Maclean, Colin H (Director); Malaus, Jean Pierre; Porter, Daniel J; Porter, Rick E; Rhoades, Gerald L; Sajkowski, Daniel J; Scruggs, Tim T; Vaughan, Bernie F; Vicedo, Enrique; Nicolaides, George; Strater, Felix R

Cc: Bartlett, Stephen; Baumgart, Harald; Castro, Albino; Dapkus, Kes V; Dewhurst, John C (NAP); G SUN TMN; Glaser, Richard J; Grainger, Philip (Grangemouth); Peltier, Richard T; Schwab, Lorinda A; Telfer, Ian; Truffinet, Pierre; Weldzius, Robert A

Bcc:

Attachments: Deferral impacts 2001 TMN Mtg Estimate.xls;

Subject: INFO: 2001 Capex

As you know, the TMN is meeting in Amsterdam around the theme of capex. In view of the likely (in the absence of intervention) overspend of the capex budget for 2001, the Network have updated their view of the most likely spend, and how much is committed to date. You will find this in the attached spreadsheet.

The key messages are:
* At this stage, the traditional "natural" underspend is not expected, although there is some uncertainty around some decisions at Texas City where non-refining parties are driving some decisions (eg cogen). A significant portion of 2001 capex has been oriented around TARs, many of which occurred in 1H.
* The Network's strong preference is to accept the overspend - forced reductions at this stage will cause "pain".

They have also prepared 2 "offers". The first is a "painful" cut, oriented around limiting damage to reputation and value delivery. The second is a deep cut which will significantly damage both value generation and reputation. Some measures involve renegotiation of commitments with external agencies so may not be able to be delivered.

You will note that to reach the target of $698MM, ALL the severe cuts need to take place. If the Texas City RHU repairs (total $30MM) are accepted as an allowable variance, the target falls between the moderate and severe pain boundaries.

The Network will continue to work the issue. First, there may be some capability to categorise some spend as revex rather than capex. If this can work, this will relieve capex, but present futher cash costs to be absorbed. In addition, the Network will continue to work to better define the possibilities and penalties, including deliverability.

Regards

Martin

Refinery

Refinery	Original Budget	Latest Estimate	P number	Committed in 2001	Options	Offer 1	Penalty	Offer 2	Penalty
Bayernoil	**7.8**	**7.80**		**7.8**		7.8		7.8	
Cherry Pt	**51.4**	**51.4**	**90**	**48.0**	Few projects over, and a few surprises	50.70	Loss of value and reliability risk	50.7	Compliance requirements
Coryton	**82.5**	**87.5**	**100**	**73.4**	Defer propylene debottleneck ($1.6MM); defer CF ($5MM)	80.90	Lost value due to further slowdown of commercial project and later delivery of CF	80.9	
Grangemouth	**73.4**	**102.4**		**96.1**	Actuals generally 20% above estimate. Pre-work for HCK TAR ($4.3MM) is only handle, but unlikely.	100.40	Heavily front-end loaded due to TAR timing. FCCU rehab could be deferred	96.1	Re-phasing Grangemouth remediation
Lavera	**30.3**	**30.3**	**100**	**29.0**	Minor compliance + integration DB to be spent. $7MM Commercial reduced by $4MM	30.30	Have already booked "painful" items to "eat" TAR overrun	29.9	Delay/cancel commitments to Integration. Loss of value
Nerefco	**38.2**	**34.2**	**100**	**32.0**	Possible reduction of $2MM. Cancellation results in payout to Caltex	32.00	Probable payout to Caltex as compensation	29.5	Stop further work on CF. Access to German market in 2003 denied and reputation risk
SRC	**1.6**	**1.7**		**1.7**		1.70		1.7	
Texas City	**186.2**	**204.7**	**50**	**110.0**	$175MM at P90. Includes $30MM RHU increase. Clean Fuels & cogen also in play. CF could be deferred ($10-15MM, end June decision date). Texas State emissions regs may change. Decision (end June) on cogen may push up. Land uncertainties by July GFO	195.00	Mix of slowdown small base spend and defer FCU2 TAR (and/or delay 1Q2002 TARs to push pre-spend into 2002). Availability risk & margin loss in 2002.	175	Defer Clean Fuels - risk to Atlanta supply (BP reputation), reduce scope of NOx work in 1Q2002 TARs - may trigger future off-cycle CDU shutdown. Further reductions associated with cogen may reduce by further $5MM
Yorktown	**12.6**	**12.6**		**12.6**		12.60		12.6	
Bulwer Island	**9.4**	**9.4**	**80**	**6.6**	Truncate Aspentech ($0.5MM) - may result in costs. Product wharf has slipped but other projects have increased.	8.7	Sacrifice value	8.2	Relationship with local authorities
Carson	**112.5**	**112.5**	**100**	**90.0**	Sept TAR to come. Possibility of $10MM could be held back (need to know by August), although could increase by $20MM. May need to commit on SCR for 2002 TAR ($4.5MM).	102.5	Project slowdown. Loss of value & risk of reliability failure and/or increased cost to mitigate risk	98.5	Defer order of SCR. Would still need to do tie-ins. May need to negotiate within Sunshine and with local emissions trading.
Castellon	**9.1**	**9.1**		**7.1**	Possibility of $1MM reduction	8.1	Quantified risk that flue gas cooler can still be delivered	8.1	
Kwinana	**25.1**	**23.3**	**80**	**15.0**	Upside that forex may help. TAR to come. Kwinana First still under review. Possibility that $2MM could be saved from lubes, $1MM from PDA/Bitumen, $5MM from Kwin1st.	21.1	Slowdown K1st.	15.3	Cancel K1st. Cancel lubes TAR (and stop making lubes) and Bitumen TAR.
Mandan	**6.5**	**6.5**		**6.5**		6.5		6.5	
Mersin	**2.5**	**2.5**	**100**	**2.3**		2.3	Loss of value from small project cancellation.	2.3	
Salt Lake City	**11.2**	**11.2**		**11.2**		11.2		11.2	
Toledo	**24.4**	**23.9**	**100**	**22.9**	Control Room ($5MM) difficult to defer. $7MM TAR + $2MM related to come (July). Desalter ($0.5MM) probably won't get done.	22.9	Sacrifice vale from small projects. Risk on reliability loss.	20.9	Stop/slow construction on CCB (and take penalties). Would delay CCB which may require renegotiation with OSHA
Whiting	**65.2**	**60**	**100**	**45.0**	12PS TAR to come + $12MM Commercial related.	59	Deferral of MCW projects	50	Deferral of MCW projects. Could reduce further $9MM by cancelling commercial portion of 12PS TAR. Loss of value
Refining total	**749.9**	**790.97**		**617.2**		**753.7**		**705.2**	
						-30	TxC RHU repair	-30	TxC RHU repair
						723.7		675.2	
					Messages	1	Will spend the forecast - will NOT underspend as in past years. Still some uncertainty on external decisions within TxC		
						2	Preference to overspend - reductions will cause pain.		

From: Neep, Martin A

Sent: 7/11/2001 11:53 PM

To: Kozinski, Al; Brown, Roger W; Cape, Rick R (Australia); Beh, Soo Hee; Hauschildt, Frank William FW; Hoffman, Michael P; Jacks, Mick D; Jhawar, Ashok K; Johns, Jeanne M; Lamanna, Jim; Maclean, Colin H (Director); Milnes, Andy P (Long Beach); Nicolaides, George; Porter, Daniel J; Porter, Rick E; Rhoades, Gerald L; Sajkowski, Daniel J; Scruggs, Tim T; Uysal, Tahir; Vaughan, Bernie F; Vicedo, Enrique; Strater, Felix R

Cc: Fezzani, Reyad; Proctor, Simon; Bartlett, Stephen; Faridah, Hassan (BH); Dapkus, Kes V; Bartlett, Stephen; Baumgart, Harald; Dapkus, Kes V; Decker, Keith G; Dewhurst, John C (NAP); Ercis, Ufuk; G SUN TMN; Glaser, Richard J; Grainger, Philip (Grangemouth); Peltier, Richard T; Schwab, Lorinda A; Telfer, Ian; Truffinet, Pierre; Weldzius, Robert A

Bcc:

Attachments: Deferral impacts 2001 9 July Estimate.xls; Capex control process rev 0.doc;

Subject: INFO: Latest capex estimate for 2001

Please find attached a briefing paper This proposal is a draft updated after BUL tag comments, but in the interest of time, it is being simultaneously forwarded to AAK and the BUL's, rather than seeking a BUL consensus prior to sending it to Al (per Rick Cape's request). Therefore, all BUL's please comment on the document, copied to all including Al. Time is of the essense now, given growing commitments.

In the sense of bringing additional data to the discussion, please also find a spreadsheet which summarises the latest estimates, summing to a total of $768MM. If the "traditional" underspend of $20-30MM occurrs in 2001, the reductions offered to date should be adequate. I would like to re-inforce the following:

* The latest estimate can be found in column "M" of the spreadsheet. The total of $768MM requires us to book the "Offer 1"s that BUs made at the TMN meeting, together with additional offers from some refineries. Delivery of this total depends on significant reductions from some refineries, notably Carson, which have yet to be confirmed.
* Although there appears to be adequate headroom between the committed to date total of $629MM and the target, this gap is relatively poorly distributed between the BUs (Carson, Whiting, Texas City, NWE Hub). Some of this remaining uncommitted gap is populated by projects, such as TARs, which have already been declined as reduction candidates. If the "traditional" underspend does not eventuate, we may be forced to consider deeper cuts to existing commitments, either commercial projects with consequent penalties or Clean Fuels commitments.

Martin

Briefing Note

Capex Control Process Proposal

TMN – July 2001

The most recent target for 2001 Refining BSS capex, which has been agreed at EXCO, is $746MM. This constitutes a reduction to the June GFO ($786MM) of $40MM. The latest estimate compiled by the TMN is $808MM, an increase over the TMN Meeting estimate of $791MM. First steps to achieving the reduction (vs the GFO) are confirmed changes to Kwinana, Bulwer, Castellon, the NWE HUB and Texas City. The BSS are assuming that a further $20-30MM will come from the "traditional" underspend. There may be some Lavera savings in the Commercial "bucket" although it is believed that these have already been booked.

Achieving the remaining reduction of around $20-25MM will be challenging, as we do not wish to cancel TARs, or defer projects which will attract significant demobilise/remobilise costs. Consultation with Jim Chipchase to see if we can turn any cycle-ending TARs to non-CE has not surfaced any attractive options.

For the next steps, what has been proposed is:

- All refineries are requested to immediately freeze activities that would result in commitments of commercial capex, pending completion of process to confirm reductions. (This freezing provides incentive to the BSS to complete the review quickly)
- The TMN will consider allocations of reductions in the same way as small commercial capex, except in reverse. To do this, each refinery will compile a list of all projects (commercial and sustaining) which they could be reduced (whether by deferral or elimination), and state quite clearly the $ and reputation impact such a reduction(s) would have. (NB. There is a bias to accept sustaining capex as is, but refineries that can offer reductions or deferrals should do so.) This will give a new project cost (and deferred benefit) such that it should be possible to calculate a new IRR. By comparing the 2 sets of economics and/or reputation penalties, it should be possible to deduce a negative IRR impact, and we should be able to place these in a "pecking order" on a project-by-project basis. If there are no economic benefits - say in the case of HSE investments, we'll have to take some sort of view of risk. We should then be able to draw a line at the point that reflects the savings we need.
- DSPs should be available for all these projects, so it is proposed that refineries "pair off" to provide a measure of assurance that the assessments are being neither too comfortable nor too severe.
- Once the TMN has the compiled full list, the lists will simultaneously be distributed to the BUL's and AAK. The BUL's will consider the list and provide input to AAK. This input may be a recommendation in whole or in part, with individual BUL's discussing relevant issues with AAK. Individual BUL's will inform the peer group of discussions with AAK. The TMN prioritization, the input of the BUL's collectively, any relevant discussions with AAK, and AAK's feedback are all meant to be components of a single process to select the 'best' reductions as quickly and efficiently as possible. A possible outcome is a decision to take some risk around reductions that achieve a revised total of more than $746m in total capex. AAK would make any such decision.

- The TMN will monitor progress and keep updated through their teleconferences.

The compilation of project lists, bearing in mind that we should have a lot of the data already, and development of a recommendation, should take around 2weeks. The BUL's will consider their collective input in one week + the time until the next regularly scheduled BUL teleconference, and then present a view to AAK.

Martin Neep
9 July 2001

Refinery	Original Budget	Latest Estimate	P number	Committed in 2001	Options	Offer 1	Penalty	Offer 2	Penalty	Estimate Updated 3 /7	
Bayernoil	7.8	7.80		7.8		7.8		7.8		7.80	
Cherry Pt	51.4	51.4	90	48.0	Few projects over, and a few surprises	50.70	Loss of value and reliability risk	50.7	Compliance requirements	50.70	
NWE HUB	194.1	225.9		201.5	Detail Below	216.4		203.3		215.4	
Lavera	30.3	30.3	100	29.0	Minor compliance + integration DB to be spent. $7MM Commercial reduced by $4MM	30.30	Have already booked "painful" items to "eat" TAR overrun	29.9	Delay/cancel commitments to Integration. Loss of value	30.30	
SRC	1.6	1.7		1.7		1.70		1.7		1.70	
Texas City	186.2	220	50	122.0	$190MM at P90. Includes $45MM RHU increase. Clean Fuels in play. CF could be deferred ($10-15MM, end June decision date) for 1-2 years, but impacts on Toledo, Marketing. Texas State emissions regs may change. Land uncertainties by July GFO. Possible further movement of $5MM from capex to revex, and maybe more depending on RHU classification.	210.00	Slow project spend across all categories and rephase 2002 TARs to push 2001 pre-spend into 2002. Availability risk & margin loss in 2002. Detail to come.	190	Defer Clean Fuels - risk to Atlanta supply (BP reputation), reduce scope of NOx work in 1Q2002 TARs - may trigger future off-cycle CDU shutdown.	210.00	
Yorktown	12.6	12.6		12.6		12.60		12.6		12.60	
Bulwer Island	9.4	9.4	80	6.6	Truncate Aspentech ($0.5MM) - may result in costs. Product wharf has slipped but other projects have increased.	8.7	Aspentech work deferred. Sacrifice value $0.3MM in '01, $0.5MM yoy.	8.2	Product wharf work deferred. Relationship with local authorities weakened. May be risk of requirement to use smaller ships for products (or partial loads) so higher product freight costs or demurrage.	8.20	
Carson	112.5	112.5	100	90.0	Sept TAR to come. Possibility of $10MM could be held back (need to know by August), although could increase by $20MM. May need to commit on SCR for 2002 TAR ($4.5MM).	102.5	Project shutdown. Loss of value & risk of reliability failure and/or increased cost to mitigate risk. Shutdown capex programme in 4Q. Demobilisation costs will result in additional $5MM at later date.	98.5	Defer order of SCR. Would still need to do tie-ins. May need to negotiate within Sunshine and with local emissions trading. Current cost of no SCR is min of $25MM per year, likely to rise if rate cuts required. Possible impact on Whiting & TxC SCR project costs.	102.50	
Castellon	9.1	9.1		7.1	Possibility of $1MM reduction	8.1	Quantified risk that flue gas cooler can still be delivered	8.1		8.10	
Kwinana	25.1	23.3	80	15.0	TAR to come. Kwinana First still under review, and could save up to $2MM. Possibility that $2.7MM could be saved from lubes, $1.2MM from PDA/Bitumen.	21.3	Slowdown K1st.	17.4	Slow down K1st. Cancel lubes TAR (and stop making lubes) and Bitumen TAR. Cancellation of the lubes T/A will probably require the total shutdown of the lubes refinery, since the T/A has already been postponed several times. The Castrol peer group will be advised to look for other sources of supply. Kwinana will look again at whether inspection and repair of a few key items could allow the lubes refinery to keep running safely, albeit at reduced reliability. Similarly, for cancellation of the bitumen T/A: Kwinana is looking at whether the scope could be reduced any further without compromising safety.	18.30	
Mandan	6.5	6.5		6.5		6.5		6.5		6.50	
Mersin	2.5	2.5	100	2.3		2.3	Loss of value from small project cancellation.	2.3		2.50	
Salt Lake City	11.2	11.2		11.2		11.2		11.2		11.20	
Toledo	24.4	23.9	100	22.9	Control Room ($5MM) difficult to defer. $7MM TAR + $2MM related to come (July). Desalter ($0.5MM) probably won't get done.	22.9	Postpone investment in GUS Graphics software associated with new control system. Postpone implementation of operator dataloggers as part of Equipment Care strategy. Defer misc. small projects.	20.9	Stop/postpone construction on new central control room which is scheduled for Nov. 01 completion. This project is in response to OSHA compliance agreement stemming from 1996 fire. Will require discussion with OSHA. Penalties will be incurred from postponement.	22.90	
Whiting	65.2	60	100	45.0	12PS TAR to come but substantial demob/remob costs to change + $12MM Commercial related.	59	Deferral of MCW projects	59	Deferral of MCW projects. Could reduce further $9MM by cancelling commercial portion of 12PS TAR (packing). Loss of value	59.00	
Refining total	**749.9**	**808.10**		**629.2**		**772.0**		**728.1**		**767.7**	
Coryton	82.5	87.5	100	73.4	Defer CF ($5.5MM); still investigating cancellation of propylene project ($1.6MM); possible deferral other work ($1MM)	82.00	Lost value due to further slowdown of commercial project and later delivery of CF	79.4	Still unconfirmed. Answer at end of June.	80.00	Estimate updated by Lachlan Munn 3/7. Have deferred Clean Fuels
Grangemouth	73.4	104.2		96.1	Actuals generally 20% above estimate. Pre-work for HCK TAR ($4.3MM) is only handle, but unlikely.	102.40	Heavily front-end loaded due to TAR timing. FCCU rehab could be deferred beyond current 2003 start-up. Say 6 month deferral would mean loss of FCCU income in 2003. Start up not likely until 2004.	94.5	Re-phasing Grangemouth remediation. For HCK TAR: unlikely to get licence for 2nd deferral, so rephasing means HCK shutdown. $2.6MM heater retube means HCK could not be used. $1.6MM safety and reliabiliy work would be delayed until 2004. $2.6MM refinery remediation work mainly in tankfarm could be delayed. Additional $1MM site remediation less likely deferral. If HCK shutdown declared non-cycle-ending, capex would fall by $2MM in '01, but whole shutdown in '02 on revex - $20MM impact.	101.20	
Nerefco	38.2	34.2	100	32.0	Possible reduction of $2MM, mainly CF work. Cancellation results in payout to Caltex	32.00	Complete cancellation means payout to Caltex of costs. Consequential losses also possible as compensation. Re-phasing less serious, but damage to relationship.	29.4	Re-phase work on CF. Risk to access to 10ppm S German market in 2003, especially early in year, so forgo tax break. May be possible to set up phased exchange with other suppliers. Possibly $0.1MM in capex to revex for Sulphur PIT work.	34.20	