
From: Parus, Donald L
To: Gower, Patrick E
CC: Heyns, Thys [MOR]; Dio, Susan W; Schilling, Dave M.
BCC:
Sent Date: 2004-11-05 06:05:32:823
Received Date: 2004-11-05 06:05:46:000
Subject: Texas City Capex Reduction Proposal
Attachments: Untitled Attachment , Untitled Attachment(1)

Pat,

As we discussed on the phone today, the proposal for additional capex funding is currently inconsistent with the prioritization process developed by the US CM's and reviewed at our BULs meeting. During the reduction activities, capex was removed in layers, from least painful to most painful. The bucketing was as follows:

- * Deferred compliance - least painful - while still meeting legal obligations
- * Commercial Growth
- * Sustaining proactive - areas where problems are anticipated in the future
- * Sustaining reactive - areas where problems currently exist or assets are in need of immediate repair
- * Absurd - substantial value destruction - most painful

During the initial planning phases, Texas City received funding for the absurd category, and an additional \$10.5m from the GHG/Energy Group funds. Comparing this funding against the proposed reductions, one project slated for removal (FCCU-1 Waste Heat Recovery Unit Project) was funded out of the Green House Gas program. The additional \$6.0 from the GHG Group Funds is earmarked for projects that were currently not in our reduction list. The proposed reduction profile and incremental funding for Texas City is shown below. The additional projects earmarked for this next layer of funding highlighted:

This incremental funding will generate an additional RCOP of \$11m as stated in the recent packet from Don Porter.

In reviewing an incremental funding of \$17m, Texas City is proposing that we utilize the funds to sustain our existing assets before expanding or growing the footprint. Due to the long-lead nature of the FCCU2 Restart project, we may choose to fund this project in 2005 if we believe a suitable level of sustaining capex would be available in the 2006 timeframe. As demonstrated at Texas City after the 1990's, continued under-investment in our base infrastructure will not underpin a winning strategy of safety and reliability in future years. We propose additional capex funding (shown in pink) as follows:

This profile of capex spending will generate slightly less RCOP (\$9.5m vs. the proposed \$11m), but will underpin our strategy and journey toward improved reliability. Our long-term request will be an additional \$12.5m above the current increases to restore our sustaining capex. I understand this issue will be discussed at a telecon tomorrow - and I am requesting that this proposed be considered in lieu of the current funding case for Texas City.

Please feel free to contact me tomorrow on my cell phone if you need additional information

Don

Higher impact/risk if deferred →

Deferred Compliance	Commercial Growth	Sustaining Proactive	Sustaining Reactive	Absurd	Total Removed
-14.7	-17	-13.4	-17.3	-4.3	-66.7

Original Texas City Capex
Add'l Funded Projects (as of 11/1/04)

DCT				1.5	
Changehouse				2.0	
Fire Alarm				0.8	
FCCU-1 WHRU (GHG Funding)			4.5		
ULC 106 JB/JC Replacement			1.7		
Building Integrity			1.8		
Fire Water System			2.6		
6-Oil Piping Assets			2		
PS3B OVHD Cooling	0.3				
FCCU1 Feed Nozzle Upgrade	3.1				
PCU Feed COS Treater	1.0				
PS3A HVG0 PAR cooling	1.2				

2005 Current Removed Capex

-14.7	-11.4	-13.4	-4.7	0	-44.2
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FCCU2 Restart¹

	3.0				
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Contradictory to agreed method of funding additional projects.

¹Not included in original 2005 Capex Plan (does not effect 2004 Removed Capex sum) but is another Add'l Project funded.

Higher impact/risk if deferred

	Deferred Compliance	Commercial Growth	Sustaining Proactive	Sustaining Reactive	Absurd	Total Removed
Original Texas City Capex Cuts	-14.7	-17	-13.4	-17.3	-4.3	-66.7

Add'l Funded Projects (as of 11/1/04)

DCT					1.5	
Changehouse					2.0	
Fire Alarm					0.8	
FCCU-1 WHRU (GHG Funding)				4.5		
ULC 106 JB/JC Replacement				1.7		
Building Integrity				1.8		
Fire Water System				2.6		
Tank Gauging Phase I				3.7		
Field Analyzer replacements				1.4		
ULC - Spare EP pump				2.3		
Minor capex - sustaining proactive			0.2			
PS3B OVHD Coding		0.0				
FCCU1 Feed Nozzle Upgrade		0.0				
PCU Feed COS Treater		0.0				
PS3A HVGO PAR coding		0.0				

2005 Current Removed Capex

	-14.7	-17	-13.2	0.7	0	-44.2
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FCCU2 Restart¹

		3.0				
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Continue to fund now only if headroom capex available later for sustaining investments

¹Not included in original 2005 Capex Plan (does not effect 2004 Removed Capex sum) but is another Add'l Project funded.