

June 14, 2006

Mike Hoffman Interview

Interviewers: Stephanie C. Moore, Jeffrey Heller, Rudy Blyweert and Bill Bonse
Jasmine Room, St. James Square, 9:10 AM

Bill Bonse: Introduction

Jeffrey Heller: Introduction

Mike Hoffman - Chemical Engineering, executive MBA School at Harvard. Started at Cherry Point Refinery. Was at Carson at time of ARCO acquisition. January 2002, took GVP Refining. Safety practice at ARCO - not as rigid as DuPont. We did have a major incident at Carson in mid '80's, resulted in some industry changes in hydrogen. ARCO further advanced than BP on Behavioral Safety training--very embedded at ARCO. Because of process safety management regulation, we were doing that. I actually had to rebuild some of that capacity at Carson--when I went there in January 1998.

Concern that BP didn't grow manufacturing leadership--it was mostly Amoco leadership in BP. I was somewhat surprised I was the one named as GVP. Handover with Al Kozinski? About a month or so we overlapped. I had been convener for whole system six months before that. There were different views about TXC, although it was a tough place. First time I'm there is 2001. I heard from others concerns over plant and corrosion. Lots of concerns about inspections and lack of experience. My impression was that it's pretty run down. And it's way better now. Housekeeping has improved. I had seen maintenance and capital expense costs going down. We had A. T. Kearney go in, build a plan for integrity management.

Initial issue was the organization. I had 20 refineries. I needed some critical practices. HRO came up so people could do the right thing rather than just focus on cost. I didn't know Don and he was not my choice--I also didn't want Tim Scruggs or Ashok Jahwar in their roles, but it was decided for me by Doug Ford. I took Ashok out, and I watched Scruggs. My relationship with Don--different--it was more of board structure--we reported to a Site Board. I was on Board with Chemical GVP and BULs.

- not too regular meetings of Board. We'd do site plans, VPP. Very hard at TXC to get anything done. Don wanted to please everyone--I think he was not strong enough.
- TXC Green Book was an attempt to define accountabilities for Star Site concept.

I was pushing him on integrity too. I put Rick Hale because offsite refinery BUL didn't work. I wanted some aggregation of financial, and consistent with how we do it elsewhere.

- First concept was Rick report to Pat, shifted it in 2004 for Don to report to Pat--he took over performance reviews mid 2004.
- When Hale first started, he reported to Don, had indirect link to Pat then. Later, Rick reports to Gower.
- Performance feedback, QPRs, all done by Pat as RVP
- Scores for 2004 done by Pat, one of my three RVPs--Pat did his 2004 performance review.

We looked at organization--I couldn't manage/visit 20 refineries. There used to be an exco and refineries interfaced with Al Kozinski as tag to exco. Then they reported to Al when I got into the role. When I came in, no way I could insure things are done. Organization needs a span breaker to interface with my team and to drive consistency. Decided to put in a Refinery Manager in TXC and have Don report to me. But didn't work. When Innovene happened, we decided to set it up like a refinery.

Q: Delegated authorities to Gower in writing?

A: No. Performance contract--Bill shows him he signed it--I held performance contract for the site. Pat was not a coach--he did the individual performance discussion. Performance management contract discussions are done by Regional Vice President, they handle that. Bill asks for a paper--there is a book (Comment by Jeffrey Heller--this was done after ISOM incident)--Mike: If you look at the book, it is the same accountabilities now as it was then.

Mike: There is a book, go get it from Petra.

I started working on culture and leadership when I got in, then went to IM issues and then common processes, as an attempt to deal with issue that refinery was not a favored business model.

I went to the network for a qualitative ranking of refineries. Our "hub" refineries were looser rated. Made Refinery Manager accountabilities the same. Then started mapping all their business processes. Went after corrosion because refinery managers were concerned about that. I tried a number of times with John to get tractors. He told me it was a commodity business and cost cutting was the theme. 1998 mandate on 25% cost reduction due to merger. Ford was definitely pushing cost reduction. John Manzoni did not know the business, but he paid attention to cost cutting. John visited refineries, not always with me.

The stand I made in SET was we should sell refineries we can't maintain. Why Grangemouth & Laverra had to leave refinery. Consider shutting down? We shut down part of Grangemouth and Norelco.

The appointment of Willie Willis--he worked at CP. I didn't know him well--senior leader--never worked with him at CP. I knew about his appointment. Willie then on

special project--wanted to make him an MDL--Don's recommendation to make him MDL. I approve level E, D's go to group.

Job posting--nothing specified--I was not familiar with. But he was viewed as having most experience in operations.

Rudy: Approve the KPIs?

A: Yes. Surprise one fire per week? Site had a great excuse for not conforming to anything because of Star Site concept. Now, don't allow that. Fire every week? That's different. At Carson they thought and at Carson we changed that with the "great day" initiative--no loss of containment, no environment incident, no harm to people.

Why is the culture this way? I agree culture had something to do with it. What was culture? I think Don was right guy to implement this. Don & Lamana were the other candidates. Lamana a disaster in Europe. Don--saw himself as a site director. In retrospect, looked like we were spending more, doing it right, but now we realize the culture was wrong.

Peter Elliott e-mail--I didn't see it. But we started the compliance audits in R&M--and TXC did better than expected. Air BP was worse. And Don created his own permanent audit team. Don was doing what we needed at least under the plan. I don't think we got further into RVP role to see what that would do.

Telos--showed some of the issues. Don had a plan, headed in right direction. Mogford report is hearsay and reaches unsubstantiated conclusions I don't agree with. Biggest factual surprise in Mogford report was the sloppy operations.

Reference to March 2005 e-mail--I have not seen it. They said RIF--record setting pace--I said this cannot be predicted and not connected with seriousness.

Q: How do you prevent sloppy operations.

A: We have done HRO assessment as a deep dive into how we do things. To determine if ISOM issues were systemic, I had the HRO developed--used at TXC and then used at all other sites. Didn't have that before.

2004 events--I went out there for that--we knew TXC inspection program was behind so we ramped up its inspection activities.

On the full, not a lot to learn there--good contractor, equipment was there. The other was around risk understanding for breaking the flange. So we made changes across the system to respond to this.

Trailer siting--surprising how little they understood risk. This was an industry issue, it was not just a TXC issue.

Bill: ISOM product of site culture--the fire and steam incident a product of culture?

A: Yes. So I talked to Don about maintenance. Put new people in there to shore things up such as Willie Willis. I think Don was trying to deal with the culture.

I visited TXC site on leadership team two or three times per year. Was there a debate between Gower and Parus? Yes--and I was informed about it.

After incident I asked if we should shut this down because they thought there were issues with following procedures. My team decided no, let's keep it going but try to fix it. Didn't discuss shutting down site before March 23. May have told JAM about shutting down units at some place.

Culture at TXC has low risk analysis.

Q: To what extent did Paul Maslin and Pat King get involved.

A: Maslin had little TXC involvement--his network, does audit. Paul's job was to develop standards on process safety and then measure progress.

The network I referred to before for ranking were Maslin's professionals.

BP spent a lot of time on personal safety. I don't think process safety was paid any attention in BP. Hard to do things consistently. Now we have a better process to track implementing all PSM initiatives.

The BP emphasis and measures are unintentional but focused on personal safety. Risk is really around getting basic processes right, not about trivial driving standard. In refining, vehicle accidents not the issue.

Report 179--detailed debate at SET and Pat King's assessment--but again focus on personal safety. I feel isolated in this. HSSE network wanted us to start working on risk awareness--segment did not agree with this; rather it went to compliance as the emphasis.

The performance contract framework was set by the Segment--included driving standard. I don't think the performance contract was that useful. [Jeff Heller comment: The things to change culture are not in performance contract.]

Q: Think TXC is a good place now?

A: Not sure. Not in a place now to have a successful business. Over next five years unclear how we will have a successful business plan. Integrity is better. Needs to be a change in leadership team.

So I don't use performance contract to drive performance. I will give you the book how refining works. Then I get quarterly reports on this project.

HRO--we have been working on getting this embedded in refining--to help change the culture.

Refinery of future--more on things like crude assays and things on technology, LP project on knowing where people are, etc. This project not really on TXC stuff. Look at level implementation and controls. New systems. I think Gower does a good job. After incident, I learned about Don's extended leadership team--I didn't know about that, confused the accountabilities--so we told Don he had to change to a functional leadership team. He didn't finish a lot of things. I've heard he didn't view PSM and integrity of operations as a role of site director--I think that is a very clear role of site director.

I don't know if site director has a job description.

In refining--functions should be there to support. But the Green Book gives functions ability to right governance for operations. Like the driving standard. Bill claims John Browne is saying functions are there to serve.

Bill: How do we deal if function says you need to fix something and operations doesn't do it?

Mike: I think audit can help--it needs to get fixed, lacks rigor. And peer reviews.

In HRO, trying to listen to the organization.

I was involved in the reassignments of Willis, Barnes. I supported Kathleen to do this role.

The VPP at TXC was approved by me and _____. 2004 VPP was subjected to a top down adjustment.

In first quarter 2006, R&M said priority was to cut cost. I told my folks we had some different priorities for this.

Capital allocations: license to operate, sustaining, then growth. We always cut back growth. Never had major issues with Don on requests for money. Whiting built a business case for more money for integrity and they got it. Don can't claim that I held back money from him. Never heard comment about Don solving his appetite for capital.

BP didn't like refining. We have to rebuild. This investigation does not help--doing this to protect the company.

[Puts blame of BP. Blames others in management. Blames past management.]

