
From: Foust, Nancy C
Sent: Monday, October 15, 2001 10:34 AM
To: Woollam, Richard C
Subject: RE: ACTION: 2001 Year End Forecast

Thanks, Richard. If the things you're working come to fruition, along with the increases, you should end up \$2.0m over instead of the current \$3.0m. Hopefully additional insights will come up that will help to reduce the negative variance even more.

Nancy

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

From: Woollam, Richard C
Sent: Monday, October 15, 2001 8:52 AM
To: Foust, Nancy C
Cc: NSU, CIC TL; Felix, Rick D (Anchorage)
Subject: RE: ACTION: 2001 Year End Forecast

Nancy,

The following budget adjustments are known to date,

- ~\$ 750,000 moving as much O&M money to CUI AFEs as appropriate
- ~\$ 300,000 of MeOH which should have been charged to the field
- ~\$ 100,000 in stores issues which can be charged to ASCG Insp Inc. under the contract
- ~\$ 50,000 in overhaul crew costs/manhours which should have been charged to Operations Support

Being worked,

- ~\$ 150,000 in scaffolding costs which should be charged to Operations Support as this was a temporary installation rather than permanent
- ~\$ 100,000 in AII overhead costs and manpower if negotiations are successful

Upward pressure/declined options,

- ~\$ 200,000/month in PW/CI costs which can not be saved as indicated by George
- ~\$ 200,000/month in AII manpower costs which can not be saved, again as directed by George, however, I have not told AII as I'm still trying to get an overhead reduction and this is all part of the pressure
- ~\$ 200,000/month in increased CI costs when B Train and Big AL come back on line

If there are any questions please let me know.

Thanks.

Richard.

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

From: Foust, Nancy C
Sent: Monday, October 15, 2001 8:12 AM

To: Woollam, Richard C
Subject: RE: ACTION: 2001 Year End Forecast

Richard --

What is the impact of this for you?

Nancy

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

From: Blankenship, George R
Sent: Friday, October 12, 2001 11:01 AM
To: Foust, Nancy C
Cc: Woollam, Richard C
Subject: RE: ACTION: 2001 Year End Forecast

Two issues. 1) stopping the planned CUI program at the end of the program. I think we are clear, we will stop.
2) where the money gets charged. I do not have an opinion on that, it all comes out of the opex budget and it does not change how much is available to spend.

George

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

From: Foust, Nancy C
Sent: Friday, October 12, 2001 10:47 AM
To: Blankenship, George R; Woollam, Richard C
Subject: RE: ACTION: 2001 Year End Forecast

Yes, it makes sense. To make sure we're all clear, you want Richard to move the \$800k from O&M to the \$2.0m AFE?

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

From: Blankenship, George R
Sent: Friday, October 12, 2001 10:38 AM
To: Foust, Nancy C; Woollam, Richard C
Subject: RE: ACTION: 2001 Year End Forecast

The planned program for the CUI inspection has been completed therefore the program is over for 2001. We will have a stepped up program for 2002. The sound bite is that this is NOT a reduction, but a completion of the planned program.

Does that make sense?

George

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

From: Foust, Nancy C
Sent: Friday, October 12, 2001 10:16 AM
To: Woollam, Richard C; Blankenship, George R
Subject: RE: ACTION: 2001 Year End Forecast

George --

Refresh my memory -- did you decide to leave the \$800k CUI O&M where it is (i.e. not move it to the \$2m CUI AFE which would effectively shut down the program for the rest of the year)? I don't recall a decision but you did ask about the possible explanatory "sound bite."

Nancy

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

From: Woollam, Richard C
Sent: Thursday, October 11, 2001 4:59 PM
To: Blankenship, George R
Cc: GPB, Ops Mgr; Foust, Nancy C; NSU, CIC TL; Felix, Rick D (Anchorage)

Subject: RE: ACTION: 2001 Year End Forecast

George,

Just to confirm our conversation,

- CIC Group will look for all and every opportunity to close the budget gap and save funds through the remainder of this year, including, eliminating overtime, giving folk the opportunity to go on vacation, reducing stores/warehouse issues etc., etc...

However, the following options are not, at this time, viewed as viable,

- PW corrosion inhibition - reinstate this program which was terminated yesterday
- Production adding corrosion inhibition - make sure that the added production is cost effective, highly likely, otherwise continue
- Seek opportunities to reduce NDE manpower costs, as discussed above, but do not implement a 1/3 reduction in workforce
- Move the \$ 800,000 O&M money to the AFE therefore completing the 2001 program of \$ 2 million
- It is recognized that there will be an up-tick in corrosion inhibition costs with the start-up of B-Train at FS-2 and with Big Al

To be implemented,

- Back-out corrosion inhibition changes due to ER probes - do this quietly

Hopefully, this summarizes the discussion, if I made any errors, please let me know.

Thanks.

Richard.

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

From: Woollam, Richard C
Sent: Thursday, October 11, 2001 2:25 PM
To: Blankenship, George R
Cc: GPB, Ops Mgr; Foust, Nancy C
Subject: RE: ACTION: 2001 Year End Forecast

George,

Certainly, 4:00 pm it is. In summary, here are the immediate actions I'm proposing to take to reduce the CIC Group costs/over-run,

- Shut-off the PW corrosion inhibitor on the WOA
- Remove the corrosion inhibitor added for velocity control/management and lower the velocity limit to the new operating procedure
- Back-out some chemical changes which were implemented based on ER probes, these are pretty conservative changes so not a huge risk
- Reduce the O&M NDE/inspection crews by approx. 1/3 for remainder of the

year, this is approximately 30 people. The concern is that they are members of PACE/OCAW and how this would be interpreted in view of the integrity issues raised by ORT

- Move O&M costs which have been spent on external corrosion to the external corrosion AFE. In a sense this will reduce expenditure on external corrosion since we would have effectively spent an additional ~\$1 million had we not been forced to move this money to the AFE

There is a major up-tick coming in CIC costs with the re-start of FS-2 B Train/Big AL and the large water volumes associated with this production.

Hope this helps.

Richard.

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

From: Blankenship, George R
Sent: Thursday, October 11, 2001 2:12 PM
To: Woollam, Richard C
Cc: GPB, Ops Mgr; Foust, Nancy C
Subject: RE: ACTION: 2001 Year End Forecast

Richard, apparently me and several other folks are confused. I have a meeting in Jack Fritts' office at the BOC with Nancy at 4pm. Can you call in there and we can talk about this.

Thanks,

George

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

From: Woollam, Richard C
Sent: Thursday, October 11, 2001 2:01 PM
To: Blankenship, George R
Subject: RE: ACTION: 2001 Year End Forecast

... I'm confused because I haven't suggested at anytime reducing our external corrosion program, the NDE crew reductions are for the general/internal inspection program.

The only impact for external is that we are going to move some costs which are currently carrying under the O&M budget, which we accumulated in the first half of the year awaiting various decisions, into the correct AFE.

Richard.

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

From: Blankenship, George R
Sent: Thursday, October 11, 2001 1:58 PM
To: Woollam, Richard C
Subject: RE: ACTION: 2001 Year End Forecast

Specifically "corrosion under insulation" inspection, I thought the second sentence said that. Sorry if I confused you.

George

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

From: Woollam, Richard C
Sent: Thursday, October 11, 2001 1:48 PM

To: Blankenship, George R
Subject: RE: ACTION: 2001 Year End Forecast

George,

Sorry, I'm confused, does this refer to the external inspection program? Internal inspection program? PW inhibition? Can I give you a call somewhere to clarify?

Thanks.

Richard.

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

From: Blankenship, George R
Sent: Thursday, October 11, 2001 1:26 PM
To: Woollam, Richard C; Foust, Nancy C; GPB, Ops Mgr; GPB, Ops Support Mgr
Cc: Farnham, C Drais
Subject: RE: ACTION: 2001 Year End Forecast

We have actually had quite a bit of discussion on this subject with Neil McCleary and Steve Marshall up here on the slope the last couple of days. It is a consensus that reducing corrosion under insulation for the last couple months of this year is not a good business decision, given all the factors involved. While I appreciate and applaud the effort to identify opportunities for savings, we need to keep looking. This one will not pass the test.

Thanks,

George

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

From: Woollam, Richard C
Sent: Wednesday, October 10, 2001 12:00 PM
To: Foust, Nancy C; Blankenship, George R; GPB, Ops Mgr
Subject: RE: ACTION: 2001 Year End Forecast

All,

I agree, we need to understand the variances, however, I needed to take some immediate action in order to get after reducing costs. Given the timing before year-end which didn't allow time to analyse and then react.

If I need to reverse the PW because of employee/integrity concerns then please let me know, the others, I think are good solid optimization opportunities.

Richard.

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

From: Foust, Nancy C
Sent: Tuesday, October 09, 2001 8:44 PM
To: Woollam, Richard C; Blankenship, George R; GPB, Ops Mgr
Subject: RE: ACTION: 2001 Year End Forecast

Richard --

Although, I believe this particular proposed cost-cutting measure is a George/Ruth/Jack call, I am concerned about making decisions of this sort when we don't know what really is driving our negative variances. It may be that we find it necessary to jerk around because it's imperative we meet the budget and we have a very short time to make up the variance. It does really highlight, however, the need for us to stay on top of our costs and understand what is driving them so that we can respond early and in a controlled, thoughtful manner. Been a great (although not fun!) learning experience for me.

I encourage you and your team leaders to continue digging to determine what it is that is driving the costs and what may be differing in our operations from the 2001 plan.

Let me know if there is anything at all I can do to help.

Nancy

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

From: Woollam, Richard C
Sent: Tuesday, October 09, 2001 6:51 PM
To: Foust, Nancy C; Blankenship, George R; GPB, Ops Mgr
Cc: NSU, CIC TL; Felix, Rick D (Anchorage)
Subject: FW: ACTION: 2001 Year End Forecast

Nancy/George/Ruth/Jack,

Please see below, we are taking some very specific short term actions to reduce the spend rate within the CIC Group. Note that some of this action is to reduce and/or eliminate chemical injection in the last three months of this year, these are the lower risk options available to us, but, you should be aware that there may be some concerns raised within the workforce.

If there are any questions, please let me know.

Thanks.

Richard

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

From: Woollam, Richard C
Sent: Tuesday, October 09, 2001 6:44 PM
To: Morales, Noah L (NEEC); Crawford, Gary R; NSU, CIC TL
Cc: Felix, Rick D (Anchorage); Foust, Nancy C
Subject: FW: ACTION: 2001 Year End Forecast

Gary/Dominic/Noah,

As you may know we under a huge budget pressure for the last quarter of the year and therefore we have to take some rather disagreeable measures. Can you please implement the following changes/reviews,

- Shut down the PW inhibition systems for remainder of the year
- Dis-continue the addition of corrosion inhibition for velocity control
- Reverse all chemical changes made since 1/1/01 which were based on purely ER probe changes and which did not involve either WLC > 2 or alpha > 0
- Wet gas inhibition to continue - the consequences are too high here
- Review all the CL/LDF data for potential reductions beyond the reversals identified above

These need to happen as soon as possible.

Thanks.

Richard.

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

From: NSU, CIC TL
Sent: Tuesday, October 09, 2001 8:51 AM
To: Woollam, Richard C
Cc: Felix, Rick D (Anchorage)
Subject: RE: ACTION: 2001 Year End Forecast

Richard,

Based on your other note, it appears that Ops Corrosion and Inspection are the 2 areas that are over spent based on 3 quarters of the year.

The **Ops Corrosion** is not too surprising as 1Q and some of 2Q were expensive, with 129/118 on the East and Summer version not in the system. The comparison I did with Andy's numbers indicated we are broadly in line to meet the (non linear) projections for chemical & transportation costs, with costs currently running under projections by \$0.25 million. The detail showed costs to be down by \$1 million at FS-2 due to B-train etc but up elsewhere, most notably GC-2. There is a potential over-spend of ~ \$0.5 million if B-train, Big AL and 16/17C come on mid-October, which seems a worst case estimate.

Of course, this doesn't compare the current status with the budget but it does indicate that chemical

and transportation costs are largely where we predicted them to be, with the exception of GC-2. As we predicted a spend of ~ \$3.5 million less than we started the year, it looks like we are still going to deliver the \$3 million we set out to, even if B-train comes back up.

Re: **Inspection**, do these costs include the external inspection that we have not transferred to an AFE? If that is backed out, where do we stand? Can we work up some simple inspection costs from the ground up in a similar manner, to give an indication if the costs are reasonable i.e. X,000 items at Y items/manhour and Z \$/hour. It may give us something to focus us.

Ideas for saving money, in no particular order:

- Turn off PW chemical and hope the BCQ inhibitor will help out here.
- Turn off the wet gas inhibitor on the West (not a wise choice but could be defended as a short term measure?).
- Stop the velocity additional chemical. This is proposed in the revised velocity g'lines but not enacted until the new g'lines are formally adopted by Ops. ~ \$125,000/qtr. Easy win.
- Re: backing out CI increases. There are a couple of options:
 - We recently decided to limit CI increases based on ER probe data to +5% due to data quality/reliability. We could apply this retroactively to the start of the year. This would have the advantage of not breaking any of our protocols - just back dating a recent revision.
 - Remove all ER-probe based changes since 1/1/01, as proposed.

I can carry on digging in to cost codes but it would be great to get some professional help. Who can help us one on this?

Cheers,

Dominic