CONOCO

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Interoffice Communication

To R. D. Gamblin - Houston

From J. A. DeBernardi

Date February 8, 1982

Subject 1982 Cost Control Program

In response to your letter of January 26 on the subject, the VCM Plant's program for the first six months of 1982 is as follows.

FIXED COSTS

Our profitability improvement program for 1982 will continue along the same lines as was the case in 1981. The reforecast of production, cost variances, and raw material requirements submitted to Jim Pavao on January 20 was made recognizing the need for a cost control approach in the first half of 1982. The program includes:

Maintenance Payroll

1)	Defer filling three open Maintenance Department positions to second half of 1982. 1st half savings versus budget amount to	$14.1M
2)	Reduce casual employee usage budgeted in first half of year 1982. Savings versus budget	$10.7M
		$24.8M

Maintenance Material & Contract Cost

1)	No expenditures for budgeted extraordinary items will occur during the first quarter.	$508.7M
2)	Second quarter extraordinary item budgeted expenditures will be made only for safety, environmental and turnaround items.	$(3.5M)
3)	Elimination of one budgeted contract painter for first half of 1982. Savings versus budget	$ 18.9M

At present we intend to complete the delayed portion of our extraordinary budget in the second half of 1982. However, during the first quarter we will re-evaluate the extraordinary budget and look to the complete deletion of discretionary items contained in this budget if this becomes necessary as a result of economic conditions.

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VARIABLE COSTS

1) Sale of Heavy-ends to PPG

We will move forward on obtaining a sales contract with PPG related to our heavy-ends by-product for a 5-year period at 0.9¢/lb. of heavy-ends. The timing as to when PPG will begin paying us for this material is as yet undefined. The 1982 budget contains an expense of $277.2M for disposal of this material at $35 per ton. If we are receiving a revenue for this material by mid-1982 the potential savings from budget will be $164.2M.

I do not expect that the PPG contract will be applicable before July 1 since some processing changes at PPG are necessary before they will be in a position to begin paying us for the heavy-ends. Therefore, this savings will not take place in the first half of 1982. We will attempt to move the effective contract date to earlier in 1982 and keep you informed on our progress. This information is presented to give you a feel for the magnitude of potential savings from budget under the assumptions made.

2) Budgeting Error

We have determined that a transpositional error was made in preparing the 1982 Variable Cost Budget that will affect these costs. The budget reflects approximately $5.3MM excess expenditure to produce 580MM lbs. of VCM. This means that approximately $2.65MM savings from budget will occur in the first half of 1982. Our January 20 reforecast did not reflect this fact, however, the adjustment will be made in the next reforecast submitted for the plant.

CAPITAL COSTS

The plant's approved 1982 Capital Budget totals $1,849M. However, part of this total was AFE'd in 1981 from unallocated funds and two projects included are either not economically attractive or not required any longer. Our January 20 reforecast (Taxes, Insurance & Depreciation) was made using the December 18, 1981 Reforecast of Capital Expenditures which took into account delays or cancellations of projects. Also the depreciation was added in related to expansion and modernization project AFE's to be closed in 1982 which had a negative impact on this category.

Therefore, we predict that an approximate $30M negative variance versus budget will occur in depreciation during the first half of 1982.

The profit objectives for 1982 included a total amount of capital to be spent in the first half of 1982 for 1982 projects and carryover of $676M. Our capital expenditure schedule indicates a total of $880M will be expended in the first half of 1982 broken down as $810M for carryover and $70M for 1982 projects.

The carryover is made up of energy, safety, or environmental projects. 1982 projects being worked on in the first half of 1982 also fall in these categories.

J. A. DeBernardi

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cc:
JRP-RAD-JWW-JHB-JRH