Mr. F. A. Smith — Revised Repair Plans

J. C. Sarne — 3/10/75

As discussed at our February 24 and March 3 Operations Staff Meeting, Newport News has increased their billing rate by $1.00 per hour to $11.25 per hour effective immediately. This increase was unanticipated since Newport News' labor agreement did not provide for an increase in wages until July 1, 1975. However, their contract had provisions for a wage reopener which their union exercised. The $1.00 per hour billing rate change is a "pass through" of the wage and benefit package agreed to by Newport News and their union on February 20.

The major overhauls on the EXXON NEW ORLEANS and EXXON HOUSTON were committed to Newport News in early January based on their advice that the then current $10.25/hr. rate would probably remain in effect until July 1. The EXXON NEW ORLEANS was scheduled to enter the yard about April 1 and the EXXON HOUSTON on June 1. The latter date represented a six week advancement of the overhaul to take advantage of the lower rate.

After learning of the $1.00/hr. increase, I made an attempt to "split" the upcoming NEW ORLEANS repairs, doing only drydock work at Newport News and all other work at Norfolk where the rate would be about $2.00/hr. lower. However, Norfolk was not able to accommodate the repair at this late date because of prior commitments. I was able to negotiate the Newport News increase down to $.75/hr. for the NEW ORLEANS repair only. The vessel will enter the yard about March 25 for the complete job totaling about 66,000 manhours. The unexpected increase will result in the cost of this overhaul being about $50M over forecast.

I was able to arrange to "split" the EXXON HOUSTON repairs and have made the necessary commitments at both yards. The vessel will enter Norfolk Ship about July 15 for all repairs except drydock work. On completion of these repairs she will proceed to Newport News for drydocking.

I estimate that this split will result in net saving of from $45 - $85M depending on the value of the vessel's time. The following details this expected saving:

1.	All Repairs at Newport News:		
	Labor Cost (66,000MH x $11.25)	=	$745M
2.	Split Repairs:		
	Labor-Newport News (8,000 x $11.25)	=	$ 90M
	(1) (2)		
	Labor-Norfolk (58,000 x .95 x $9.82)	=	$540M
	Extra Services & Misc.	=	$ 20M
	TOTAL	=	$650M

3. Time Difference:

Split Repairs + 8 to + 10 days
Value = $10M - $50M (per WFR)

4. Net Savings for Split:

Minimum	=	$745	- 650	- 50	=	$45M
Maximum	=	$745	- 650	- 10	=	$85M

Prior to entry of the vessel into Norfolk, we will review the expected savings However, several months lead time is required to book space for this size vessel and Norfolk will be turning away work based on our current commitment while Newport News is likely to book other business. Unless very significant market changes occur, the "split" repair should be considered firm.

NOTES:

(1) Norfolk direct manhours equals about .95 of Newport News.

(2) $9.82 represents estimated $1.00/hr. increase effective March 25.

JCS:all

cc: Mr. R. R. Hemminghaus
Mr. E. C. Jett