1184

INTER OFFICE MEMO **TENNECO CHEMICALS, INC.**

ENV. SCIENCE

APR 8 - 1975

TO	Distribution	AT		DATE	April 4, 1975
FROM	D. I. Smalley	AT	Piscataway	COPY TO	

SUBJECT SPI Critique of EPA Economic Impact Analysis - VCM

A meeting was held in the New York offices of SPI to review and develop policy relative to the economic impact analysis contained in EPA's recent draft standard for VCM. Those in attendance in addition to the writer were:

Ray Abramowitz	-	Hooker
Cecil Loechelt	-	Ethyl
Bill Madden	-	Firestone
Ray Manning	-	Union Carbide
Tom Linok	-	Goodrich
Jack Zimmerman	-	Diamond
Bert Ingley	-	Diamond
Bob Hill	-	Diamond
John Lawrence	-	SPI
Gary Baise	-	Ruckleshaus, et. al.

Baise began the discussion with the explanation that under Section 112 EPA is required to judge only the hazard aspect of a situation. Economic and technological considerations are not required under 112. However, in this case, EPA introducing both economic and technological considerations. It is believed they are doing this at least inpart to justify a possible dual standard i.e.: one for suspension and one for dispersion. This may be an attempt to avoid a law suit from a public interest group demanding a single rigorous standard.

Attached is a brief critique of section 10 of the draft standard prepared by Diamond. The feeling of the group was that this analysis was much closer to reality than the EPA analysis and raised numerous questions concerning EPA's data sources and financial methodology. Some debate insued concerning the best approach industry could take in view of a rather tight timetable. Baise reaffirmed the opinion of counsel that if industry felt the EPA analysis was faulty, a response was appropriate and desirable. The outcome was that a meeting will be held in Durham on 4/10 between Don Goodwin, et. al. and Diamond, Carbide, Hooker, Firestone, and Ethyl representatives plus counsel. This will be a fact-finding meeting to determine how better economic data can be developed quickly for use in standard development. A report on this meeting will be made to the Steering Committee on 4/11.

Other discussion concerned dispersion resin and the Section 114 letters sent to all dispersion resin producers. A letter to EPA from John Lawrence is also attached suggesting that 6000 ppm down stream from the stripper would be in line with industry thinking. There continues some discussion of an "averaging" VCM levels between suspension and dispersion reactor products where both types of plants are on common sites. This is not expected to gain favor by either EPA or industry. Many suppliers will ask for a 7 day extension of the 4/14 deadline for submittal of the 114 data.

As an aside, Diamond claims to be installing stripping equipment which will get them under 1000 ppm in the latex.

D. I. Smalley

DIS:rs
attach.

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F. X. Ritter
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MEMORANDUM

To: MR. LAWRENCE, SPI

This will follow up on our March 27th telephone call regarding "economic rationale" in the EPA draft - "An Investigation of Health Effects and Emission Reductions of Vinyl Chloride in the Vinyl Chloride Monomer & Polyvinyl Chloride Industries".

A primary point for reference is page 10-2. In the last paragraph on that page the "annualized capital charge" - covering depreciation, interest, administrative overhead, property taxes and insurance - is estimated at 12.5% per year of the installed capital cost. Diamond feels this approach is completely inadequate. An annual cost of 25-30% would be suitable; with 3-5% assigned to administrative overhead, property taxes and insurance; 7-10% for interest charges and 10-15% for depreciation of the facilities.

The second main point for reference is Table 10-15 - "Financial Impact of Alternative Control Levels on New Suspension Process PVC Plants". This table purports to demonstrate the Return on Investment (ROI) to be achieved in an Uncontrolled Plant; in a plant meeting Effluent Regulations; and in a plant meeting Effluent Regulations plus Level A through D controls.

Again, the difference between our normal financial calculations and those of the presentation are astonishingly different. The attachment to this letter indicates the comparative figures on the "Uncontrolled Plant" wherein the EPA ROI is 28.7% and Diamond's 11.3%

The comparison for the other 5 cases may be summarized as follows using the same basis:

	EPA TABLE	DIAMOND APPROACH
1. Plant Meeting Effluent Regulations	24.7%	9.10%
2. Item 1 plus Level A	23.9%	7.6%
3. Item 1 plus Level B	24.1%	8.2%
4. Item 1 plus Level C	23.3%	8.0%
5. Item 1 plus Level D	18.8%	5.3%

The comparison is even more startling when one considers these ROI positions are achieved only at a capacity operating level, combined with very optimistic price assumptions and would never justify new plant investments.

It would seem the discrepancy is so great as to require a very detailed review - item by item - with EPA personnel to gain any understanding of "how" they did their computations.

A final brief point - referring to Table 10-16. EPA considers the investment in an uncontrolled Dispersion plant as $5,835,000 for 30 MM pounds of annual capacity. Diamond would consider 10-13,000,000 a more reasonable number excluding working capital.

A. J. Ingley

Diamond Shamrock Chemical Company

AJI:blt

RETURN ON INVESTMENT CALCULATION

SUSPENSION PROCESS PVC PLANT

150 M lbs EPA Calculations		200 M lbs Diamond Calculations
	Investment ¢/lb/yr.	
12.00	plant	14.0
0	Working Capital	5.0
12.00	Total	19.0
24.00 ¢/lb.	Gross Sales	24.0 ¢/lb.
?	Freight to Customer	2.0
24.00	Net Sales	22.0
15.92	Cost of Sales (Ex Dep)	13.97
1.20	Depreciation	1.43
6.88	Gross Profit	6.60
0	Admin, Selling, R & D etc.	1.50
0	Interest *	.80
6.88	Net Profit Before Taxes	4.30
3.44	" " After "	2.15
28.7%	ROI	11.3%

Assumes Plant Compliance with [illegible]

* Interest is shown on 50% of total investment at current rates.