Thursday, June 03, 2004

Mr. James A. McGeehan
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Dear Jim:

We appreciate your giving us the opportunity to further assist the lubricant industry with base stock supply issues that originally surfaced during GF-4 development. The purpose of this letter is to serve as a proposal outline regarding scope, time, and cost of additional work. I recognize that you might use this letter as an outline of a deliverable for the Heavy Duty Engine Oil Classification Panel or it might pass this letter on to API for them to consider sponsorship of the work.

We have split the problem into two independent parts, the costs of which I will itemize separately: (1) how we might duplicate the ILSAC/OIL presentation (October 22, 2003 in Detroit) with an eye toward PC-10 and (2) how we might gather a detailed, refinery-by-refinery profile of North America supply and then report it as aggregated supply by API Group and Viscosity Grade. What follows touches on each piece of the problem, one part at a time.

Item (1): We will again take some of our multiclient work that is already complete and update pieces of it in a focused way. Key items that we will check are formulation assumptions for the key PC-10 viscosity grade, SAE 15W40. We will need to sort through which of the formulation issues will have a direct effect, an indirect effect, or no effect on basestocks. As you may know, the GF-4 presentation was billed to ILSAC/OIL at US$ 7,500, which was paid by the API.

Even though these programs are similar in scope, we will not be able to do the assignment for the same price this time. Frankly, Jim, we were hammered on profitability for the last assignment. The time we spent refreshing the model and designing a presentation for the Detroit meeting turned out to be only a small part of the assignment. We underestimated the amount of follow up time required answering questions and explaining the approach that we took. If we had priced this correctly relative to our time invested, we should have billed it at about US$15,000-US$20,000.

In addition, we realized that we needed to do more interviewing around formulation options... we only used a "few points to draw the line". If we were to do another project/model/presentation/follow-up, then I would be looking for something in the US$23,000 - US$25,000 range. We would need some lead time (about a month or so) from the authorization to proceed to get the program done.

Item (2): A detailed, refinery-by-refinery analysis would be a bit simpler. We could limit, as was suggested by some, this study to just looking at Group II facilities. Although we could take that approach, but we would still need to do a certain amount of work on each of the Groups (especially Group I) to triangulate data and account for the refiners that choose not to disclose their data to Kline. My estimate for the work outlined in Item (2) would be approximately US$18,000 - US$20,000 range for that assignment.

In case you were wondering about synergies, there would be some savings to doing both Item (1) and (2) together, but we don't need to execute (2) fully to get the answers to (1). Let me know if you want to explore that in more detail.

We understand that the HDEOOCP has a meeting on June 22nd that might be a good forum for the completed program. If you wish us to complete the work and present to this meeting, we would need an authorization to proceed next week, the week of May 3, 2004. Please let me know if you have any questions; I will be in the office all of next week.

Regards,

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