WV-0236 #58

PLAINTIFF'S EXHIBIT

UC-2951

Training F.Y. I. Card Johnke 1/16/87

PROCUREMENT PLAN

GASKETS AND PACKING MATERIALS

Commodity Code: 0260A

Locations: Plant users - South Charleston, Institute, Tech Center, Sistersville, Seadrift, Texas City, Taft, and Star.
Construction users: Kanawha Valley, Seadrift, Texas City, and Taft.

Estimated Expenditures: $1,231M for a two year agreement.

I. Summary

Metallic gaskets for the Gulf Coast plants and all gasket and packing material for the Kanawha Valley and Construction will be competively bid. Stocking arrangements and service will be considered along with price in the evaluation.

Gasket and packing specifications will be changing thru the course of the agreement. UCC will be moving away from asbestos toward alternate material with changeover expected to be accomplished in a two year period. Provisions will be made for pricing on all known alternates.

II. Commodity History

Gaskets and packing were a target area for multi-location coordination, but the agreements were never successfully synchronized. Kanawha Valley plant and construction sites were bid together with Gulf Coast construction. Gulf Coast plants were bid at a different time and included only metallic gaskets.

The Kanawha Valley agreements were awarded to three vendors: Gordon Gasket, General Engineering, and Nova Rubber. Gordon Gasket was primary vendor for asbestos, Grafoil, spiral wound, metal, and Teflon envelope gaskets. General Engineering was primary vendor for Garlock packing and sheet, John Crane packing, Johns Mansville packing, and miscellaneous rubber/neoprene gaskets, o-ring sheets and packing. Nova Rubber was awarded a back-up ABLE order to supplement the primary awards. Lamons Metal Gasket and Corpus Christi Gasket were awarded the Gulf Coast construction orders.

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The original period of the orders was 6/15/84 thru 5/31/86. Original authorization was $478,000. The orders were extended thru 12/31/86 and authorization increased to $872,500. Several factors influenced the increased expenditures. A detailed explanation and breakdown of expenditures is included in the revised PASR shown in Exhibit "A".

Agreements for the Gulf Coast plants were awarded to Lamons Metal Gaskets, Corpus Christi Gasket (a division of Lamons), Sepco Corporation and R & W Corporation for the period 8/1/82 thru 7/31/84. Expenditures were authorized for $300,000. The agreements were later extended thru 12/31/85 with no increase in authorizatioin. During the period of the agreements, R & W Corporation went out of business and the requirements for ring joint gaskets were bought on a spot basis. Total expenditures under the agreement are shown in Exhibit "B". Since the orders expired requirements for gaskets have been met on a spot basis with suppliers voluntarily holding 1982 contract prices. A decision was made to delay the rebid of requirements because of coordination with the Kanawaha Valley, uncertainty in materials required, and changes in organization.

The commodity is now organized to effectively bid the majority of requirements for the C & P organization at one time. The major manufacturers of metal gaskets have extended an offer to bid nationally thru distributors for more favorable pricing because of the possible value of the awards.

III. Safety and Health Issues

Asbestos is the basis for much of the material that has been used for gasket and packing material. Asbestos has a tremendous range of applications and has been a reliable and inexpensive product when used in sheet material, packing, spiral wound, and other assorted forms.

In the past, OSHA standards for exposure to asbestos have not affected gasket and packing. The asbestos fiber is encapsulated in the manufacturing process which greatly reduces the chance of material in the air. However, new OSHA standards have reduced the exposure limit ten fold. Gaskets and packing now pose a threat to violation of these standards. Alternate material must be used to conform to the more stringent standards.

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Asbestos substitutes have been available for several years. The early offerings were expensive, had poor characteristics and offered little incentive to abandon asbestos. Improvements have been made with the material, most of which is based on the Dupont aramid fiber Kevlar, but temperature and pressure ranges are still limited. The Union Carbide product, Grafoil, has extremely good ranges and characteristics, but high initial cost has prevented widespread use in common applications.

A team has been formed through the E & TS Organization to address the use of asbestos and the future plans for the corporation. Early findings indicate a strong inclination toward Grafoil-based material. The final white paper on the team's findings will be available at the end of the year. Purchasing will continue to follow the development of the recommendations and will plan procurement of the commodity to handle any outcome.

IV. Requirement Forecast

The expenditures for gaskets during the new agreement period will be different from historical data. Gulf Coast plant agreement expenditures for metallic gaskets have traditionally been 15-20% of total commodity expenditures. Many items have been omitted from the agreements and spot purchased by plant groups. These items will be added to the agreements to avoid unnecessary work for plant purchasing.

Changes in material will take place during the agreement period. UCC will gradually phase out of asbestos use and alternate materials will be tested and approved. Expenditures will increase due to the changes in material specifications during the latter period of the agreement. Increasing competition, however, will limit the increases to around 16%.

The estimates by location are shown on the following page:

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PLANT LOCATIONS

LOCATION	FIRST YEAR	SECOND YEAR	TOTAL VALUE
306 - STAR	5,000	5,800	10,800
380 - SISTERSVILLE	5,000	5,800	10,800
510 - SEADRIFT	30,000	34,800	64,800
511 - TECH CENTER	15,000	17,400	32,400
512 - INSTITUTE	140,000	162,400	302,400
514 - SOUTH CHARLESTON	150,000	174,000	324,000
515 - TEXAS CITY	45,000	52,200	97,200
519 - TAFT	95,000	110,200	205,200
		TOTAL	1,047,600

CONSTRUCTION LOCATIONS

LOCATION	FIRST YEAR	SECOND YEAR	TOTAL VALUE
510 - SEADRIFT	5,000	5,800	10,800
511 - KANAWHA VALLEY	60,000	69,600	129,600
515 - TEXAS CITY	10,000	11,600	21,600
519 - TAFT	10,000	11,000	21,600
		TOTAL	183,600
		GRAND TOTAL	1,231,200
			OR $1,231M

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V. Objectives, Strategy and Bid Evaluation Procedure

The primary objective of writing agreements for the procurement of gaskets and packing is to obtain the best value for UCC. In order to meet the objective the following steps have been identified:

- Combination of requirements: All metallic gaskets for the C&P locations will be combined into one endeavor. The increase of dollars should result in lower overall prices.
- Multi-year agreements: Agreements will be written for two years if acceptable pricing can be negotiated. Two years is the estimated period for approval of new non-asbetos material. The exact period will be justified in the award agreement.
- Workable agreements: All materials managers and site personnel will have input to the evaluation of vendors. We will work together to determine the order types best suited to the individual location.

To successfully meet our objective, the following strategy will be used:

- Manufacturers of metallic gaskets will be contacted regarding our requirements. We will request special pricing for our combined need to be bid through their local distributors. Lamons, Flexitallic, and Fluorocarbon have indicated an interest in participating. Parker, Garlock, and Standco will also be given an opportunity. (This will cover all major manufacturers of metallic gaskets).
- Request for quotes (RFQ) will be issued to qualified distributors. (See Exhibit C for a working list). They will be requested to bid material that they are capable and qualified to supply.
- Items on the RFQ will be a representative sample to cover the majority of purchases. Descriptions will be generic, whenever possible, referencing applicable UCC, ASTM, API or ANSI standards.
  Price sheets and discount structure will be quoted.

Qualification and evaluation of vendors will take place prior to the issue of bids. Criteria for approval and documentation of various factors will be presented in an amended procurement plan. Input on all areas will be solicited from the materials managers and site personnel.

The bids will be evaluated using the items priced, price sheets and discounts quoted, and quantitatively justified attributes. The recommendation for award will be made by plant.

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Alternatives to asbestos material will be priced regardless of our present usage. A weighted evaluation, with percentages determined by estimated usages, will be performed between asbestos and non-asbestos material.

Wherever possible, items bought on SAM releases will be identified from historical data and coded for vendor stocking. With no more work for stores personnel, the history of our purchases will be available for use in the next procurement cycle.

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Exhibit "A"

GASKET AND PACKING ORDERS - KANAWHA VALLEY

Expenditures for the Gasket and Packing orders have significantly exceeded authorization and expectation. The breakdown of expenditure between vendors has also been quite different from the approved award justification. Five areas share responsibility for the problem.

I. History of Purchases

SAM orders have proven to be a time and money saving method of obtaining small dollar purchases. One big drawback of SAM orders is a complete lack of history on material purchased. Only price and charge information is input to the system. We have no internal computerized method of determining what we buy. Some vendors can provide us with this information. When they cannot we must resort to manual tabulation of the releases if we require the detailed data. The authorization figures on the award justifications were estimated.

Conversion from MADP I to MADP II was done system-to-system in most cases. The system, however, did not recognize many types of orders from the old system to the new one. Expenditures were difficult to convert or non-existent. Because history was difficult to obtain, the estimate of expenditures was inaccurate.

II. Non-Gasket and Packing Material

SAM orders are written with a wide base of products covered. They are purposely written with broad coverage to give the field releasors opportunity to obtain their needed material without sending a formal requisition to purchasing. Many SAM orders overlap in coverage, however, and the releasors and suppliers must be educated to release only the material covered by the particular agreement.

Many of the SAM gaskets and packing orders have material released against them that are not classified under commodity code 0260. The expeditors naturally favor vendors that supply material in a timely fashion. Work has been done to educate the expeditors to buy from the proper vendors. We will continue to support this effort.

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Reductions in plant maintenance and operation staffs have reduced the number of planned jobs. Material is ordered when the craftsmen are on the jobsite. We have required our vendors to provide us with instantaneous delivery. The material expeditors are pressured to get the material regardless of cost. Because Nova Rubber does provide good service, they are the first choice of the expeditors.

V. Health and Safety

Gaskets and packing are some of the prime causes for leaks and spills within our operation. With the increased emphasis on prevented leaks and spills, our usage of gaskets and packing have increased. We have also upgraded much of our material for increased reliability.

Asbestos is an ever increasing concern. The industry will be out of the asbestos business by 1990. Alternatives generally are unreliable and expensive. We have been going to Grafoil-based material in many places where asbestos was used. Grafoil is very reliable but 200-1000% higher in cost than asbestos. Because of the upgrading and substitution of material our dollars have increased.

VI. Conclusion

The five areas mentioned above - history, non-gasket and packing material, supplier problems, demand problems, and health and safety - are all responsible for our present situation. Many problems can be solved with immediate action and those are currently being addressed. Some problems, however, are long term and will take commitment from outside organizations. To accomplish these goals, extension of the current agreements are necessary and desirable. A reemphasis of the split of business warranted by the 1984 agreements has taken place for the extension period.

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III. Supplier Problems

The gasket and packing orders were awarded to three vendors: Gordon Gasket, General Engineering, and Nova Rubber. Gordon Gasket was primary vendor for asbestos, Grafoil, spiral wound, metal, and teflon envelope gaskets. General Engineering was primary vendor for Garlock packing and sheet, John Crane packing, John Mansville Packing and misc. rubber/neoprene gaskets, o-rings, sheets and packing. Nova Rubber was awarded a back-up ABLE order. Obviously, Nova Rubber has received much more than a backup share with 41% of the expenditures to date.

Gordon Gasket and General Engineering are small operations with very small staffs and stock. A commitment was made by them when the order was placed to increase their inventory and stock. Nova Rubber, however, has a large staff and large inventory. They have a reputation for getting the material regardless of cost or source. Our material costs are higher for Nova supplied materials and we also pay additional handling costs for the efforts to get material from other sources.

Gordon Gasket and General Engineering order much of their material upon receipt of an order. They say they have never increased their stock because they have never received the volume of business promised. We are working with both of them to increase their inventories and develop healthy competition among suppliers in the Kanawha Valley.

IV. Demand Problems

In the late 1970's and early 1980's, there was a push by management to decrease materials management and purchasing staffs. With little or no decrease in activity the functions performed by these groups were pushed closer to the end user. The majority of the purchasing is now done by Field Material Expeditors. Most of the items used in the plants are stocked by vendors, not by the storerooms.

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