Texago Refinery Site Memorandum #1

Within this memo and the attached excel document are the results of our research into the location of the proposed new Texago refinery site. Our research considers three major factors into the costs of operating and distributing costs (seen below.)

*1. The cost of transporting the oil from its sources to all the refineries, including the new one.*

*2. The cost of transporting finished product from all the refineries, including the new one, to the*

*distribution centers.*

*3. Operating costs for the new refinery, including labor costs, taxes, the cost of needed supplies (other*

*than crude oil), energy costs, the cost of insurance, and so on. (Capital costs are not a factor since*

*they would be essentially the same at any of the potential sites.)*

The optimal solution given these data is to construct the new refinery in the St. Louis location. This is our recommendation as the other two sites did not present as good of an opportunity as St. Louis. The total optimal minimum cost for St. Louis given the three factors above is $2,920 (millions.) Our data shows the minimum optimal values for Galveston and Los Angeles are $3,120 (millions) and $3,070 (millions) respectively.

\*Specific shipping plans and values are given in the aforementioned excel document.