

**HOUSE AND SENATE
JOINT JOURNAL SUPPLEMENT**

August 9, 2006

Wednesday

No. 18

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Address

by

The Honorable Frank H. Murkowski

Governor

State of Alaska

Before a Joint Session

of the

Third Special Session of the

Twenty-Fourth Alaska State Legislature

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Wednesday, August 9, 2006

Juneau, Alaska

The following was submitted for publication:

**Governor Murkowski's
Joint Legislative Address
on
BP's Decision to Shutdown Prudhoe Bay
August 9, 2006**

"Let me assure you and all Alaskans that we will hold BP accountable for past and future field management."

— Governor Frank H. Murkowski

I learned of the BP announcement to shut down Prudhoe Bay Sunday afternoon in Kodiak. This act will have serious implications for the United States and for Alaska. We need to respond carefully, but with Alaska's interests fully protected. Bottom line: Oil and gas facilities in Alaska must be properly maintained.

I wanted to inform you of the significant steps my Administration is taking in response to the BP shutdown of Prudhoe Bay and to invite your views.

Please keep in mind that it is early. The management plan I am announcing today will be adjusted as events unfold and I will keep you informed. Here is my action plan:

First, I have appointed the Commissioners of DNR, Mike Menge; DEC, Kurt Fredriksson; Revenue, Bill Corbus; Attorney General, Dave Marquez and John Katz, Director of the state's Washington office, as a cabinet team to make certain that the environment is protected and that there is a strong corrective action plan and a safe production resumption plan in place as soon as possible.

Commissioner Menge will chair the cabinet team and act as lead in dealing with BP and the federal government. Commissioner Fredriksson will act as lead on environmental issues in cooperation with Commissioner Menge. I want our cabinet team to make certain that we retain the ability to exercise all of Alaska's prerogatives under our Prudhoe Bay leases, unit agreements, state laws and rights of way agreements. We intend to carefully scrutinize all proposed corrective action plans and production resumption plans.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 18

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Let me assure you and all Alaskans that we will hold BP accountable for past and future field management.

For openers, I am concerned that the state was not consulted before the decision was made to shut down production on the entire Prudhoe Bay field. In addition, while I appreciate that BP learned of corrosion problems at Flow Station Number 2 through pigging, I am concerned about BP's previous practice not to employ pigging on a more regular basis.

Regarding maintenance, I am concerned that solids built up and that corrosion occurred without earlier corrective action by BP. Given the numerous satisfactory maintenance reports that were provided to DEC by BP, regarding its field wide operations, I am concerned that because of a leak of a few barrels of oil at Flow Station 2, BP abruptly decided to shut down the entire field. What did BP learn last Sunday that it did not know previously that would cause BP to take such precipitous action?

BP's announced plan not to resume pigging on the eastern and western Prudhoe Bay fields until September and October respectively is also of great concern to me. Why so long? How much delay after that?

As an immediate reaction, BP's commitment to replacing the pipe sounds like a strong step in the right direction, and I urge BP to get on with it. But I want BP to take all other steps appropriate to meeting its obligations to the state by bringing the pipeline system into compliance with good engineering and environmental standards.

BP must get the entire Prudhoe Bay field back up and running as soon as safely possible. BP should explore any options that would result in environmentally safe operations while it finds replacement pipe.

Yesterday, I contacted Energy Secretary Bodman, Acting Transportation Secretary Cino and Pipeline Administrator Admiral Barrett to discuss coordination with the federal government in pipeline regulation. We want one federal agency to take the lead in working with us.

I urged these federal officials to visit the Prudhoe Bay Field with me. It is important that they see first hand the logistical challenges and distances involved and hear first hand from the North Slope managers who are implementing decisions on the ground. This has become a National issue because of the impact of reduced oil flow on the nation—particularly California, Washington and Oregon which are heavily dependent on Alaska oil.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

August 9, 2006

No. 18

Third, the Attorney General will review the state's legal rights and determine an appropriate course of action to protect the state's interests, including the state's right to hold BP fully accountable for losses to the state.

Fourth, the Commissioner of DNR will work aggressively with instate refiners and North Slope producers to meet instate needs, including heating oil and jet fuel. Heating oil is critical to all Alaskans. Jet fuel is critical to travel in Alaska, international travel and to the economy of the state.

Fifth, because of the potential impact on revenues due to the possibility of a prolonged shutdown, I have directed the Commissioner of Revenue and the Director of Office of Management and Budget (OMB) to prepare a management plan to protect vital public services while we determine how long the field will be shutdown. I am announcing an immediate hiring freeze until we have information regarding the duration of the Prudhoe Bay shut down. I have asked the Director of OMB to recommend additional steps if they become necessary.

I also have directed OMB to review the FY07 capital budget to advise me on what projects can be phased until the Prudhoe Bay problem is better defined.

Sixth, I am asking the cabinet team to consult with Alyeska to determine what problems it might have in operating at lower production levels.

In conclusion, Alaska has had a wake up call:

- With 86% of our revenues coming from oil taxes, we are vulnerable to any decline in production. Without a gas pipeline, the reduced level of oil production BP proposes is what Alaska can expect in ten short years. This is why moving on the gas pipeline contract now is so vital to Alaska.
- With Prudhoe Bay down, we are dependent on receiving taxes from other fields that will continue in operation. The ELF on Kuparak, the second largest field in North America, is currently zero—meaning "no production taxes." Kuparak produces 172,300 barrels per day. We need to pass the PPT now to correct this. Under my PPT, we would receive \$1.6 million dollars per day in taxes at current oil prices.

Be assured that, we have a sound plan for managing this critical situation which is designed to protect Alaska's environment and revenue. I ask the Legislature to please pull together with the Administration, so that we may work as Alaskans through the challenges ahead.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 18

August 9, 2006

Because we need to stay ahead of the matter, Commissioners Menge and Fredriksson and I will be headed to the North Slope for meetings with BP and managers on the ground as soon as arrangements can be made. I will report back to you.

Please report corrections to the Chief Clerk's office.