

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

February 19, 2007

3:31 p.m.

MEMBERS PRESENT

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Lyda Green
Senator Lesil McGuire
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Gary Stevens
Senator Thomas Wagoner

OTHER LEGISLATIVE MEMBERS PRESENT

Senator Fred Dyson

COMMITTEE CALENDAR

Overview: Pipeline Corrosion Update
Department of Environmental Conservation (DEC)
Department of Natural Resources (DNR)

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

LARRY DIETRICK, Director
Division of Spill Prevention and Response
Department of Environmental Conservation
410 Willoughby
Juneau, AK 99801-1795

POSITION STATEMENT: Presented update on pipeline corrosion.

TONY BROCK, Technical Director
BP Exploration Alaska Inc.

POSITION STATEMENT: Said he would provide spill cost information to the committee.

CATHY FOERSTER, Commissioner

Alaska Oil and Gas Conservation Commission (AOGCC)
Department of Administration
PO Box 110200
Juneau, AK 99811-0200
Anchorage AK

POSITION STATEMENT: Gave AOGCC update on pipeline corrosion issues.

JONNE SLEMONS, Acting Coordinator
Petroleum Systems Integrity Office (PSIO)
Division of Oil and Gas
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Provided update on pipeline corrosion issues.

LOUIS KOZISEK, Chief Engineer
Spill Prevention Coordinator's Office (SPCO)
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Answered questions on pipeline corrosion issues.

KEN DIEMER, Assistant Attorney General
Division of Oil, Gas and Mining
Department of Law
PO Box 110300
Juneau, AK 99811-0300

POSITION STATEMENT: Presented update on existing authorities for the Petroleum Systems Integrity Office.

BILL HEDGES, Manager
Corrosion Strategy and Planning
BP America
Anchorage AK

POSITION STATEMENT: Commented on pipeline corrosion issues.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [3:31:38 PM](#). Present at the call to order were Senators Green, Wielechowski, McGuire, Stedman and Huggins. He invited Mr. Dietrick to begin the update on pipeline corrosion.

DEC Pipeline Corrosion Update

LARRY DIETRICK, Director, Division of Spill Prevention and Response, Department of Environmental Conservation (DEC), said he was just about done when the committee adjourned on Friday. He had discovered what the new regulatory framework will be for the pipelines on the North Slope at both the state and federal level. The state will be regulating the flow lines upstream of the production facilities and the federal government Office of Pipeline Safety will be regulating them downstream.

[3:34:12 PM](#)

MR. DIETRICK said the last topic began on page 15 of the DEC handout. It discovers the status of the two cleanups of the two events from last summer, the GC2 (Gathering Center 2) spill and FS2 (Flow Station 2) spill. He said the cleanup and restoration of both sites are complete and additional monitoring and restoration, if needed, will be conducted next summer. He reported that the impacts at both sites are deminimis and there were no wildlife impacts. They were very manageable cleanup events because of the flat terrain on the North Slope and because the second-largest oil spill co-op (Alaska Clean Seas) in the state is there. He described the trimmer and brushing cleanup activities techniques on the tundra and the revegetation efforts on GC2.

CHAIR HUGGINS asked who actually did the cleanup.

MR. DIETRICK replied that the companies have a spill co-op on the North Slope called Alaska Clean Seas that conducted most of the operations. They oversee the cleanup and have an incident commander working in the unified command that directs the cleanup activities on their behalf.

CHAIR asked what the dollar amount of the cleanup was.

MR. DIETRICK replied that he didn't know. He added that most companies assume responsibility at the outset and are not required to report on how much the cleanup costs.

TONY BROCK, Technical Director, BP Exploration Alaska Inc., volunteered to get that number for him.

JONNE SLEMONS, Acting Coordinator, Petroleum Systems Integrity Office (PSIO), Division of Oil and Gas, DNR, said the State Pipeline Coordinator, Mike Thompson, couldn't be with them today

and she would make his presentation. She described the State Pipeline Coordinator's office as a consortium of state agencies that is physically located with the Joint Pipeline Office in Anchorage. The state agencies represented are the Department of Natural Resources (DNR), the Department of Environmental Conservation (DEC), the Department of Labor and Workforce Development (DOLWD), the Department of Public Safety (DPS) and the Bureau of Land Management.

She said the State Pipeline Coordinator's Office has jurisdiction over those pipelines on state rights-of-way and the Leasing Act in AS 38.35 provides the relevant authorities. The second page of the presentation listed the various pipelines over which the office exercises jurisdiction. The North Slope has approximately 375 miles of pipeline; Southcentral has 110 - 135 miles of pipeline. The TransAlaska Pipeline System is a joint effort between the state and the federal government.

MS. SLEMONS explained that the shutdown at Prudhoe Bay was only a partial shutdown of the western operating unit and a full shutdown of the eastern operating unit. She said the State Pipeline Coordinator's Office (SPCO) has experience in pipeline oversight and its engineers, in particular, were made available to assist with both the immediate emergency and the long-term response.

The DNR, DEC and the AOGCC formed the Arctic Pipeline Technology Team (APTT) in response to direction from the Murkowski administration after the March spill. That team has continued to meet throughout the August spill as well. Staff from the State Pipeline Coordinator's Office was assigned to the APTT and have been contributing all along. It also provided assistance to the Division of Oil and Gas in the development of the long-term oil and gas infrastructure oversight program, which she would address later in her own presentation.

The SPCO also facilitated information-sharing with state and federal agencies, municipalities and industry regarding the August shutdown. Those meetings were instrumental in providing coordination of corrective actions, not to mention the information sharing status. She said the meetings were held on a weekly basis; but after several months they went to a monthly basis and just recently went to bi-monthly.

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MS. SLEMONS reported that various subjects were addressed in the meetings including the initial oil spill response, the oil

transit line bypasses, the oil transit pipeline's corrosion monitoring processes, the Prudhoe Bay unit oil transit lines replacement project and TAPS-related issues. When the Prudhoe Bay unit experienced the shutdown, the TAPS had low throughput and associated vibration impacts resulted at Atigun, Isabel and Thompson Passes.

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Specific actions by the SPCO included an engineering review and approval of the jumper line hot taps on the Endicott pipeline bypass and various issues related to the Tank 110 sediment management. It is located near Pump Station 1 of TAPS. The low throughput concerns included accuracy of leak detection, physical changes of the crude oil, impacts to operating equipment, turbines operating at too low power and resultant increased emissions.

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MS. SLEMONS remarked that Louis Kozisek with the SPCO was in the audience and could answer technical questions.

CHAIR HUGGINS asked him to describe the SPCO organization.

LOUIS KOZISEK, Chief Engineer, SPCO, replied that the state pipeline coordinator has the rights-of-way department answer to him along with the engineering and administrative departments. He also has about six liaisons from different agencies who report both to him and back to their own agencies - about 25 people in Anchorage and none in Juneau.

CHAIR HUGGINS asked if the SPCO is new.

MR. KOZISEK replied that it first started in Fairbanks in the 1970s when TAPS was constructed. It got increased focus after the Exxon Valdez incident and was moved to Anchorage to be part of the Joint Pipeline Office and that is where it is now. Mr. Thompson reports to Ed Fogels, Acting Deputy Commissioner, and Marty Rutherford, Acting Commissioner, both of DNR.

SENATOR WIELECHOWSKI asked if all pipelines on the North Slope are under either state or federal jurisdiction.

MR. KOZISEK replied that is correct. He added the US Department of Transportation (USDOT) has been acting with that review authority and it is currently promulgating new rules and regulations that would place them permanently under federal review.

SENATOR WIELECHOWSKI asked what caused the pipes to get so corroded.

MR. KOZISEK replied that no definitive conclusion has been drawn about the cause, but his personal opinion is that leaving solids in the pipeline was the major contributing factor. He explained that all oil reservoirs have some sort of sediments that are produced with the oil along with paraffin and asphaltines that tend to drop out of solution. Those tend to plate the insides of a pipe after a while and if they are not removed, they can contribute to corrosion in a number of ways.

He explained that corrosion inhibitor is a chemical that is injected into oil and the solids can absorb it. The solids keep corrosion inhibitors from contacting the metal of the pipe simply because they are sediment. They provide a safe harbor for the bacteria in the bottom of a pipe where bacterial growth-rates can be accelerated by changing the environment. Solids can cause microbial-induced corrosion, a pinhole-type corrosion like that that was seen at the leak.

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SENATOR WIELECHOWSKI asked if scientists have known about this type of corrosion for a while.

MR. KOZISEK replied that it's a well-known process, but there is considerable debate about how active the corrosion is in different locations and different types of crude oil.

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CHAIR HUGGINS asked if SPCO is a compliance or enforcement organization.

MR. KOZISEK replied that it is a monitoring and oversight organization because its authority comes through administering leases and monitoring the installation of the longer-distance pipelines over state land. Those pipelines are authorized under a specialized statute, AS 38.35, which was created just for pipeline leases.

CHAIR HUGGINS asked for the top three things in the last year he did to make it a better organization.

MR. KOZISEK replied he increased communication and discussions about causes of spills and provided assistance. The SPCO's authority starts on TAPS, but it has no authority on the transit

pipelines. SPCO people were available to talk to BP and monitor the situation. They provided a sort of oversight and communication with the other agencies.

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CHAIR HUGGINS asked how industry responded when he came on the scene.

MR. KOZISEK replied after the oil spill in August, BP made a concerted effort to open its doors to the SPCO and allowed him to look at anything he wanted to.

CHAIR HUGGINS asked what two changes he would make if he were king for a day in the SPCO.

MR. KOZISEK replied that he would attempt to institute more frequent maintenance pigging on the pipelines to remove the solids and engage integrated corrosion oversight that would look at maintenance and smart pigging, corrosion inhibitors and corrosion control techniques. Internal and external direct assessment of corrosion would be made to ensure the pipeline is safe and reliable.

CHAIR HUGGINS asked if he is comfortable with the progress being made.

MR. KOZISEK replied no, but the new DEC regulations and creation of the new Petroleum Systems Integrity Office will go a long way to prevent what happened last summer.

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CHAIR HUGGINS asked Ms. Slemmons if she is subordinate to the SPCO.

MS. SLEMONS replied no; she works through the Division of Oil and Gas.

SENATOR WIELECHOWSKI asked Mr. Kozisek if he felt the owners of the pipeline and the producers are doing everything to maintain the integrity of the pipelines. He asked if other things need to be done legislatively to make sure that integrity is maintained.

MR. KOZISEK replied he couldn't answer that; it's a balance between preventative maintenance and cost effectiveness. He's relatively comfortable with the progress he has seen. He thought it would strike a good balance if it continues into the future.

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CATHY FOERSTER, Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), Department of Administration (DOA), said with oil and gas in the title, she gets invited to participate in a lot of things that may or may not be included under its oversight. According to statute the division prevents resource waste and encourages greater ultimate recovery; it works with the EPA on the class 2 underground injection control programs to protect fresh ground waters during oil and gas operations; it protects correlative rights of hydrocarbon owners and ensures that good oilfield practices are used in drilling, work over and reservoir management operations. In the area of pipeline integrity, her agency is charged only with ensuring the accuracy of custody transfer meters that are used by the Department of Revenue (DOR). Their accuracy is required by the American Petroleum Institute.

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CHAIR HUGGINS asked if her job is as simple as having the custody transfer meter calibrated.

MS. FOERSTER replied yes and that inspectors periodically test those meters to ensure that they remain calibrated accurately. She added that the AOGCC stays apprised of all the operating conditions and remedial plans and actions because it gets a lot of calls whenever a reporter or concerned citizen wants to know what is going on. It doesn't comfort them to be told, "It's not my job."

MS. FOERSTER said the AOGCC was heavily involved in all of the rerouting in so far as custody transfer metering went. It provided technical support to the Arctic Pipeline Technology Team.

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Since mid-2006, they have put new blowout preventer equipment (BOPE) regulations into place. Those primarily reflect changes in technology and operating enhancements, not any problems. They are in the process of developing new safety value system (SVS) regulations and keeping up with equipment advances. She is trying to contract with someone to start a gas disposition study - in other words, using gas for something other than sales, such as flaring. Flaring regulations are also out of date, so those will be updated.

MS. FOERSTER said AOGCC has been involved in a Prudhoe Bay gas off take study in anticipation of a gas pipeline, because before

anyone will put their money into a gas pipeline, they need to know that they will be allowed to produce the gas. Prudhoe Bay is an oil field and you don't typically get permission to produce the gas in an oil field until all the oil is gone. She said the preliminary effort of that study is completed.

MS. FOERSTER said AOGCC also initiated a Pt. Thomson gas allowable study, but that was put on hold when the DNR declared Exxon in default on those leases.

She also reported that she hired a new inspector to replace the one who retired and is in the process of trying to hire a sixth inspector to manage all the North Slope and Cook Inlet inspection of safety valves and keep track of things in general.

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She has five inspectors now and said at any one time she tries to have two on the North Slope one in the Inlet. They do rotations of seven days on and seven days off.

MS. FOERSTER said the AOGCC and DEC had just completed an investigation of BP's actions before and during the pipeline shutdown. An independent investigator was hired because part of the allegation was that DEC and AOGCC were complicit in allowing BP to violate their regulations.

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The inspector looked at over 100 wells and interviewed people face to face and provided a questionnaire for all BP's North Slope operators to submit anonymously. A report was published that is available on AOGCC's website. The key findings of the well integrity investigation were on the last page of her handout. She reported:

Although we found some housekeeping issues, we did not find any violations. We did identify jointly with the DEC that there is a regulatory gap in well cellar requirements and we're working with the DEC - they're taking the lead on that - filling that gap....

AOGCC is working with other agencies to develop a proactive approach to monitoring routine operations more closely.

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CHAIR HUGGINS asked if she wanted to add that to her list of checking meters.

MS. FOERSTER explained that is just one of the tasks the five inspectors perform. Some other are that the meters need to be checked on a scheduled basis, blow out preventer equipment needs to be tested at least every other week on drilling rigs, every safety valve on every well needs to be regularly checked.

CHAIR HUGGINS asked how a whistle-blower gets in touch with somebody in the AOGCC.

MS. FOERSTER replied that he could pull an inspector aside and talk to him, he could write a letter to the commission or call any of the commissioners. The AOGCC website also has a contact box.

CHAIR HUGGINS asked where inspectors can be found on the North Slope today.

MS. FOERSTER answered that inspectors are they are all over the place and she calls them on their radios and asks where they are. Their main office is in Dead Horse and it is mostly empty. "The only thing waiting for them is their refrigerator and their beds."

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CHAIR HUGGINS asked how many inspectors were up there at any one time.

MS. FOERSTER replied a minimum of one, but they try to keep two people up there at all times. "We will never have zero."

CHAIR HUGGINS asked what a well cellar is.

MS. FOERSTER replied the well is in the ground and the valves sit at the surface. That set of valves is kept in a house. The well-head may have a hollow or sump area. It may be lined or not. If it is lined, the lining may be impermeable or it may have deteriorated and it may not be impermeable any more. There may a grate or wooden slats across the top to keep people from falling in. It may be six inches wide or two feet. There is nothing out there that says if you're going to have a well cellar; it has to meet certain qualifications.

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CHAIR HUGGINS asked if the term "regulatory gap" means "not in compliance".

MS. FOERSTER clarified that it means they don't have regulations setting forth what the operator is supposed to do.

CHAIR HUGGINS asked if they don't have regulations and how she communicates her expectations to the operators.

SENATOR GREEN interrupted to say she wanted to ask the question another way and asked if legislation is required to promulgate regulations or if she does that in-house.

MS. FOERSTER deferred that answer to Larry Dietrick.

MR. DIETRICK replied that well cellars are not defined in regulation. There are no state requirements for their design, construction, function or permeability. DEC's concern is that sometimes spillage happens around the well-head and if the lining is impermeable, contamination to the ground is avoided.

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SENATOR WIELECHOWSKI asked Ms. Wielechowski to explain more about why the Pt. Thomson study was put on hold.

MS. FOERSTER replied AOGCC negotiated a confidentiality agreement with the Pt. Thomson owners to have access to all of their confidential reservoir information to determine if it would be possible to give Pt. Thomson a "gas allowable" without creating an unacceptable level of liquid hydrocarbon waste. She explained that Pt. Thomson is not an oil field like Prudhoe Bay, but rather a retro-grade condensate reservoir. "It does funky stuff and if you don't understand it and produce it properly, you could lose liquid hydrocarbons in the reservoir."

She recognized that the AOGCC would need a lot of information that nobody has, but the owners. So, she worked a deal with them to get access to it. They had one meeting in which they talked about to share data and how Pt. Thomson compares to other retrograde condensate reservoirs around the world. Then the DNR ruling came out holding Exxon in default. She called them and asked, "Is it appropriate to continue with this study or should we just put it on hold?" Exxon replied that discussions could be put on hold for a while to give them time to work through DNR issues and that they wouldn't make her renegotiate from scratch when they started again.

SENATOR WIELECHOWSKI asked if Exxon asked her to put the study on hold.

MS. FOERSTER replied that she offered to put it on hold knowing that they may not have the lease six months from now.

SENATOR WIELECHOWSKI asked what advantage it was to the state to put the study on hold.

MS. FOERSTER replied that it costs a lot of money to have reservoir engineering consultants and geophysicists mucking through a bunch of data if you're not going to do anything with it or if a new operator is going to come in and gather new data. In three years they would have to do it all over again.

SENATOR WIELECHOWSKI said his concern is with the strict time lines the state will be under and Pt. Thomson is a huge reserve. He thought the state should pursue that as quickly as possible.

MS. FOERSTER agreed that he had a valid concern and added that giving Exxon six months to figure out what its strategy is won't hurt or stop the state from completing its study. She will step back in after giving them a little time to breath.

SENATOR WIELECHOWSKI asked why wait for Exxon at all since it is being held in default by DNR.

MS. FOERSTER replied she would have to talk to her lawyers, but:

If they're in default why would they share it with us?
I'm not sure I understand what would be their
motivation to give us access to data on something that
they just had taken away from them - and the only
thing they have that has value is their data.

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CHAIR HUGGINS said she had done a good job and he didn't mean for the committee to sound like it was grilling her. He asked if she is technically under the Department of Administration. She replied yes. AOGCC was under the DNR years ago, but that could cause a conflict of interest in some of their roles, because the state has no greater standing before it than any other lease holder.

CHAIR HUGGINS asked who she reports to.

MS. FOERSTER replied that she reports to every person in the state of Alaska.

CHAIR HUGGINS thanked her for reporting today.

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JONNE SLEMONS, Acting Coordinator, Petroleum Systems Integrity Office (PSIO), Division of Oil and Gas, Department of Natural Resources (DNR), said she would talk about the division's permitting actions since August and the actions BP has taken. Second, she would describe what is known as LMEICO, the Lease Monitoring and Engineering Integrity Coordinator's Office.

She went first to the division's permitting actions since August 2006. There are four major permitting categories that the division has focused on and for which it has received applications from BP - jumper lines and bypass lines, especially in the first days and weeks after the spill; installation of pig launchers to allow pigging of corroded lines (for the most part, this was BP's compliance with federal compliance orders); hot taps and specimen removals - again many of these were BP's actions in response to federal compliance orders; and the largest of all of these the oil transit-line replacement project, which consists of various types of permitting actions - including construction of new lines on new vertical support members, construction of new lines on existing vertical support members, road crossings and installation of pig traps and metering skids.

In total, she said ten authorizations have been issued by the Division of Oil and Gas, Permitting and Compliance Units, since the GC2 spill on March 10, 2006. The corrective actions have been treated as a priority and she reported excellent coordination between the division and other agencies as well as BP for all of these actions.

She said the traditional permitting and compliance function of the Division of Oil and Gas does have an emphasis on the land use perspective. Its authorities stem from the Alaska Lands Act. Primarily the division implements mitigation measures to address multiple use and environmental concerns in maintenance and integrity of oil and gas infrastructure or systems. She said, "It was believed for years that enlightened self interest would lead operators to do the right thing in terms of maintenance. Recently, of course, we have realized that we cannot rely on that."

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In 2006 there were several unplanned production impacts to oil and gas - the March spill at GC2, in August the shutdown of the eastern operating area and a partial shutdown of the western

operating area in the Prudhoe Bay unit. In addition, a gas compressor at GC2 was lost and weather-related outages occurred. The TAPS had a slowdown and eventual stopped due to high winds at Valdez.

MS. SLEMONS said there were ancillary impacts from all of these things. The salaries and travel, for instance, of various state agencies in responding to these production slowdowns and stops; there were impacts to TAPS like the low vibration at the various passes, low throughput options et cetera. She didn't have a figure on what the total cost is, but speculated that it was a lot.

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She said it became obvious in looking at the various elements that required the attention of state personnel, not to mention federal personnel, that maximizing the efficient and stable flow of oil and gas to market was essential and they needed to insure that regulatory oversight was complete and needed to address the integrity of oil and gas infrastructure and to plan appropriately for down maintenance times.

MS. SLEMONS related that various agencies exercise regulatory oversight of oil and gas activities. Within the DNR, there are four divisions that address oil and gas - the Division of Oil and Gas, the Office of Habitat and Management Permitting, the Office of Project Management and Permitting and the Division of Mining, Land and Water. Within the DEC, there are also four divisions that address oil and gas activities - Spill Prevention and Response, the Division of Air, the Division of Water and the Division of Environmental Health. Also the AOGCC, the Regulatory Commission of Alaska, the Department of Fish and Game where oil and gas activities occur in special areas (legislatively designated areas), the Department of Labor and Workforce Development has an electrical inspector and a safety inspector that are involved primarily through the State Pipeline Coordinator's Office, and the Department of Public Safety are all involved. This list does not begin to address the federal agencies and local governments that are involved in oil and gas activities.

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Despite all of these agencies, regulations and statutes, they found a lack of regulations over some of the pipelines. Commissioner Dietrick said the state is filling those pipeline oversight gaps and so are the feds. What is not addressed yet is a comprehensive review of all oil and gas facilities.

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She said the Murkowski administration issued Administrative Order 229 on October 6, 2006 that formed the Lease Monitoring and Engineering and Integrity Coordinator's Office (LMEICO). It formed a cabinet of the nine state agency heads involved with oil and gas that looks very much like the Joint Pipeline Office - representatives from all of the agencies were to be co-located in a single office. DNR was heading up this organization. It had two primary goals - first to discover and fill the regulatory gap regarding oil and gas and second to insure the integrity of oil and gas infrastructure within the state. Those two primary goals are important for the future of Alaska and for the future recovery of our oil and gas resources and protection of human health and environmental safety.

MS. SLEMONS stated that by the time the administration transitioned, several steps had been taken to implement the office. A formal coordination meeting was held on November 29 and draft MOUs were developed for the Office of Pipeline Safety within the USDOT and the DNR along with the North Slope Borough. Four positions were established to help the DNR staff the new office.

The two major goals of filling the regulatory gaps and exercising oversight of ongoing maintenance effort as proposed by the Murkowski administration were considered by the new incoming administration to be excellent goals, however it felt that a more focused and assertive effort could be achieved in realizing a leaner organization that would have the added benefit of being less expensive.

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They now expect a new Administrative Order to be issued in the near future. It does not establish a separate cabinet, but it does establish the DNR commissioner as the lead for state and federal coordination. It requires the DNR commissioner to designate a Petroleum Systems Integrity Office Coordinator (PSIOC). That coordinator's responsibilities first are to conduct a regulatory gap analysis using an interagency effort. The PSIOC will fill those gaps in infrastructure oversight and will review, approve and enforce operator quality assurance programs. This follows the compliance model of the State Pipeline Coordinator's Office. The PSIOC and the SPCO will lead the inter-agency efforts determined to be necessary even if they are not yet defined. This office will periodically report both to the governor and to the legislature on the health of the

state's oil and gas infrastructure, on accomplishment of the overall goals and progress toward them.

MS. SLEMONS said that the administrative order is in final review now by all of the designated agencies. Staff has been reduced from 10 positions within the Division of Oil and Gas to 4 positions and she hopes to be hiring for the new office as soon as possible. Those positions include technical expertise in the forms of engineers and quality assurance specialists. The first effort of the PSIO will be the regulatory gap analysis. Some agencies have already begun this effort; Mr. Dietrick said the DEC might already be finished.

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CHAIR HUGGINS asked the deadline for the analysis.

MS. SLEMONS replied that once the administrative order is issued and the office is created, a target deadline will be established. Her personal deadline is to have it finished by the end of this fiscal year, July 1.

The Quality Assurance (QA) program approval she described as an umbrella term for the various maintenance procedures and programs and corrosion prevention programs - all of the elements that operators use in order to maintain and keep their infrastructure running. Right now the state does not receive any of that information. Operators have most, if not all, of the elements of a quality assurance program and the PSIO will require that they submit those for review in a transparent way and gaps or risks will have to be addressed. Operators will also be required to submit a report annually on how their performance compares to their quality assurance programs. The PSIO will report to the governor and to the legislature on the health of the oil and gas infrastructure.

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MS. SLEMONS said she intends to begin with the QA program approval at the Prudhoe Bay unit. Following that, they will proceed unit by unit throughout the state. The original concept was to do all the North Slope units first, but she reconsidered and developed prioritization criteria for which units should come first. They include the age of the infrastructure, the production volume and the past maintenance and performance history of the various operators. She noted that she is quite concerned about Cook Inlet because of the age of the infrastructure there. She said the first system integrity oversight report is due to the legislature on August 6, 2007.

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SENATOR WIELECHOWSKI asked her to comment on what he understood earlier that if a gap costs too much it might not get done. He asked for clarification of this policy.

MS. SLEMONS replied it's her intention to first determine where there are regulatory gaps and have the PSIO fill them. It would add these regs to its list of items staff would set standards for, expect performance to and then inspect for compliance.

She explained that Mr. Kozisek spoke to the fact that there is a need for balance between the degree of maintenance performed and the cost effectiveness of being able to produce the resource. That balance is always a fine line between what is cost-effective for the operator to do in a business sense and what is essential and must be required for protection of the environment and for the interest of continuing production of the resource. Every regulatory agency within the state deals with that on a daily basis.

SENATOR WIELECHOWSKI asked if she is comfortable that the state is doing what it needs to do to ensure the integrity of the pipelines in Alaska for the next generation.

MS. SLEMONS replied that she is very comfortable now that it is doing what needs to be done to ensure the integrity of pipelines, but she is much but less comfortable with what it is doing in terms of the integrity of all oil and gas infrastructure. That is primarily where the PSIO will be focusing its efforts.

SENATOR WIELECHOWSKI asked for assurance that she would report on those areas that she feels are not acceptable gaps.

MS. SLEMONS replied yes and that would be an element of the report in August.

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CHAIR HUGGINS asked if she was going to be running the PSIO.

MS. SLEMONS replied that she hoped so.

CHAIR HUGGINS asked her to clarify the staffing that goes from about 10 to 4 positions.

MS. SLEMONS replied that the new staff for the LMEICO was planned at 10 positions; the new staff for the PSIO is planned for 4 positions. That does not include existing permitting and compliance staff, which remains stable at 5.

CHAIR HUGGINS asked if she was comfortable with four people.

MS. SLEMONS replied that she feels comfortable that she could do it with nine people - four of them will be new.

CHAIR HUGGINS said if her budget was \$1.4 million.

MS. SLEMONS replied that the overall LMEICO budget was \$4.8 million and her budget now is \$0.8 million. Some of that \$4.8 million reflects budget submissions from the Office of Habitat Management Permitting, Project Management and Permitting, the Division of Mining, Land and Water and the DEC.

CHAIR HUGGINS asked if her figure would change to \$0.6 million in March.

MS. SLEMONS replied, "No, sir, I believe that we have reached a bare bones level for implementation of this office."

CHAIR HUGGINS asked if she might ask for a supplemental.

MS. SLEMONS replied, "I try not to predict the future."

CHAIR HUGGINS said that she has a tremendous responsibility and he hoped she could do it within that budget.

4:46:24 PM

KEN DIEMER, Assistant Attorney General, Division of Oil, Gas and Mining, Department of Law, briefed the committee on the Lease Monitoring and Engineering Integrity Coordinator's Office (LMEICO) - created under Administrative Order 229 and the new administrative order that doesn't have a number yet. He explained that he was called in to determine whether or not the governor had the authority as head of the executive branch to issue such an administrative order integrating various departments within other departments. He was also asked to determine whether or not there was any additional statutory authority that supported the governor's action and if this authority encroached on other agency authority.

He found that the governor's authority stems from the Article 3, Sections 1, 23 and 24 of the Alaska Constitution. Statutory

authority that corresponds with that also exists with respect to administrative functions established by law that are not assigned to any department. In that respect, the governor shall assign them to the department that can most effectively and appropriately perform the activity. He said there is additional statutory authority under the authority and duties of the commissioner of the DNR, oil and gas, and gas-only leasing statutes and the competitive oil and gas leasing provisions.

As to whether there is encroachment on other agency authority, Mr. Diemer determined at this point there is none. He offered to answer questions.

[4:49:32 PM](#)

SENATOR STEDMAN asked Mr. Kozisek how much sediment was in the pipe.

MR. KOZISEK replied about 25 - 32 cubic yards of sediment, but about two or three times more solids in the form of asphaltines and wax.

SENATOR STEDMAN asked how thick the sediment would have to be before the bacteria would be able to grow that would corrode the pipe.

MR. KOZISEK replied that theoretically even a minor coating can provide some increased acceleration of corrosion, but probably they are talking about inches where the pipeline corroded through in August.

SENATOR STEDMAN asked for BP to respond to those questions.

MR. BROCK responded his understanding is that in the western area where the first leak happened in March the thickness was "in the order of inches." The eastern area didn't have anything like the same accumulation as the first one.

[4:52:55 PM](#)

CHAIR HUGGINS asked if BP is pre-filtering its oil for corrosive elements.

MR. BROCK replied that BP has solids tumbling facilities upstream of the transit lines. In addition they treat the oil with corrosion inhibitor and biophytes upstream of the facilities themselves.

[4:53:52 PM](#)

BILL HEDGES, Manager, Corrosion Strategy and Planning, BP America, said there is no filtration. The gathering centers' only purpose is to separate out all the bad components from the oil. It removes gas, water and sediment. They hope that pure sales-quality crude oil goes into the oil transit lines.

[4:54:38 PM](#)

CHAIR HUGGINS said he was trying to get a feel for how big the volume was and asked how many cubic yards a dump truck holds.

SENATOR STEDMAN replied that most highway trucks are 10 cubic yards.

[4:55:23 PM](#)

CHAIR HUGGINS thanked everyone for their comments and adjourned the meeting at [4:56:19 PM](#).